permanent tsb P.L.C.

(formerly Irish Life & Permanent plc)

2012 Annual Report

Year ended 31 December 2012

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.

Investor and shareholder information and services, including these Annual Reports, are available on-line at www.permanenttsbgroup.ie.

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Summary Group Income Statement

	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Continuing operations:		
Total operating income	**197**	262
Operating expenses	**(286)**	(290)
Provisions for impairments	**(891)**	(1,440)
Operating loss before exceptional items and gain on liability management exercise	**(980)**	(1,468)
Exceptional items	**(166)**	(37)
Gain on liability management exercise	**224**	1,000
Loss before taxation from continuing operations	**(922)**	(505)
Taxation	**(77)**	81
Loss after taxation from continuing operations	**(999)**	(424)
Discontinued operations:		
Loss after taxation from discontinued operations	**-**	(9)
Loss for the year	**(999)**	(433)

Statement of Financial Position funding metrics

	31 December 2012 €m	31 December 2011 €m
Total equity	**2,837**	3,517
Total assets		
Continuing operations	**40,922**	43,196
Discontinued operations - Life Group	**-**	28,841
Net loans and receivables to customers	**31,758**	33,677
Provisions for impairment	**(3,150)**	(2,298)
Provisions for impairment %	**9.0%**	6.4%
Customer accounts	**16,639**	14,373
Loan to deposit ratio ("LDR")	**191%**	227%
Net stable funding ratio ("NSFR")	**67%**	63%
Capital Ratios		
Continuing operations		
Available capital	**3,042**	2,756
Risk weighted assets	**14,859**	15,408
Core Tier 1 capital ratio	**18.0%**	16.7%
Total capital ratio	**20.5%**	17.9%

Operating and Financial Review

Introduction

This report details the performance of permanent tsb plc (the "Company") and its subsidiaries (together referred to as "ptsb" or the "Group").

Group Income Statement

Continuing Operations

Continuing operations represent the Group's Irish Retail banking ("Banking Ireland") and the UK mortgage operations ("Banking UK").

The Irish banking division, operating under the permanent tsb brand, provides a range of retail banking products and services through its network of branches and through intermediaries as well as directly over the phone and internet. It provides residential mortgages and consumer lending in addition to current accounts and retail deposit facilities. The strategic focus of the Irish banking business is to service the residential owner occupier mortgage and consumer finance credit markets and to offer a wide range of current account, deposits products and other retail financial products and services to its retail customer base.

The UK banking business which is operated through Capital Home Loans Limited ("CHL"), a subsidiary of the Group is a closed mortgage book principally to the professional landlord sector.

The continuing operations reported a loss after taxation from continuing operations of €999 million for 2012 (2011: €424 million)

Discontinued Operations

Discontinued operations represent the results of Irish Life Limited and is subsidiaries (together the "Life Group") which were disposed of on 29 June 2012.

Summary Group Income Statement

	Year ended 31 December 2012	Year ended 31 December 2011
	€m	€m
Continuing operations:		
Net interest income	**135**	232
Net other income	**62**	30
Operating income	**197**	262
Operating expenses	**(286)**	(290)
Provision for impairment - loans and receivables	**(883)**	(1,434)
Provision for impairment – repossessed assets	**(8)**	(6)
Operating (loss) before exceptional items and gain on liability management exercise	**(980)**	(1,468)
Exceptional items	**(166)**	(37)
Gain on liability management exercise	**224**	1,000
Loss before taxation	**(922)**	(505)
Taxation	**(77)**	81
Loss after taxation from continuing operations	**(999)**	(424)
Discontinued operations:		
Loss after taxation - discontinued operations	**-**	(9)
Loss for the year	**(999)**	(433)

Operating and Financial Review

Net Interest Income

Net interest income for 2012 was €135 million (2011: €232 million) this is net of €165 million fees payable under the Eligible Liabilities Guarantee ("ELG") scheme (2011: €173 million).

The net interest margin ("NIM") fell to 72 bps from 92 bps in 2011. The key drivers of this reduction are as follows:

	bps
2011 NIM	**92**
Asset re-pricing	**(7)**
ROI mortgage yield reduction	**(16)**
Retail deposit funding	**(14)**
Higher yield on liquidity portfolio	**17**
Funding mix	**(5)**
Other	**5**
2012 NIM	**72**

Asset re-pricing, largely due to the reduction in the Standard Variable Rate ("SVR") mortgage rate for ROI residential customers reduced NIM by 7bps. In addition, the yield on the ROI mortgage book was impacted by lower interest collection as arrears levels continued to increase resulting, in a 16 bps reduction in NIM.

The very competitive retail deposit market in 2011 and the earlier part of 2012 contributed 14 bps to the margin reduction, although the second half of 2012 saw this pressure ease significantly.

The restructuring of the asset portfolio held by Treasury to meet liquidity and other requirements resulted in an improvement in yield which benefited NIM by 17 bps, while the shift away from lower cost system funding reduced margin by 5 bps.

The reduction in the ELG charge reflects a slight fall in the average value of the liabilities covered under the scheme to €15.3 billion from €15.6 billion in 2011 together with a reduction in the rate charged. The average annual fee was 1.07% (2011: 1.11%).

Net Other Income

Net other income comprises retail banking fees including current account, debit and credit cards fees, insurance and foreign exchange commission as well as realised gains and losses on debt securities. Net other income for 2012 was €62 million (2011: €30 million) and is summarised as follows:

	Year ended 31 December	
	2012	2011
	€m	€m
Fees and commission income	**55**	60
Fees and commission expenses	**(13)**	(12)
	42	48
Gain on debt buy backs	**27**	19
Gain on disposal of Government gilts	**38**	-
Loss on disposal of debt securities	**(46)**	-
Loss on debt buy backs	**-**	(41)
Other	**1**	4
Net other income	**62**	30

Net fees and commissions at €42 million for 2012 fell slightly due to lower activity levels across a range of products.

During 2012, a €27 million gain was realised on the buy-back and subsequent cancellation of €74 million of debt securities issued by the Group. 2011 included a €19 million gain from the cancellation of debt securities issued by the Group acquired as part of the acquisition of the Irish Nationwide Building Society ("INBS") deposits.

Realised gains of €38 million, arising from disposals of Government gilts, were offset by losses on sale of Residential Mortgage Backed Securities ("RMBS") bonds of €46 million. Despite the level of net losses arising on these bonds, the sale was a positive for capital ratios because of higher risk weightings associated with the RMBS bonds. In 2011, a loss of €41 million was incurred as a result of the participation in the buy-back programme of debt securities issued by other Irish credit institutions.

Operating and Financial Review

Operating Expenses

	Year ended 31 December	
	2012	2011
	€m	€m
Payroll	**118**	118
Pension	**32**	33
Legal and professional fees	**25**	23
Depreciation and amortisation	**19**	17
Other	**92**	99
Operating expenses	**286**	290

Operating Expenses for the year were €286 million, slightly better than 2011 (2011: €290 million) as savings arising from the Group's Voluntary Severance Scheme ("VSS") were offset by investments in staff and processes within arrears management. The reduction in other costs is primarily driven by one-off costs recognised in 2011.

Provision for Impairments

Loans and receivables

The charge for impairment provisions on loans and receivables to customers for 2012 was €883 million (2011: €1,434 million). The charge is analysed across the loan portfolios as follows:

	Year ended 31 December	
	2012	2011
	€m	€m
Core		
- Owner occupier	**284**	580
- Buy-to-let	**224**	591
ROI residential mortgages	**508**	1,171
Consumer finance – term/other loans	**17**	35
	525	1,206
Non-core		
UK residential mortgages	**25**	26
Commercial	**320**	179
Consumer finance – film finance/finance leases	**13**	23
	358	228
Total	**883**	1,434

The weak economic conditions in Ireland with continued high unemployment and reductions in income were the key drivers of the impairment charges in the ROI residential mortgage book. The 2011 charge included a change in assumption for peak-to-trough house prices to 55% and a change in the basis of providing for accounts greater than 90 days in arrears, in line with Central Bank of Ireland ("CBI") best practice guidelines.

Commercial provisions increased to €320 million in 2012 as the portfolio continued to experience price falls and reduced rent rolls.

Repossessed Assets

An impairment provision of €8 million (2011: €6 million) was incurred in respect of the write-down of the carrying value of repossessed properties to their estimated recoverable amount.

Exceptional Items

Exceptional items in 2012 of €166 million are analysed as follows:

	Year ended 31 December	
	2012	2011
	€m	€m
Restructuring costs	**74**	2
Loss on disposal of loans and receivables held for sale	**80**	-
VSS (net of pension curtailment gain)	**12**	35
Exceptional costs	**166**	37

Restructuring costs of €74 million consist of professional fees and onerous leases incurred in relation to the restructuring of the Group, of which €44 million has been paid during the year with the remaining €30 million having been provided for.

A loss of €80 million was realised on the disposal of a consumer finance loans and receivables portfolio totalling €249 million which was classified as held for sale.

The Group incurred costs of €15 million in relation to a VSS programme implemented in 2012 under which 195 full time equivalent employees will leave the Group. This was offset by a one-off pension curtailment gain of €3m. In 2011, €35 million of costs (net of a pension curtailment gain of €9 million) were incurred relating to a reduction of 441 full time equivalent employees, including employees who temporarily transferred to the Group as a result of the acquisition of the INBS deposit book.

Operating and Financial Review

Gain on Liability Management Exercise

In 2012, the Group purchased €1.17 billion of mortgage backed notes issued by special purpose entities controlled by the Group for €0.94 billion generating a profit of €224 million.

During 2011, the Group bought back €1.2 billion of its subordinated debt realising a profit of €1.0 billion.

Discontinued Operations

Discontinued operations include the results of the Life Group for the period ended 29 June 2012, the date on which the Group completed the sale of the Life Group to the Minister for Finance for a cash consideration of €1.3 billion.

The operating profit for the period attributable to the Life Group was €89 million (2011: €9 million loss) before a settlement gain of €46 million on the disposal of the Life Group pension scheme.

The net assets, excluding intercompany balances, of the Life Group disposed of at 29 June 2012 were €1,024 million.

Full details are set out in notes 4 and 5 of the financial statements.

Taxation

The Group had a tax charge of €77 million for 2012 (2011: credit of €81 million). This difference is mainly due to the write off of previously recognised deferred tax asset on carried forward tax losses. Further details are contained in note 12 of the financial statements.

Operating and Financial Review

Group Statement of Financial Position

	31 December 2012	31 December 2011		
	Continuing operations	Continuing operations	Discontinued operations	Total
	€m	€m	€m	€m
Assets				
Loans and receivables to customers	**31,758**	33,677	-	33,677
Loans and receivables to banks	**1,396**	1,623	-	1,623
Debt securities	**6,827**	6,657	-	6,657
Other assets	**941**	1,180	-	1,180
Assets held for sale – Life Group*	**-**	-	28,841	28,841
Assets held for sale – Bank**	**-**	59	-	59
Total assets	**40,922**	43,196	28,841	72,037
Liabilities and equity				
Customer accounts	**16,639**	14,373	-	14,373
Deposits by banks	**13,827**	16,966	-	16,966
Debt Securities in issue	**6,505**	8,356	-	8,356
Subordinated liabilities	**337**	317	-	317
Other liabilities	**777**	680	-	680
Liabilities held for sale – Life Group*	**-**	-	27,828	27,828
Total liabilities	**38,085**	40,692	27,828	68,520
Total equity	**2,837**			3,517
Total liabilities and equity	**40,922**			72,037

*At 31 December 2011 the assets and liabilities of the Life Group were treated as held for sale in the Group statement of financial position.

**Certain financial assets and liabilities of the Group's consumer finance loan book and bank branches for sale were treated as held for sale in the Group statement of financial position at 31 December 2011.

Operating and Financial Review

Loans and Receivables to Customers

The following table summarises the loans and receivables to customers and the related impairment provisions by portfolio, split between core and non-core.

	31 December 2012			31 December 2011		
	Loans and receivables balance	**Impairment provision**	**Net balance**	Loans and receivables balance	Impairment provision	Net balance
	€m	**€m**	**€m**	€m	€m	€m
Core						
- Owner occupier	**17,995**	**(1,198)**	**16,797**	18,740	(855)	17,885
- Buy-to-let	**6,593**	**(993)**	**5,600**	6,679	(774)	5,905
ROI residential mortgages	**24,588**	**(2,191)**	**22,397**	25,419	(1,629)	23,790
Consumer finance – term / other	**378**	**(150)**	**228**	412	(123)	289
	24,966	**(2,341)**	**22,625**	25,831	(1,752)	24,079
Non-core						
UK residential mortgages	**7,399**	**(74)**	**7,325**	7,493	(78)	7,415
Commercial	**2,248**	**(735)**	**1,513**	1,863	(406)	1,457
Consumer finance – film finance/finance leases	**68**	**-**	**68**	585	(62)	523
	9,715	**(809)**	**8,906**	9,941	(546)	9,395
	34,681	**(3,150)**	**31,531**	35,772	(2,298)	33,474
Classified as held for sale*			**-**			(56)
Deferred fees, discounts and fair value adjustments			**227**			259
Loans and receivables to customers			**31,758**			33,677

* Certain financial assets of the Group's consumer finance loan book were treated as held for sale in the Group statement of financial position at 31 December 2011.

The Group's loans and receivables to customers decreased by €1.9 billion during 2012 of which €0.9 billion of the reduction was due to an increase in the impairment provision.

The balance of the decrease was attributable to capital repayments and redemptions exceeding new business and the sale of €249 million of the consumer finance book including €56 million which was classified as held for sale at 31 December 2011.

Operating and Financial Review

ROI Residential Mortgages

ROI residential mortgages account for 71% (2011: 71%) of the gross loans and receivables. 73% (2011: 74%) of the mortgages are owner-occupier with the balance consisting of buy-to-let mortgages.

The net balance on ROI residential mortgages fell by €1.4 billion in 2012. This reflected an increase in impairment provisions of €0.5 billion and capital repayments of €0.9 billion.

The arrears profile of the ROI residential mortgage book is set out below:

	31 December 2012			31 December 2011		
	Owner occupier	**Buy-to-let**	**Total**	Owner occupier	Buy-to-let	Total
	€m	**€m**	**€m**	€m	€m	€m
Neither past due nor impaired	**13,337**	**4,233**	**17,570**	14,547	4,416	18,963
Past due but not impaired*	**1,750**	**451**	**2,201**	1,744	599	2,343
Impaired	**2,908**	**1,909**	**4,817**	2,449	1,664	4,113
ROI residential mortgages	**17,995**	**6,593**	**24,588**	18,740	6,679	25,419
Impaired**	**2,908**	**1,909**	**4,817**	2,449	1,664	4,113
Past due but not impaired greater than 90 days*	**594**	**90**	**684**	261	4	265
NPL	**3,502**	**1,999**	**5,501**	2,710	1,668	4,378
NPL as % of total	**19%**	**30%**	**22%**	14%	25%	17%
Impairment provisions balance	**1,198**	**993**	**2,191**	855	774	1,629
Provisions as % of NPL	**34%**	**50%**	**40%**	32%	46%	37%
Total cases – number	**144,951**	**23,455**	**168,406**	150,047	23,759	173,806
Arrears cases >90 days – number	**21,131**	**5,011**	**26,142**	16,976	3,908	20,884
Arrears cases >90 days – %	**15%**	**21%**	**16%**	11%	16%	12%
Weighted Average LTV	**112%**	**138%**		110%	134%	

* 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. For further analysis see note 38.

** 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 (typically where the indexed LTV is >80%) thereby requiring a specific provision to be recognised in the income statement.

Operating and Financial Review

UK Residential Mortgages

UK mortgages are principally tracker mortgages to the professional landlord market. The business has been closed to new customers since 2008.

In sterling terms the book has declined from £6.2 billion to £6.0 billion mainly due to redemptions.

Consumer Finance – term loans/other

The Irish consumer finance portfolio includes credit cards and unsecured personal loans. Gross balances fell by €34 million to €378 million (2011: €412 million) principally due to reduced demand.

The impairment provisions increased to €150 million in 2012 (2011: €123 million). This increase was due to the continued stress experienced on unsecured lending.

Commercial Mortgages

The commercial book was closed to new business in 2008 and principally consists of interest only ROI mortgages. The increase in the gross book from €1.9 billion in 2011 to €2.2 billion in 2012 arises because commercial loans to the Life Group were treated as third party loans following the sale during the year.

Impairment provisions were €735 million at 31 December 2012 (31 December 2011: €406 million). The commercial portfolio continued to be impacted by falls in property values and significantly reduced rent rolls. This has resulted in an increase in impaired loans from €0.7 billion to €1.1 billion. The impairment provision as a percentage of Non-Performing Loans ("NPL") is 65%.

Consumer Finance – film finance/ finance leases

During 2012, the Group disposed of its leasing book which consisted principally of car loans and agri-financing. The remaining balances primarily relate to a closed book of short term film finance which will unwind over the next year and has been classed as non-core to the bank.

Loans and Receivables to Banks

The movement in loans and receivables to bank during the period is set out below:

	31 December 2012 €m	31 December 2011 €m
Opening balance	**1,623**	971
Net (outflow) / inflow	**(227)**	652
Closing balance	**1,396**	1,623

Balances fell in 2012 by €227 million due to more active management of cash balances.

Debt Securities

The movement in the debt securities portfolio is set out below:

	31 December 2012 €m	31 December 2011 €m
Opening balance	**6,657**	4,673
Maturities / disposals	**(1,659)**	(2,184)
Additions	**1,372**	4,093
Other movements	**457**	75
Total movement	**170**	1,984
Closing balance	**6,827**	6,657

Debt securities are principally attributable to the Group's Treasury operations and include €3.1 billion of Government bonds and €2.4 billion of National Asset Management Agency ("NAMA") bonds acquired as part of the acquisition of the INBS deposit book in 2011.

The overall size of the debt securities portfolio remained broadly unchanged despite a number of transactions. The significant change in bond yields, in particular for Irish assets, allowed the portfolio to be restructured to drive greater capital efficiency and an improved liquidity position.

The other movements mainly reflect the increase in market value due to the improvement in bond prices and in particular the recovery of Irish Government bond values.

Operating and Financial Review

Customer Accounts

Customer accounts, which include retail and corporate demand, notice and term deposits, were €16.6 billion at 31 December 2012, an increase of €1.6 billion over 2011 (excluding inter-company balances). The balances are analysed as follows:

	31 December 2012 €m	31 December 2011 €m
Retail current accounts	**2,053**	2,021
Retail other	**11,453**	10,731
Corporate deposits	**3,133**	2,304
	16,639	15,056
Inter group balances	**-**	(683)
Customer accounts	**16,639**	14,373

The increase in retail other deposits is primarily due to the acquisition of the Northern Rock deposit book of €0.5 billion in January 2012.

Corporate deposits have increased to €3.1 billion from €2.3 billion principally due to competitive pricing during early 2012.

The LDR at 31 December 2012 is 191% (31 December 2011: 227%). At 31 December 2012, the NSFR for the Group was 67% (31 December 2011: 63%). The improvement reflects the strong growth in customer account balances during the year together with the fall in customer loans and receivables.

Wholesale Funding

The Group's wholesale funding is summarised below:

	31 December 2012 €m	31 December 2011 €m
Debt securities in issue		
- Bonds and medium term notes	**5,274**	5,531
- Other debt securities	**-**	615
- Non-recourse funding	**1,231**	2,210
	6,505	8,356
Deposits by banks		
- European Central Bank ("ECB")	**10,715**	11,658
- CBI	**-**	2,302
- Other banks and institutions	**3,009**	2,980
- Other	**103**	26
	13,827	16,966
Wholesale funding:		
> 1 year to maturity	**3,777**	8,256
< 1 year to maturity	**2,728**	100
Drawings from Monetary Authorities Maximum (billion)	**€ 14.0**	€ 19.5

Debt Securities in Issue

There were no new debt issuances in 2012. The reduction in the balance from €8.4 billion to €6.5 billion was largely due to the debt buy-backs carried out together with scheduled debt repayments. The Group repurchased €1.17 billion of mortgage backed securities issued by special purpose vehicles controlled by the Group for a cash consideration of €0.94 billion thereby realising a profit of €224 million. These securities consisted of €0.75 billion of non-recourse funding and €0.42 billion of other debt securities issued by the Group.

Operating and Financial Review

Deposits by Banks

Total deposits by banks were €13.8 billion (2011: €17.0 billion). The reduction reflects the fall in the asset balances required to be funded together with the growth in customer accounts.

The Group uses its mortgage assets to collateralise borrowings from a range of counterparties including the ECB and the CBI (the Monetary Authorities).

The drawings from ECB at 31 December 2012 were €10.7 billion a reduction of €0.9 billion from 2011.

At 31 December 2012, the ECB provided €0.5 billion under the Special Mortgage Backed Promissory Note Programme ("SMBPN") (31 December 2011: €nil). At 31 December 2011, the Group had €2.3 billion of ELA funding from the CBI and none at 31 December 2012.

Shareholders' Equity

Shareholder equity at 31 December 2012 was €2.8 billion a reduction of €0.7 billion from 31 December 2011. The movement is analysed below:

	31 December 2012 €m	31 December 2011 €m
Opening balance	**3,517**	1,616
Movements:		
Loss attributable to shareholders	**(999)**	(428)
New equity capital	**-**	2,254
Capital contribution	**-**	132
Available-for-sale reserve	**318**	(28)
Revaluation losses	**(2)**	(14)
Other movements	**3**	(15)
Closing balance	**2,837**	3,517

The loss attributable to shareholders for the year was €999 million. This is offset by an increase of €0.3 billion in the available for sale reserve principally due to the increase in bond values.

Regulatory Capital

The Group's regulatory capital position can be summarised as follows:

	31 December 2012 €m	31 December 2011 €m
Total available capital	**3,042**	2,756
Total required capital (*Calculated at 8%)*	**1,189**	1,233
Excess own funds	**1,853**	1,523
Risk-weighted assets	**14,859**	15,408
Capital ratios		
Core Tier 1	**18.0%**	16.7%
Total capital ratio	**20.5%**	17.9%

The total available capital increased by €0.3 billion to €3.0 billion in 2012 reflecting the release of €1.3 billion of additional capital from the disposal of the Life Group in June 2012 offset by the losses in the year.

The total required capital at 31 December 2012 based on the minimum 8% capital requirement has remained stable at €1.2 billion (31 December 2011: €1.2 billion).

The increase in the Group's total capital ratio to 20.5% reflects the higher total capital available following the disposal of the Life Group.

Risk Management

Risk Factors

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 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).

Risk Management

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.

An updated restructuring plan was submitted in February 2012 for review/approval by the EU. In the memorandum of understanding ("MOU") issued on 10 February 2012 under the EU/IMF programme of support, the State issued the following statement with respect to the Group's banking businesses.

"*During February, we will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the State on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews. The authorities will make a decision on the proposed way ahead by end April. We will prepare an updated restructuring plan for ILP that will detail the actions needed to ensure the bank's long-term viability, in line with EC State aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.*"

On 26 April 2012, at the conclusion of the sixth review of the Programme with the EU Commission, the ECB and the IMF, the Minister for Finance made the following statement: "*Agreement has been reached, in line with the programme commitments, on the strategic direction for permanent tsb, with a formal Restructuring Plan to be submitted to the European Commission by the end of June. The objective of this plan is to create a viable retail bank focused on lending into the Irish economy. This will be achieved by carving out a viable bank from the current permanent tsb business.*" The resulting Restructuring Plan was submitted on 30 June 2012.

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 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.

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, unemployment, decreases in asset values and declining business activity, is likely to have a significant impact on 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.

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 increase its recourse to 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 bank's level of liquidity be maintained, based on various cash flow stress tests, in order to ensure that the bank's funding profile has an appropriate spread of maturities. The key limits applied are that the bank 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. As a consequence of industry-wide funding difficulties, particularly the increased reliance on euro system funding, and in particular funding from the ECB, which is short term in nature as it rolls over frequently, the Group had breaches of these limits on a regular basis since 15 December 2010. However, at the date of signing of this Annual Report the Group was compliant with these limits.

Loss of customer deposits

The Group relies on customer deposits to fund a considerable portion of its loan portfolio, the ongoing 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 marks a significant step in the normalisation of the banking system and this announcement is not expected to have a significant adverse effect on the Group.

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. Adverse changes in the credit quality or behaviour of the Group's borrowers, counterparties and their guarantors, or adverse changes arising from a general deterioration in global economic conditions or systemic risks in the financial system, have reduced, and are expected to continue to reduce, the recoverability and value of the Group's assets.
Deterioration in economic conditions will continue to increase the credit risks faced by the Group by way of increased impairment losses on bank lending. The current slowdown in the Irish and UK economies has resulted in a contraction in both the Irish and UK housing markets. In addition, higher unemployment and increased costs of funding may put further strain on borrowers' capacity to repay loans. These and other economic factors may cause prices of property or other assets to fall further, thereby reducing the value of collateral on many of the Group's loans and increasing write-downs and impairment losses.

Systemic Risk

Recently 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.

Risk Management

The Group's un-guaranteed long-term unsecured senior debt is rated Ba2 (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 Ba1/Not-prime by Moody's and BBB+/A-2 by Standard and Poor's.

Sovereign Risk

As at 31 January 2013, the long-term (outlook) / short-term sovereign credit ratings for Ireland were BBB+ (Stable) / A-2 from Moody's and Standard and Poor's. The current ratings are the result of a number of downgrades of the sovereign since early 2009 when Standard & Poor's had rated Ireland AAA (credit watch Stable). Further downgrades would be likely to further delay a return to normal market funding for the State. As the guarantor of certain liabilities of the Group under the ELG Scheme, further sovereign downgrades are also likely to impact adversely on the Group's credit rating and cost of funding for certain securities guaranteed under this scheme and are likely to restrict refinancing of wholesale funding and could also result in the withdrawal of deposits from the Group.

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.

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.

Risk Management

Pension Fund Risk

Pension fund risk is the risk associated with the uncertainty surrounding required contributions to the Group's defined benefit pension schemes.
The risk arises because the value of the asset portfolios and returns from them may be less than expected or because changes in interest rates or other financial parameters may give rise to increases in the estimated value of the schemes' liabilities. Furthermore, increases in longevity may increase the value of the scheme's liabilities. Professional consulting actuaries are regularly appointed by the pension fund trustees to assess and review the funding status and the underlying risk profile of each of the Group pension schemes. The results of such reviews are used to drive strategic decision making to reduce risk. In addition, stress testing is performed by pension actuaries to assess the Asset and Liability Management ("ALM") impact of various stress scenarios, including adverse market and macroeconomic conditions. The asset mix within each scheme is monitored closely and rebalanced on an annual basis to ensure that the scheme's investment strategy is adhered to.

Following a full review of each pension scheme in 2006 and wide consultation with staff and pension fund members, the Group's defined benefit pension schemes were closed to new members and the asset mix of the funds were altered in order to reduce ALM risk. Furthermore, it was communicated to existing members that pension benefits were not guaranteed. It was specifically pointed out that if the combination of contributions and investment returns are not sufficient to provide for the specified benefits, then either more money would need to be added, by way of increased contributions from either or both pension scheme members and the Group, or else the benefits promised would have to be reduced, or a combination of both.

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.

Risk Management

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 Board on risk governance, and 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.

Risk Appetite and Strategy

The Board sets overall policy in relation to the type and level of risk that the Group is permitted to assume. To achieve this, the 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 Board holds the final responsibility for approval of the risk appetite statement.

Risk Governance

The 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 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 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 ongoing 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 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

The BRCC comprises of Pat Ryan (Chairman), Sandra Kinney, Emer Daly and Dominic Dodd. The BRCC has responsibility for oversight and providing advice to the 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 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

Mission

Group Internal Audit's (GIA) mission is to provide an effective, responsive and highly valued internal audit service that adds value to, and improves, the Group's operations through the risk-based, independent assessment of the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes, with the ultimate objective of providing an opinion on the control environment to the Board Audit Committee ("BAC").

In addition, GIA may also undertake specific investigations as requested by the Board or Executive Committee ("ExCo"). The impact of this work on GIA's assurance commitments will be reported to the BAC.

Further, GIA may provide advisory, consultancy and other work as required to support the fulfilment of its mission.

Responsibilities and Scope

GIA's primary responsibility is to the Board through the 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. To fulfil its mission, GIA will:

- Identify and assess potential risks to the Group;

- Evaluate the adequacy, effectiveness and sustainability of the Group's governance risk management and controls regarding the:

  - reliability and integrity of operational and financial information
  - effectiveness and efficiency of operations
  - safeguarding of assets
  - compliance with laws, regulations and contracts

- Appraise the use of resources with regard to effectiveness and efficiency;

- Assess the implementation of major change initiatives, selected based on risk; and

- Support the continuous improvement of the Group's governance, risk management and control processes through the sharing of best practice.

Independence

The Head of Group Internal Audit reports directly to the Board of Directors through the BAC. The BAC will review the scope and nature of the work of GIA on a regular basis to confirm its independence; this includes the undertaking of independent external reviews of GIA at least every 3 years.

Rights and Authorities

GIA staff, in the performance of their third line role, have the following rights and authorities:

- Unrestricted access at any time to all records, personnel, properties and information of the Group, its subsidiaries and its affiliates;
- Notification, on a timely basis, concerning any major event or information relating to potential or actual governance, risk management issues or control failures; and
- Attendance at management committees and meetings as deemed appropriate or necessary to fulfil GIA's mission.

The Head of Group Internal Audit and GIA staff are not authorised to perform any operational duties for or undertake other activities that are contrary to its third line of defence role.

Operating Protocols

To fulfil its mission, GIA:

- Presents an audit plan to the BAC for approval at least annually. The plan is regularly updated to reflect emerging risks;
- Performs regular Group-wide assessments of current and emerging risks to determine audit needs;
- Provides the BAC with regular reports on key governance, risk management and control issues identified across the Group and Management's progress in addressing them;
- Provides regular reports to the BRCC and ExCo;
- Works in partnership with ExCo while remaining independent from day to day operations;
- Conforms with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics, as published by the Institute of Internal Auditors and complies with Group policies and procedures;
- Seeks regular feedback from ExCo and BAC on the delivery of its mission;
- Interacts regularly with the Chairs of the Board, the BAC and the BRCC to share information and discuss ongoing issues and concerns;
- Meets on a regular basis with the Group's External Auditors to share information and discuss GIA's coverage of risk areas;
- Optimises its resource utilisation, through the use of leading internal audit tools and techniques and by leveraging ExCo's own risk assessment processes;
- Pursues continuous improvement in line with leading Internal Audit practices in the International Financial Services Industry;
- Maintains internally, or obtains externally, appropriate skills and resources to meet the requirements of this charter; and
- Supports the professional development (including professional certification) of all its employees including the internal movement of staff in and out of GIA.

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 bank is or may become exposed. The Chief Risk Officer is a member of the 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 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 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.

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 bank, 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 bank.
- 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 bank.
- It is responsible for validation of all Risk Models.

Credit Committee

The 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 credit risk management, including credit risk assessment processes, collateral requirements and the risk grading of individual credit exposures. The credit risk management systems operate 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 Credit Committee. The Credit Committee also monitors credit and credit risk exposure and its evolution against the risk appetite set by the Board, and oversees the development, implementation and performance of credit risk measurement tools. The committee oversees the application of the Internal Rating Based ("IRB") regulatory capital regime across portfolios, reviews the results of forecasting and stress testing, and monitors regulatory and economic capital consumption against limits set within the risk appetite framework.

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 ALM risks, within the risk appetite limits set by the 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 (59) 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 a current Non-Executive Director of Sainsbury Bank plc and is also Chairman of the Highways Agency in England and a Non-Executive Director of the UK Department of Transport. 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 (47) 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: 02 January 2013)

Group Chief Financial Officer

Glen (54) 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: 01 October 2012)

Independent Non-Executive

Dominic (45) is an experienced Non-Executive Director and Board Chairman. He is the current Chairman of the Royal Free London NHS Foundation Trust (a UK University teaching hospital operating from 7 sites with over 5,500 staff). He was formerly an Executive Director of the Children's Investment Fund Foundation, one of the world's largest private 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 of some of the best-known companies in the UK and Europe. 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 also maintains a part-time role as an independent strategy advisor to Chief Executives in both the private and voluntary sectors. Dominic's unique experience will be 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 (49) 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 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.

Margaret Hayes

(Director join date: 22 *December 2008*)

Independent Non-Executive

Margaret (58) is a former Secretary General and Accounting Officer for the Department of Tourism and Trade, then Tourism Sport and Recreation and finally Community, Rural and Gaeltacht Affairs. She has served on a number of State Boards including Bord Bia and the Irish Trade Board, and was a member of the National Economic and Social Council. She is a barrister and currently a member of the Irish Bar and is also a member of the Panel of Interviewers for the Public Appointments Commission. Margaret brings a wide range of economic and social policy experience, as well as extensive administrative and managerial experience, and legal training, to the deliberations of the Board. Margaret was nominated by the Minister for Finance to join the Board as a Public Interest Director in December 2008. Public Interest Directors bring, in addition to other experiences, a civic mindedness and a sense of what is in the public interest to the deliberations of the Board. The Group Chairman and the Nomination Committee have each reviewed Margaret's conduct and performance during 2012 and have re-affirmed their opinion that Margaret continues to exercise independent judgement and character in the execution of her duties to the Group.

Ray MacSharry

(Director join date: 22 *December 2008*)

Independent Non-Executive

Ray (74) is a former EU Commissioner, Minister for Finance, Minister for Agriculture and Governor of the European Investment Bank. He has served as a Non-Executive Director of Bank of Ireland Group, Jefferson Smurfit Group plc and Ryanair plc and is former Chairman of London City Airport, Green Property plc and Eircom plc. Ray brings significant public service and business experience to the deliberations of the Board. His knowledge and skills in the political and economic areas are of particular benefit to the Group. Ray was nominated by the Minister for Finance to join the Board as a Public Interest Director in December 2008. Public Interest Directors bring, in addition to other experiences, a civic mindedness and a sense of what is in the public interest to the deliberations of the Board. The Chairman and the Nomination Committee have each reviewed Ray's conduct and performance during 2012 and have re-affirmed their opinion that Ray continues to exercise independent judgement and character in the execution of his duties to the Group.

Board of Directors

Pat Ryan

(Director join date: 15 December 2009)

Independent Non-Executive

Pat (66) 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. As Chief Risk Officer he was responsible for formulating high level risk policies, setting standards and the development of strategic risk management initiatives. Pat is currently a Director of AXA Life Europe Limited and J&E Davy. Pat's mix of skills and training in treasury and risk are of significant benefit to the Group and the Board including in discharging his role as Chairman of the Risk & Compliance Committee.

Sandy Kinney

(Director join date: 17 August 2010)

Independent Non-Executive

Sandy (54) is an experienced bank Board Director with a professional background in accounting and finance. From 2003 to 2012 she was a Non-Executive Director of the Skipton Building Society in the UK and was Chair of Skipton Board Audit Committee for 5 years until early 2007 and again from 2010 to 2012. More recently Sandy has also joined the Board of MBNA Limited. In 2005 Sandy was appointed by the FSA as a Non-Executive Director to the Financial Services Compensation Scheme ("FSCS"). FSCS was successful (as declared by the UK Treasury Select Committee) in its efficient management of £23 billion of payouts, including complex funding arrangements. She completed her full 6 year term with the FSCS in June 2011. She is a Fellow of the Chartered Institute of Management Accountants and has previously been a financial services partner in both PricewaterhouseCoopers and KPMG in London. She brings skills and expertise in accounting and risk management to the Board and her experience of UK financial services at Board level and in a regulatory environment is of particular benefit to the Group.

Ciarán Long

Company Secretary

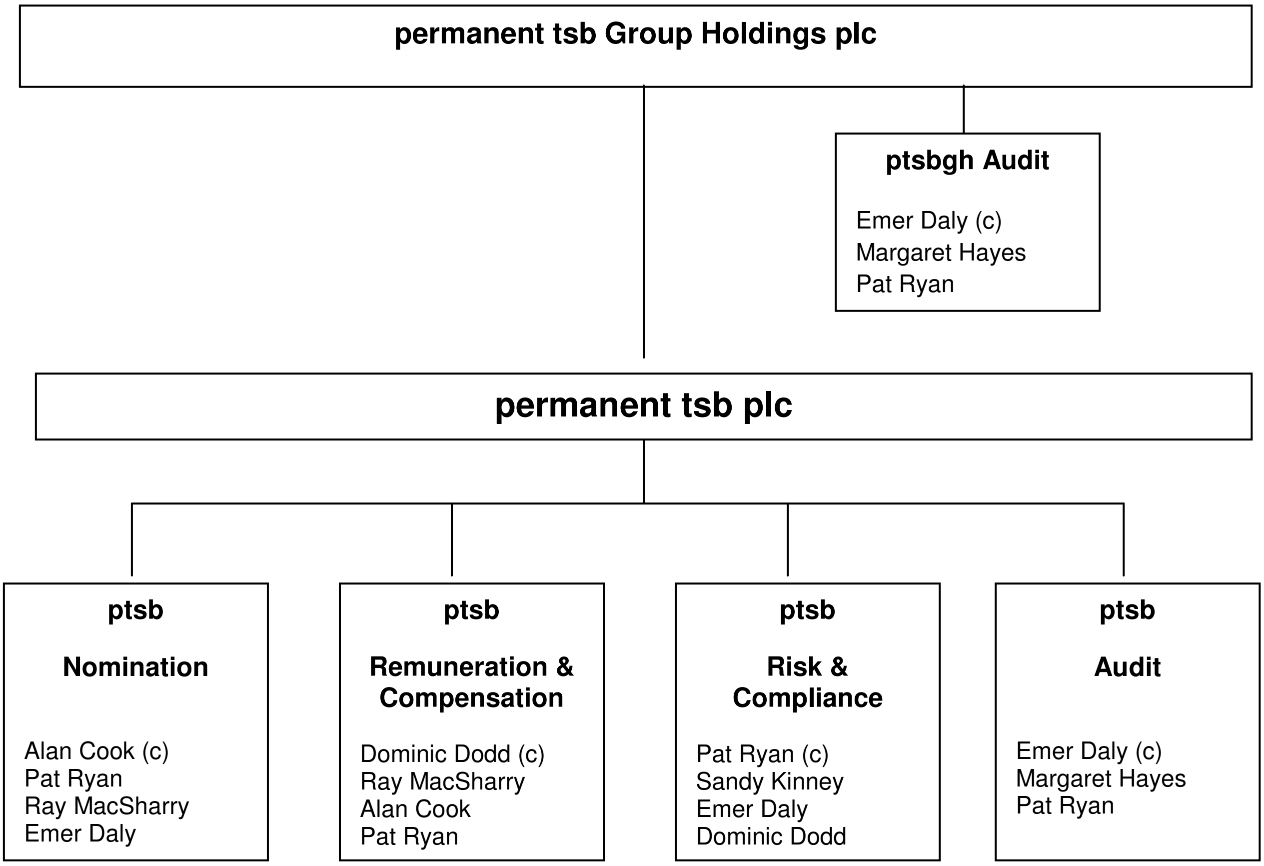
Ciarán (60) was appointed Company Secretary in May 2004. He acts as secretary to each of the Board Committees. An actuary and a former employee of Irish Life since 1969, he has held Senior Executive positions in both the life and pensions businesses in Irish Life and is a former general manager and Director 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 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"). On 28 February 2012, the Board established Audit, Risk and Compliance, Nomination and Remuneration and Compensation committees in preparation for the legal separation of the Life Group. Prior to this, the Board had relied on the Group committee structure of the ptsbgh Board. The current Group committee structure is set out below:

Committee Structure at 31 December 2012



(c) – Denotes committee chair.

Committee Appointment Dates*

Name	Nomination	Remuneration	Risk and Compliance	Audit
Alan Cook	02/06/2011	05/05/2011	-	-
Pat Ryan	10/11/2011	23/03/2010	02/02/2010	02/02/2010
Ray MacSharry	02/06/2011	24/03/2009	-	-
Emer Daly	23/10/2012	-	24/10/2011	26/10/2011
Dominic Dodd	-	29/01/2013	22/01/2013	-
Sandy Kinney	-	-	11/02/2011	-
Margaret Hayes	-	-	-	25/02/2009

*Date of first appointment to the relevant committee of ptsb or ptsbgh.

Directors' Report

The Directors present their annual report and audited Group and Company financial statements to the shareholders for the year ended 31 December 2012.

Results

The Group loss after tax and non-controlling interests for the year was €999 million (2011: €428 million loss) and was arrived at as presented in the consolidated income statement.

Dividends

No dividends were paid or proposed for 2012 or 2011.

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") and 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.

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. Jeremy Masding was co-opted onto the Board as an Executive Director on 28 February 2012 and was subsequently appointed as Group Chief Executive Officer on 29 June 2012. Dominic Dodd was co-opted onto the Board as a Non-Executive Director on 1 October 2012. Glen Lucken was co-opted onto the Board as an Executive Director with effect from 2 January 2013. David McCarthy resigned from the Board on 29 June 2012 following the sale of the Life Group.

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").

Ordinary Shares

The Company has only one class of issued shares and as at 31 December 2012, it had 276,782,351 Ordinary Shares in issue in that class. Each Ordinary Share carries one vote and as at 31 December 2012, 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 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.

(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.

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.

Directors' Report

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 share 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

The Directors may decline to recognise any instrument of transfer unless:

I. 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);
II. the instrument of transfer is in respect of one class of share only;
III. the instrument of transfer is in favour of not more than four transferees; and
IV. 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 ptsbgh and the Minister for Finance, the Minister for Finance'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.

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 44.

Political Donations

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

Subsidiaries undertakings

The principal subsidiaries undertakings and the Group's interests therein are shown in note 44, 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.

Directors' Report

Independent Auditor

KPMG, Chartered Accountants and Registered Auditor, will continue in office until the conclusion of the Company's Annual General Meeting on the 22 May 2013. Subject to the approval of shareholders at the Group's Annual General Meeting, the Board has proposed that PricewaterhouseCoopers ("PwC"), Chartered Accountants and Registered Auditor will be appointed as the Company's independent auditor from the conclusion of the Annual General Meeting.

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 of the Company has confirmed that to the best of their knowledge, ptsb 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 and the Company Secretary, 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 Company's Executive Committee, led by the Group Chief Executive Officer 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 its Executive Committee within the above parameters. It relies on its risk appetite and the delivery of operating plans to be implemented by the Executive Committee and its 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 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 2012, the Board recruited Dominic Dodd as an Independent Non-Executive Director. The Nomination Committee did not utilise the services of an external search agency or use open advertising for this position. 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 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.

The Board considers a complement of between eight and ten Directors consisting of two Executive Directors and between six and eight Non-Executive Directors to be appropriate to the circumstances of the Group. The Board is currently in the process of recruiting an independent Non-Executive Director and will continue to recruit to meet ongoing refreshment needs. Outside of its ongoing refreshment, together with the expected changes set out above and in the Director's report, there are no further changes currently planned in the structure or membership of the Board. 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.

Corporate Governance

Having Directors with a mix of credit, financial, risk management, strategy, consumer related and general business experience has been of particular benefit as the Group has been operating in a particularly challenging environment.

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 17 board meetings during 2012. Full board papers are sent to each Director 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 Board has a formal performance review process to assess how the Board and its committees are performing. The review of performance for 2012 was facilitated by Bernie Gray, an independent HR consultant who works with a range of public and private sector companies. Ms Gray 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 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

On 28 February 2012, the Board established Audit, Risk and Compliance, Nomination and Remuneration and Compensation committees in preparation for the legal separation of the Life Group. Prior to this period, the Board had relied on the Group committee structure of the ptsbgh Board. 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.permanenttsbgroup.ie. In accordance with the terms of the CBI Code, the Chairman of the Board is not a member of the Audit Committee.

Audit Committee

The Audit Committee comprises Emer Daly (Chairman), Margaret Hayes and Pat Ryan. The Board ensures that the Chairman of the Audit committee has recent and relevant financial experience. The Audit Committee provides a link between the Board and the external auditors. The Audit Committee is independent of the Group's management and is responsible for making recommendations in respect of the appointment of external auditors and for reviewing the scope of the external audit.

The Audit committee monitors the effectiveness and adequacy of the Company's internal control, internal audit and IT systems and reviews the effectiveness of its risk management procedures. 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 Committee also monitors the integrity of its financial statements, reviewing significant financial reporting judgements contained therein, to ensure that they give a "true and fair view" of the financial status of the Company. The Committee meets at least annually with the external auditors in confidential session without management being present.

During 2012, the Audit Committee undertook a competitive tendering process for the appointment of the Auditors. This development followed a ptsbgh Board decision that the position of auditors should be subject to regular, competitive tendering. The first such tender, which has now concluded, was overseen by the Chairman of the ptsbgh Audit Committee, Ms. Emer Daly, working with the Group's specialist procurement team. The Board has confirmed that it will propose the appointment of new auditors for the Group at the 2013 Annual General Meeting ("AGM"). Subject to the approval of the shareholders' at that AGM, PwC will be appointed as auditors effective from the conclusion of the AGM.

The Audit Committee also reviews the non-audit services provided by the external auditors based on the policy approved by the Board in relation to the provision of such services. Fees paid in respect of audit, other assurance services, tax advisory services and non-audit services are outlined in note 10 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 paid to external auditors was €8.4 million (including VAT) payable to KPMG, of which €4.2 million (including VAT) was payable to KPMG Ireland and €4.2 million (including VAT) was payable to KPMG overseas affiliates. €6.0 million (including VAT) was paid in respect of non-audit services and tax advisory services, of which €1.8 million (including VAT) was payable to KPMG Ireland and €4.2 million (including VAT) to KPMG overseas affiliates.

Risk and Compliance Committee

The Risk and Compliance Committee ("BRCC") comprises Pat Ryan (Chairman), Dominic Dodd, Emer Daly and Sandy Kinney. The Board ensures that the Chairman of the committee has relevant risk management and / or compliance experience.

The Committee has responsibility for oversight and advice to the 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 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.

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 BRCC.

Remuneration and Compensation Committee

The Remuneration and Compensation Committee comprises Dominic Dodd (Chairman since 08 February 2013), Alan Cook, Ray MacSharry and Pat Ryan. This 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. During 2012 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 Irish Progressive Staff Pension Scheme and the TSB Staff Pension Scheme by its actuarial practice

Nomination Committee

This Nomination Committee comprises Alan Cook (Chairman), Emer Daly, Pat Ryan and Ray MacSharry. The Committee is charged with responsibility for bringing recommendations to the boards of ptsb and ptsbgh 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. In December 2012, the Committee carried out its annual review on the size and composition of the Board and were satisfied that the target set by the Board for a board of between 8 and 10 Directors was appropriate to the circumstances of the Company. The Committee also reviewed the role of the Group Chairman and Group Chief Executive Officer and was satisfied that the Group Chairman and Group Chief Executive Officer met the relevant standards set out respectively in sections 8.3-8.4 and 9.3-9.4 of the CBI Code.

Subject to satisfactory performance, 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 2012

	Board		Audit		Risk and Compliance		Remuneration & Compensation		Nomination	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Non-Executive Directors										
Alan Cook	17	17	-	-	-	-	1	1	6	4
Dominic Dodd	4	2	-	-	-	-	1	1	-	-
Emer Daly	17	16	9	9	5	5	-	-	1	1
Margaret Hayes	17	17	9	9	-	-	-	-	-	-
Sandy Kinney	17	16	-	-	5	5	-	-	-	-
Ray MacSharry	17	17	-	-	-	-	1	1	6	5
Pat Ryan	17	17	9	9	5	5	1	1	6	6
Executive Directors										
Jeremy Masding	16	16	-	-	-	-	-	-	-	
David McCarthy*	10	8	-	-	-	-	-	-	-	-

* David Mc Carthy resigned as part of the sale of the Life Group on 29 June 2012.

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.

Formal guidance for Directors on the implementation of the requirements entitled "Internal Control: Guidance for Directors on the Combined Code", was published in September, 1999 ("the Turnbull guidance"). The Board has established the procedures necessary to implement the Turnbull guidance and was fully compliant with it during 2012 and up to the date of approval of the financial statements.

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

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 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 ongoing 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 Risk and Compliance 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. The Chief Risk Officer reports regularly to the BRCC.

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.

Corporate Governance

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.

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, internal audit, human resources and information technology systems and operations;
- The internal audit function, which has a Group wide remit, acts as the third line of defence and is responsible for carrying out a risk-based, independent assessment of the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes. The Head of Group Internal Audit reports directly to the Board of Directors through the Audit Committee for audit assurance purposes and to the Group Chief Executive Officer for administrative purposes;
- The Audit Committee reviews the scope and nature of the work of Group Internal Audit on an ongoing basis to confirm its independence and undertakes an independent external review of Group Internal Audit on a regular basis;
- 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;

- There is a risk management framework in place in each business throughout the Group whereby Executive management reviews and monitors, on an ongoing basis, the controls in place, both financial and non-financial, to manage the risks facing that business.

Going Concern

Assessment Basis

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2012 is a period of 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 financial plans, 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, the Government's fiscal policies, the support provided by the EU/IMF 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 system funding. This position has affected the Group's liquidity metrics such as the LDR and the NSFR. The Group has discussed a Restructuring Plan with the relevant authorities which are 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 are optimistic that approval of the plan will be received in due course, at this point such approval remains outstanding.

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. At a macroeconomic level, although property prices and unemployment growth have shown signs of stabilisation, overall property prices fell in 2012 and unemployment levels have remained high. These factors have impacted the Group's loan loss impairment provisions and profitability during 2012 and are expected to continue to be significant factors in 2013. Capital markets have shown initial signs of stabilisation in that Irish sovereign bond yields have narrowed significantly in 2012 and the National Treasury Management Agency ("NTMA") returned to both the short and long term funding markets.

Capital Adequacy

The PCAR assessment carried out by the CBI in March 2011 identified a €4 billion capital requirement for the Group. The Minister for Finance, following a High Court order in July 2011 made under the Credit Institutions (Stabilisation) Act 2010, invested €2.3 billion of capital into the Group, becoming a 99.2% shareholder. Further to this investment, €400 million capital was raised via the issuance of convertible contingent capital notes to the Minister for Finance. In August 2011, the Group completed a liability management programme which raised €1 billion of Tier 1 capital. Finally, in June 2012, the Group completed the sale of its 100% interest in the Life Group to the Irish Government. Together, these capital raising measures brought the Group's total capital ratio at 31 December 2012 to 20.5% and its Core Tier 1 capital ratio to 18.0%, exceeding the minimum 10.5% required by the CBI.

In addition the Directors have 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.

2012 Strategic Planning Review

In the Memorandum of Understanding update on 6 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 forward for the Group would be made and following this by the end of June 2012, a Restructuring Plan outlining the actions needed to ensure the bank's long-term viability would be prepared. On 29 June 2012, the Restructuring Plan was submitted 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 businesses units and on an integrated basis it would meet all material capital targets. The Group is in the course of completing this internal reorganisation, including the development of a significantly improved loan collections capability at the statement of financial position date. The medium term intention is then to separate out the non-core assets so that a viable entity can be returned to the private sector. The Directors are reasonably hopeful that the plan will be formally approved in 2013.

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

Liquidity

During 2012, there has been a €1.6 billion increase in customer deposits, predominantly due to new business particularly from corporate customers and partly driven by the completion of the acquisition of the Irish deposit business of Northern Rock. Although access to the wholesale funding market remains limited, the Group has successfully rolled over £2.1 billion of secured funding, utilising its UK buy-to-let mortgage portfolio as collateral over a longer term while also securing an improved advance rate which will result in an additional £0.5 billion in 2013. These factors, along with the Group's continued efforts to maximise ECB eligible collateral, have resulted in borrowings from the CBI's liquidity assistance facilities reducing from €2.3 billion to zero during the year and borrowings from the ECB reducing from €11.7 billion to €10.7 billion.

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

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 further house price falls, continued high level 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 the event of further house price falls and potential increase in the level of arrears.

Banking Supervision

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. Once this agreement comes into effect in July 2013, the regulatory environment of the Group may be significantly altered. In addition, the CBI may increase the minimum regulatory capital requirements or 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.

PLAR and Deleveraging

The financial impact of delivering the PLAR deleveraging plans is difficult to predict given macroeconomic conditions at both national and international level, the nature of the assets included in the plan and the potential markets for those assets. At this point, with the agreement of the CBI, further deleveraging has been deferred. Should this be required to be brought forward, this could have a significant impact on the financial performance and capital of the Group. As currently structured, the Group has an on-going requirement to continue to access CBI funding which adversely impacts on liquidity metrics such as the LDR and NSFR.

Conclusion

The impacts, risk and uncertainties set out above and the options available to the Group for the period of assessment have been considered by the Directors. Furthermore, the Directors have considered the latest financial performance and position in the Annual Report, in conjunction with projections of future position and performance prepared by management.

In addition, in the specific context of its assessment of going concern, the Group discussed relevant public announcements from the ECB, the IMF and the Minister of Finance (together "the announcements"), together with its plans and its on-going liquidity requirements, with the CBI and the Department of Finance (together, "the State authorities"). The Directors are satisfied, based on the announcements and the discussions with the State authorities, that the required liquidity from the CBI and ECB will be available to the Group during the period of assessment

Based on the above, the Directors are satisfied that the Group has adequate resources, both capital and funding, to meets its immediate and estimated funding requirements for the period of assessment. Therefore, the Directors consider that it is appropriate to prepare the consolidated financial statements of the Group 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

The members of the Remuneration and Compensation Committee are Dominic Dodd, Alan Cook, Ray MacSharry 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 four meetings during 2012 and in addition individual members met with Senior Management and external reward advisers on several occasions to discuss emerging regulatory requirements relating to remuneration issues

Remuneration Policy

Over the past two years the Remuneration Policy of Group has been reviewed and overhauled to ensure that it met with the changing requirements being introduced in Ireland and the EU. Steps have been taken during this period to ensure that the remuneration arrangements were in full compliance with the third capital requirements directive (“CRD III”) and these arrangements have been the subject of review by the Regulator in Ireland.

As a result of all these changes the Company has withdrawn 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 2011 or 2012;
- Aggregate Executive compensation has fallen from €1.3 million to €1.1 million (2011-2012);
- Aggregate Non-Executive compensation has fallen from €670,000 to €630,000 (2011-2012);
- The Group utilises a policy of median pay versus peers; 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 2012 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. 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 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.

Non-Executive Directors

Non-Executive Directors are remunerated solely by way of fees in respect of their Board membership, full details of which are set out below.

Directors' Report on Remuneration

Executive Directors

The remuneration of the Executive Directors in 2012 comprises a basic salary, certain benefits and 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 2012.

Benefits

Executive Directors are entitled to a company car or a car allowance. The Group also pays private health insurance on behalf of the Executive Directors and their families. In addition, 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.

Bonus and long-term incentive plans

No bonus payments were made to Executive Directors during 2011 or 2012. The Remuneration and Compensation Committee has asked its reward advisers Towers Watson to review the bonus and long-term incentive policy and make appropriate recommendations having regard to the banking business in which the Group operates.

A share-based LTIP for Senior Management was approved by shareholders' in 2006 and all awards made under the plan have now lapsed. The committee currently has no plans to operate this share-based long-term incentive plan in the future.

Pensions

Jeremy Masding is a member of the ptsb Defined Contribution Pension Scheme. The Group contributes to this pension scheme and contributions are determined solely in relation to basic salary.

David McCarthy who resigned from the Board on 29 June 2012 is a member of the Irish Life Assurance plc defined benefit pension scheme. David McCarthy was a member of the Irish Permanent Executive Pension Scheme but his membership of this scheme ceased on 30 November 2011 when he transferred to the Irish Life Assurance plc Pension Scheme.

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 (Audited)

The following sections are audited and form part of the financial statements.

Share Option Schemes

No share options were granted in 2011 or 2012. ptsbgh 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 €9.675 to €13.21 continue in force. Share options are held by the wider management group, no Director holds share options.

Following the sale of the Life Group on 29 June 2012, all share options held by departing Irish Life employees have lapsed.

Profit-Sharing Schemes

During the period 2001 to 2011, the Group operated a Revenue-approved employee profit-sharing scheme on terms approved by the shareholders' in 2001. The last share allocation was made in 2008. This scheme is now closed and no further payouts will be made.

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.

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		**Benefit in kind**		**Other remuneration**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Jeremy Masding	**353**	-	**51**	-	**3**	-	**407**	-
Kevin Murphy*	**250**	500	**29**	82	**2**	4	**281**	586
David McCarthy	**250**	500	**15**	30	**2**	4	**267**	534
	853	1,000	**95**	112	**7**	8	**955**	1,120

* Kevin Murphy resigned as a Director of the Company on 31 December 2011 but was a Director of ptsbgh and Group Chief Executive until 29 June 2012. Kevin Murphy's remuneration does not include fees of €13,500 paid to him in 2011 with respect to his Irish Stock Exchange Non-Executive Directorship.

Aggregate remuneration for Executive Directors amounted to €1.1 million (2011: €1.3 million). This figure includes normal pension contributions of €0.1 million (2011: €0.2 million).

The cost of Executive Directors is allocated been the Company and its principal subsidiaries based on duties carried out for those companies.

Directors' Report on Remuneration (Audited)

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]	
	2012	2011	**2012**	2011	**2012**	2011
	€000	€000	**€000**	€000	**€000**	€000
Kevin Murphy	**-**	(2)	**-**	(45)	**-**	305
David McCarthy	**3**	5	**44**	79	**241**	236
	3	3	**44**	34	**241**	541

1. Increases are after adjustment for inflation and reflect additional pensionable service and earnings.
2. 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.
3. Total accumulated amounts of accrued benefits payable at normal retirement ages.

Jeremy Masding is a member of a defined contributions scheme and the contribution made by the Group in respect of service worked amounted to €0.05m.

Executive Directors' Share Options in ptsbgh shares

	Scheme	As at 1 January 2012	Lapsed during the year	Forfeited during the year	Exercise price	At 31 December 2012	Earliest exercise date	Latest exercise date
Kevin Murphy								
	2000	**17,930**	-	17,930	14.85	**-**	18/04/2005	17/04/2012
	2000	**28,864**	-	28,864	9.68	**-**	08/04/2006	07/04/2013
	2000	**22,620**	-	22,620	13.21	**-**	08/10/2007	07/10/2014
	2000	**48,182**	-	48,182	10.38	**-**	04/03/2011	03/03/2018
		117,596				**-**		
David McCarthy								
	2000	**25,656**	-	25,656	14.85	**-**	18/04/2005	17/04/2012
	2000	**45,884**	-	45,884	9.68	**-**	08/04/2006	07/04/2013
	2000	**36,336**	-	36,336	13.21	**-**	08/10/2007	07/10/2014
	2000	**30,644**	-	30,644	10.38	**-**	04/03/2011	03/03/2018
		138,520				**-**		

The official closing price of the ptsbgh shares at 31 December 2012 was €0.02 (31 December 2011: €0.02) and the price range during 2012 was €0.02 to €0.08 (2011: €0.02 to €1.06). Executive Directors' and Non-Executive Directors' shareholdings in ptsbgh are detailed in note 42, of the financial statements.

Directors’ Report on Remuneration (Audited)

Non-Executive Directors’ Remuneration

Fees paid to Non-Executive Directors are reviewed annually. Non-Executive Directors who perform additional services outside the normal duties of a Director may receive additional fees. Directors who received additional fees include 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:

	Notes	**2012 €000**	2011 €000
Gillian Bowler	1	**-**	50
Breffini Byrne	2	**-**	35
Bernard Collins	7	**22**	56
Alan Cook	3	**200**	150
Emer Daly	4	**84**	28
Danuta Gray	2	**-**	24
Margaret Hayes		**64**	64
Roy Keenan	5	**-**	78
Sandy Kinney		**56**	56
Ray MacSharry		**56**	56
Dominic Dodd	8	**14**	-
Pat Ryan	6	**92**	73
		588	670

Note 1: Gillian Bowler retired from the Board in April 2011.

Note 2: Breffni Byrne and Danuta Gray retired from the Board in May 2011.

Note 3: Alan Cook joined the Board in April 2011.

Note 4: Emer Daly joined the Board in September 2011.

Note 5: Roy Keenan retired from the Board in October 2011.

Note 6: Pat Ryan became Chairman of the Risk and Compliance Committee during 2011.

Note 7: Bernard Collins retired from the Board in December 2011 and ptsbgh Board in May 2012.

Note 8: Dominic Dodd joined the Board in October 2012.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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 2012. In preparing the consolidated and company financial statements, the Directors have also elected to comply with IFRSs issued by the International Accounting Standards Board ("IASB").

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 2012 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, IFRSs issued by the IASB and, in the case of the company as applied in accordance with the Companies Act, 1963 to 2012; 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 2012 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

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, 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 in respect of the Annual Report and the Financial Statements

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 2012, 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 2012, give a true and fair view of the assets, liabilities and financial position of the company at 31 December 2012; and

- the Directors’ report contained in the 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

26 March 2013

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

We have audited the Group and Company financial statements (''financial statements'') of permanent tsb plc (formerly Irish Life & Permanent plc) for the year ended 31 December 2012 which comprise Consolidated and Company Statement of Financial Position, the Consolidated Income Statement, the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes. 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 Company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 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 Ethical Standards for Auditors issued by the Auditing Practices Board.

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 Company 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. 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 EU, of the state of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;

- the Company statement of financial position gives a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the Company's affairs as at 31 December 2012; and

- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

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 to the financial statements concerning the group's ability to continue as a going concern. These disclosures set out the progress made by the group during 2012, including the strategic planning review carried out for the group and the submission of a restructuring plan to the Directorate General for Competition of the European Commission in June 2012. However, these disclosures also refer to the ongoing requirement for the group to continue to access funding from the Eurosystem and the requirement for the restructuring plan to be approved by the European Commission. These conditions, explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include adjustments that would result if the group was unable to continue as a going concern.

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

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The Company statement of financial position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Directors' report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

The net assets of the Company, as stated in the Company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion the disclosures of Directors' remuneration and transactions specified by law are not made.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the ESM regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

Paul Dobey
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
26 March 2013
1 Harbourmaster Place
IFSC Dublin 1

Financial Statements

Income Statement

For the year ended 31 December 2012

	Notes	Group 2012 €m	Group 2011* €m
Continuing operations			
Interest receivable	6	**1,200**	1,363
Interest payable	6	**(1,065)**	(1,131)
Net interest income		**135**	232
Fees and commission income	7	**55**	60
Fees and commission expense	7	**(13)**	(12)
Net trading (loss) / income	8	**(4)**	1
Other operating income	9	**70**	22
Other operating expense	9	**(46)**	(41)
Gain on liability management exercise	26,30	**224**	1,000
Total operating income		**421**	1,262
Administrative and other expenses	10	**(261)**	(267)
Depreciation and amortisation	10,20,21	**(19)**	(17)
Impairment of property and equipment	20	**(5)**	(5)
Impairment of assets and liabilities classified as held for sale	5(c)	**(1)**	(1)
Exceptional items			
Loss on disposal of held for sale loans and receivables to customers	5(b)	**(80)**	-
Restructuring costs	11	**(86)**	(37)
Total operating expenses		**(452)**	(327)
Operating (loss) / profit before provisions for impairment		**(31)**	935
Provisions for impairment			
Loans and receivables to customers	18(a)	**(883)**	(1,434)
Repossessed assets	18(c)	**(8)**	(6)
Total provisions for impairment		**(891)**	(1,440)
Loss before taxation		**(922)**	(505)
Taxation	12	**(77)**	81
Loss for the year, from continuing operations		**(999)**	(424)
Discontinued operations			
Loss from discontinued operations	4	**-**	(9)
Loss for the year		**(999)**	(433)
Attributable to:			
Owners of the parent			
Continuing operations		**(999)**	(424)
Discontinued operations		**-**	(9)
		(999)	(433)

*Certain comparative information was reclassified to be consistent with the current year income statement. Refer to note 43 for further details.

On behalf of the Board:

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	Group 2012 €m	2011 €m
Loss for the year		**(999)**	(433)
Other comprehensive income			
Continuing operations			
Revaluation of property	12	**(1)**	(5)
Currency translation adjustment reserve			
Gains on hedged investments in foreign operations	15	**2**	-
Losses on hedging of investments in foreign operations	15	**(2)**	-
		-	-
Change in value of available-for-sale ("AFS") financial assets			
Change in fair value of AFS financial assets	12	**294**	(76)
Transfer to income statement on asset disposals	12	**66**	37
		360	(39)
Amortisation of AFS financial assets reclassified to loans and receivables	12,14	**4**	7
		364	(32)
Cash flow hedge reserve			
Change in fair value recognised in equity	15	**-**	(2)
Net change in fair value transferred to income statement	15	**2**	-
		2	(2)
Other comprehensive income, from continuing operations		**365**	(39)
Tax on other comprehensive income	12	**(46)**	5
Other comprehensive income, net of tax, from continuing operations		**319**	(34)
Discontinued operations			
Revaluation of property	12	**(1)**	(12)
Currency translation adjustment reserve	12	**1**	-
Other comprehensive income from discontinued operations		**-**	(12)
Tax on other comprehensive income		**-**	2
Other comprehensive income, net of tax, from discontinued operations		**-**	(10)
Total comprehensive income for the year		**(680)**	(477)
Attributable to:			
Owners of the parent			
Continuing operations		**(680)**	(458)
Discontinued operations		**-**	(19)
Total comprehensive income for the year		**(680)**	(477)

On behalf of the Board:

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Statement of Financial Position

As at 31 December 2012

	Notes	Group 2012 €m	Group 2011 €m	Company 2012 €m	Company 2011 €m
Assets					
Cash and balances with central banks	13	**71**	88	**70**	87
Items in course of collection	13	**76**	109	**76**	98
Assets classified as held for sale	5	**-**	28,900	**-**	1,303
Debt securities	14,18	**6,827**	6,657	**12,349**	11,689
Derivative assets	15	**212**	247	**307**	258
Loans and receivables to banks	16	**1,396**	1,623	**967**	1,187
Loans and receivables to customers	17,18	**31,758**	33,677	**26,206**	33,448
Prepayments and accrued income		**179**	190	**165**	180
Property and equipment	20	**87**	95	**86**	93
Intangible assets	21	**120**	116	**120**	116
Deferred tax assets	22	**50**	184	**50**	191
Other assets	23	**137**	141	**126**	127
Current tax asset		**1**	-	**1**	-
Retirement benefit assets	29	**8**	10	**8**	10
Investment in subsidiary undertakings	19	**-**	-	**128**	173
Total assets		**40,922**	72,037	**40,659**	48,960
Liabilities					
Deposits by banks (including central banks)*	24	**13,827**	16,966	**13,723**	16,943
Liabilities classified as held for sale	5	**-**	27,828	**-**	-
Customer accounts	25	**16,639**	14,373	**16,760**	20,177
Debt securities in issue	26	**6,505**	8,356	**6,507**	7,404
Derivative liabilities	15	**361**	300	**361**	298
Accruals		**116**	99	**116**	100
Other liabilities	27	**120**	137	**38**	44
Provisions	28	**45**	14	**45**	14
Current tax liabilities		**-**	-	**-**	1
Retirement benefit liabilities	29	**135**	130	**135**	130
Subordinated liabilities	30	**337**	317	**337**	317
Total liabilities		**38,085**	68,520	**38,022**	45,428
Equity					
Share capital	31,33	**89**	89	**89**	89
Share premium	31	**2,833**	135	**2,833**	2,833
Other reserves	31	**2,422**	2,126	**2,420**	2,100
Retained earnings	31	**(2,507)**	1,167	**(2,705)**	(1,490)
Total equity		**2,837**	3,517	**2,637**	3,532
Total liabilities and equity		**40,922**	72,037	**40,659**	48,960

*Deposits by banks (including central banks) for the Group and Company include€10.7bn (31 December 2011: €11.7bn) of ECB and €nil (31 December 2011: €2.3bn) of CBI.

On behalf of the Board:

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Statement of Changes in Equity
For the year ended 31 December 2012

Group	Attributable to owners of the parent									
	Share capital	Share premium	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Capital contribution reserve	Other capital reserves	Retained earnings	Total
	€m	€m	€m	€m	€m	€m		€m	€m	€m
As at 1 January 2011	89	135	56	(253)	-	(2)	7	7	1,583	1,622
Loss for the year ended 31 December 2011	-	-	-	-	-	-	-	-	(433)	(433)
Other comprehensive income, net of tax (note 12, 32)	-	-	(14)	(28)	(2)	-	-	-	-	(44)
Total comprehensive income for the year	-	-	(14)	(28)	(2)	-	-	-	(433)	(477)
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners										
Capital contribution from ptsbgh (note 35)	-	-	-	-	-	-	2,254	-	-	2,254
Capital contribution component of contingent capital notes (note 30)	-	-	-	-	-	-	118	-	-	118
Release of capital contribution reserve	-	-	-	-	-	-	(1)	-	1	-
Transfer between reserves	-	-	(16)	-	-	-	-	-	16	-
Total contributions by and distributions to owners	-	-	(16)	-	-	-	2,371	-	17	2,372
Balance at 31 December 2011	**89**	**135**	**26**	**(281)**	**(2)**	**(2)**	**2,378**	**7**	**1,167**	**3,517**
Loss for the year ended 31 December 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(999)**	**(999)**
Other comprehensive income, net of tax (note 12, 32)	**-**	**-**	**(2)**	**318**	**2**	**1**	**-**	**-**	**-**	**319**
Total comprehensive income for the year	**-**	**-**	**(2)**	**318**	**2**	**1**	**-**	**-**	**(999)**	**(680)**
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners										
Sale of discontinued operations (note 31)	**-**	**2,698**	**(19)**	**-**	**-**	**-**	**-**	**-**	**(2,679)**	**-**
Release of capital contribution reserve (note 31)	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**4**	**-**
Total contributions by and distributions to owners	**-**	**2,698**	**(19)**	**-**	**-**	**-**	**(4)**	**-**	**(2,675)**	**-**
Balance at 31 December 2012	**89**	**2,833**	**5**	**37**	**-**	**(1)**	**2,374**	**7**	**(2,507)**	**2,837**

Financial Statements

Statement of Changes in Equity

For the year ended 31 December 2012

Company	**Attributable to owners of the parent**							
	Share capital	**Share premium**	**Capital contribution reserve**	**Revaluation reserve**	**Available for sale reserve**	**Other capital reserves**	**Retained earnings**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
As at 1 January 2011	89	2,833	2	4	(252)	8	178	2,862
Loss for the year ended 31 December 2011	-	-	-	-	-	-	(1,668)	(1,668)
Other comprehensive income (net of tax) (note 32)	-	-	-	(4)	(30)	-	-	(34)
Total comprehensive income for the year	-	-	-	(4)	(30)	-	(1,668)	(1,702)
Transactions with owners, recorded directly in equity:								
Contributions by and distributions to owners								
Capital contribution from ptsbgh (note 35)	-	-	2,254	-	-	-	-	2,254
Capital contribution component of contingent capital notes (note 30)	-	-	118	-	-	-	-	118
Total contributions by and distributions to owners	-	-	2,372	-	-	-	-	2,372
Balance at 31 December 2011	**89**	**2,833**	**2,374**	**-**	**(282)**	**8**	**(1,490)**	**3,532**
Loss for the year ended 31 December 2012	**-**	**-**	**-**	**-**	**-**	**-**	**(1,215)**	**(1,215)**
Other comprehensive income (net of tax) (note 32)	**-**	**-**	**-**	**-**	**320**	**-**	**-**	**320**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**320**	**-**	**(1,215)**	**(895)**
Balance at 31 December 2012	**89**	**2,833**	**2,374**	**-**	**38**	**8**	**(2,705)**	**2,637**

Statement of Cash Flows

For the year ended 31 December 2012

	Notes	Group 2012 €m	Group 2011 €m	Company 2012 €m	Company 2011 €m
Cash flows from operating activities					
Loss before taxation for the year		**(775)**	(514)	**(1,126)**	(1,760)
Adjusted for:					
Depreciation, amortisation and impairment of property, equipment and intangibles		**55**	56	**55**	42
Impairment losses on:					
- Loans and receivables to customers	18(a)	**883**	1,434	**1,099**	1,407
- Repossessed assets	18(c)	**8**	6	**8**	6
- Assets classified as held for sale		**9**	104	**1**	-
- Investment in subsidiaries		**-**	-	**1**	1,484
Loss on disposal of of consumer finance portfolio	5(b)	**80**	-	**-**	-
(Profit) on disposal of subsidiary undertaking		**-**	(4)	**-**	-
Fair value losses on investment properties		**25**	113	**-**	-
Realised and unrealised losses/(profits) on financial assets recognised in investment return		**(858)**	889	**6**	(2)
Losses/(profits) on fair value hedges on financial instruments		**2**	(6)	**2**	(6)
Interest on subordinated liabilities		**59**	45	**59**	40
Dividend income		**-**	-	**-**	(165)
Interest on VIF Loan		**-**	9	**-**	-
Amortisation of up front payment on VIF Loan		**-**	9	**-**	-
Gain on liability management exercise	26, 30	**(224)**	(1,000)	**(49)**	(1,000)
Gain on buying back in debt securities in issue	26	**(27)**	-	**(27)**	-
Loss on debt securities buyback programmes	9	**-**	41	**-**	41
Share of results of associated undertaking	19	**(12)**	(19)	**-**	-
Amortisation of bond discounts		**(45)**	(42)	**(45)**	(42)
Deferred interest costs		**-**	(66)	**7**	(66)
Other mortgage related adjustments		**28**	42	**28**	45
Other provisions including pensions		**100**	83	**130**	61
Other non-cash items*		**(2)**	(8)	**(10)**	(13)
		(694)	1,172	**139**	72
(Increase)/decrease in operating assets					
Loans and receivables to banks		**(53)**	(845)	**2**	(1)
Loans and receivables to customers		**1,421**	1,536	**6,159**	1,614
Other financial assets, including derivative assets		**945**	2,405	**479**	1,262
Investment properties		**36**	62	**-**	-
Reinsurance assets		**(88)**	(107)	**-**	-
Shareholder value of in-force business		**(3)**	52	**-**	-
Other assets		**(143)**	(26)	**(4)**	(10)
Deferred acquisition costs		**6**	11	**-**	-
Retirement benefit assets		**(7)**	(14)	**-**	-
Increase/(decrease) in operating liabilities					
Deposits by banks (including central banks)		**(3,204)**	111	**(3,281)**	115
Customer accounts		**958**	(2,588)	**(3,899)**	(3,366)
Debt securities in issue		**(1,109)**	(1,400)	**(283)**	(1,545)
Insurance contract liabilities		**208**	246	**-**	-
Investment contract liabilities		**704**	(2,007)	**-**	-
Payables related to direct insurance contracts		**10**	8	**-**	-
Deferred front end fees		**(7)**	(6)	**-**	-
Derivative liabilities		**(226)**	(258)	**(223)**	(135)
Other liabilities and accruals		**151**	26	**10**	(14)
Provisions used		**(74)**	(53)	**(73)**	(40)
Retirement benefit liabilities		**(18)**	(28)	**(18)**	(23)
		(493)	(2,875)	**(1,131)**	(2,143)
Net cash outflow from operating activities before tax		**(1,187)**	(1,703)	**(992)**	(2,071)
Tax paid		**5**	(5)	**-**	5
Net cash outflow from operating activities		**(1,182)**	(1,708)	**(992)**	(2,066)

* Other non-cash items principally comprise movements in step up interest costs adjustments and exchange rates.

Statement of Cash Flows
For the year ended 31 December 2012

	Notes	Group 2012	Group 2011	Company 2012	Company 2011
		€m	€m	**€m**	€m
Cash flows from investing activities					
Net proceeds from sale of Irish Life Group		**1,269**	-	**1,300**	-
Proceeds from disposal of consumer finance portfolio	5(b)	**177**	-	**45**	-
Net cash inflow on sale of subsidiary	5	**-**	19	**-**	-
Net consideration received/(paid) on acquisition of deposit book of business/subsidiary	40	**446**	(29)	**446**	(29)
Purchase of property and equipment	20	**(19)**	(18)	**(13)**	(30)
Proceeds from sale of property and equipment		**3**	1	**-**	1
Purchase of intangible assets	21	**(10)**	(12)	**(8)**	(9)
Proceeds from sale of intangible assets		**-**	-	**-**	-
Investment in restricted cash	13	**12**	(673)	**34**	(351)
Loans and receivables to banks acquired as part of acquisition of subsidiary	40	**-**	135	**-**	-
Dividends received from associated undertaking	19	**3**	14	**-**	165
Net cash flows from investing activities		**1,881**	(563)	**1,804**	(253)
Cash flows from financing activities					
Capital injection by the parent company	33,35	**-**	2,254	**-**	2,254
Net proceeds from issue of new subordinated liabilities	30	**-**	394	**-**	394
Redemption of subordinated liabilities	30	**-**	(449)	**-**	(449)
Interest paid on subordinated liabilities		**(42)**	(22)	**(40)**	(18)
Cash from buyback of debt securities in issue	26	**(994)**	-	**(994)**	-
Repayment of VIF loan		**-**	(100)	**-**	-
Payment of interest and penalties on VIF loan		**-**	(9)	**-**	-
Net cash flows from financing activities		**(1,036)**	2,068	**(1,034)**	2,181
(Decrease) in cash and cash equivalents		**(337)**	(203)	**(222)**	(138)
Analysis of changes in cash and cash equivalents					
Cash and cash equivalents as at 1 January		**1,182**	1,384	**990**	1,127
(Decrease) in cash and cash equivalents		**(337)**	(203)	**(222)**	(138)
Effect of exchange translation adjustments		**1**	1	**(1)**	1
Cash and cash equivalents as at 31 December**	13	**846**	1,182	**767**	990

**The cash and cash equivalents excludes restricted cash as per note 13. At 31 December 2011, cash and cash equivalents included a bank overdraft of €1m classified within other liabilities. The bank overdraft relates to the Life Group which was sold on 29 June 2012. Therefore, no bank overdraft is included within cash and cash equivalents at 31 December 2012.

Notes to the Financial Statements

Notes to the 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") and its subsidiary undertakings, (together referred to as "the Group" or "ptsb") where appropriate, and are prepared up to the end of the financial year, 31 December 2012. The Group is and has been primarily involved in retail banking. permanent tsb plc was acquired by permanent tsb Group Holdings plc (the "Parent Company") and its subsidiary undertakings, (together referred to as "ptsbgh") on 15 January 2010, consequently, ptsb is a 100% subsidiary of ptsbgh. The parent company shares of ptsbgh are listed on the Enterprise Security Market of the Irish Stock Exchange. 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.

These consolidated financial statements were authorised for issue by the Directors on 26 March 2013.

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2012 are set out below.

1.2 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU") and applicable for the year ended 31 December 2012. The accounting policies have been consistently applied by the Group entities and are consistent with the previous year, unless otherwise described. These financial statements also comply with the Companies Acts 1963 to 2012 and the European Communities (Credit Institutions Accounts) Regulations, 1992 (as amended).

The individual financial statements of the parent company have also been prepared in accordance with IFRSs as adopted by the EU and comply with the Companies Acts 1963 to 2012 and European Communities (Credit Institutions Accounts) Regulations 1992 as above. The Group publishes the Company and consolidated financial statements together taking advantage of the exemption available in Section 148(8) of the Companies Act 1963 not to publish its company income statement, statement of comprehensive income and related notes which form part of the approved financial statements of the Company.

Basis of measurement

The consolidated and Company financial statements have been prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair values: 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 on initial recognition.

In addition, earnings of the life assurance in-force business are included on an embedded value ("EV") basis and where assets and liabilities are classified as held for sale, and are within the measurement provisions of IFRS 5, they are included at the lower of carrying value and fair value less cost to sell.

Going concern

Assessment Basis

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2012 is a period of 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 financial plans, 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, the Government's fiscal policies, the support provided by the EU/IMF 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 system funding. This position has affected the Group's liquidity metrics such as the Loan to Deposit Ratio and the Net Stable Funding Ratio. The Group has discussed a Restructuring Plan with the relevant authorities which 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 are optimistic that approval of the plan will be received in due course, at this point such approval remains outstanding.

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. At a macroeconomic level, although property prices and unemployment growth have shown signs of stabilisation, overall property prices fell in 2012 and unemployment levels have remained high. These factors have impacted the Group's loan loss impairment provisions and profitability during 2012 and are expected to continue to be significant factors in 2013. Capital markets have shown initial signs of stabilisation in that Irish sovereign bond yields have narrowed significantly in 2012 and the National Treasury Management Agency ("NTMA") returned to both the short and long term funding markets.

Capital Adequacy

The PCAR assessment carried out by the CBI in March 2011 identified a €4bn capital requirement for the Group. The Minister for Finance, following a High Court order in July 2011 made under the Credit Institutions (Stabilisation) Act 2010, invested €2.3bn of capital into the Group, becoming a 99.2% shareholder. Further to this investment, €400m of capital was raised via the issuance of convertible contingent capital notes to the Minister for Finance. In August 2011, the Group completed a liability management programme which raised €1bn of Tier 1 capital. Finally, in June 2012, the Group completed the sale of its 100% interest in the Life Group to the Irish Government. Together, these capital raising measures brought the Group's total capital ratio at 31 December 2012 to 21.1% and its Core Tier 1 capital ratio to 18.0%, exceeding the minimum 10.5% required by the CBI.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

In addition, the Directors have 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.

2012 Strategic Planning Review
In the Memorandum of Understanding update on 6 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 forward for the Group would be made and following this by the end of June 2012, a Restructuring Plan outlining the actions needed to ensure the bank’s long-term viability would be prepared. On 29 June 2012, the Restructuring Plan was submitted 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. At the statement of financial position date the Group was in the course of completing this internal reorganisation, including the development of a significantly improved loan collections capability. The medium term intention is to separate out the non-core assets so that a viable entity can be returned to the private sector. The Directors are reasonably hopeful that the plan will be formally approved in 2013.

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

Liquidity
During 2012 there has been a €1.6bn increase in customer deposits, predominantly due to new business particularly from corporate customers and partly driven by the completion of the acquisition of the Irish deposit business of Northern Rock. Although access to the wholesale funding market remains limited, the Group has successfully rolled over £2.1bn of secured funding, utilising its UK buy-to-let mortgage portfolio as collateral over a longer term while also securing an improved advance rate, which will result in an additional £0.5bn in 2013. These factors, along with the Group’s continued efforts to maximise ECB eligible collateral, have resulted in borrowings from the CBI’s liquidity assistance facilities reducing from €2.3bn to zero during the year and borrowings from the ECB reducing from €11.7bn to €10.7bn.

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

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 further house price falls, continued high level 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 increases 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 the event of further house price falls and potential increases in the level of arrears.

Banking Supervision
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. Once this agreement comes into effect in July 2013, the regulatory environment of the Group may be significantly altered. In addition, the CBI may increase the minimum regulatory capital requirements or 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.

PLAR and Deleveraging
The financial impact of delivering the PLAR deleveraging plans is difficult to predict given macroeconomic conditions at both national and international level, the nature of the assets included in the plan and the potential markets for those assets. At this point, with the agreement of the CBI, further deleveraging has been deferred. Should this be required to be brought forward, this could have a significant impact on the financial performance and capital of the Group. As currently structured, the Group has an on-going requirement to continue to access CBI funding which adversely impacts on liquidity metrics such as the LDR and NSFR.

Conclusion
The impacts, risk and uncertainties set out above and the options available to the Group for the period of assessment have been considered by the Directors. Furthermore, the Directors have considered the latest financial performance and position in the Annual Report, in conjunction with projections of future position and performance prepared by management.

In addition, in the specific context of its assessment of going concern, the Group discussed relevant public announcements from the ECB, the IMF and the Minister of Finance (together “the announcements”), together with its plans and its on-going liquidity requirements, with the Central Bank and the Department of Finance (together, “the State authorities”). The Directors are satisfied, based on the announcements and the discussions with the State authorities, that the required liquidity from the CBI and ECB will be available to the Group during the period of assessment.

Based on the above, the Directors are satisfied that the Group has adequate resources, both capital and funding, to meets its immediate and estimated funding requirements for the period of assessment. Therefore, the Directors consider that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

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

Comparative information
The comparative information for 2011 has been prepared on a consistent basis. Some reclassifications have been made to the financial statements and notes to the financial statements to more appropriately reflect and enhance comparability following a review of the 2011 financial statements. The changes in comparative information are disclosed in note 43.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

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 ongoing basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by management relate to impairment of loans, deferred tax, retirement benefit assets and liabilities, assets and liabilities classified as held for sale, financial instruments, insurance liabilities, investment valuations, investment contract liabilities, demographic and other factors. 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 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.

The combination of the businesses of Irish Life plc and Irish Permanent plc (the Company’s immediate subsidiary), which occurred in 1999, has been included in the consolidated financial statements using merger accounting rules whereby the assets and liabilities of the acquired entity were included at their previous carrying amounts as if the businesses had always been combined. The merger adjustment, which was the difference between the fair value of the shares issued to effect the merger and the nominal value of the shares acquired, is dealt with on consolidation through reserves with the pre-acquisition profits of Irish Life plc presented in accordance with merger accounting rules in retained earnings.

The merger reserve, which was recognised in ptsb, consisted of (€2,719m). It 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 share premium of the Irish Life plc of €21m. On the sale of the Life Group on 29 June 2012, the merger reserve adjustment has been transferred to retained earnings. Additionally, the share premium of €2,698m arising on the shares issued in connection with the merger had previously been recognised in other capital reserves this has been transferred to share premium.

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 are accounted for using the acquisition method. The fair value of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date (date on which control is transferred), fair value and the amount of non-controlling interest in the acquiree.

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.

(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.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

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 other comprehensive income 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 other comprehensive income 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. Monetary and non-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 other comprehensive income 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 other comprehensive income 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.

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, they are presented separately in the income statement to provide ease of analysis for the user of the financial statements.

Notes to the Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

(v) Employee Benefits

The Group operates both defined benefit and defined contribution schemes.

Defined benefit pension plan

The Group's net obligation in respect of the defined benefit schemes is 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 external actuaries using the projected 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.

All actuarial gains and losses up to 1 January 2004 have been taken directly to reserves. As permitted under IAS 19, the corridor approach has been adopted for actuarial gains and losses arising since that date. Under the corridor approach actuarial gains and losses are recognised only where the cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligations at that opening financial position date; or
- 10% of the fair value of the scheme assets at that opening financial position date.

The limits are applied separately to each scheme, with any resulting excess actuarial gains or losses recognised in the income statement over the expected remaining service lives of the active members of each scheme.

The current and past service cost, the interest cost of the scheme liabilities and the expected return on scheme assets are recognised in the income statement in the period in which they are incurred.

Defined contribution pension plan

The Group also operates a defined contribution pension plan. The contribution payable to a defined contribution plan is recorded as an expense under administration expenses including staff costs. Unpaid contributions are recorded as a liability.

Share-based payments

ptsbgh operates a number of equity-settled share option schemes based on non-market vesting criteria. The Group has availed of the transitional arrangements under IFRS 1 First-time Adoption of IFRS and no charge is included for share options granted before 7 November 2002 which had not vested by 1 January 2005. For all other options, the fair value of the options is determined at the date of grant and expensed in the income statement over the period during which the employees become unconditionally entitled to the options. The expense which will be settled by ptsbgh is credited to a separate equity reserve on the statement of financial position. At each year end the ptsbgh revises its estimate of the number of options that it expects to vest and any adjustment relating to current and past vesting periods is charged to the income statement.

ptsbgh also operated an equity-settled long-term incentive plan. The plan had grants under both market and non-market vesting criteria. The fair value of conditional shares granted was determined at the date of grant; the value determined with reference to market-vesting criteria was expensed in the income statement over the period from the date of grant to vesting date, the value determined with reference to non-market vesting criteria was expensed in the income statement over the period during which the employees became unconditionally entitled to the shares. The expense was credited to a separate reserve in the statement of financial position as ptsbgh is responsible for settling the awards. For the grant under non market vesting criteria, at each period end the ptsbgh revises its estimate of the number of options that it expected to vest and any adjustment relating to current and past vesting periods was charged to the income statement.

Termination payments

Termination payments are recognised as an expense when the Group is demonstrably committed to a formal plan to terminate employment before the normal retirement date. Termination payments for voluntary redundancies are recognised where an offer has been made by the Group, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

(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: 24% from 1 April 2012).

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 or 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.

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.

Notes to the Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

(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 receivables. 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 is based on current bid prices. In the absence of current bid prices, the Group establishes a fair value using various valuation techniques. 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 derecognised 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 derecognised. 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.

All financial assets attributable to the Life Group within comparatives are carried at FVTPL to eliminate an inconsistency that would otherwise arise between the valuation of assets and liabilities.

Debt securities
The Group classifies debt securities as one of HFT, FVTPL, HTM, AFS or loans and receivables.

HFT or FVTPL debt securities are measured at fair value and transaction costs are taken directly to the income statement.

All debt securities held as part of the Life Group are classified within comparatives as FVTPL. Realised and unrealised gains together with income earned on these assets are shown as investment return in the income statement through profit / loss from discontinued operations.

Where the Group holds debt securities as HFT, realised and unrealised gains together with interest are shown as trading income in the income statement.

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 other comprehensive income and in a separate reserve. Realised gains and losses, impairment losses and foreign exchange movements are reflected in the income statement unless the asset is subject to a fair value hedge, in which case changes in fair value resulting from the risk being hedged are recorded in net interest income. 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 receivables category. The securities reclassified meet the qualifying criteria per 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 15.

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

Equities and units in unit trusts (Life Group comparatives only)
Equities are classified as HFT or FVTPL within comparatives. Realised and unrealised gains together with dividend income on equities are reported as net investment return in the income statement through profit/loss from discontinued operations, note 4. Dividends are recognised in the income statement when the Group's right to receive payment is established.

Loans and receivables
Loans and receivables 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 receivables, 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 receivables 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.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

(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 on individual loans and 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 receivables are used to reduce the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

Specific impairment

Credit exposures 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 on a monthly basis while the commercial portfolio is assessed on a quarterly basis. Residential mortgage loans portfolios are assessed, in the first instance, 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:

- Breach of contract such as delinquency in interest or principal repayments;
- Significant financial difficulty of the borrower;
- 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; and
- Significant exceptional events.

For those loans where objective evidence of impairment exists, impairment losses are determined by considering the following factors:

- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigants) and likelihood of having to repossess; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Where loans are impaired, the written down value of the impaired loan is compounded back to the net realisable balance over time using the effective interest rate of the loan or in the case of a portfolio assessment, the weighted average rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount. The impairment provisions on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

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; UK residential mortgages: In litigation and/or greater than 90 days in arrears; Commercial mortgages: exposure in excess of €1m and greater than 90 days in arrears.

Collective & 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 for the purpose of calculating an estimated collective loss. 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 will be moved from collective & IBNR impairment to specific impairments.

Collective & IBNR impairment provision is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of a specific provision against the loan (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.

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 statistical analysis 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.

Write-off of loans and receivables

Loans (and the related impairment provisions) are written off, either partially or in full, when the loan is deemed uncollectible or forgiven. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. Where there are insufficient funds from the realisation of the security the Group must determine whether there is a reasonable expectation of further recovery. Where management determine that there is no realistic expectation of further recovery, then the outstanding debt may be written off.

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.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

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 include extended payment terms, a temporary reduction in interest or principal repayments, payment moratorium and other modifications.

During the period of forbearance, there is no clearing down of arrears such that, 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 demonstrate that this level of repayment is sustainable into the future. Customers are able to recapitalise once over a 7 year period.

(c) Financial liabilities

Financial liabilities include deposits, customer accounts, debt securities, subordinated debt and contingent capital notes. Derivative liabilities and investment contract 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 derecognised 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. Derecognition 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 in the 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 profit or loss. 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.

(d) Determination of fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In arriving at the fair value for financial instruments traded in active markets, the Group measures the fair value of an instrument using quoted prices. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

The Group makes maximum use of market inputs and relies as little as possible on estimates specific to the Group, it incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group tests the outputs of such models to ensure that they are reflective of current market conditions. An analysis of the fair values of financial instruments and further details as to how they are measured are provided in notes 36 and 37.

(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.

Accounting rules permit 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).

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

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 as well as on an ongoing basis of the hedge relationship as to 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 other comprehensive income 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.

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.

(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 receivables 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 receivables 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 statement of financial position and a liability recognised for the proceeds of the funding transactions.

(xi) Property and equipment

Leasehold premises with initial lease terms of less than fifty 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 valuers. The resulting increase in value is transferred to a revaluation reserve. The revalued premises, excluding the land element, are depreciated to their residual values over their estimated useful lives, which are assessed annually by the directors.

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 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

(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.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

(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.

(c) Other intangible assets (Life Group only)
Other intangible assets relate to the client portfolio acquired on the acquisition of a brokerage company.

Other intangible assets are amortised over twenty years. They are 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.

(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 6 months at a reporting date, the property is revalued based on movements in the Group's valuation index model. The repossessed assets are reported within other assets, note 23.

(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 twelve 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.

(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.

(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. 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. Members of the Executive Committee mainly consists of the Group's senior management.

(xviii) Sales and repurchase agreements (including stock borrowing and lending)
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 Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

(xix) Purchases and sales of shares in ptsbgh
Shares purchased and held by the employee benefit trust in anticipation of share awards that may vest under the long-term incentive plan are also treated as treasury shares and therefore treated as a deduction in arriving at shareholders' equity rather than an asset.

Life Group only

(xx) Investment properties
Investment properties consist of land and buildings which are held for long-term rental yields and capital growth. Investment properties are carried at fair value with changes in fair value included in the income statement within the net investment return. Valuations are undertaken at least annually by external chartered surveyors at open market value in accordance with IAS 40 Investment Property and with guidance set down by their relevant professional bodies.

(xxi) Product classifications
In accordance with IFRS 4 Insurance Contracts, the Life Group products are classified for accounting purposes as either insurance contracts or investment contracts at inception of the contract. Insurance contracts are contracts which transfer significant insurance risk. Contracts which do not transfer significant insurance risk are investment contracts. The Group has a small closed book of insurance contracts which have discretionary participation features, all of these contracts have significant insurance risk and are therefore classified as insurance contracts.

(xxii) Insurance contract liabilities

Insurance contract liabilities are determined based on the advice of the Appointed Actuary. The liabilities include statutory surpluses which have not been allocated to policyholders as well as an assessment of the cost of any significant investment related future options and guarantees contained within the insurance contracts measured on a market consistent basis. Changes in the liabilities are included in the income statement. Statutory surpluses are determined based on the advice of the Appointed Actuary following the annual investigations. The Board of Directors, acting upon the advice of the Appointed Actuary, allocate a proportion of the statutory surplus to policyholders through an appropriation of declared bonuses.

(xxiii) Liability adequacy tests
The Group performs liability adequacy tests on its insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient to cover estimated future cash flows. When performing the liability adequacy tests, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability. Any deficiency is immediately charged to the income statement.

(xxiv) Investment contract liabilities
Investment contracts are measured at FVTPL to eliminate an inconsistency that would otherwise arise between the valuation of assets and liabilities. Unit-linked liabilities are valued with reference to the value of the underlying net asset value of the Group's unitised investment funds at the statement of financial position date. Non-linked investment contracts are measured based on the value of the liability to the policyholder at the statement of financial position date.

Deposits and withdrawals are accounted for directly in the statement of financial position as movements in the investment contract liabilities.

(xxv) Reinsurance
The Group cedes insurance premiums and risk in the normal course of business in order to limit the potential for loss. Outward reinsurance premiums are accounted for in the same period as related premiums for the business being reinsured. Reinsurance assets include amounts due from reinsurance companies in respect of paid and unpaid losses and ceded future life and investment policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated statement of financial position.

(xxvi) Shareholder value of in-force business
As permitted under IFRS 4 Insurance Contracts, insurance contracts are accounted for in accordance with embedded value methods. The shareholder value of in-force business is calculated in accordance with European Embedded Value ("EEV") principles developed by the European Chief Financial Officers' ("CFO") Forum. These Principles are applied to value insurance contracts classified as 'covered business' according to the Principles. The shareholder value of in-force business is calculated as the sum of:

- the required capital, less the cost of holding required capital; and
- the present value of future shareholder cash flows from in-force business ("PVIF"), including an appropriate deduction for the time value of financial options and guarantees.

The cost of holding required capital is defined as the difference between the amount of the required capital and the present value of future releases, allowing for future investment returns, of that capital.

The shareholders' interest in the value of the in-force business is included as an asset on the statement of financial position and the movement in this asset is reflected in the income statement.

The level of required capital reflects the amount of assets attributed to the insurance contracts in excess of that required to back regulatory liabilities whose distribution to shareholders is restricted. The EEV Principles require this level to be at least the level of solvency capital at which the local supervisory authority is empowered to take action and any further amount that may be encumbered by local supervisory restrictions. In light of this, the Directors have set the level of required capital to be 150% of the regulatory minimum solvency margin requirement at the valuation date, including the additional margin required under the Solvency I rules. The directors consider this to be a conservative level of capital to manage the covered business.

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

(xxvii) Premium income and claims recognition on insurance contracts

Premiums are recognised as revenue in the income statement. Single premiums on insurance contracts are recognised on the date the policy is effective. Regular premiums on insurance contracts are recognised on the date the payments are collected, or on the due date in the case of group contracts.

Claims on insurance contracts are recognised as an expense in the income statement. Claims include payments arising due to death or serious illness, maturity and encashment payments, and regular annuity payments along with claims handling costs. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department.

(xxviii) Revenue from investment contracts

Fees charged in respect of investment contracts are recognised when the service is provided. Initial fees, which exceed the level of recurring fees are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management services for institutional fund management are also recognised over the period of the service. Premiums and claims in respect of investment contracts are not included in the income statement but are reported as deposits to and withdrawals from investment contract liabilities in the statement of financial position.

(xxix) Acquisition costs

The costs directly associated with the acquisition of new investment management service contracts are deferred to the extent that they are expected to be recoverable out of future revenues to which they relate.

Such costs are amortised through the income statement over the period in which the revenues on the related contracts are expected to be earned, at a rate commensurate with those revenues.

Deferred acquisition costs are reviewed by category of business at the end of each financial year. Should the circumstances which justified the deferral of costs no longer apply, costs to the extent that they are believed to be irrecoverable, are written off. For insurance contracts, acquisition costs, to the extent that they are deferred, are reflected within the shareholder value of in-force business.

(xxx) Purchases and sales of shares in ptsbgh

As permitted under Irish legislation, a subsidiary of the Group held ptsbgh shares during the year on behalf of life assurance policyholders. This subsidiary of the Life Group was sold in 2012. These shares are required to be treated as though they were purchased by the company for its own benefit and treated as treasury shares and therefore treated as a deduction in shareholders' equity rather than as an asset. Under IFRS the cost of the shares is required to be deducted from shareholders' equity. However, as the shares are held on behalf of policyholders the liability to the policyholder is carried at fair value. As a result shareholders' equity is also reduced by the unrealised gain or loss on the shares reflected in the measurement of the liability with changes in the unrealised gain and loss during the year resulting in a gain or loss in the income statement.

Adoption of new accounting standards

The IFRSs adopted by the EU applied by the company and Group in the preparation of these consolidated financial statements are those that were effective for accounting periods ended on or before 31 December 2012.

The following standards and amendments to standards have been adopted by the Group during the year ended 31 December 2012:

Title	Impact on company and consolidated financial statements	Effective date
IFRS 7 Financial instruments - Disclosures (amendment)	IFRS 7 requires additional disclosures on the risk exposures relating to transfers of financial assets and the effect they may have on the entity. This amendment resulted in additional disclosures in the consolidated financial statements of the Group.	01-Jul-11

The following standards, interpretations and amendments to standards may be relevant to the Group but are not effective at 31 December 2012 and therefore, have not been applied in preparing these financial statements. The Group's initial view of the impact of these accounting changes is outlined below.

Title	Impact on company and consolidated financial statements	Effective date
IAS 1 Presentation of Financial Statements (amendment) (endorsed by the EU)	This amendment requires entities to group together items in other comprehensive income based on whether they can be reclassified to the income statement. The amendment also preserves the existing requirement for profit and loss and other comprehensive income to be presented together rather than a single continuous statement as was proposed in the exposure draft. This amendment will not result in a material impact in the consolidated financial statements of the Group.	01-Jul-12
IFRS 7 Financial instruments - Disclosures (endorsed by the EU) and IAS 32 Financial instruments - Presentation (amendment) (endorsed by the EU)	This amendment to IFRS 7 requires more disclosures focused on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting, irrespective of whether they are offset or not. The amendment to IAS 32 is that the right to offset must not be contingent on a future event and must also be legally enforceable in the event of a default, insolvency or bankruptcy. This amendment will not result in a material impact on the consolidated financial statements of the Group.	01-Jan-13 (IFRS 7) 01-Jan-14 (IAS 32)

Notes to the Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

Adoption of new accounting standards

Title	Impact on company and consolidated financial statements	Effective date
IAS 19 Employee Benefits (revised) (endorsed by the EU)	The amendments 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 amendments will require the Group to recognise: 1) A service cost and a net interest income or expense in the income statement. The net interest amount will include 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. The expected rate of return used in 2012 is 5% compared to a discount rate of 4.25%. If the standard was adopted early on 01 January 2012 the impact of this change would have resulted in an additional expense of €0.5m in the income statement. 2) The full amount of the retirement benefit (liability)/asset will be recognised on the statement of financial position. If the standard was implemented on 01 January 2012 this would have resulted in a immediate recognition of €183m against retained earnings. Prior year comparatives will need to be restated as the standard requires retrospective application. 3) Administration expenses relating to the pension scheme will be charged to the income statement in the year they are incurred. The administration expenses did not have a material impact on the income statement. The Group decided not to adopt these amendments early.	01-Jan-13
IFRS 10 Consolidated Financial Statements (endorsed by the EU)	Replaces IAS 27 and SIC 12. IFRS 10 replaces the definition of control which an entity uses to determine whether to consolidate an investee. The definition is revised to include the need for the investor to have both power and variable returns from the investee. The Group are currently assessing the impact of IFRS 10 on the consolidated financial statements of the Group.	01-Jan-13
IFRS 10 Consolidated Financial Statements (amendment) (not yet endorsed by the EU)	An amendment to IFRS 10 was issued in October 2012 and 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 Financial Instruments instead of consolidating those subsidiaries in its consolidated and separate financial statements. The Group will assess the impact of this amendment when it is endorsed by the EU.	01-Jan-14
IFRS 11 Joint arrangements (endorsed by the EU)	Replaces IAS 31 and SIC 13. The standard classifies joint arrangements as either joint operations or joint ventures. IFRS 11 focuses on the rights and obligations of the arrangement, rather than the legal form. Proportionate consolidation has been removed and the equity method is mandatory for joint ventures. IFRS 11 will not result in a material impact in the consolidated financial statements of the Group.	01-Jan-13
IFRS 12 Disclosures of interests in other entities (endorsed by the EU)	IFRS 12 sets out the disclosures required from entities reporting under IFRS 10, IFRS 11 and IAS 28. The disclosures should provide information on the nature of and risks associated with, an entity's interests in other entities and the effect they have on their financial position, financial performance and cash flows. IFRS 12 will not result in a material impact in the consolidated financial statements of the Group.	01-Jan-13
IFRS 12 Disclosures of interests in other entities (amendment) (not yet endorsed by the EU)	As a result of the amendment to IFRS 10 Consolidated Financial Statements by investment entitles, new disclosure requirements related to investment entities was introduced. This amendment will not result in a material impact in the consolidated financial statements of the Group.	01-Jan-14
IFRS 13 Fair value measurement (endorsed by the EU)	IFRS 13 defines fair value and explains how to measure fair value under a three level hierarchy, based on type of inputs to the valuation techniques used. The guidance also requires additional disclosures in relation to all assets and liabilities measured at fair value. IFRS 13 will not result in a material impact in the consolidated financial statements of the Group.	01-Jan-13
IAS 27 Separate Financial Statements (revised) (endorsed by the EU)	As a consequence of the new IFRS 10 and IFRS 12, IAS 27 has been revised to only deal with the provisions on separate financial statements. This revision will not result in a material impact in the financial statements of the Company.	01-Jan-13
IAS 27 Separate Financial Statements (amendment) (not yet endorsed by the EU)	As a result of the amendment to IFRS 10 Consolidated Financial Statements by investment entitles, new disclosure requirements related to investment entities was issued. This amendment will not result in a material impact in the consolidated financial statements of the Company.	01-Jan-14

Notes to the Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (cont'd)

Title	Impact on company and consolidated financial statements	Effective date
IAS 28 Investments in Associates and Joint ventures (revised) (endorsed by the EU)	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. This revision will not result in a material impact in the consolidated financial statements of the Group.	01-Jan-13
IFRS 9 Financial Instruments (amendment) (not yet endorsed by the EU)	IFRS 9 will replace IAS 39 Financial instrument; Classification and Measurement and consists of: 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.	01-Jan-15
	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. The Group will assess the impact of IFRS 9 when it is endorsed by the EU.	01-Jan-15

2. Critical accounting estimates and judgements

Management discusses and agrees with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

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

Impairment losses on loans and receivables to customers
Management reviews the Group's loan portfolios to assess for impairment monthly other than for commercial mortgages, which is assessed quarterly. The review involves exercising judgement in determining the key assumptions and estimations when calculating impairment provisions on both individually and collectively assessed loans and receivables.

Specific impairment provisions, which are determined by the use of statistical models, are subject to estimation uncertainty due to the use of historic loss experience, rates by which defaulted or delinquent accounts are assumed to return to performing status ("cure rate") and current economic assumptions such as house price falls, which may be different from the actual loss.

The Group's impairment provisioning methods involve the use of statistically assessed historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. Historical experience provides the most objective and relevant information from which 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 being not fully reflected in the statistical models. In these circumstances, the risk factors may be taken into account by adjusting the impairment provisions derived solely from historical loss experience.

The key risk factors in the residential and commercial mortgage portfolio are account behavioural trends and collateral valuations linked to movement in market prices. However, the exercise of judgement requires the use of assumptions which are subjective and sensitive to these risk factors.

Given the relative size of the ROI residential mortgage portfolio of the Group, the key variables include house price, which determine the collateral value, cure rate and foreclosure costs. Sensitivities to these variables are as follows:

- A 5% favourable change in the cure rate will reduce the impairment charge by approximately €49m.
- 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 reductions was increased from 55% to 65% at 31 December 2012, the impairment charge would increase by approximately €520m.
- Foreclosure costs also influence the impairment charge. A 5% increase in foreclosure costs will result in increasing the impairment charge by €116m.

Collective & IBNR impairment provisions in relation to residential morgages are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio.

Collective & IBNR impairment provisions are made for loans that are impaired at the statement of financial position date and while not specifically identified, are known from experience to be incurred. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the residential mortgage portfolio, an increase of one month in the loss emergence period would result in an increase of approximately €26m.

Financial instruments
The Group carries certain financial assets and liabilities at fair value, including all derivatives. Assets and liabilities are priced using a quoted market price where there is an active market for the instrument or by using a valuation model. Valuation models use data such as interest rate yield curves, equity prices, option volatilities and currency rates. Most of these parameters are directly observable from the market.

NAMA bonds, which amounted to €2,367m at 31 December 2012, acquired as part of the Irish Nationwide Building Society ("INBS") business combination in 2011 have been classified within the loans and receivables debt securities category as these securities have determinable payments and are not quoted in an active market nor held for trading. On initial recognition, these bonds have been measured at fair value using a valuation technique which involved management's judgement in determining key inputs such as cash flows generated by the instrument, a risk free discount rate and suitable credit spreads.

Based on management's judgement, HTM debt securities, which amounted to €876m at 31 December 2012, also acquired as part of the INBS business combination and those acquired with the proceeds from the issue of the contingent capital notes in 2011, have been classified within the HTM debt securities category as these securities have fixed or determinable payments, fixed maturity and the Group's intention and ability to hold these securities until maturity.

Contingent capital notes, issued to the Irish Government in July 2011, were fair valued on initial recognition using a discounted cash flow valuation model which involved management's judgement in determining key inputs which were market unobservable. Further details are disclosed in note 30.

2. Critical accounting estimates and judgements (continued)

Deferred taxation

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 the ability to use past trading losses to offset future trading profits. The most significant tax losses arise in the Republic of Ireland tax jurisdiction and their utilisation is dependent on future taxable profits. There is no time restriction on the utilisation of these losses under current Irish legislation. See note 22.

Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution pension 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 are performed annually in accordance with the requirements of IAS 19. The actuarial valuation is dependent upon a series of assumptions, the key assumptions being discount rates, expected rate of return on plan assets, salary increases, pension increases, rate of price inflation and mortality rates. The discount rate used to calculate the defined benefit scheme liabilities is based on the market yield at the reporting date of high quality bonds with a similar duration to that of the schemes' liabilities.

The returns on Irish and overseas equities are set relative to fixed interest returns by considering the long-term expected equity risk premium. 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 impact on the consolidated income statement and the consolidated statement of financial position could be materially different if a different set of assumptions were used.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the financial position date, adjusted for any historic unrecognised actuarial gains or losses, is recognised as a liability in the statement of financial position. An asset arising, for example, as a result of past over funding or the performance of the plan investments, is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions. To the extent that any unrecognised actuarial gains or losses at the start of the year in relation to any individual defined benefit scheme exceed 10% of the greater of the fair value of the scheme assets and the defined benefit obligation for that scheme, a proportion of the excess is recognised in the income statement. Further information on retirement benefit obligations, including assumptions is set out in note 29.

Assets and disposal groups classified as held for sale

Management has followed the accounting requirements of IFRS 5 in measuring assets and disposal groups classified as held for sale at the lower of its carrying value and fair value less costs to sell. Management's judgement is required in determining the fair value of such assets and disposal groups. In making this judgement, management considered various factors including the recoverability of the carrying value of such assets and disposal groups, the financial status and business outlook for the disposal group, 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.

Life Group only

Insurance contracts

The Group accounts for its insurance contracts using the embedded value basis of accounting which recognises the present value of in-force business (shareholder value of in-force business) as an asset.

The shareholder value of in-force business is calculated by projecting future surpluses attributable to shareholders and discounting them to the financial position date. Future surpluses depend, inter alia, on insurance risk, lapse rates, future investment returns, expenses, reinsurance charges, product charges and taxation. Management estimates the future surpluses using industry standard methodologies having regard to both actual experience and current economic conditions. Surpluses are discounted at a risk-adjusted discount rate which is estimated by management based on current interest rates and an estimated risk margin. There is an acceptable range into which these assumptions can validly fall, and the use of different assumptions may cause the shareholder value of in-force business to differ from that assumed at the statement of financial position date. This could significantly affect the income recognised and the value attributed to the in-force business in the financial statements.

3. Operating segments

During 2012, the Group was organised into three main reportable segments, as described below. On 29 June 2012, the Life Group was sold to the Minister for Finance for €1.3bn. For further details of the sale, refer to notes 4 and 5.

Banking Ireland	This segment includes the Group's retail banking services via branch, telephone and online operations in the Republic of Ireland. Banking Ireland offer 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 is comprised of retail banking services principally residential mortgages and lending services to the UK market.	
Life Group (discontinued)	The Life Group, included life assurance, fund management, general insurance and brokerage, third party and other businesses prior to being sold. The operations of each were:	
	- Life assurance	Included individual and Group life assurance and investment contracts, pensions and annuity business written in Irish Life Assurance plc.
	- Fund management	Investment management services business provided to corporate, pension and charity clients and internally to Irish Life Assurance plc written in Irish Life Investment Managers Limited.
	- General insurance	Property and casualty insurance carried out through the Life Group's associate company Allianz-Irish Life Holdings plc.
	- Brokerage, third party administration and other	This includes a number of small business units including third party life assurance administration, insurance brokerage and other Life Group entities.

The Executive Committee ("ExCo") 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. Members of the ExCo are listed in note 42.

At 31 December 2012 the Group was at an advanced stage of preparations to reorganise into, and report internally on a new structure comprising three strategic business units being ptsb, CHL and the Asset Management Unit. This structure will more correctly reflect the Group's intended strategy, but this had not been fully implemented by year end.

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 Banking Ireland and UK reportable segments is net interest income.

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

3. Operating segments (continued)

Year ended 31 December 2012	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							
- external*	**(5)**	**136**	**(7)**	**-**	**124**	**135**	**(16)**
- inter-segment	**212**	**(208)**	**(9)**	**5**	**-**		
Other non-interest 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	**-**	**-**	**(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**
Claims on insurance contracts, net of reinsurance	**-**	**-**	**(145)**	**-**	**(145)**	**-**	**(145)**
Change in insurance / investment contract liabilities	**-**	**-**	**(1,181)**	**-**	**(1,181)**	**-**	**(1,181)**
Investment expenses	**-**	**-**	**(14)**	**-**	**(14)**	**-**	**(14)**
Administrative expenses	**(253)**	**(8)**	**(108)**	**-**	**(369)**	**(261)**	**(108)**
Depreciation and amortisation	**(19)**	**-**	**-**	**-**	**(19)**	**(19)**	**-**
Impairments	**(6)**	**-**	**(8)**	**-**	**(14)**	**(6)**	**(8)**
Exceptional items	**(166)**	**-**	**-**	**-**	**(166)**	**(166)**	**-**
Total operating (expenses) / income	**(444)**	**(8)**	**(1,456)**	**-**	**(1,908)**	**(452)**	**(1,456)**
Operating (loss) / profit before provisions and settlement gain on retirement benefit obligation	**48**	**(79)**	**67**	**22**	**58**	**(31)**	**89**
Impairments of loans and receivables 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	**(818)**	**(104)**	**113**	**22**	**(787)**	**(922)**	**135**
Share of profits of associated undertaking	**-**	**-**	**12**	**-**	**12**	**-**	**12**
Taxation	**(78)**	**1**	**(12)**	**-**	**(89)**	**(77)**	**(12)**
(Loss) / profit after taxation	**(896)**	**(103)**	**113**	**22**	**(864)**	**(999)**	**135**
Loss from disposal of discontinued operations after taxation	**-**	**-**	**-**	**(135)**	**(135)**	**-**	**(135)**
(Loss) / profit for the year	**(896)**	**(103)**	**113**	**(113)**	**(999)**	**(999)**	**-**

* 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.

3. Operating segments (continued)

Year ended 31 December 2011	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							
- external*	124	121	(35)	-	210	232	(52)
- inter-segment	143	(156)	(17)	30	-		
Other non-interest income / (expenses)							
- external	49	-	(72)	-	(23)	49	(72)
- inter-segment	-	-	-	-	-		
Premiums on insurance contracts, net of reinsurance	-	-	566	-	566	-	566
Other operating income	22	-	-	-	22	22	-
Other operating expense	(41)	-	-	-	(41)	(41)	-
Investment return							
- external	-	-	(226)	-	(226)	-	(196)
- inter-segment	-	-	8	(8)	-		
Fees from investment contracts and fund management	-	-	248	(36)	212	-	212
Change in shareholder value of in-force business	-	-	(52)	-	(52)	-	(52)
Gain on liability management exercise	1,000	-	-	-	1,000	1,000	-
Total operating income / (expenses)	1,297	(35)	420	(14)	1,668	1,262	406
Claims on insurance contracts, net of reinsurance	-	-	(317)	-	(317)	-	(317)
Change in insurance / investment contract liabilities	-	-	237	-	237	-	237
Investment expenses	-	-	(64)	35	(29)	-	(29)
Administrative expenses**	(243)	(12)	(206)	(19)	(480)	(267)	(213)
Depreciation and amortisation	(17)	-	(18)	8	(27)	(17)	(10)
Impairment	(6)	-	(2)	-	(8)	(6)	(2)
Exceptional items**	(37)	-	-	-	(37)	(37)	-
Total operating (expenses) / income	(303)	(12)	(370)	24	(661)	(327)	(334)
Operating profit / (loss) before provisions	994	(47)	50	10	1,007	935	72
Impairments of loans and receivables	(1,414)	(26)	-	-	(1,440)	(1,440)	-
Operating (loss) / profit after provisions	(420)	(73)	50	10	(433)	(505)	72
Share of losses of associated undertaking	-	-	19	-	19	-	19
Gain on disposal of subsidiary undertaking	-	-	4	-	4	-	4
Loss on remeasurement to fair value less costs to sell of discontinued operations	-	-	-	(104)	(104)	-	(104)
Taxation	81	-	(1)	1	81	81	-
(Loss) / profit for the year	(339)	(73)	72	(93)	(433)	(424)	(9)

** Comparatives were reclassified to be consistent with the current year income statement. Refer to note 43 for details.

3. Operating segments (continued)

31 December 2012	Banking Ireland	Banking UK***	Life Group (discontinued)	Consolidation adjustments	Total
	€m	€m	€m	€m	€m
Total assets	**40,185**	**7,691**	**-**	**(6,954)**	**40,922**
Total liabilities	**37,181**	**7,858**	**-**	**(6,954)**	**38,085**
Equity attributable to owners	**3,004**	**(167)**	**-**	**-**	**2,837**
Capital expenditure	**21**	**-**	**9**	**-**	**30**

*** Pursuant to a deed of assessment dated March 2012 signed between ptsb and its subsidiary, CHL, it was agreed that ptsb's obligation to pay interest and principal on the CHL deposits be set off against CHL's obligation to pay interest and principal on the credit facility provided by ptsb. Consequently, these balances have been netted off in Banking Ireland and Banking UK segments. Prior to the signing of this deed, the balances, which would have been eliminated on the consolidation, were grossed up and presented in the segmental information note.

31 December 2011	Banking Ireland	Banking UK	Life Group (discontinued)	Consolidation adjustments	Total
	€m	€m	€m	€m	€m
Assets					
Interest in associate	-	-	129	(129)	-
Held for sale	59	-	-	28,841	28,900
Other assets	42,777	12,700	29,498	(41,838)	43,137
Total assets	42,836	12,700	29,627	(13,126)	72,037
Liabilities					
Held for sale	-	-	-	27,828	27,828
Other liabilities	40,568	12,757	28,250	(40,883)	40,692
Total liabilities	40,568	12,757	28,250	(13,055)	68,520
Equity attributable to owners	2,268	(57)	1,377	(71)	3,517
Capital expenditure	16	-	14	-	30

3. Operating segments (continued)

Consolidation adjustments include inter-segmental interest receivable and payable on deposits and loans together with inter-segmental commission payments and receipts. The (negative) / positive return adjustments included in the income statement comprise the following adjustments arising on:

		Analysed as to:	
	31 December 2012	**Continuing operations**	**Discontinued operations**
	€m	**€m**	**€m**
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	**25**	**-**	**25**
Differing accounting treatment for assets and liabilities by the Banking Ireland and Life Group segments[1]	**(3)**	**-**	**(3)**
Loss on disposal of the Life Group	**(135)**	**-**	**(135)**
Total as per income statement	**(113)**	**-**	**(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. The allocation of corporate costs is no longer applicable as the Group functions have been absorbed into the Banking Ireland segment.

		Analysed as to:	
	31 December 2011	Continuing operations	Discontinued operations
	€m	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	5	-	5
Differing accounting treatment for assets and liabilities by the Banking Ireland and Life Group segments[1]	9	-	9
The allocation of corporate costs, net of tax[2]	(22)	(16)	(6)
Net loss on remeasurement to fair value less costs to sell of discontinued operations	(85)	-	(85)
Total as per income statement	(93)	(16)	(77)

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

[2] These costs relate to Group functions and are included here as they are not allocated for the purpose of segmental reporting by the CODM.

The equity effect of these adjustments on the statement of financial position is detailed below:

	31 December 2011
	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	(17)
Differing accounting treatment for assets and liabilities by the Banking Ireland and Life Group segments[1]	31
Net loss on remeasurement to fair value less costs to sell of discontinued operations	(85)
Total as per statement of financial position	(71)

Further eliminations are made on the statement of financial position in respect of the following items:

	31 December 2012	31 December 2011
	€bn	€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)**	(7)
The elimination of inter-group balances between the Bank and other Group entities	**-**	(1)
Total as per statement of financial position	**(7)**	(13)

4. Discontinued operations

The CBI 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, the Group progressed several initiatives including the sale of the Life Group which conducted its business through the life assurance, fund management, general insurance and brokerage and third party administration segments. At 30 June 2011, the Life Group was classified as a discontinued operation and disposal group held for sale in accordance with IFRS 5 up to the date of disposal on 29 June 2012.

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 Life Group was sold 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 for the period up to the date of sale including the loss on disposal.

(a) Results from discontinued operations

	To date of disposal 29 June 2012 €m	Year ended 31 December 2011 €m
Net interest income	**(16)**	(52)
Net fee and commission income	**(30)**	(72)
Premiums on insurance contracts	**334**	701
Reinsurers' share of premium on insurance contracts	**(77)**	(135)
Investment return	**1,236**	(196)
Fees from investment contracts and fund management	**95**	212
Change in shareholder value of in-force business	**3**	(52)
Total income	**1,545**	406
Claims on insurance contracts	**(247)**	(504)
Reinsurers' share of claims on insurance contracts	**102**	187
Change in insurance contract liabilities	**(208)**	(246)
Change in reinsurers' share of insurance contract liabilities	**82**	114
Change in investment contract liabilities	**(1,055)**	369
Administrative expenses	**(108)**	(213)
Depreciation and amortisation to date of reclassification	**-**	(10)
Investment expenses	**(14)**	(29)
Impairment of property and equipment from date of reclassification	**(8)**	(2)
Total expenses	**(1,456)**	(334)
Operating profit before settlement gain on retirement benefit obligation	**89**	72
Settlement gain on retirement benefit obligation (note 5(a)(ix))	**46**	-
Operating profit after settlement gain on retirement benefit obligation	**135**	72
Share of profits of associated undertaking	**12**	19
Profit on disposal of subsidiary undertaking	**-**	4
Profit before taxation	**147**	95
Attributable income tax expense	**(12)**	-
Loss on remeasurement to fair value less costs to sell	**-**	(104)
Profit from discontinued operations after taxation	**135**	(9)
Loss on disposal of discontinued operations (note 5 (a))	**(135)**	-
Attributable income tax expense on loss on disposal of discontinued operations	**-**	-
Results from discontinued operations	**-**	(9)

(b) Cash flows from discontinued operations

	To date of disposal 29 June 2012 €m	Year ended 31 December 2011 €m
Net cash inflows from operating activities	**95**	272
Net cash inflows from investing activities	**6**	19
Net cash outflows from financing activities	**(2)**	(278)
Net cash inflows	**99**	13

5. Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale comprises discontinued operations, non-current assets and non-current liabilities held for sale. At 31 December 2011, the assets and liabilities of the Life Group were classified as a disposal group held for sale, in addition certain loans and receivables of permanent tsb Finance ("ptsbf") and a number of bank branches were also classified as held for sale. During 2012, the sale of the Life Group was completed. Furthermore, the loans and receivables of ptsbf have been sold with further details provided in section (b) of this note.

The assets and liabilities classified as held for sale as at 31 December 2012 are set out below:

Group	**31 December 2012**	31 December 2011
	€m	€m
Assets classified as held for sale		
(a) Assets of the Life Group	**-**	28,841
(b) Assets of ptsbf	**-**	56
(c) Bank branches	**-**	3
Total assets classified as held for sale	**-**	28,900
Liabilities classified as held for sale		
(a) Liabilities of the Life Group	**-**	27,828
Total liabilities classified as held for sale	**-**	27,828

Company	**31 December 2012**	31 December 2011
	€m	€m
Assets classified as held for sale		
(a) Assets of the Life Group	**-**	1,300
(c) Bank branches	**-**	3
Total assets classified as held for sale	**-**	1,303

5. Assets and liabilities classified as held for sale (continued)

(a) Assets and liabilities of the Life Group

Following the results of the PCAR / PLAR assessments in March 2011 and in order to meet the additional capital requirement identified the Group committed to sell the Life Group's assets and liabilities in July 2011. The Life Group segment consisted of life assurance, fund management, general management and brokerage, third party administration and other segments. These assets and liabilities were presented as a disposal group held for sale in accordance with IFRS 5. 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 Life Group was sold to the Minister for Finance on 29 June 2012 for €1.3bn and the loss on disposal is disclosed in note 4.

Analysis of assets and liabilities of the Life Group over which control was lost

	Note 5 reference	29 June 2012	31 December 2011
		€m	€m
Assets			
Cash and balances with central banks	(i)	**69**	94
Debt securities	(ii)	**7,959**	7,510
Equity shares and units in unit trusts	(iii)	**12,230**	11,792
Derivative assets	(iv)	**702**	791
Loans and receivables to banks	(v)	**3,486**	3,446
Investment properties	(vi)	**1,588**	1,650
Reinsurance assets	(vii)	**2,206**	2,118
Prepayments and accrued income		**187**	185
Interest in associated undertakings		**138**	129
Property and equipment		**71**	75
Shareholder value of in-force business	(viii)	**625**	621
Intangible assets		**19**	19
Other assets		**290**	133
Deferred acquisition costs		**171**	177
Retirement benefit assets	(ix)	**128**	101
Assets classified as held for sale*		**29,869**	28,841
Liabilities			
Deposits by banks	(x)	**211**	212
Derivative liabilities	(iv)	**94**	109
Investment contract liabilities	(xi)	**22,856**	22,153
Insurance contract liabilities	(xii)	**4,692**	4,484
Outstanding insurance and investment claims		**125**	115
Accruals		**33**	35
Other liabilities		**397**	268
Provisions		**3**	4
Current tax liabilities		**16**	8
Deferred front end fees		**35**	42
Deferred tax liabilities		**170**	168
Retirement benefit liabilities	(ix)	**-**	17
Subordinated liabilities	(xiii)	**213**	213
Liabilities classified as held for sale*		**28,845**	27,828
Net assets disposed of		**1,024**	
Consideration received		**1,300**	
Net assets at the date of disposal		**(1,024)**	
Net intercompany liabilities assumed on disposal		**(411)**	
Loss on disposal		**(135)**	
Profit from discontinued operations, after tax, recognised in note 4		**135**	
Results from discontinued operations for the period^		**-**	

^Loss on disposal of €135m is offset against the profit after tax recorded by the Life Group for the six month period to 29 June 2012 as disclosed in note 4. As a consequence, the results from discontinued operations for the period amounted to €nil which is consolidated into the Group's income statement.

*The Life Group assets and liabilities are shown net of intercompany balances. The net intercompany balances between the Life Group and the Group at the date of the sale amounted to €411m (31 December 2011: €287m). Further analysis is provided on the following pages.

Net cash inflows on disposal of subsidiary undertaking

Total consideration received	**1,300**
Cash and cash equivalents disposed of (excluding restricted cash)**	**(31)**
Net cash inflow	**1,269**

** Cash and cash equivalents exclude restricted cash balance of €26m held in an escrow account and also a €12m overdraft balance included in other liabilities.

Company:

Following the sale of the Life Group to the Minister for Finance, the Company's investment of €1,300m in the Life Group has been realised.

5. Assets and liabilities classified as held for sale (continued)

Details on the assets and liabilities of the Life Group at the date of disposal 29 June 2012:

(i) Cash and balances with central banks
Cash and balances with central banks include loans and receivables measured at amortised cost of €69m (31 December 2011: €94m).

(ii) Debt securities
Debt securities were measured at fair value through profit or loss. Debt securities included €7,842m (31 December 2011: €7,429m) of listed and €117m (31 December 2011: €81m) of unlisted securities. Debt securities can be broken down between Government Bonds of €7,340m (31 December 2011: €7,060m), Bonds issued by public boards €66m (31 December 2011: €60m), Bonds issued by credit institutions €550m (31 December 2011: €387m) and Other bonds €3m (31 December 2011: €3m).

Under a stock lending agreement the Life Group transferred €274m (31 December 2011: €551m) of debt securities to third parties, but retained substantially all the risks and rewards associated with the transferred assets. Therefore the Life Group continues to recognise these assets within debt securities. In return the Life Group accepted financial assets as collateral which consists of AAA-rated OECD sovereign debt securities. The fair value of the collateral that the Life Group holds externally with an agent amounted to €324m (31 December 2011: €576m). In addition, the external agent provided an indemnity (at a charge) to make good any losses in excess of the collateral should a counterparty default.

(iii) Equity shares and units in unit trusts
Equity shares and units in unit trusts were measured at fair value through profit or loss. Equity shares and units in unit trusts included €12,168m (31 December 2011: €11,711m) of listed and €62m (31 December 2011: €81m) of unlisted securities.

Under a stock lending agreement the Life Group transferred €638m (31 December 2011: €468m) of equity shares to third parties, but has retained substantially all the risks and rewards associated with the transferred assets. Therefore the Life Group continues to recognise these assets within equity shares. In return the Life Group accepted financial assets as collateral which consist of AAA-rated OECD sovereign debt securities. The fair value of the segregated collateral that the Life Group holds externally with an agent amounted to €672m (31 December 2011: €502m). In addition, the external agent has provided an indemnity (at a charge) to make good any losses in excess of the segregated collateral should a counterparty default.

(iv) Derivative instruments
All derivative assets and liabilities were held for trading purposes. Derivative assets of €702m (31 December 2011: €791m) and derivative liabilities of €94m (31 December 2011: €109m) were measured at fair value through profit or loss.

The fair value of derivative assets and liabilities held in unitised / closed funds for the benefit of unit-linked policyholders can be analysed as follows: CPPI: assets €611m (31 December 2011: €688m) liabilities €75m (31 December 2011: €71m), Interest rate swaps: assets €27m (31 December 2011: €25m) liabilities €4m (31 December 2011: €4m), currency swaps assets: €19m (31 December 2011: €30m) liabilities €12m (31 December 2011: €29m), equity futures assets: €9m (31 December 2011: €10m) liabilities €3m (31 December 2011: €5m). Over-the-counter options held to match fixed-rate and tracker bond liabilities within the Life Group can be analysed as follows: assets €36m (31 December 2011: €38m) liabilities €nil (31 December 2011: €nil).

(v) Loans and receivables to banks
Life Group deposits with other banks are included in loans and receivables to banks and amounted to €3,486m (31 December 2011: €3,446m) and are measured at fair value through profit or loss.

(vi) Investment properties
Investment properties amounted to €1,588m (31 December 2011: €1,650m) including €1,447m (31 December 2011: €1,511m) of investment properties held by unit-linked funds. Investment properties can be analysed as situated in the UK of €482m (31 December 2011: €502m) Republic of Ireland of €840m (31 December 2011: €883m) and other locations of €266m (31 December 2011: €265m).

Investment property is carried at fair value as determined by an independent valuer who has appropriate recognised professional qualifications. The valuer applies the Royal Institution of Chartered Surveyors ("RICS") guidance in determining the fair value of properties. The guidance set down by the RICS standards is consistent with fair value as defined within the accounting standards. The Investment Property Databank ("IPD") provides a benchmark for the institutional commercial property investment market. The total IPD return for the Irish market for the first six months of 2012 was positive 1.2% (year ended 31 December 2011: negative 2.4%). The capital growth in the UK property market dipped into negative territory. The London market is proving resilient however other locations throughout the country are experiencing little investment demand and falling values. Income return levels in the order of 3.3% are generating positive total returns, albeit marginal. The UK IPD total return for the first six months of 2012 was positive 1.2% (year ended 31 December 2011: positive 8.1%).

(vii) Reinsurance assets
Reinsurance assets included those for which collateral is held in a charged account of €1,480m (31 December 2011: €1,417m), assets where credit risk is borne by the policyholder of €37m (31 December 2011: €39m) and other assets where credit risk is borne by the shareholder of €689m (31 December 2011: €662m).

(viii) Shareholders value of in-force business
Shareholders value of in-force business assets amounted to €625m (31 December 2011: €621m). Shareholders value of in-force business was impaired by €26m at 31 December 2011 to reflect the Life Group's fair value less costs to sell in accordance with IFRS 5.

The shareholder value of in-force business for insurance contracts is computed using EEV principles issued in May 2004 by the European Chief Financial Officers' forum. Shareholder value of in-force business represents the present value of future shareholder cash flows less a deduction for the cost of required capital and before allowing for tax and includes a deduction for the time value of financial options and guarantees. For further details on the shareholder value in force, please refer to the 2011 Annual Report .

5. Assets and liabilities classified as held for sale (continued)

(ix) Retirement benefit assets / liabilities
The defined benefit pension included net assets of €128m (31 December 2011: €101m) and net liabilities of €nil (31 December 2011: €17m). The sale of the Life Group resulted in the recognition of a settlement gain of €46m in the discontinued operations income statement of the Life Group as disclosed in note 4.This settlement gain comprised a remeasurement of the defined benefit obligation under the current assumptions reflecting no future salary increases and pension increases giving rise to a gain of €304m together with the recognition of all previously unrecognised actuarial losses of €258m. There are no further residual liabilities residing with the Group in relation to the Life Group pensions schemes post sale of the Life Group on 29 June 2012.

(x) Deposits by banks
Deposits by banks are borrowings of the Life Group from third party banks. Deposit by banks of €211m (31 December 2011: €212m) were measured at amortised cost.

(xi) Investment contract liabilities
Investment contract liabilities of €22,856m (31 December 2011: €22,153m) included unit-linked liabilities of €22,340m (31 December 2011: €21,848m), non-linked and guaranteed tracker liabilities of €207m (31 December 2011: €253m), investment financial options and guarantees (FOGs) of €48m (31 December 2011: €52m) and non-controlling share of unit trusts €261m (31 December 2011: €nil). The investment contract liabilities were backed by assets attributable to the Life Group operations including assets which are carried at FVTPL.

The Deloitte's TSM Streamline model is used to derive the cost of FOGs. The model is calibrated to the European swap curve plus a fixed margin of 1.3%, which is consistent with the calibration at 31 December 2011. The use of these yield curves to discount the negative cash flows in the FOG models is consistent with the yield curve used to discount the positive cash flows in the PVIF, as outlined above. The equity volatility rate used in the model is calibrated to the market implied equity volatility rate at 29 June 2012. Ten years of historical weekly data are used to derive the correlation between the returns on different asset classes. The model uses the difference between two inverse Gaussian distributions to model the returns on each asset class. This allows the model to produce fat-tailed distributions, and provides a good fit to historical asset return distributions.

(xii) Insurance contract liabilities
Insurance contract liabilities of €4,692m (31 December 2011: €4,484m) included unit-linked liabilities of €482m (31 December 2011: €491m), non linked liabilities without discretionary participation features of €4,185m (31 December 2011: €3,966m) and non linked liabilities with discretionary participation features of €25m (31 December 2011: €27m).

Liabilities are calculated using either the net or the gross premium method. In calculating the appropriate liability for non-linked insurance liabilities, including the closed book of business with discretionary participation features, it is necessary to make assumptions on a range of items. The assumptions which have the most significant impact on the measurement of liabilities are: interest rates, mortality and morbidity and expenses.

(xiii) Subordinated liabilities
Subordinated liabilities of €213m (31 December 2011: €213m) were measured at amortised cost. The terms of these liabilities are: €200m step-up perpetual capital notes, fixed interest rate at 5.25% for 10 years until 8 February 2017 ("the first reset date") and on the first reset date the interest rate becomes Euribor +2.03%, the note is callable in whole at the first reset date and each coupon payment thereafter and the notes may also be redeemed if they no longer qualify as eligible regulatory capital.

Assets held in unit-linked funds
Total assets that were held in unit-linked funds were €23,078m (31 December 2011: €22,533m). The balances are the total assets held in unit-linked policyholder funds and include tracker products and funds managed by external fund managers. The balances are gross of consolidation adjustments which eliminate inter-group balances and holdings of the Group's shares.

Solvency Cover
At 29 June 2012, the solvency cover for Irish Life Assurance plc, before accounting for any available dividends, was 1.8 times (31 December 2011: 1.9 times) the minimum requirement which was €404m (31 December 2011: €402m).

Associate undertaking
Prior to the sale of the Life Group, the Group held an interest in an associate undertaking Allianz-Irish Life Holdings plc, an unlisted general insurance company operating in Ireland. This investment was held through the Life Group and amounted to 30.43% (31 December 2011: 30.43%) of the associate's share capital. The Group's share of net assets was €138m (31 December 2011: €129m). As a result of the sale the Group lost control of its interest in Allianz-Irish Life Holdings plc.

Intercompany assets and liabilities
Following the sale of the Life Group on 29 June 2012, the assets and liabilities over which the Group lost control include €411m of inter-company balances. These assets and liabilities will continue to be held by the Group on an arms length basis in the normal course of business.

The net liabilities which the Group assumed on the disposal of the Life Group consists of:

	29 June 2012 €m
Deposits included in customer accounts	(804)
Loans included in loans and receivables to customers	428
Debt securities included in debt securities in issue	(35)
Net liabilities assumed on disposal	(411)

5. Assets and liabilities classified as held for sale (continued)

(b) Assets of ptsbf

Additionally, 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 forms part of the 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.

The assets and liabilities of ptsbf classified as held for sale at 30 June 2012 are set out below:	30 June 2012
Assets	€m
Loans and receivables to customers	300
Loans and receivables to banks	104
Prepayments and accrued income	8
Deferred tax assets	6
Assets classified as held for sale	418
Liabilities	
Debt securities in issue	145
Derivative liabilities	4
Other liabilities	96
Liabilities classified as held for sale	245

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 receivables 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 receivables of ptsbf would be sold and other assets and liabilities will reside with the Group following the sale. On 24 December 2012, loans and receivables 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 receivables 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 receivables 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 is included in the consolidated income statement.

An overall loss on disposal of €80m on the sale of ptsbf loans and receivables was recognised in the consolidated income statement under exceptional items.

(c) Bank branches held for sale

At 31 December 2011, six branches with a fair value of €2.9m were classified as held for sale in Group and Company. While management remains committed to the disposal of these branches, due to the challenging property market they do not expect the sale to take place in the next 12 months and these branches have been appropiately moved to other assets. The fair value was remeasured before the reclassification which resulted in an impairment loss of €0.6m (31 December 2011: €1m) being recognised in the income statement.

6. Net interest income

	Year ended 31 December 2012 €m	Year ended 31 December 2011* €m
Interest receivable		
Loans and receivables to customers	**908**	1,063
Loans and receivables to banks	**9**	12
Debt securities and other fixed-income securities		
- Held to maturity	**71**	44
- AFS	**123**	95
- Loans and receivables	**67**	96
- Amortisation of AFS financial assets reclassified to loans and receivables (note 14)	**(4)**	(7)
Lease and instalment finance	**31**	53
(Losses) / gains on interest rate hedges on assets	**(5)**	7
	1,200	1,363
Interest payable		
Deposits from banks (including central banks)	**(207)**	(303)
Due to customers	**(466)**	(397)
Interest on debt securities in issue	**(140)**	(198)
Interest on subordinated liabilities	**(59)**	(39)
Fees payable on ELG Scheme (note 42)	**(165)**	(173)
Gains on interest rate hedges on liabilities	**3**	-
Amortisation of core deposit intangibles (note 21)	**(31)**	(21)
	(1,065)	(1,131)
Net interest income	**135**	232

Interest recognised on impaired loans was €69m (31 December 2011: €80m) and the unwind of discount amounted to €37m (31 December 2011: €49m).

Included in net interest income are net gains / (net losses) on interest rate fair value hedges which include gains / (losses) on hedging instruments of €4m (31 December 2011: (€237m)) and (losses) / gains on hedged items attributable to hedged risk (€6m) (31 December 2011: €244m).

Net interest income includes a charge in respect of deferred acquisition costs on loans and receivables of €24m (31 December 2011: €29m).

Interest payable includes a charge of €nil (31 December 2011: €11m) in relation to the effect of an interest rate step up arising as a result of callable securitised bond notes and subordinated liabilities not being called.

Interest payable includes €31m (31 December 2011: €21m) in relation to the amortisation of the core deposit intangible arising from the acquisition of certain assets and liabilities of Irish Nationwide Building Society and Northern Rock Ireland deposit book. See note 40 for further details.

*Certain comparative information has been reclassified to be consistent with the current year income statement. Refer to note 43 for further details.

7. Fees and commission income / (expense)

	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Fees and commission income		
Retail banking and credit card fees	**43**	46
Brokerage and insurance commission	**9**	11
Other fee and commission income	**3**	3
Fees and commission income	**55**	60
Fees and commission expense	**(13)**	(12)
Net fees and commission income	**42**	48

Notes to the Financial Statements

8. Net trading (loss) / income

	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Designated as held-for-trading		
Interest rate instruments	**2**	(4)
Foreign exchange instruments	**(6)**	5
	(4)	1

9. Other operating income / (expense)

	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Gain on buying back of own debt	**27**	19
Gain on disposal of Government gilts	**38**	-
Other income	**5**	3
Other operating income	**70**	22

€27m gain resulted from the buyback of medium term notes issued by ptsb to external counterparties. Refer to note 26.

Further details on the €38m gain on disposal of Government gilts are provided in note 14.

	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Loss on disposal of debt securities	**(46)**	-
Loss on debt securities as a result of participation in debt buy back programmes	**-**	(41)
Other operating expense	**(46)**	(41)

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.

During 2011, ptsb incurred a loss of €41m as a result of its participation in the buy back programme of €77m of debt securities issued by other credit institutions.

10. Administrative and other expenses

Group Year ended 31 December	Continuing operations 2012 €m	Discontinued operations 2012 €m	Continuing operations 2011* €m	Discontinued operations 2011 €m
Staff costs (as detailed below)	150	34	151	155
Other general and administrative expenses[1]	111	29	116	51
Administrative and other expenses	261	63	267	206
Depreciation of tangible assets	14	5	13	7
Amortisation of intangible assets	5	3	4	3
Administrative and other expenses after depreciation and amortisation	280	71	284	216

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.

Group Year ended 31 December	Continuing operations 2012 €m	Discontinued operations 2012 €m	Continuing operations 2011 €m	Discontinued operations 2011 €m
Staff costs				
Wages and salaries including commission paid to sales staff	105	63	105	128
Redundancy costs (note 11)	15	-	44	10
Social insurance	13	7	13	14
Pension costs				
- Payments to defined contribution pension schemes	3	1	3	2
- Charge in respect of defined benefit pension schemes (note 29)	29	9	30	11
- Curtailment gain associated with redundancy costs (notes 11, 29)	(3)	(1)	(9)	(3)
Pension settlement gain (notes 4, 5)	-	(46)	-	-
Total staff costs	162	33	186	162
Of which, recognised in:				
Restructuring costs (note 11)	12	(1)	35	7
Administrative and other expenses	150	34	151	155
Total staff costs	162	33	186	162

Company	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Staff costs		
Wages and salaries including commission paid to sales staff	95	95
Redundancy costs (note 11)	15	44
Social insurance	10	10
Pension costs		
- Payments to defined contribution pension schemes	1	1
- Charge in respect of defined benefit pension schemes (note 29)	29	26
- Curtailment gain associated with redundancy costs (note 11, 29)	(3)	(9)
Total staff costs	147	167
Of which, recognised in:		
Restructuring costs (note 11)	12	35
Administrative and other expenses	135	132
Total staff costs	147	167

* Administrative and other expenses for the Group's continuing operations and for the Company in 2011 have been restated to reclassify €37m to restructuring costs. This related to a voluntary severence scheme cost of €44m, a one-off pension curtailment gain of €9m and costs associated with proposed asset disposal initiatives, separation of Life Group and the last phase of the 2011 transformation projects of €2m as disclosed in note 11.

* Amortisation of intangible assets for the Group's continuing operations and for the Company in 2011 has been restated to reclassify €21m to interest expense. This related to the amortisation of the core deposit intangible. Refer to note 43 for further information on reclassifications.

[1] Other general and administrative expenses include operating lease rentals on land and buildings of €9.3m (31 December 2011: €8.4m). Also included are fees paid to the Group and Company auditors for services, as outlined in this note.

10. Administrative and other expenses (continued)

	Group		Company	
	Year ended 31 December 2012	Year ended 31 December 2011	**Year ended 31 December 2012**	Year ended 31 December 2011
	€m	€m	**€m**	€m
Auditor's remuneration (including VAT)				
- Audit of the individual and the Group financial statements	**2.4**	1.6	**0.9**	0.1
- Other assurance services	**0.0**	2.6	**0.0**	0.0
- Tax advisory services	**0.3**	0.3	**0.1**	0.0
- Other non-audit services	**5.7**	3.3	**5.5**	1.6

87% (31 December 2011: 84%) of the €8.4m (31 December 2011: €7.8m) paid to the Group auditors in 2012, represented amounts paid by the continuing operations of the Group.

Staff numbers

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

	Group		Company	
	2012	2011	**2012**	2011
Ireland	**2,908**	4,147	**1,828**	1,913
UK	**148**	175	**-**	-
Other[2]	**1**	1	**-**	-
	3,057	4,323	**1,828**	1,913

[2] The Life Group employed one staff member in Germany in 2012 and 2011.

	Group		Company	
	2012	2011	**2012**	2011
Banking Ireland	**1,905**	2,052	**1,828**	1,913
Banking UK	**113**	112	**-**	-
Life Group (discontinued operations)[3]	**1,039**	2,159	**-**	-
	3,057	4,323	**1,828**	1,913

[3] The average number of employees in relation to the Life Group was calculated up to the date of sale on 29 June 2012. There were no staff employed from the Life Group at 31 December 2012.

Information concerning individual Director's emoluments is disclosed in the audited section of the Director's Report on Remuneration.

11. Restructuring costs

	Year ended 31 December 2012 €m	Year ended 31 December 2011 €m
Staff redundancy costs (note 10)	**15**	44
Pension curtailment gain associated with staff redundancy (note 29)	**(3)**	(9)
Costs associated with proposed asset disposal initiatives, separation of Life Group and the last phase of the 2011 transformation project	**14**	2
Costs associated with professional and contractor projects in relation to restructuring of the Group	**53**	-
Provision for onerous leases	**7**	-
	86	37

Further details on these costs are included in notes 10 and 28.

12. Taxation

(A) Analysis of taxation charge / (credit)

Year ended 31 December	2012	2011*
	€m	€m
Current taxation		
Charge for current year	(2)	(1)
Adjustments for prior periods	(5)	2
	(7)	1
Deferred taxation		
Origination and reversal of temporary differences	96	(80)
Adjustment for prior periods	(12)	(2)
Deferred taxation recognised in income statement (note 22)	84	(82)
Taxation charged / (credited) to income statement	77	(81)
Effective tax rate	-9%	16%

The Group taxation charge for the year ended 31 December 2012 was €77m. The increase during the year was mainly due to write off of deferred tax assets of €107m on carried forward tax losses.

(B) Reconciliation of standard to effective tax rate

Year ended 31 December	2012	2011*
	€m	€m
Loss on the Group activities before tax	(922)	(505)
Tax calculated at standard ROI corporation tax rate of 12.5% (2011: 12.5%)	(115)	(63)
Adjustment to tax charge in respect of previous years	(17)	-
Local basis of taxation on overseas profits	-	(5)
Non-deductible expenses	27	5
Gains arising on repurchase of subordinated liabilities	-	(121)
Unrecognised deferred tax assets	88	112
Release of deferred tax assets	107	-
Other	(13)	(9)
	77	(81)

* Continuing operations only. Refer to note 4 for discontinued operations.

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

Group	Year ended 31 December 2012			Year ended 31 December 2011		
	Gross	Tax	Net	Gross	Tax	Net
	€m	€m	€m	€m	€m	€m
Revaluation of property	(2)	-	(2)	(17)	3	(14)
Currency translation adjustment reserve	1	-	1	-	-	-
AFS reserve:						
Change in AFS financial assets	294	(37)	257	(76)	10	(66)
Transfer to income statement on asset disposal	66	(8)	58	37	(5)	32
Amortisation of AFS financial assets reclassified to loans and receivables	4	(1)	3	7	(1)	6
Cash flow hedge reserve:						
Change in fair value	-	-	-	(2)	-	(2)
Net change in fair value transferred to profit or loss	2	-	2	-	-	-
	365	(46)	319	(51)	7	(44)

Company	Year ended 31 December 2012			Year ended 31 December 2011		
	Gross	Tax	Net	Gross	Tax	Net
	€m	€m	€m	€m	€m	€m
Revaluation of property	-	-	-	(5)	1	(4)
AFS reserve:						
Change in AFS financial assets	296	(37)	259	(78)	10	(68)
Transfer to income statement on asset disposal	66	(8)	58	37	(5)	32
Amortisation of AFS financial assets reclassified to loans and receivables	4	(1)	3	7	(1)	6
	366	(46)	320	(39)	5	(34)

13. Cash and cash equivalents

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

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Cash and balances with central banks	**71**	88	**70**	87
Items in the course of collection	**76**	109	**76**	98
Loans and receivables to banks repayable on demand (note 16)	**1,367**	1,592	**938**	1,156
	1,514	1,789	**1,084**	1,341
Loans and receivables to banks included in assets classified as held for sale (note 5(a))*	**-**	94	**-**	-
	1,514	1,883	**1,084**	1,341
Restricted cash included in loans and receivables to banks repayable on demand	**(668)**	(701)	**(317)**	(351)
Cash and cash equivalents per statement of cash flows	**846**	1,182	**767**	990

At 31 December 2012, restricted cash of €668m in Group and €317m in Company relates to cash held by the Group's securitisation entities.

At 31 December 2011, restricted cash of €701m in Group included €672m relating to cash held by the Group's securitisation entities. The remaining €29m was in relation to the Life Group which was sold on 29 June 2012. The €29m consisted of €2m relating to client monies held by a Life Group brokerage subsidiary, a cash balance of €26m held in an escrow account, as part of the Irish Life International disposal and €1m relating to a Life Group bank overdraft which was reclassified to liabilities classified as held for sale. At 31 December 2011, restricted cash of €351m in Company relates to cash held by the Group's securitisation entities.

* As at 31 December 2011, cash and cash equivalents balance of €94m related to the Life Group which was included in assets classified as held for sale.

14. Debt securities

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	€m	€m	€m	€m
Held to maturity ("HTM")	876	845	876	845
Available-for-sale ("AFS")	2,923	2,213	2,923	2,220
Loans and receivables	3,029	3,600	8,551	8,625
Designated at FVTPL	-	7,510	-	-
Reclassification to assets classified as held for sale (note 5(a))	-	(7,510)	-	-
Gross debt securities	6,828	6,658	12,350	11,690
Less: Provisions (note 18(b))	(1)	(1)	(1)	(1)
Net debt securities	6,827	6,657	12,349	11,689

At 31 December 2011, debt securities amounting to €7.5bn in respect of the Life Group were reclassified from the 'Designated at FVTPL' category to assets held for sale as disclosed in note 5(a). The Life Group was subsequently sold on 29 June 2012.

Debt securities, representing a mix of Government gilts and corporate bonds, with a carrying value of €0.5bn (31 December 2011: €0.3bn) have been pledged to third parties in sale and repurchase agreements.

Debt securities of €3.7bn (31 December 2011: €5.7bn) have been pledged against deposits made by the ECB (note 24), which includes €2.4bn of NAMA bonds.

At 31 December 2012, 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 €2.2bn (31 December 2011: €0.3bn).

HTM debt securities of €0.9bn 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 include €2.4bn of bonds issued by NAMA. Since market prices are not readily available for these securities, they have been classified within the loans and receivables debt securities. Also included are €0.7bn of AFS securities reclassified to loans and receivables, details of which are provided overleaf.

During 2012, the Group recognised a gain of €38m in the income statement in relation to the disposal of Irish Government gilts. The majority of these from the AFS portfolio, with an immaterial amount disposed from HTM portfolio, so as to crystallise the gains generated on the recovery in the price of Irish sovereign debt. Refer to note 9.

The carrying value of debt securities for the Group are analysed as follows:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	€m	€m	€m	€m
Government bonds	3,131	2,402	3,131	2,402
NAMA bonds	2,367	2,680	2,367	2,680
Bonds issued by credit institutions	1,071	1,085	1,071	1,085
Bonds issued by subsidiary companies	-	-	5,522	5,038
Other bonds	258	490	258	484
Total debt securities	6,827	6,657	12,349	11,689
Listed	4,460	3,967	9,982	8,999
Unlisted	2,367	2,690	2,367	2,690
Total debt securities	6,827	6,657	12,349	11,689

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

Group	2012			2011		
	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	845	2,213	3,600	-	3,400	1,279
Exchange differences on monetary assets	-	(2)	-	-	3	2
Change in fair value*	-	364	1	-	(14)	2
Write offs against the assets	-	-	-	-	-	(5)
Additions	14	1,358	-	826	530	2,737
Maturities / disposals	(14)	(1,062)	(583)	-	(1,726)	(458)
Interest net of cash receipts	31	52	7	19	20	36
Amortisation to statement of comprehensive income	-	-	4	-	-	7
At 31 December	876	2,923	3,029	845	2,213	3,600

14. Debt securities (continued)

Company	2012			2011		
	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	**845**	**2,220**	**8,625**	-	3,409	6,322
Exchange differences on monetary assets	**-**	**(2)**	**118**	-	3	155
Change in fair value*	**-**	**364**	**3**	-	(15)	-
Write offs against the assets	**-**	**-**	**-**	-	-	(5)
Additions	**14**	**1,359**	**601**	826	529	2,737
Maturities / disposals	**(14)**	**(1,070)**	**(814)**	-	(1,726)	(641)
Interest net of cash receipts	**31**	**52**	**14**	19	20	50
Amortisation to statement of comprehensive income	**-**	**-**	**4**	-	-	7
At 31 December	**876**	**2,923**	**8,551**	845	2,220	8,625

* Changes in fair value in respect of AFS securities are recognised in equity while it is recognised in the income statement for loans and receivables.

The Group has carried out an impairment assessment on its debt securities held and the impairment provision is analysed in note 18. In 2011, a transfer of €5m from the collective provision to the specific provision has been effected in relation to securities which have been specifically identified as impaired.

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:

Group and Company	Carrying value		Fair value	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	€m	€m	€m	€m
AFS debt securities reclassified to loans and receivables	**662**	853	**598**	698

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 years.

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.

Group	Income statement		Other comprehensive income	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
	€m	€m	€m	€m
Period after reclassification				
Interest income	**24**	28	**-**	-
Amortisation	**(4)**	(7)	**4**	7
Total for period after reclassification	**20**	21	**4**	7

No amounts were recognised in the income statement or other comprehensive income in the period prior to reclassification.

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

Group	Income statement		Other comprehensive income	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
	€m	€m	€m	€m
Interest income	**24**	28	**-**	-
Fair value movement	**-**	-	**91**	1
Cumulative impact	**175**	151	**(64)**	(155)

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 €759m at 31 December 2012.

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

15. Derivative assets / liabilites

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 fulfill 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, for example, fixed interest rates for floating interest rates;
- 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;

Prior to being sold on 29 June 2012, the Life Group used derivatives to match fixed rate or tracker bond liabilities arising on insurance or investment contracts and within the unitised investment funds which match unit-linked policyholder liabilities as part of the efficient portfolio management of these funds. Derivatives were also purchased for Constant Proportion Portfolio Insurance (CPPI) unitised investment funds. The movement in the valuation of Life Group derivatives is included in investment return as disclosed in note 4. The corresponding fair value of the derivatives assets and liabilities for the discontinued operations at the date of sale are disclosed in note 5.

Further details on the Group's risk management policies are set out in note 38.

The fair value of derivative instruments are set out below:

Group	**31 December 2012**		31 December 2011	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	€m	**€m**	€m	€m
Derivatives used by the Group				
- Designated as fair value hedges	**159**	**214**	214	159
- Designated as cash flow hedges	**-**	**-**	-	2
- Embedded derivatives	**-**	**120**	9	64
- Held for trading	**53**	**27**	24	75
	212	**361**	247	300

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 rates 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 2012	31 December 2011
	€m	€m
Gains/(losses) on hedging instruments	**4**	(237)
(Losses)/Gains on hedged items attributable to hedged risk	**(6)**	244
Net (losses) / gains	**(2)**	7

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 interest rate swaps as cash flow hedges in order to hedge the exposure to these variable future cash flows.

Movements in the cash flow hedge reserves are shown in the consolidated statement of changes in equity. The cash flow hedge was terminated during the year as part of the sale of ptsbf (note 5(b)) and consequently €2m was transferred from the cash flow hedge reserve to the net interest income as required by IAS 39.

The total amount recognised in other comprehensive income during the year was a movement of €2m (31 December 2011:(€2m)).

15. Derivative assets / liabilities (continued)

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 2012	31 December 2011
	€m	€m
Gains in respect of hedging instruments held for net investment in foreign operations	**2**	-
(Losses) in respect of non-derivative hedged net investment in foreign operations	**(2)**	-
(Losses) in respect of net investment hedge	**(2)**	-
Net investment hedge in foreign operations	**-**	-

Fair value and cash flow hedges held by the Group are analysed as follows:

	31 December 2012			31 December 2011		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract / notional amount	Fair value asset	Fair value liability
	€m	**€m**	**€m**	€m	€m	€m
Fair value hedges						
Currency swaps	**1,348**	**1**	**12**	1,325	46	-
Interest rate swaps	**8,046**	**158**	**202**	8,119	168	159
	9,394	**159**	**214**	9,444	214	159
Cash flow hedges						
Interest rate swaps	**-**	**-**	**-**	145	-	2
	-	**-**	**-**	145	-	2

Derivatives which are not in qualifying hedge accounting relationships are analysed below. Generally, derivative assets are matched by derivative liabilities and reflect the closing of trading positions by instruments of equal duration.

	31 December 2012			31 December 2011		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	€m	**€m**	**€m**	€m	€m	€m
Forwards	**2,650**	**37**	**8**	2,904	6	54
Interest rate swaps	**594**	**16**	**19**	1,336	18	21
	3,244	**53**	**27**	4,240	24	75

Company
All of the Group's banking operations derivative exposures are held by the Company. The Company may also enter into derivative transactions with subsidiaries. The fair value of the Company derivative instruments is as follows:

	31 December 2012			31 December 2011		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	€m	**€m**	**€m**	€m	€m	€m
Derivatives used by the Group						
- Designated as fair value hedges	**9,394**	**159**	**214**	9,444	214	159
- Embedded derivatives	**-**	**-**	**120**	-	9	64
- Held for trading	**3,907**	**53**	**27**	4,240	24	75
- held with subsidiaries	**1,209**	**95**	**-**	1,287	11	-
	14,510	**307**	**361**	14,971	258	298

16. Loans and receivables to banks

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Held at amortised cost				
Repayable on demand (note 13)	**1,367**	1,592	**938**	1,156
Other loans and receivables to banks	**29**	31	**29**	31
	1,396	1,623	**967**	1,187
Designated as FVTPL				
Life Group deposits with banks	**-**	3,446	**-**	-
Reclassification to assets classified as held for sale (note 5(a))	**-**	(3,446)	**-**	-
Net loans and receivables to banks	**1,396**	1,623	**967**	1,187

Loans and receivables to banks amounting to €1,367m at 31 December 2012 (31 December 2011: €1,592m) have been treated as cash and cash equivalents for the purpose of the consolidated cash flow statement.

At 31 December 2011, loans and receivables to banks amounting to €3,446m in respect of the Life Group were reclassified from the 'Designated at FVTPL' category to assets held for sale as disclosed in note 5(a). The Life Group was subsequently sold on 29 June 2012.

17. Loans and receivables to customers

Loans and receivables by category are set out below:

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Residential mortgage loans				
Held through special purpose vehicles	**20,275**	25,698	**13,800**	19,140
Held directly	**11,939**	7,473	**10,534**	6,063
	32,214	33,171	**24,334**	25,203
Commercial mortgage loans	**2,248**	1,863	**2,248**	1,863
Consumer finance				
Film finance / finance leases*	**68**	585	**-**	-
Term loans / other	**378**	412	**378**	412
Loans to subsidiaries	**-**	-	**2,553**	8,111
Gross loans and receivables to customers	**34,908**	36,031	**29,513**	35,589
Less: allowance for impairment (note 18)	**(3,150)**	(2,298)	**(3,307)**	(2,141)
Reclassification to assets classified as held for sale (note 5(b))**	**-**	(56)	**-**	-
Net loans and receivables to customers	**31,758**	33,677	**26,206**	33,448

Details for provision for loan impairments are set out in note 18.

Commercial mortgage loans include loans of €413m (31 December 2011: €427m) to the Life Group, which was sold on 29 June 2012. At 31 December 2011, these loans were eliminated on consolidation.

*At 31 December 2012, following the sale of ptsbf loans and receivables, as disclosed in note 5(b), the Group holds film finance of €68m. At 31 December 2011, the Group held finance leases of €467m net of provisions.

** At 31 December 2011, net finance leases to customers amounting to €56m in respect of ptsbf were reclassified to assets classified as held for sale as disclosed in note 5(b). The reclassified consumer finance loans of €56m were subsequently sold in March 2012.

Net loans and receivables to customers is analysed as follows:

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Core	**22,855**	24,341	**22,828**	24,246
Non-core	**8,903**	9,336	**3,378**	9,202
	31,758	33,677	**26,206**	33,448

Core loans and receivables relate to loans and receivables in respect of Residential ROI mortgages and consumer finance (excluding film finance / finance leases), while non-core loans and receivables relate to loans and receivables in respect of commercial mortgages, film finance, finance leases and UK residential mortgages held by subsidiaries. The definition of core and non-core loans and receivables are based on guidelines from the 2011 Financial Measures Programme by the CBI.

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

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Tracker	**21,844**	22,780	**14,501**	15,281
Variable rate	**8,895**	8,957	**8,616**	8,619
Fixed rate	**1,019**	1,940	**917**	1,546
	31,758	33,677	**24,034**	25,446
Loans to subsidiaries				
Interest bearing	**-**	-	**1,864**	7,745
Non interest bearing	**-**	-	**308**	257
	31,758	33,677	**26,206**	33,448

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.

17. Loans and receivables to customers (continued)

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

Group		31 December 2012 €bn	31 December 2011 €bn
Residential mortgages held through special purpose entities		**20.3**	25.7
Notes issued by special purpose entities	- rated	**15.3**	20.6
	- unrated	**4.3**	4.5

The notes issued by these special purpose entities are utilised as follows:

Group	31 December 2012 €bn	31 December 2011 €bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position (note 26)	**1.4**	2.7
- Held by the ECB as collateral in respect of funds raised under the Eurosystem funding programme (note 24)	**8.1**	6.6
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 24)	**4.9**	5.0
- Held by the CBI as collateral in respect of funds raised under exceptional liquidity assistance	**-**	6.3
- Other		
Available collateral[1]	**0.9**	-
Unrated notes	**4.3**	4.5
	19.6	25.1

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

At 31 December 2012, the Group had €465m drawn down under the special mortgage-backed promissory note ("SMBPN") programme with the ECB. This was secured by way of a floating charge over €1.6bn of ROI residential mortgages. Refer to note 24.

18. Provision for impairment

(A) Loans and receivables to customers

Impairment losses on loans and receivables to customers for the year

	Group		Company	
	Year ended 31 December 2012	Year ended 31 December 2011	**Year ended 31 December 2012**	Year ended 31 December 2011
	€m	€m	**€m**	€m
Core	**525**	1,206	**525**	1,228
Non-core	**358**	228	**574**	179
Total impairment losses charged to the income statement	**883**	1,434	**1,099**	1,407

Impairment losses by nature of impairment provision

	Group		Company	
	Year ended 31 December 2012	Year ended 31 December 2011	**Year ended 31 December 2012**	Year ended 31 December 2011
	€m	€m	**€m**	€m
Specific	**834**	1,177	**1,090**	1,185
Collective and IBNR	**49**	257	**9**	222
Total impairment losses	**883**	1,434	**1,099**	1,407

Impairment losses on loans and receivables to customers by geographical location

	Group		Company	
	Year ended 31 December 2012	Year ended 31 December 2011	**Year ended 31 December 2012**	Year ended 31 December 2011
	€m	€m	**€m**	€m
Republic of Ireland ("ROI")				
Owner occupier	**284**	580	**274**	495
Buy-to-let	**224**	591	**216**	589
Commercial	**320**	179	**320**	179
Consumer finance	**30**	58	**17**	35
Loans to subsidiaries	**-**	-	**272**	109
	858	1,408	**1,099**	1,407
United Kingdom ("UK")				
Owner occupier	**1**	1	**-**	-
Buy-to-let	**24**	25	**-**	-
	25	26	**-**	-
Total impairment losses	**883**	1,434	**1,099**	1,407

Impairment charge in 2011 was significantly higher than 2012 which was primariliy due to movement in the individual assessment for provision of loans at 90 days in arrears compared to 180 days in arrears prior to 2011.

Decrease in collective & IBNR provision both in Group and Company is mainly due to more accounts being assessed specifically as can be seen from the increase in impaired loans during the year.

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

Group	**2012**				
	ROI Residential mortgages	**UK Residential mortgages**	**ROI Commercial**	**Consumer finance**	**Total**
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)**
Provision utilised	**(7)**	**(32)**	**(2)**	**(4)**	**(45)**
Write off due to disposals	**-**	**-**	**-**	**(75)**	**(75)**
Exchange movements	**-**	**2**	**-**	**-**	**2**
At 31 December	**2,191**	**74**	**735**	**150**	**3,150**

18. Provision for impairment (continued)

Group	2012				
	ROI Residential mortgages	UK Residential mortgages	ROI Commercial	Consumer finance	Total
Core	**€m**	**€m**	**€m**	**€m**	**€m**
As at 1 January	**1,629**	**-**	**-**	**123**	**1,752**
Charge for the year (as per income statement)	**508**	**-**	**-**	**17**	**525**
Increase due to interest booked but not recognised	**84**	**-**	**-**	**14**	**98**
Unwinding of discount	**(23)**	**-**	**-**	**-**	**(23)**
Provision utilised	**(7)**	**-**	**-**	**(4)**	**(11)**
At 31 December	**2,191**	**-**	**-**	**150**	**2,341**

Group	2012				
	ROI Residential mortgages	UK Residential mortgages	ROI Commercial	Consumer finance	Total
Non-core	**€m**	**€m**	**€m**	**€m**	**€m**
As at 1 January	**-**	**78**	**406**	**62**	**546**
Charge for the year (as per income statement)	**-**	**25**	**320**	**13**	**358**
Increase due to interest booked but not recognised	**-**	**1**	**25**	**-**	**26**
Unwinding of discount	**-**	**-**	**(14)**	**-**	**(14)**
Write off due to disposals	**-**	**(32)**	**(2)**	**(75)**	**(109)**
Exchange movements	**-**	**2**	**-**	**-**	**2**
At 31 December	**-**	**74**	**735**	**-**	**809**

Group	2011				
	ROI Residential mortgages	UK Residential mortgages	ROI Commercial	Consumer finance	Total
Total	€m	€m	€m	€m	€m
As at 1 January	446	63	223	151	883
Charge for the year (as per income statement)	1,171	26	179	58	1,434
Increase due to interest booked but not recognised	53	-	15	-	68
Unwinding of discount	(38)	-	(11)	-	(49)
Provision utilised	(3)	(13)	-	(24)	(40)
Exchange movements	-	2	-	-	2
At 31 December	1,629	78	406	185	2,298

Group	2011				
	ROI Residential mortgages	UK Residential mortgages	ROI Commercial	Consumer finance	Total
Core	€m	€m	€m	€m	€m
As at 1 January	446	-	-	93	539
Charge for the year (as per income statement)	1,171	-	-	35	1,206
Increase due to interest booked but not recognised	53	-	-	-	53
Unwinding of discount	(38)	-	-	-	(38)
Provision utilised	(3)	-	-	(5)	(8)
At 31 December	1,629	-	-	123	1,752

Group	2011				
	ROI Residential mortgages	UK Residential mortgages	ROI Commercial	Consumer finance	Total
Non-core	€m	€m	€m	€m	€m
As at 1 January	-	63	223	58	344
Charge for the year (as per income statement)	-	26	179	23	228
Increase due to interest booked but not recognised	-	-	15	-	15
Unwinding of discount	-	-	(11)	-	(11)
Provision utilised	-	(13)	-	(19)	(32)
Exchange movements	-	2	-	-	2
At 31 December	-	78	406	62	546

18. Provision for impairment (continued)

Company	**2012**				
Total	**ROI Residential mortgages €m**	**ROI Commercial €m**	**Consumer finance €m**	**Loans to subsidiaries €m**	**Total €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)**
Provision utilised	**(5)**	**(2)**	**(4)**	**-**	**(11)**
At 31 December	**2,041**	**735**	**150**	**381**	**3,307**

Company	**2012**				
Core	**ROI Residential mortgages €m**	**ROI Commercial €m**	**Consumer finance €m**	**Loans to subsidiaries €m**	**Total €m**
As at 1 January	**1,503**	**-**	**123**	**109**	**1,735**
Charge for the year (as per income statement)	**490**	**-**	**17**	**18**	**525**
Increase due to interest booked but not recognised	**74**	**-**	**14**	**-**	**88**
Unwinding of discount	**(21)**	**-**	**-**	**-**	**(21)**
Provision utilised	**(5)**	**-**	**(4)**	**-**	**(9)**
At 31 December	**2,041**	**-**	**150**	**127**	**2,318**

Company	**2012**				
Non-core	**ROI Residential mortgages €m**	**ROI Commercial €m**	**Consumer finance €m**	**Loans to subsidiaries €m**	**Total €m**
As at 1 January	**-**	**406**	**-**	**-**	**406**
Charge for the year (as per income statement)	**-**	**320**	**-**	**254**	**574**
Increase due to interest booked but not recognised	**-**	**25**	**-**	**-**	**25**
Unwinding of discount	**-**	**(14)**	**-**	**-**	**(14)**
Provision utilised	**-**	**(2)**	**-**	**-**	**(2)**
At 31 December	**-**	**735**	**-**	**254**	**989**

Company	2011				
Total	ROI Residential mortgages €m	ROI Commercial €m	Consumer finance €m	Loans to subsidiaries €m	Total €m
As at 1 January	405	223	93	-	721
Charge for the year (as per income statement)	1,084	179	35	109	1,407
Increase due to interest booked but not recognised	53	15	-	-	68
Unwinding of discount	(38)	(11)	-	-	(49)
Provision utilised	(1)	-	(5)	-	(6)
At 31 December	1,503	406	123	109	2,141

Company	2011				
Core	ROI Residential mortgages €m	ROI Commercial €m	Consumer finance €m	Loans to subsidiaries €m	Total €m
As at 1 January	405	-	93	-	498
Charge for the year (as per income statement)	1,084	-	35	109	1,228
Increase due to interest booked but not recognised	53	-	-	-	53
Unwinding of discount	(38)	-	-	-	(38)
Provision utilised	(1)	-	(5)	-	(6)
At 31 December	1,503	-	123	109	1,735

18. Provision for impairment (continued)

Company	2011				
	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
Non-core	€m	€m	€m	€m	€m
As at 1 January	-	223	-	-	223
Charge for the year (as per income statement)	-	179	-	-	179
Increase due to interest booked but not recognised	-	15	-	-	15
Unwinding of discount	-	(11)	-	-	(11)
Provision utilised	-	-	-	-	-
At 31 December	-	406	-	-	406

Impaired loans for which provisions are held
The table below reflects impaired loans for which provisions are held and an analysis of specific and collective & IBNR impairment provision balances across the loans and receivables 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 (typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

Group	**31 December 2012**						
	Loans and receivables to customers	**Impaired loans**	**Impaired loans as % of loans and receivables**	**Specific impairment provision**	**Collective & IBNR impairment provision**	**Total impairment provision**	**Provision as % of impaired loans**
Residential:	**€m**	**€m**	**%**	**€m**	**€m**	**€m**	**%**
ROI:							
- Owner occupier	**17,995**	**2,908**	**16%**	**1,018**	**180**	**1,198**	**41%**
- Buy-to-let	**6,593**	**1,909**	**29%**	**907**	**86**	**993**	**52%**
UK:							
- Owner occupier	**433**	**22**	**5%**	**2**	**3**	**5**	**23%**
- Buy-to-let	**6,966**	**107**	**2%**	**55**	**14**	**69**	**64%**
Commercial	**2,248**	**1,117**	**50%**	**609**	**126**	**735**	**66%**
Consumer finance:							
- Film finance / finance leases	**68**	**-**	**-**	**-**	**-**	**-**	**-**
- Term loans / other	**378**	**143**	**38%**	**-**	**150**	**150**	**105%**
Total gross lending	**34,681**	**6,206**	**18%**	**2,591**	**559**	**3,150**	**51%**
Impairment provision	**(3,150)**						
Deferred fees, discounts and fair value adjustments	**227**						
Balance at 31 December 2012	**31,758**	**6,206**		**2,591**	**559**	**3,150**	

Impaired loans for 2011 (for Group and company) have been re-presented incorporating collateral values and LTV thresholds in line with current definition of impaired loans. The restatement was required to enhance comparability and consistency across current year and prior year information in line with the definition of impaired loans adopted at 31 December 2012.

Group	31 December 2011						
	Loans and receivables to customers	Impaired loans	Impaired loans as % of loans and receivables	Specific impairment provision	Collective & IBNR impairment provision	Total impairment provision	Provision as % of impaired loans
Residential:	€m	€m	%	€m	€m	€m	%
ROI:							
- Owner occupier	18,740	2,449	13%	656	199	855	35%
- Buy-to-let	6,679	1,664	25%	623	151	774	47%
UK:							
- Owner occupier	445	7	0%	2	1	3	43%
- Buy-to-let	7,048	145	2%	59	16	75	52%
Commercial	1,863	721	39%	366	40	406	56%
Consumer finance:							
- Film finance / finance leases	585	67	12%	20	42	62	91%
- Term loans / other	412	118	29%	-	123	123	104%
Total gross lending	35,772	5,171	14%	1,726	572	2,298	44%
Impairment provision	(2,298)						
Reclassification to assets classified as held for sale (note 5(b))	(56)						
Deferred fees, discounts and fair value adjustments	259						
Balance at 31 December 2011	33,677	5,171		1,726	572	2,298	

The provision as a percentage of impaired loans has increased from 44% in 2011 to 51% in 2012 as a result of the increase in total impaired loans at year end.

18. Provision for impairment (continued)

Company	**31 December 2012**						
	Loans and receivables	**Impaired loans**	**Impaired loans as % of loans and receivables**	**Specific impairment provision**	**Collective & IBNR impairment provision**	**Total impairment provision**	**Provision as % of impaired loans**
Residential:	**€m**	**€m**	**%**	**€m**	**€m**	**€m**	**%**
ROI:							
- Owner occupier	**17,542**	**2,600**	**15%**	**906**	**144**	**1,050**	**40%**
- Buy-to-let	**6,580**	**1,934**	**29%**	**905**	**86**	**991**	**51%**
Commercial	**2,248**	**1,118**	**50%**	**735**	**-**	**735**	**66%**
Consumer finance:							
- Term loans / other	**378**	**144**	**38%**	**-**	**150**	**150**	**104%**
Loans to subsidiaries	**2,553**	**2,241**	**88%**	**381**	**-**	**381**	**17%**
Total gross lending	**29,301**	**8,037**	**27%**	**2,927**	**380**	**3,307**	**41%**
Impairment provision	**(3,307)**						
Deferred fees, discounts & fair value adjustments	**212**						
Balance at 31 December 2012	**26,206**	**8,037**		**2,927**	**380**	**3,307**	

Company	31 December 2011						
	Loans and receivables	Impaired loans*	Impaired loans as % of loans and receivables	Specific impairment provision	Collective & IBNR impairment provision	Total impairment provision	Provision as % of impaired loans
Residential:	€m	€m	%	€m	€m	€m	%
ROI:							
- Owner occupier	18,284	2,211	12%	565	174	739	33%
- Buy-to-let	6,668	1,660	25%	615	149	764	46%
Commercial	1,863	721	39%	366	40	406	56%
Consumer finance:							
- Term loans / other	412	118	29%	-	123	123	104%
Loans to subsidiaries	8,111	559	7%	109	-	109	19%
Total gross lending	35,338	5,269	15%	1,655	486	2,141	41%
Impairment provision	(2,141)						
Deferred fees, discounts & fair value adjustments	251						
Balance at 31 December 2011	33,448	5,269		1,655	486	2,141	

The provision as a percentage of impaired loans has remained in line with 2011 at 41% in 2012.

(B) Debt securities

Group and Company	**2012**			2011		
	Specific	**Collective**	**Total**	Specific	Collective	Total
	€m	**€m**	**€m**	€m	€m	€m
As at 1 January	**-**	**1**	**1**	-	6	6
Transfer from collective to specific provisions	**-**	**-**	**-**	5	(5)	-
Amounts written off during the year - Loans and receivables	**-**	**-**	**-**	(5)	-	(5)
At 31 December	**-**	**1**	**1**	-	1	1

(C) Repossessed Assets

In the year ended 31 December 2012, the Group and Company impaired its repossessed assets by €8m (31 December 2011: €6m). Repossessed assets are included in other assets. For further details refer to note 23 and 38.

19. Interest in subsidiaries and associated undertaking

(A) Group's interest in associated undertaking (Life Group only)

The Group's interest in associated undertaking was held through the Life Group which was sold on 29 June 2012.

Prior to the sale of the Life Group, the Group owned 30.43% (31 December 2011: 30.43%) of Allianz-Irish Life Holdings plc, an unlisted general insurance company operating in Ireland.

The Group's share of Allianz-Irish Life Holdings plc net assets at 31 December 2011 was as follows:

	2011 €m
As at 1 January	124
Share of results before tax	22
Share of tax	(3)
Dividends paid	(14)
Reclassification to assets and liabilities classified as held for sale (note 5(a))	(129)
At 31 December	-

Summary financial information on Allianz-Irish Life Holdings plc (100%) at 31 December 2011 is as follows:

	2011 €m
Assets	1,678
Liabilities	1,255
Equity	423
Gross premium written	443
Profit after tax	63

The Group's share of gains after tax of Allianz-Irish Life Holdings plc to the date of sale of the Life Group was €12m (31 December 2011: €19m) as disclosed in note 4.

(B) Company's interest in subsidiary undertakings

	2012 **€m**	2011 €m
At 1 January	**173**	2,849
Impairment of investment in subsidiaries undertakings[1]	**(1)**	(1,485)
Investment in Irish Nationwide Building Society	**-**	109
Reclassification to assets classified as held for sale (note 5(a))	**-**	(1,300)
Proceeds of liquidation of subsidiaries	**(50)**	-
Capital injection in subsidiaries	**6**	-
At 31 December	**128**	173

[1] The investments in subsidiaries were assessed for impairment and were impaired by €1m at 2012 year end to their recoverable amounts.

Details of the Group's principal subsidiary undertakings are set out in note 44.

20. Property and equipment

Group

	2012			
	Land and buildings	**Office and computer equipment**	**Motor vehicles**	**Total**
	€m	**€m**	**€m**	**€m**
Cost or valuation				
Balance 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				
Balance 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**

Group

	2011			
	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
Balance at 1 January	167	264	19	450
Additions	1	12	5	18
Revaluations	(19)	-	-	(19)
Disposals	-	(1)	(6)	(7)
Reclassification to assets classified as held for sale (note 5(a))	(50)	(177)	(12)	(239)
At 31 December	99	98	6	203
Depreciation / impairment				
Balance at 1 January	14	225	11	250
Provided in the year				
- Continuing operations	6	6	1	13
- Discontinued operations to date of reclassification	1	4	2	7
Revaluations	(2)	-	-	(2)
Disposals	-	(1)	(5)	(6)
Impairment				
- Continuing operations	5	-	-	5
- Discontinued operations	-	4	1	5
Reclassification to assets classified as held for sale (note 5(a))	(1)	(156)	(7)	(164)
At 31 December	23	82	3	108
Net book value at 31 December	76	16	3	95

20. Property and equipment (continued)

Company

	2012			
	Land and buildings	**Office and computer equipment**	**Motor vehicles**	**Total**
	€m	**€m**	**€m**	**€m**
Cost or valuation				
Balance 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				
Balance 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**

Company

	2011			
	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
Balance at 1 January	77	91	5	173
Additions	21	7	2	30
Revaluations	(6)	-	-	(6)
Disposals	-	-	(2)	(2)
At 31 December	92	98	5	195
Depreciation / impairment				
Balance at 1 January	9	77	2	88
Provided in the year	4	6	1	11
Revaluations	(1)	-	-	(1)
Disposals	-	-	(1)	(1)
Impairment	5	-	-	5
At 31 December	17	83	2	102
Net book value at 31 December	75	15	3	93

A valuation was carried out on the freehold land & buildings for year end 2012 by registered, independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Values take into account recent market transactions for similar properties. Valuations have used yields ranging from 8.25% to 10% (2011: 8.25% to 10%).

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

	Group		**Company**	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Buildings - freehold	**44**	47	**43**	46
Buildings - leasehold	**12**	12	**12**	12
Land	**12**	17	**12**	17
	68	76	**67**	75

The historic cost of land and buildings in respect of the Group and for the Company is €116m (31 December 2011: €116m).

21. Intangible assets

Group	2012 Software	2012 Core deposits*	2012 Total	2011 Software	2011 Core deposits	2011 Other	2011 Total
	€m	€m	€m	€m	€m	€m	€m
Cost							
Balance at 1 January	**77**	**124**	**201**	163	-	10	173
Acquisitions	**-**	**32**	**32**	-	124	-	124
Additions	**8**	**-**	**8**	12	-	-	12
Elimination of assets with nil carrying value	**(60)**	**-**	**(60)**	-	-	-	-
Reclassification to assets classified as held for sale (note 5(a))	**-**	**-**	**-**	(98)	-	(10)	(108)
At 31 December	**25**	**156**	**181**	77	124	-	201
Amortisation							
Balance at 1 January	**64**	**21**	**85**	141	-	2	143
Provided in the year							
- Continuing operations	**5**	**31**	**36**	4	21	-	25
- Discontinued operations to date of reclassification	**-**	**-**	**-**	3	-	-	3
Impairment - discontinued operations	**-**	**-**	**-**	3	-	-	3
Elimination of assets with nil carrying value	**(60)**	**-**	**(60)**	-	-	-	-
Reclassification to assets classified as held for sale (note 5(a))	**-**	**-**	**-**	(87)	-	(2)	(89)
At 31 December	**9**	**52**	**61**	64	21	-	85
Net book value at 31 December	**16**	**104**	**120**	13	103	-	116

Company	2012 Software	2012 Core deposits	2012 Total	2011 Software	2011 Core deposits	2011 Other	2011 Total
	€m	€m	€m	€m	€m	€m	€m
Cost							
Balance at 1 January	**76**	**124**	**200**	67	-	-	67
Acquisitions	**-**	**32**	**32**	-	124	-	124
Additions	**8**	**-**	**8**	9	-	-	9
Elimination of assets with nil carrying value	**(59)**	**-**	**(59)**	-	-	-	-
At 31 December	**25**	**156**	**181**	76	124	-	200
Amortisation							
Balance at 1 January	**63**	**21**	**84**	59	-	-	59
Provided in the year	**5**	**31**	**36**	4	21	-	25
Impairment	**-**	**-**	**-**	-	-	-	-
Elimination of assets with nil carrying value	**(59)**	**-**	**(59)**	-	-	-	-
At 31 December	**9**	**52**	**61**	63	21	-	84
Net book value at 31 December	**16**	**104**	**120**	13	103	-	116

*Core deposit intangibles consist of those that arose from the acquisition of certain assets and liabilities of INBS in February 2011 of €78m and the deposit book of Northern Rock Ireland of €26m, acquired in January 2012 as disclosed in note 40 and are amortised over five years from the date of recognition. Amortisation of these core deposit intangibles are reflected in net interest income, note 6. Management have undertaken an impairment review at year end 2012 of the core deposit intangible assets which confirmed that there are no indication of impairment and the five year amortisation period is appropriate.

22. Deferred taxation

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Deferred tax liabilities	**(19)**	(168)	**-**	-
Deferred tax assets	**69**	184	**50**	191
Reclassification to liabilities classified as held for sale (note 5(a))	**-**	168	**-**	-
Net Deferred tax obligations at 31 December	**50**	184	**50**	191

Net deferred tax obligations are attributable to the following:

Group	**2012**				
	As at 1 Jan	**Recognised in income statement**	**Recognised in equity**	**Other**	**At 31 Dec**
	€m	**€m**	**€m**	**€m**	**€m**
Property and equipment	**-**	**2**	**-**	**-**	**2**
Unrealised gains on assets / (losses)	**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**

Group	2011					
	As at 1 Jan	Recognised in income statement	Recognised in equity	Other	Reclassification to liabilities as HFS (note 5(a))	At 31 Dec
	€m	€m	€m	€m	€m	€m
Property and equipment	(7)	(1)	3	-	5	-
Deferred acquisition costs	10	1	-	-	(11)	-
Shareholder value of in-force business	(114)	8	-	-	106	-
Investment contract liabilities	1	-	-	-	(1)	-
Undistributed life business surpluses	(53)	(3)	-	-	56	-
Unrealised gains on assets / (losses)	33	-	4	-	3	40
Retirement benefits	7	(2)	-	-	10	15
IFRS / FRS transition spreading	-	1	-	-	(1)	-
Initial recognition of deferred tax	-	3	-	(16)	-	(13)
Losses carried forward	68	76	-	-	-	144
Other temporary differences	(5)	2	-	-	1	(2)
	(60)	85	7	(16)	168	184

Of which:			
Continuing operations	82	5	(16)
Discontinued operations	3	2	-
	85	7	(16)

Deferred tax assets relating to trading losses are recognised only to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. This necessitates consideration of both the future legal entity and trading structure of the Group, which ultimately will be influenced by the Group's strategy, and also the profile of future trading profits. Such outcomes will be influenced by both the economic environment as well as pending approvals by the relevant authorities. On this basis, the Directors deemed it appropriate, at this point, to limit the recognition of deferred tax assets relating to cumulative trading losses. This current position has resulted in a previously recognised deferred tax asset of €107m being written off in the 2012 statement of financial position offset by a €13m credit in relation to a prior year adjustment.

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 for the Group on carried forward tax losses at 31 December 2012 amounted to €367m (31 December 2011: €121m).

22. Deferred taxation (continued)

Company	**2012**				
	As at 1 Jan	**Recognised in income statement**	**Recognised in equity**	**Other**	**At 31 Dec**
	€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**

Company	2011				
	As at 1 Jan	Recognised in income statement	Recognised in equity	Other	At 31 Dec
	€m	€m	€m	€m	€m
Property and equipment	(3)	2	1	-	-
Unrealised gains on assets / (losses)	36	-	4	-	40
Retirement benefits	15	(1)	-	-	14
IFRS / FRS transition spreading	1	-	-	-	1
Initial recognition of deferred tax	-	3	-	(16)	(13)
Losses carried forward	62	90	-	-	152
Other temporary differences	(3)	-	-	-	(3)
	108	94	5	(16)	191

The total unrecognised deferred tax assets for the Company on carried forward tax losses at 31 December 2012 amounted to €308m (31 December 2011: €86m).

As outlined previously in this note, the Directors deemed it appropriate, at this point, to limit the recognition of deferred tax assets relating to cumulative trading losses. This current position has resulted in a previously recognised deferred tax asset of €102m being written off in the 2012 statement of financial position of the Company.

23. Other assets

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Repossessed assets	**51**	52	**36**	31
Other debtors	**83**	172	**83**	89
Amount due from group undertakings	**3**	-	**7**	7
Amount due from policyholders	**-**	42	**-**	-
Amount due from intermediaries	**-**	2	**-**	-
Investment trading balances	**-**	6	**-**	-
Reclassification to assets classified as held for sale (note 5(a))*	**-**	(133)	**-**	-
	137	141	**126**	127

During the year, the Group repossessed €77m of assets , while €70m of assets were sold. An impairment charge in respect of these assets of €8m was recorded in the income statement. For the Company, €24m of assets were repossessed during the year and €11m of assets were sold. An impairment charge in respect of these assets of €8m was recorded in the income statement. For further details on repossessed assets, see note 38.

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 repossessed assets do not meet the criteria to be classified as held for sale.

* In 2011 assets amounting to €42m in respect of the Life Group have been reclassified from 'Amount due from policyholders', €2m from 'Amount due from intermediaries', €6m from 'Investment trading balances' and €83m from 'Other debtors' to assets classified as held for sale as disclosed in note 5(a).

24. Deposits by banks (including central banks)

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Deposits by banks (including central banks)	**13,827**	17,178	**13,723**	16,943
Reclassification to liabilities classified as held for sale (note 5(a))	**-**	(212)	**-**	-
Net deposits by banks	**13,827**	16,966	**13,723**	16,943

Deposits by banks include the following:

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€bn	€bn	**€bn**	€bn
Placed by the ECB[1]	**10.7**	11.7	**10.7**	11.7
Placed by the CBI[2]	**-**	2.3	**-**	2.3
Placed by other banks and institutions on repurchase agreements[3]	**3.0**	3.0	**3.0**	3.0
Other	**0.1**	-	**-**	-
	13.8	17.0	**13.7**	17.0

Balances placed by the ECB:

Maximum	**12.5**	15.1	**12.5**	15.1
Average	**11.2**	12.1	**11.2**	12.1

[1] The deposits made by the ECB are secured on €8.1bn (31 December 2011: €6.6bn) notes issued by special purpose entities controlled by the Group and Company and €3.7bn (31 December 2011: €5.7bn) of debt security assets together with €3.1bn of bonds issued and bought by the Company itself (31 December 2011: €3.3bn). The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities which are included in note 17.

€5bn (31 December 2011: €3bn) of the deposits placed by the ECB are due to mature in greater than 2 years. The remaining €5.7bn is due to mature in the current year (31 December 2011: €8.7bn).

At 31 December 2012, also included in deposits made by ECB is €0.5bn (31 December 2011: €nil) of deposits made under the Special Mortgage Backed Promissory Note ("SMBPN") programme. The deposits are secured by way of a floating charge over €1.6bn of ROI residential mortgages and included in note 17.

[2] At 31 December 2012, there was no exceptional liquidity assistance from the CBI (31 December 2011: €2.3bn). At 31 December 2011, these deposits were secured on €6.3bn notes issued by the special purpose entities controlled by the Group and a further €230m under a Ministerial Guarantee.

[3] Of these deposits, €2.5bn are collateralised on €4.9bn (31 December 2011: €5bn) of notes issued by special purpose entities controlled by the Group and Company. The notes are secured by a first fixed charge over residential mortgages held by the special purpose entities which are consolidated into Group's financial statements and are included in note 17.

25. Customer accounts

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Term deposits	**10,674**	8,709	**10,401**	8,510
Demand deposits	**1,981**	1,626	**1,962**	1,568
Current accounts	**2,053**	2,021	**2,053**	2,021
Other products	**1,931**	2,017	**1,898**	2,001
Due to subsidiary undertakings*	**-**	-	**446**	6,077
	16,639	14,373	**16,760**	20,177

* Customer accounts balances due to subsidiary undertakings primarily relates to CHL. Pursuant to a deed dated March 2012 signed between ptsb and its subsidiary, CHL, it was agreed that ptsb's obligation to pay interest and principal on the CHL deposits be set off against CHL's obligation to pay interest and principal on the credit facility provided by ptsb. Consequently, these balances have been netted off in the statement of financial position in customer accounts and loans an receivables to customers. Prior to signing of this deed, the balances, would have been eliminated at Group level.

Other products mainly consists of notice accounts.

Included in term deposits is €601m placed by the National Treasury Management Agency ("NTMA") (31 December 2011: €nil). These deposits were placed on standard commercial terms.

Included in customer accounts are total deposits of €581m (31 December 2011: €683m) from the Life Group which was sold on 29 June 2012. Further details are outlined in note 42. At 31 December 2011, these deposits were eliminated on consolidation.

During 2012, the Group and Company acquired €474m of customer accounts from Northern Rock Ireland. Further details are outlined in note 40.

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 38.

26. Debt securities in issue

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
At amortised cost:				
Bonds and medium-term notes	**5,274**	5,531	**5,274**	5,531
Other debt securities in issue	**-**	615	**-**	-
Non-recourse funding	**1,231**	2,210	**-**	-
Debt securities in issue to subsidiaries	**-**	-	**1,233**	1,873
	6,505	8,356	**6,507**	7,404
Repayable in less than 1 year	**2,728**	100	**2,728**	100
Repayable in greater than 1 year but less than 2 years	**184**	2,775	**184**	2,775
Repayable in greater than 2 year but less than 5 years	**2,254**	2,362	**2,254**	2,399
Repayable in greater than 5 years	**1,339**	3,119	**1,341**	2,130
	6,505	8,356	**6,507**	7,404

Bonds and medium-term notes
€35m of bonds and medium-term notes issued by the Group were held by the Life Group when it was sold on the 29 June 2012. At 31 December 2011, they amounted to €37m and were eliminated on consolidation.

Other debt securities in issue
Other debt securities in issue included advances secured on notes issued by special purpose entities which are secured on residential property loans. These loans were not derecognised and were shown within loans and receivables to customers.

Non-recourse funding

At 31 December 2012, the Group had advances secured on residential property of €1,231m (31 December 2011: €2,065m) and consumer finance loans of €nil (31 December 2011: €145m) subject to non-recourse funding. These loans, which have not been derecognised, are shown within loans and receivables to customers and the non-recourse funding is shown as a separate liability.

The residential property securitisations involve the selling of pools of mortgages to special purpose entities which issue mortgage-backed floating notes ("notes") to fund the purchase of these mortgage pools. The non-recourse funding is collateralised on €1.4bn (31 December 2011: €2.7bn) of the notes in issue by the special purpose entities, as disclosed in note 17.

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 ptsb. ptsb 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 ptsb. 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.

The consumer finance loan securitisation involved the issuance of notes to a special purpose entity which are secured on car finance loans. Two notes were issued: A notes which are floating rate notes and B notes which are fixed rate notes with a total principal of €211m. During 2012, the special purpose entity was unwound as part of the sale of loans and receivables of the ptsbf loan portfolio (note 5(b)). At 31 December 2011, the Group held €66m of these notes which were eliminated on consolidation.

Debt buybacks

Bonds and medium-term notes
During 2012, ptsb repurchased certain of its medium term notes with an aggregate nominal value of €74m for a cash consideration of €47m. The resulting gain of €27m was recognised in other operating income in the income statement.

Non-recourse funding
During 2012, ptsb repurchased certain of its non-recourse funding with an aggregate nominal value of €746m for a cash consideration of €568m (76% of nominal value) and costs of €3m resulting in a gain, net of transaction costs, of €175m.

Other debt securities in issue
During 2012, ptsb 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 gain, net of transaction costs, of €49m.

The gains on the repurchase of non-recourse funding of €175m and other debt securities of €49m (as detailed above) totalling to €224m, are recognised as a gain on liability management exercise in the income statement due to the structured nature of the buybacks.

27. Other liabilities

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Amounts falling due within one year				
PAYE and social insurance	**3**	25	**3**	6
Other taxation including DIRT	**17**	28	**17**	-
Other creditors	**100**	311	**15**	33
Investment trading balances	**-**	18	**-**	-
Premiums on deposit	**-**	23	**-**	-
Amounts due to subsidiary undertakings	**-**	-	**3**	5
Reclassification to liabilities classified as held for sale (note 5(a))*	**-**	(268)	**-**	-
	120	137	**38**	44

* In December 2011, liabilities amounting to €19m in respect of the Life Group have been reclassified from 'PAYE and social insurance', €3m from 'Other taxation', €18m from 'Investment trading balances', €205m from 'Other creditors' and €23m from 'Premiums on deposits' to liabilities classified as held for sale as disclosed in note 5(a).

At 31 December 2012, other creditors in the Group includes €73m at 31 December 2012 (31 December 2011: €92m) relating to film finance lending.

28. Provisions

Group	2012		
	Restructuring costs	Other	Total
	€m	€m	€m
At 1 January	**14**	**-**	**14**
Provisions made during the year	**89**	**15**	**104**
Provisions used during the year	**(73)**	**-**	**(73)**
At 31 December	**30**	**15**	**45**

Group	2011		
	Restructuring costs	Other	Total
	€m	€m	€m
At 1 January	2	15	17
Provisions made during the year			
- Continuing operations	44	-	44
- Discontinued operations	10	-	10
Provisions used during the year			
- Continuing operations	(30)	(10)	(40)
- Discontinued operations	(10)	(3)	(13)
Reclassification to liabilities classified as held for sale (note 5(a))	(2)	(2)	(4)
At 31 December	14	-	14

Company	2012		
	Restructuring costs	Other	Total
	€m	€m	€m
As at 1 January	**14**	**-**	**14**
Provisions made during the year	**89**	**15**	**104**
Provisions used during the year	**(73)**	**-**	**(73)**
At 31 December	**30**	**15**	**45**

Company	2011		
	Restructuring costs	Other	Total
	€m	€m	€m
As at 1 January	-	10	10
Provisions made during the year	44	-	44
Provisions used during the year	(30)	(10)	(40)
At 31 December	14	-	14

Restructuring costs

Provision for restructuring costs include fees payable to contractors in relation to various initiatives to restructure the Group and Company of €17m (31 December 2011: €nil) and staff redundancy costs €6m (31 December 2011: €14m) incurred under a voluntary severance scheme. These provisions are expected to be utilised by the first half of 2013. Details of amounts charged to the income statement are outlined in note 11.

Also included in the provision for restructuring costs is an onerous lease provision of €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. It is expected that €1m of this provision will be utilised in the next 12 months.

Other

At 31 December 2012, included in other provisions is €11m for remediation costs in relation to an industry wide initiative on the review of selling of Payment Protection Insurance ("PPI") policies by the Group between 2007 to 2012 which is estimated based on the probability of redress. The remainder of the other provisions is in relation to an indemnity provided by the Group and Company on the sale of loan and receivables of ptsbf.

At 31 December 2011, other provisions related to outstanding settlements on certain closed derivative contracts and policyholder claims. The outstanding settlements on the closed derivative contracts were finalised during 2011. Policyholder claims had been reclassified to liabilities classified as held for sale as disclosed in Note 5(a) and were settled during 2012.

29. Retirement benefit obligations

Defined benefit schemes

The Group operates three Irish defined benefit schemes and a smaller 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 pension costs and provisions are assessed in accordance with the advice of independent qualified actuaries. Valuations are carried out every three years by independent actuarial consultants. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection. All of the Group's defined benefit pension schemes have been revalued within the timeframe set out by regulatory guidelines with valuation dates ranging between 05 April 2010 to 01 January 2012. Actuarial gains and losses are accounted for under the corridor approach as set out in note 1. Critical accounting judgements and estimates relating to retirement benefit obligations are as set out in note 2.

Each of the Group's defined benefit pension schemes are administered and accounted for separately. The discontinued operations (below) refers to the two schemes for which the Life Group is the principal employer. The Life Group was sold on 29 June 2012.

An annual stamp duty levy of 0.6% (the "Pension Levy") of the market value of assets under management in Irish pension funds was put in place by the Irish Finance (No. 2) Act 2011. The levy will apply in each of the calendar years 2011 to 2014 inclusive, based on the value of the assets on 30 of June each year. The levy payment for 2012 amounting to €7.2m (continuing operations: €2.8m, discontinued operations: €4.4m), (2011: €6.9m, continuing operations: €2.6m, discontinued operations: €4.3m), has been reflected as a reduction in the value of scheme assets and the levy has been incorporated into the expected return on scheme assets for 2012. The levy is a charge on the pension funds and the Group has advised the trustees that it will not subsidise the cost of this levy.

The key financial assumptions have been updated at 31 December 2012 and are used to calculate the information in the financial statements as follows:

	Group		Company	
	2012	2011	**2012**	2011
Actuarial assumptions	**%**	%	**%**	%
Discount rate at 31 December	**4.00**	4.90	**4.00**	4.90
Expected rate of return on plan assets at 1 January[1]	**5.00**	5.80	**5.00**	5.80
Salary increases [2, 3]	**0.00**	3.25	**0.00**	3.25
Pension increases [3]	**2.00**	2.00	**2.00**	2.00
Rate of price inflation	**2.00**	2.00	**2.00**	2.00

[1] From 1 January 2013 the Group is adopting the revised IAS19. In the revised standard the expected rate of return on plan assets is replaced and will form part of the net interest income calculation that is based on the discount rate. The expected rate of return on plan assets for 2012, which was set at the 31 December 2011, was 5.00%.

[2] Salary increase assumption is 0% for the next two years and 3% thereafter. In addition to the salary inflation assumption above, an assumed salary scale is also allowed for.

[3] For the purpose of calculating the settlement gain on these pension schemes in the Life Group, these assumptions were revised to 0% salary increases and 0% pension payment increases to reflect the fact that the employees in these schemes were leaving the Group.

The main post retirement mortality assumptions used at 31 December 2012 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 and 31 December 2011 were the following:

		2012	2011
		Years	Years
Retiring today age 65	Males	**23.7**	23.5
	Females	**25.1**	25.0
Retiring in 15 years' time aged 65	Males	**25.7**	25.5
	Females	**26.9**	26.7

The mortality table used to arrive at the life expectancies of scheme members is PNM(F)L00 - Pensioners, Males (Female), Normal, Lives mortality rates table from the "00" mortality tables series for assured lives, annuitant and pensioner.

Amounts recognised in the income statement in respect of these defined benefit schemes are:

	Group		Company	
	Year ended 31 December 2012	Year ended 31 December 2011	**Year ended 31 December 2012**	Year ended 31 December 2011
	€m	€m	**€m**	€m
Current service cost	**25**	35	**16**	18
Past service cost	**-**	1	**-**	(1)
Interest cost	**53**	68	**35**	33
Expected return on scheme assets	**(43)**	(69)	**(24)**	(26)
Amortisation of corridor excess	**3**	1	**2**	1
Changes due to curtailments and settlements	**(4)**	(8)	**(3)**	(9)
Recognised actuarial gains and losses due to curtailment	**-**	1	**-**	1
Net settlement gain recognised in the income statement of the Life Group (note 4)	**(46)**	-	**-**	-
	(12)	29	**26**	17

29. Retirement benefit obligations (continued)

The charge has been included in administrative expenses of which €29m related to continuing operations, while the curtailment gain of €3m in respect of staff restructuring has been recognised in the restructuring costs. €8m charge (net of €1m curtailment gain) has been recognised in the discontinued operations under profit from the Life Group as disclosed in note 4. In addition, a €46m gain in relation to the discontinued operations has also been recognised in the discontinued operations income statement, which relates to the settlement gain arising from the sale of the Life Group.

Unrecognised actuarial gains or losses which are outside the corridor under IAS 19 are amortised in the income statement over the estimated remaining service lives of the members which averaged 19 years in 2012 (2011: 18 years).

The actual return on scheme assets for year ended 31 December 2012 was €59m (31 December 2011: €28m, continuing operations: €11m, discontinued operations: €17m).

The actual return is calculated as follows:

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Expected return on plan assets	**24**	26	**24**	26
Actuarial gain on plan assets	**35**	(15)	**35**	(15)
Actual Return on plan assets	**59**	11	**59**	11

In 2011 the actual return on plan assets for the Life Group was €17m of which can be broken down between expected return on plan assets €43m and actuarial gain on plan assets (€26m).

The movements in the present value of defined benefit obligations in the year are:

	Group			Company	
	Continuing operations 2012	**Discontinued operations 2012**	2011	**2012**	2011
	€m	**€m**	€m	**€m**	€m
Benefit obligation at 1 January	**(693)**	**(731)**	(1,340)	**(693)**	(647)
Current service cost	**(16)**	**(9)**	(35)	**(16)**	(18)
Interest cost	**(35)**	**(18)**	(68)	**(35)**	(33)
Past service cost	**-**	**-**	(1)	**-**	1
Actuarial gain / (loss) - experience adjustments	**7**	**1**	23	**7**	7
- assumption changes	**(126)**	**(188)**	(46)	**(126)**	(23)
Curtailments/Settlement	**3**	**5**	14	**3**	9
Contributions by plan participants	**(3)**	**(2)**	(6)	**(3)**	(3)
Benefits paid	**12**	**10**	35	**12**	14
Reclassification to liabilities classified as held for sale (note 5(a))	**-**	**-**	731	**-**	-
Remeasurement of defined benefit obligation*	**-**	**304**	-	**-**	-
Sale of the Life Group (note 5(a))	**-**	**628**	-	**-**	-
Benefit obligation at 31 December	**(851)**	**-**	(693)	**(851)**	(693)

The movement in the fair value of defined benefit assets in the year are:

	Group			Company	
	Continuing operations 2012	**Discontinued operations 2012**	2011	**2012**	2011
	€m	**€m**	€m	**€m**	€m
Fair value of plan assets as 1 January	**471**	**755**	1,191	**471**	448
Expected return on plan assets	**24**	**19**	69	**24**	26
Employer contribution	**19**	**7**	42	**19**	23
Contributions by plan participants	**3**	**2**	6	**3**	3
Actuarial gain / (loss)	**35**	**(13)**	(41)	**35**	(15)
Benefits paid	**(12)**	**(10)**	(35)	**(12)**	(14)
Assets distributed on settlement	**-**	**(4)**	(6)	**-**	-
Reclassification to assets classified as held for sale (note 5(a))	**-**	**-**	(755)	**-**	-
Sale of the Life Group (note 5(a))	**-**	**(756)**	-	**-**	-
Fair value of plan assets at 31 December	**540**	**-**	471	**540**	471

*Following the sale of the Life Group, these pension assets and liabilities are no longer recognised on the Group statement of financial position. The unrecognised actuarial loss for the Life Group at the date of sale was €258m. This, along with the €304m remeasurement of the defined benefit obligation under assumptions at 29 June 2012 reflecting no future salary or pension increases, was used in arriving at a settlement gain of €46m for the Life Group pension scheme. Further details are outlined in the discontinued operation section of this note.

29. Retirement benefit obligations (continued)

The pension assets and liabilities recognised on the statement of financial position are as follows:

	Group				
	2012	2011	2010	2009	2008
	€m	€m	€m	€m	€m
Benefit obligation at 31 December	**(851)**	(1,424)	(1,340)	(1,225)	(1,183)
Fair value of plan assets at 31 December	**540**	1,226	1,191	1,093	928
Net obligation	**(311)**	(198)	(149)	(132)	(255)
Unrecognised actuarial losses	**184**	162	100	69	186
Net recognised retirement benefit obligation at 31 December	**(127)**	(36)	(49)	(63)	(69)

At 31 December 2011 a net recognised retirement benefit obligation of €84m related to the Life Group pension schemes. This can be broken down between benefit obligation of (€731m), fair value of plan assets of €755m and unrecognised actuarial losses of €60m.

	Company				
	2012	2011	2010	2009	2008
	€m	€m	€m	€m	€m
Benefit obligation at 31 December	**(851)**	(693)	(647)	(589)	(519)
Fair value of plan assets at 31 December	**540**	471	448	402	333
Net obligation	**(311)**	(222)	(199)	(187)	(186)
Unrecognised actuarial losses	**184**	102	73	55	49
Net recognised retirement benefit obligation at 31 December	**(127)**	(120)	(126)	(132)	(137)

The experience adjustments arising on plan liabilities and plan assets are as follows:

	Group				
Year ended 31 December	**2012***	2011	2010	2009	2008
	€m	€m	€m	€m	€m
Actuarial (gains) / losses					
- arising on benefit obligation (€m)	**(7)**	(23)	(26)	(97)	19
- arising on benefit obligation (% plan liabilities)	**(1)**	(2)	(2)	(8)	2
Actuarial gains / (losses)					
- arising on plan assets (€m)	**35**	(41)	8	68	(442)
- arising on plan assets (% of plan assets)	**6**	(3)	1	6	(48)

*For 2012 the experience adjustments are in respect of the continuing operations.

	Company				
Year ended 31 December	**2012**	2011	2010	2009	2008
	€m	€m	€m	€m	€m
Actuarial (gains) / losses					
- arising on benefit obligation (€m)	**(7)**	(7)	(15)	(8)	-
- arising on benefit obligation (% plan liabilities)	**(1)**	(1)	(2)	(1)	-
Actuarial gains / (losses)					
- arising on plan assets (€m)	**35**	(15)	3	24	(145)
- arising on plan assets (% of plan assets)	**6**	(3)	1	6	(44)

The movement in the present value of defined benefit obligations in the year are:	Group		Company	
	2012	2011	**2012**	2011
	€m	€m	**€m**	€m
Net post retirement benefit obligations as at 1 January	**(36)**	(49)	**(120)**	(126)
Retirement benefit obligation disposed as part of sale of life Group	**(84)**	-	**-**	-
Expense recognised in income statement	**(26)**	(29)	**(26)**	(17)
Contributions paid	**19**	42	**19**	23
Net post retirement benefit obligations at 31 December	**(127)**	(36)	**(127)**	(120)

At 31 December 2011, net recognised retirement benefit obligation of €84m related to the Life Group pension scheme. This can be broken down between net post retirement obligation at 1 January 2011 of €77m, expenses recognised in the income statement of (€8m) and contribution paid of €15m.

29. Retirement benefit obligations (continued)

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Net post retirement benefit assets	**8**	111	**8**	10
Net post retirement benefit liabilities	**(135)**	(147)	**(135)**	(130)
Net post retirement benefit obligations	**(127)**	(36)	**(127)**	(120)

At 31 December 2011, net recognised retirement benefit obligation of €84m related to the Life Group pension scheme. This can be broken down between net post retirement assets of €101m and net post retirement liabilities of (€17m).

The following tables set 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 and the Company.

Group	**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**

	2011 Long-term rate of return expected	31 December 2011 Fair value	Plan assets
	%	€m	%
Equities	7.00	642	53
Bonds	4.10	484	39
Property	6.00	89	7
Other	2.80	11	1
Fair value of plan assets	5.80	1,226	100

At 31 December 2011, the fair value of plan assets included €755m related to the Life Group pension scheme.

Company	**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**

Company	2011 Long-term rate of return expected	31 December 2011 Fair value	Plan assets
	%	€m	%
Equities	7.00	244	52
Bonds	4.10	185	39
Property	6.00	36	8
Other	2.80	6	1
Fair value of plan assets	5.80	471	100

29. Retirement benefit obligations (continued)

The fair value of plan assets includes investments in unit-linked funds managed by Irish Life Assurance plc the pension provider, which on occasion include investments relating to ptsbgh shares or properties occupied by the Group. At 31 December 2012, the Group's pension scheme assets had no indirect holding in ptsbgh shares (31 December 2011: €0.2m) and an indirect holding of properties occupied by the Group of €0.01m (31 December 2011: €0.04m).

The Group is expected to pay contributions of approximately €21m to the pension schemes in 2013.

If the discount rate was 0.25% lower than the assumption made at 31 December 2012 then the present value of defined benefit obligations would increase by approximately €51m, all of which would be included as unrecognised actuarial losses. A similar effect would arise if the rate of increase in salaries and pensions was to rise by 0.25% over the assumptions used at 31 December 2012.

If the expectation of life post retirement increased by one year, then the present value of defined benefit obligations would increase by approximately €20m, all of which would be included as unrecognised actuarial losses.

During the year, 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 at 31 December 2012 was 4.00%. Under prior methodology the rate would have been 3.60%. The effect of this change at the statement of financial position date reduced the present value of scheme liabilities from €935m to €851m.

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.

The net retirement benefit asset of €128m was included in the assets and liabilities over which control was lost, as outlined in note 5. After the sale of the Life Group no residual liabilities relating to the two Life Group defined benefit schemes reside with the Group.

30. Subordinated liabilities

The movement in subordinated liabilities is analysed as follows:

	Group		Company	
	2012	2011	**2012**	2011
	€m	€m	**€m**	€m
At 1 January	**317**	1,470	**317**	1,470
Issuance during the year	**-**	276	**-**	276
Buyback during the year				
Dated securities	**-**	(845)	**-**	(845)
Undated securities	**-**	(345)	**-**	(345)
Maturities	**-**	(259)	**-**	(259)
Amortisation	**20**	20	**20**	20
As at 31 December	**337**	317	**337**	317

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Dated				
€24m 0% non-callable lower tier 2 capital notes 2018	**19**	16	**19**	16
€400m 10% fixed-rate convertible contingent capital notes 2016	**318**	301	**318**	301
	337	317	**337**	317

All of the above subordinated liabilities are issued by ptsb.

Of the above total for subordinated liabilities, €234m (31 December 2011: €276m) is classified as Tier 2 capital.

Convertible contingent capital notes

On the 26 July 2011, the company was directed by 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) to issue €400m of contingent Tier 2 capital notes to the Minister for Finance. On 27 July 2011, the company issued such notes with a nominal value of €400m (€394m received net of costs) to the Minister for Finance with the following terms and conditions:

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 remarket 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 company's parent, on the occurrence of a Conversion Event;
- Conversion Event is defined as the occurrence of 1) a Capital Deficiency Event where the company's core Tier 1 capital falls below 8.25% or the Central Bank of Ireland notifies the company, 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 the company becomes insolvent or unable to pay debts as they fall due, as defined in the related Agency Deed;
- Following any Conversion Event, the company is required to pay the par value of the loan notes to ptsbgh, in return for which ptsbgh will immediately issue to the holder of the notes a fixed number of ordinary shares determined by dividing the principal amount of the contingent capital notes 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 have evaluated the terms and conditions of the contingent capital notes and since the mandatory conversion feature impacts only on ptsbgh, from the perspective of the company the contingent capital notes are a liability 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 is 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 difference between the fair value 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.

30. Subordinated liabilities (continued)

The contingent capital notes recognised on initial recognition were calculated as follows:

	2011
	€m
Proceeds from the contingent capital notes (net of costs)	394
Adjusted for the capital contribution:	
- The off market interest rate of the instrument	(118)
Fair value of the liability component	**276**

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 2012 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 earlier 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. During 2011, such consent was obtained and a liability management exercise was undertaken.

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.

2011 Liability Management Exercise ("LME")

On 17 May 2011, the Group prepaid three Upper Tier 2 perpetual subordinated notes issued by ptsb, representing original aggregate nominal amounts of €320m, which generated €290m of Core Tier 1 equity capital. These buybacks have realised net gains of €318m against the carrying values of the notes based on a discounted price of 8.5% being paid on the JPY 37bn yen principal balances.

The Group launched an LME in respect of up to c. €845m of its subordinated liabilities in June 2011 which continued through to August 2011. This exercise was in the form of a cash tender offer. Cash prices under the exercise were 20% of nominal for the relevant subordinated liabilities, with the exception of one series of zero coupon subordinated liabilities where the cash price was 8.635% of the nominal amount.

On the Lower Tier 2 dated subordinated liabilities buyback process, the 2011 half year income statement reflected net gains of €451m on buybacks completed at 30 June 2011 representing notes with aggregate nominal amounts totalling €556m. The related cash payments of €105m reflected prices paid of 20% of nominal for the relevant subordinated liabilities, save in the case of one series of zero coupon subordinated liabilities where the cash price was 8.635% of the nominal amount.

In the second half of 2011, further buybacks were completed that represented aggregate nominal amounts totalling €288m. Related cash payments of €54m reflected prices paid of 20% of nominal for the relevant subordinated liabilities, save in the case of one series (€18m floating-rate notes 2011) where 42% of the notes was completed during the buyback process and the remainder matured after the buyback process.

	Percentage buyback	Carrying value at date of buyback	Cash payments	Gain
Dated	%	€m	€m	€m
€10m floating-rate notes 2023	100%	10	(2)	8
€10m floating-rate step-up callable notes 2015	100%	11	(2)	9
€50m floating-rate step-up callable notes 2015	100%	50	(10)	40
€50m floating-rate step-up callable notes 2016	100%	50	(10)	40
€75m floating-rate step-up callable notes 2017	100%	75	(12)	63
€300m 4.625% fixed step-up callable notes 2017	100%	309	(60)	249
€5m constant maturity swap notes 2018	100%	6	(1)	5
€25m step-up callable notes 2018	100%	26	(5)	21
€55m 0% non-callable Lower Tier 2 capital notes due 2018	56%	19	(3)	16
€18m floating-rate notes 2011	42%	8	(2)	6
€20m floating-rate step-up callable notes 2018	100%	20	(4)	16
€200m floating-rate step-up callable notes 2015	100%	200	(36)	164
€45m floating-rate step-up callable notes 2018	100%	46	(9)	37
€5m constant maturity swap notes 2018	100%	5	(1)	4
€10m 4.31% fixed-rate callable notes 2035	100%	10	(2)	8
		845	(159)	686
Undated				
JPY 20bn 4.655% undated step-up notes	100%	192	(15)	177
JPY 10bn 3.75% undated step-up notes	100%	90	(7)	83
JPY 7bn 3.98% undated step-up notes	100%	63	(5)	58
		345	(27)	318
Transaction costs				(4)
Total gain on LME reported in 2011				1,000

For the LME carried out in 2012, please refer to note 26.

31. 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 opening share premium reserve of €135m represents the excess of amounts received for share issues less associated issue costs over the par value of those shares for the Company.

On the sale of the Life Group, the share premium of €2,698m which was previously recognised as merger reserve in other capital reserves, as detailed below, has been transferred to share premium as the investment in the Life Group is no longer held by the Group.

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, capital contribution received from ptsbgh and the capital contribution component of contingent capital notes issued by ptsb. In 2012, a large number of share options were forfeited mainly due to the sale of the Life Group (€4m).

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. At 29 June 2012, €19m of revaluation reserve relating to the Life Group was eliminated as part of the disposal.

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 €7m (31 December 2011: €11m) 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 this has been recycled to the income statement in 2012 as part of the sale of the consumer finance loan portfolio as disclosed in note 5(b).

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 is 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 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).

32. 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.

Group	**31 December 2012**				
	FX Reserve	**Revaluation reserve**	**AFS reserve**	**Cash flow hedge reserve**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Other comprehensive income (net of tax)					
Revaluation losses	**-**	**(2)**	**-**	**-**	**(2)**
Currency translation adjustment	**1**	**-**	**-**	**-**	**1**
Available for sale reserve:					
Change in value of AFS financial assets	**-**	**-**	**257**	**-**	**257**
AFS securities reserve transferred to income statement on disposal	**-**	**-**	**58**	**-**	**58**
Amortisation of AFS securities 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	**1**	**(2)**	**318**	**2**	**319**

Group	31 December 2011				
	FX Reserve	Revaluation reserve	AFS reserve	Cash flow hedge reserve	Total
	€m	€m	€m	€m	€m
Other comprehensive income (net of tax)					
Revaluation losses	-	(14)	-	-	(14)
Available for sale reserve:					
Change in value of AFS financial assets	-	-	(66)	-	(66)
AFS securities reserve transferred to income statement on disposal	-	-	32	-	32
Amortisation of AFS securities reclassified to loans and receivables	-	-	6	-	6
Cash flow hedge reserve:					
Net change in fair value	-	-	-	(2)	(2)
Total other comprehensive income	-	(14)	(28)	(2)	(44)

Company	**31 December 2012**			31 December 2011		
	Revaluation reserve	**AFS reserve**	**Total**	Revaluation reserve	AFS reserve	Total
	€m	**€m**	**€m**	€m	€m	€m
Other comprehensive income (net of tax)						
Revaluation losses	**-**	**-**	**-**	(4)	-	(4)
AFS reserve:						
Change in value of AFS financial assets	**-**	**259**	**259**	-	(68)	(68)
AFS securities reserve transferred to income statement on disposal	**-**	**58**	**58**	-	32	32
Amortisation of AFS securities reclassified to loans and receivables	**-**	**3**	**3**	-	6	6
Total other comprehensive income	**-**	**320**	**320**	(4)	(30)	(34)

33. Authorised and issued share capital

Authorised share capital of the Company

	Number of shares		31 December 2012 €m		31 December 2011 €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

The Company has only one class of issued shares and as at 31 December 2012, it had 276,782,351 (31 December 2011: 276,782,351) ordinary shares in issue in that class.

The number of ordinary 32 cent fully paid up ordinary shares is as follows:

	2012 0.32 cent Ordinary shares	2011 0.32 cent Ordinary shares
Balance as at 1 January and at 31 December	**276,782,351**	276,782,351

In connection with a Group restructuring under which ptsbgh became the Group holding company, ptsb entered a Scheme of Arrangement during 2010. Pursuant to the Scheme of Arrangement, on 15 January 2010, 276,782,344 shares were cancelled in ptsb and on the same date ptsb issued 276,782,344 shares at par value in favour of ptsbgh for a non cash consideration.

34. Share-based payments

Share option schemes

ptsbgh operates three share option schemes in respect of ordinary shares of ptsbgh in which management and staff of the Group participate. Full details of the share option schemes are set out in the Directors' report on remuneration, some of which has been audited and forms part of the financial statements.

The total number of options outstanding are as follows:

		31 December 2012		
		Number of options		
Grant date	**Exercise price**	**Other employees**	**Key management**	**Total**
2002	**€11.99 and €14.85**	**-**	**-**	**-**
2003	**€9.68**	**351,699**	**52,907**	**404,606**
2004	**€13.21**	**455,560**	**31,524**	**487,084**
2008	**€10.38**	**119,290**	**79,424**	**198,714**
		926,549	**163,855**	**1,090,404**

		31 December 2011		
		Number of options		
Grant date	Exercise price	Other employees	Key management	Total
2002	€11.99 and €14.85	1,093,461	84,320	1,177,781
2003	€9.68	1,394,558	146,332	1,540,890
2004	€13.21	1,456,844	86,038	1,542,882
2008	€10.38	302,662	221,512	524,174
		4,247,525	538,202	4,785,727

Options are normally exercisable between 3 and 10 years from grant and expire 10 years after the date of grant. The total number of options outstanding at 31 December 2012 is equivalent to 0.00% of the issued share capital of ptsbgh (31 December 2011: 0.01%). Should the outstanding options be exercised at 31 December 2012, the total amount receivable on those options would be €12m (31 December 2011: €57m).

All options granted prior to 2008 have met their vesting conditions and are available to be exercised.

	Number of options		Weighted average exercise price	
	2012	2011	**2012**	2011
Outstanding as at 1 January	**4,785,727**	6,080,232	**€11.96**	€12.27
Lapsed during the year	**(1,108,103)**	(952,696)	**€14.10**	€13.85
Forfeited during the year	**(2,587,220)**	(341,809)	**€11.29**	€12.14
Outstanding at 31 December	**1,090,404**	4,785,727	**€11.38**	€11.96
Exercisable at 31 December	**1,090,404**	4,785,727		

There were no options issued in 2012 or 2011. As part of the sale of the sale of the Life Group to the Minister for Finance on 29 June 2012, the options granted to the employees of the Life Group were terminated and these are included in the forfeited during the year category in the above table.

The average share price of ptsbgh shares during the year was €0.03 (2011: €0.25). The share price during the year ranged from €0.02 to €0.05 (2011: €0.02 to €1.01).

The range of exercise prices for outstanding options at 31 December 2012 is €9.68 to €13.21 (31 December 2011: €9.68 to €14.85).

The weighted average contractual life of options outstanding at 31 December 2012 is 1.8 years (31 December 2011: 2.1 years).

The intrinsic value of options exercisable at 31 December 2012 is €nil (31 December 2011: €nil) where the intrinsic value is the difference between actual share price at 31 December 2012 €0.02 (31 December 2011: €0.02) and the option price.

There was no charge to the income statement in respect of equity-settled transactions in 2012.

The fair value of service received for share options granted is measured by reference to the fair value of share options granted. The value is estimated based on the Black-Scholes model adjusted for dividends.

In calculating the number of options which are expected to vest, the Group takes into account the service condition attaching to the options. Share options are granted under a non-market performance condition which is not taken into account in calculating the fair value at date of grant.

Long-term incentive plan

The Group previously operated a long-term incentive plan ("the plan") which provided for the delivery of conditional fully paid ordinary shares in ptsbgh to selected senior executives of the Group at no cost.

Conditional shares granted in 2006, 2007 and 2008 lapsed prior to 31 December 2011. The Remuneration and Compensation committee currently has no plans to operate this share-based long-term incentive plan in the future.

35. Analysis of equity and capital

The PCAR and PLAR carried out by the CBI in 2011 on the Group reported an additional capital requirement of €4bn for the Group. To meet this additional capital requirement, the Group had been progressing several initiatives including the sale of the Life Group.

Pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court on 28 March 2012 and the Share Repurchase Agreement signed on 29 June 2012, the Life Group was sold to the Minister for Finance for a consideration of €1.3bln on 29 June 2012. Therefore, the Life Group's net assets are excluded from Group shareholders' equity at 31 December 2012.

(A) Shareholders’ equity

The Group's equity is analysed as follows:

	31 December 2012 €m	31 December 2011 €m
Net assets - Banking Ireland	**3,004**	2,268
Net assets - Banking UK	**(167)**	(57)
Net assets - Life Group (discontinued)	**-**	1,377
Consolidation adjustments (note 3)	**-**	(71)
Total equity at 31 December	**2,837**	3,517

(B) Capital management

ptsb carries out the banking business activities of the Group and is regulated by the CBI 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, ptsb is the principal regulated entity. Prior to the sale of the Life Group, Irish Life Assurance plc, a subsidiary of the Life Group, was also a principal regulated entity of the Group.

The Group is required by the CBI to maintain adequate capital and is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements.

On 31 March 2011, the CBI 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 / EC 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 undue further reliance on Irish or European public sources.

The FMP identified a total gross capital requirement of €4bn for the Group’s banking business in order to: (i) achieve a Core Tier 1 Equity capital ratio of 6% plus an additional buffer in a stressed scenario by 31 December 2013; and (ii) cover losses associated with the requirement to deleverage the Bank’s statement of financial position in order to achieve a LDR of circa 122.5% by 31 December 2013. The LDR was 191% at 31 December 2012 (31 December 2011: 227%).

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 to be funded through the disposal of the Life Group. The sale of the Life Group to the Government for €1.3bn concluded on 29 June 2012 which resulted in the Group's capital requirement being achieved.

The management of capital within the Group is monitored by the Board Risk and Compliance Committee and the Assets and Liabilities Committee 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 the Group.

The following table summarises the composition of regulatory capital and the ratios of ptsb for the year as at 31 December 2012. They are calculated in accordance with Basel II regulatory capital requirements.

35. Analysis of equity and capital (continued)

	31 December 2012 €m	31 December 2011 €m
Tier 1 capital		
Share capital and share premium	**2,922**	2,922
Reserves	**(90)**	596
Prudential filters	**(101)**	223
Total qualifying Tier 1 capital	**2,731**	3,741
Tier 2 capital		
Subordinated liabilities	**234**	276
Revaluation reserve	**5**	-
Other	**72**	119
Total qualifying Tier 2 capital	**311**	395
Total qualifying Tier 1 and Tier 2 capital	**3,042**	4,136
Deductions		
Investment in Life Group	**-**	(1,307)
Other	**-**	(73)
Total deductions	**-**	(1,380)
Total own funds	**3,042**	2,756
Required capital as per European Capital Requirement Directive	**1,189**	1,233
Excess of total own funds over total required capital at 31 December	**1,853**	1,523

The following information has not been subject to review or audit by the independent auditor:

	31 December 2012	31 December 2011
Risk weighted assets	**€m**	€m
Total risk-weighted assets	**14,859**	15,408
Capital Ratios		
Core Tier 1 capital ratio	**18.0%**	16.7%
Total capital ratio	**20.5%**	17.9%

The total capital ratio is calculated and reported to the CBI on a monthly basis.
The percentage of Core Tier 1 capital is in excess of the CBI regulatory minimum of 10.5% effective at 31 December 2012.

The movement in the Bank's regulatory capital is summarised below:

	2012 €m	2011 €m
Balance as at 1 January	**2,756**	1,681
Operating losses after tax and corporate costs	**(999)**	(1,429)
Dividends received	**-**	165
Capital injection / convertible bonds	**-**	2,634
Sale of subsidiary undertaking - Life Group	**1,300**	-
Liquidation of subsidiary	**7**	-
Liability management exercise	**-**	(123)
Core deposit intangible deduction	**(7)**	(103)
Other movements*	**(15)**	(69)
Balance at 31 December	**3,042**	2,756

The sale of the Life Group released €1.3bn in capital to the Group.

*Other movements explained as follows

	31 December 2012 €m	31 December 2011 €m
Reductions in Tier 2 subordinated debt	**(42)**	-
IRB provisions excess	**(31)**	39
Elimination of the deduction for securitised exposures	**73**	-
Reduction in other own funds	**(15)**	(35)
Securitisation exposures not included in risk-weighted assets	**-**	(73)
	(15)	(69)

36. Measurement basis of financial assets and liabilities

The tables below analyse the carrying amounts of the financial assets and liabilities in respect of the Group and the Company by accounting treatment and by statement of financial position classification at 31 December 2012 and 31 December 2011. Discontinued operations are presented at 31 December 2011.

Group	31 December 2012								
	At fair value through profit or loss			At fair value through equity					
	Derivatives designated as fair value hedges	Held for trading	Designated upon initial recognition	Available for sale	Derivatives designated as cash flow hedges	Held to Maturity	Loans and receivables and liabilities /amortised cost	Fair value adjustment on hedged assets and liabilities*	Total
	€m	€m		€m	€m	€m	€m	€m	€m
Financial assets:									
Cash and balances with central banks (note 13)	-	-	-	-	-	-	71	-	71
Items in course of collection (note 13)	-	-	-	-	-	-	76	-	76
Debt securities (note 14)	-	-	-	2,922	-	876	3,029	-	6,827
Derivative assets (note 15)	159	53	-	-	-	-	-	-	212
Loans and receivables to banks (note 16)	-	-	-	-	-	-	1,396	-	1,396
Loans and receivables to customers (note 17)	-	-	-	-	-	-	31,702	56	31,758
Total financial assets	159	53	-	2,922	-	876	36,274	56	40,340
Financial liabilities:									
Deposits by banks (including central banks) (note 24)	-	-	-	-	-	-	13,827	-	13,827
Customer accounts (note 25)	-	-	-	-	-	-	16,639	-	16,639
Debt securities in issue (note 26)	-	-	-	-	-	-	6,374	131	6,505
Derivative liabilities (note 15)	214	27	120	-	-	-	-	-	361
Subordinated liabilities (note 30)	-	-	-	-	-	-	334	3	337
Total financial liabilities	214	27	120	-	-	-	37,174	134	37,669

36. Measurement basis of financial assets and liabilities (continued)

Group	31 December 2011								
	At fair value through profit or loss			At fair value through equity					
	Derivatives designated as fair value hedges	Held for trading	Designated upon initial recognition	Available for sale	Derivatives designated as cash flow hedges	Held to Maturity	Loans and receivables and liabilities /amortised cost	Fair value adjustment on hedged assets and liabilities*	Total
	€m	€m		€m	€m	€m	€m	€m	€m
Financial assets:									
Cash and balances with central banks (note 13)	-	-	-	-	-	-	88	-	88
Items in course of collection (note 13)	-	-	-	-	-	-	109	-	109
Debt securities (note 14)	-	-	-	2,212	-	845	3,600	-	6,657
Derivative assets (note 15)	214	24	9	-	-	-	-	-	247
Loans and receivables to banks (note 16)	-	-	-	-	-	-	1,623	-	1,623
Loans and receivables to customers (note 17)	-	-	-	-	-	-	33,605	72	33,677
Assets classified as held for sale (note 5(b))	-	-	-	-	-	-	56	-	56
Total financial assets	214	24	9	2,212	-	845	39,081	72	42,457
Financial liabilities:									
Deposits by banks (including central banks) (note 24)	-	-	-	-	-	-	16,966	-	16,966
Customer accounts (note 25)	-	-	-	-	-	-	14,373	-	14,373
Debt securities in issue (note 26)	-	-	-	-	-	-	8,198	158	8,356
Derivative liabilities (note 15)	159	75	64	-	2	-	-	-	300
Subordinated liabilities (note 30)	-	-	-	-	-	-	315	2	317
Total financial liabilities	159	75	64	-	2	-	39,852	160	40,312

*Financial assets and liabilities that are part of a hedging relationship are carried at amortised cost adjusted for changes in the fair value of the hedged risk.

36. Measurement basis of financial assets and liabilities (continued)

Discontinued operations

Discontinued operations consisted of the Life Group which was sold to the Minister for Finance on 29 June 2012. Therefore, no balances remain in the Group's statement of financial position in respect of the Life Group at 31 December 2012. Information provided herein for the discontinued operations are for comparative purposes only. Further details are included in note 4 and note 5.

	31 December 2011				
	At fair value through profit or loss				
	Held for trading**	Designated upon initial recognition	Loans and receivables and liabilities /amortised cost	Investment contract liabilities ***	Total
	€m	€m	€m	€m	€m
Financial assets:					
Cash and balances with central banks	-	-	94	-	94
Debt securities	-	7,510	-	-	7,510
Equity shares and units in unit trusts	-	11,792	-	-	11,792
Derivative assets	791	-	-	-	791
Loans and receivables to banks	-	3,446	-	-	3,446
Total financial assets	791	22,748	94	-	23,633
Financial liabilities:					
Deposits by banks (including central banks)	-	-	212	-	212
Derivative liabilities	109	-	-	-	109
Investment contract liabilities	-	-	-	22,153	22,153
Subordinated liabilities	-	-	213	-	213
Total financial liabilities	109	-	425	22,153	22,687

**Included in held-for-trading assets category at 31 December 2011 of €791m was €766m held for the benefit of policyholders and to match tracker bond liabilities.

***Investment contract liabilities are backed by assets attributable to the Life Group including assets which are carried at FVTPL.

36. Measurement basis of financial assets and liabilities (continued)

Company

	31 December 2012							
	At fair value through profit or loss			At fair value through equity				
	Derivatives designated as fair value hedges	Held for trading	Designated upon initial recognition	Available for sale	Held to Maturity	Loans and receivables and liabilities /amortised cost	Fair value adjustment on hedged assets and liabilities*	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets:								
Cash and balances with central banks (note 13)	-	-	-	-	-	70	-	70
Items in course of collection (note 13)	-	-	-	-	-	76	-	76
Debt securities (note 14)	-	-	-	2,923	876	8,550	-	12,349
Derivative assets (note 15)	159	53	95	-	-	-	-	307
Loans and receivables to banks (note 16)	-	-	-	-	-	967	-	967
Loans and receivables to customers (note 17)	-	-	-	-	-	26,150	56	26,206
Total financial assets	159	53	95	2,923	876	35,813	56	39,975
Financial liabilities:								
Deposits by banks (including central banks) (note 24)	-	-	-	-	-	13,723	-	13,723
Customer accounts (note 25)	-	-	-	-	-	16,760	-	16,760
Debt securities in issue (note 26)	-	-	-	-	-	6,376	131	6,507
Derivative liabilities (note 15)	214	27	120	-	-	-	-	361
Subordinated liabilities (note 30)	-	-	-	-	-	334	3	337
Total financial liabilities	214	27	120	-	-	37,193	134	37,688

36. Measurement basis of financial assets and liabilities (continued)

Company	31 December 2011							
	At fair value through profit or loss			At fair value through equity				
	Derivatives designated as fair value hedges	Held for trading	Designated upon initial recognition	Available for sale	Held to Maturity	Loans and receivables and liabilities /amortised cost	Fair value adjustment on hedged assets and liabilities*	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets:								
Cash and balances with central banks (note 13)	-	-	-	-	-	87	-	87
Items in course of collection (note 13)	-	-	-	-	-	98	-	98
Debt securities (note 14)	-	-	-	2,220	845	8,624	-	11,689
Derivative assets (note 15)	214	24	20	-	-	-	-	258
Loans and receivables to banks (note 16)	-	-	-	-	-	1,187	-	1,187
Loans and receivables to customers (note 17)	-	-	-	-	-	33,376	72	33,448
Total financial assets	214	24	20	2,220	845	43,372	72	46,767
Financial liabilities:								
Deposits by banks (including central banks) (note 24)	-	-	-	-	-	16,943	-	16,943
Customer accounts (note 25)	-	-	-	-	-	20,177	-	20,177
Debt securities in issue (note 26)	-	-	-	-	-	7,246	158	7,404
Derivative liabilities (note 15)	159	75	64	-	-	-	-	298
Subordinated liabilities (note 30)	-	-	-	-	-	315	2	317
Total financial liabilities	159	75	64	-	-	44,681	160	45,139

*Financial assets and liabilities that are part of a hedging relationship are carried at amortised cost adjusted for changes in the fair value of the hedged risk.

37. Fair value of financial instruments

The Group's accounting policy on valuation of financial instruments is described in note 1. The fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, in an arms length transaction between knowledgeable willing parties. Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation methodologies as outlined below. These techniques are subjective in nature and 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. Furthermore, minor changes in the assumptions used could have a significant impact on the resulting estimated fair values and as a result, readers of these financial statements are advised to use caution when using this data to evaluate the Group's financial position.

The table below analyses the fair value of financial assets and liabilities for continuing operations as at 31 December 2012 and continuing and discontinued operations as at 31 December 2011. Discontinued operations consisted of the Life Group which was sold to the Minister for Finance on 29 June 2012. Therefore, no balances remain in the Group's statement of financial position in respect of the Life Group. Information provided herein for the discontinued operations is for comparative purposes only.

Group			31 December 2011			
	31 December 2012		Continuing operations		Discontinued operations	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
	€m	**€m**	€m	€m	€m	€m
Financial assets:						
Cash and balances with central banks (note 13)	**71**	**71**	88	88	94	94
Items in course of collection (note 13)	**76**	**76**	109	109	-	-
Debt securities (note 14)	**6,828**	**6,970**	6,658	6,426	7,510	7,510
Equity shares and units in unit trusts (note 5(a))	**-**	**-**	-	-	11,792	11,792
Derivative assets (note 15)	**212**	**212**	247	247	791	791
Loans and receivables to banks (note 16)	**1,396**	**1,396**	1,623	1,623	3,446	3,446
Loans and receivables to customers (note 17)	**31,758**	**24,290**	33,677	24,952	-	-
Assets classified as held for sale (note 5(b))	-	-	56	56	-	-
Financial liabilities:						
Deposits by banks (including central banks) (note 24)	**13,827**	**13,881**	16,966	17,002	212	212
Customer accounts (note 25)	**16,639**	**16,699**	14,373	14,373	-	-
Debt securities in issue (note 26)	**6,505**	**6,058**	8,356	6,067	-	-
Derivative liabilities (note 15)	**361**	**361**	300	300	109	109
Investment contract liabilities (note 5(a))	**-**	**-**	-	-	22,153	22,153
Subordinated liabilities (note 30)	**337**	**434**	317	306	213	213

Company	**31 December 2012**		31 December 2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	€m	**€m**	€m	€m
Financial assets:				
Cash and balances with central banks (note 13)	**70**	**70**	87	87
Items in course of collection (note 13)	**76**	**76**	98	98
Debt securities (note 14)	**12,350**	**11,734**	11,690	9,753
Derivative assets (note 15)	**307**	**307**	258	258
Loans and receivables to banks (note 16)	**967**	**967**	1,187	1,187
Loans and receivables to customers (note 17)	**26,206**	**18,372**	33,448	24,891
Financial liabilities:				
Deposits by banks (including central banks) (note 24)	**13,723**	**13,777**	16,943	16,979
Customer accounts (note 25)	**16,760**	**16,826**	20,177	20,177
Debt securities in issue (note 26)	**6,507**	**5,930**	7,404	5,407
Derivative liabilities (note 15)	**361**	**361**	298	298
Subordinated liabilities (note 30)	**337**	**434**	317	306

The volatility in financial markets and the illiquidity that is evident in these markets creates a difficulty in determining the fair value of certain assets and liabilities.

37. Fair value of financial instruments (continued)

Fair Value Hierarchy

In accordance with IFRS 7 Financial Instruments: Disclosures, the Group has adopted the fair value hierarchy classification of financial instruments. This requires the Group to classify its financial instruments held at fair value according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments. The three levels of the fair value hierarchy as defined by the accounting standard are outlined below:

Level 1: fair value measurements derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements derived from valuation techniques that include inputs for the asset and liability that are based on unobservable market data.

The valuation methodologies for calculating the fair value of financial instruments are 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 receivables to banks

Loans and receivables to banks have been treated as cash and cash equivalents for the purposes of fair value valuation as they 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 receivables to customers

The Group has used a discounted cash flow valuation model to arrive at a fair value for the loans and receivables to customers. The absence of market data leads to difficulties in calibrating the model used. The model used at 31 December 2012 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 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 €1.6bn.

Debt securities (excluding NAMA bonds)

Included in debt securities at 31 December 2012 are €2,923m (31 December 2011: €2,213m) of AFS, €876m (31 December 2011: €845m) of HTM and €3,029m (31 December 2011: €3,600m) of loans and receivables which mainly consist of NAMA bonds. Further analysis of NAMA bonds is provided below. AFS, HTM and the residual loans and receivables debt values are derived from observable market data through independent pricing sources. At 31 December 2011 €10m of AFS were classified as level 3 in the fair value hierarchy below. At 31 December 2012, all of the AFS debt securities are classified as level 1. The fair value of level 3 instruments is based on an external asset pricing tool from a recognised market source. This tool incorporates both market observable and unobservable data. Significant inputs include current and historical market prices of these instruments, the current and historical prices of similar instruments and price estimates from indirect pricing models.

Debt securities - Loans and receivables (NAMA senior bonds)

Included in the debt securities loans and receivables of €3bn are €2.4bn 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 a market prices not being available then valuation techniques and management judgement is used in arriving at the fair value of these securities. The valuation techniques used in arriving at the fair value include, analysing available market data, yield on Irish Government bonds of similar maturity and expected cashflows from these securities.

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 of €212m (31 December 2011: €247m) and derivative liabilities of €361m (31 December 2011: €300m) 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.

Derivative Assets of €95m for the Company (31 December 2011: €11m) have been classified as Level 3 in the fair value hierarchy below. Valuations for these swaps are obtained from third party brokers who use valuation techniques that include inputs for the asset and liability that are based on unobservable market data.

Deposits by banks / customer accounts

The estimated fair value of current accounts and deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed-interest bearing deposits and other borrowings 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 Group calculated the fair value of the debt securities in issue and the subordinated liabilities 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.

37. Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position

This fair value hierarchy has been applied to all of the financial instruments that are measured at fair value in the statement of financial position. Categorisation of these financial instruments according to the fair value hierarchy is included below as at year end.

Financial instruments measured at fair value

Group	**31 December 2012**				31 December 2011			
	Quoted market prices Level 1	**Valuation techniques using observable market data Level 2**	**Valuation techniques using unobservable market data Level 3**	**Total**	Quoted market prices Level 1	Valuation techniques using observable market data Level 2	Valuation techniques using unobservable market data Level 3	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Financial assets								
Debt securities								
AFS (note 14)	**2,923**	**-**	**-**	**2,923**	2,203	-	10	2,213
Derivative assets (note 15)	**-**	**212**	**-**	**212**	-	247	-	247
Financial liabilities								
Derivative liabilities (note 15)	**-**	**361**	**-**	**361**	-	300	-	300

Company	**31 December 2012**				31 December 2011			
	Quoted market prices Level 1	**Valuation techniques using observable market data Level 2**	**Valuation techniques using unobservable market data Level 3**	**Total**	Quoted market prices Level 1	Valuation techniques using observable market data Level 2	Valuation techniques using unobservable market data Level 3	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Financial assets								
Debt securities								
AFS (note 14)	**2,923**	**-**	**-**	**2,923**	2,210	-	10	2,220
Derivative assets (note 15)	**-**	**212**	**95**	**307**	-	247	11	258
Financial liabilities								
Derivative liabilities (note 15)	**-**	**361**	**-**	**361**	-	298	-	298

Reconciliation of level 3 fair value measurements of financial assets

Group	**2012 Debt securities AFS**	2011 Debt securities AFS
	€m	€m
1 January	**10**	22
Disposals	**(10)**	(12)
31 December	**-**	10
There were no gains or losses included in the income statement for these assets during 2011 or 2012.		
- Net interest income	**-**	-

Company	**2012**			2011		
	Debt securities AFS	**Derivative assets**	**Total**	Debt securities AFS	Derivative assets	Total
	€m	**€m**	**€m**	€m	€m	€m
1 January	**10**	**11**	**21**	22	21	43
Total gains or losses - in income statement	**-**	**-**	**-**			
- Other comprehensive income	**-**	**84**	**84**	-	(10)	(10)
Disposals	**(10)**	**-**	**(10)**	(12)	-	(12)
31 December	**-**	**95**	**95**	10	11	21
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year.						
- Net interest income	**-**	**-**	**-**	**-**	10	10

37. Fair value of financial instruments (continued)

Sensitivity analysis of level 3 fair value measurements

At 31 December 2011, financial instruments classified as level 3 amounted to €10m AFS debt securities.

Debt securities - AFS

At 31 December 2011, zero-coupon corporate bonds of €10m which were classified as level 3 were held to match certain zero coupon deposits. The fair value of these debt securities is sensitive to changes in the underlying assumptions (nominal yields and credit spreads). The following table shows the sensitivity of the fair value of these debt securities to a +1% / -1% movement in the assumptions respectively:

Group	31 December 2012		31 December 2011	
	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Reflected in other comprehensive income	€m	€m	€m	€m
Debt securities AFS				
- Nominal yields	-	-	0.1	(0.1)
- Credit spreads	-	-	0.1	(0.1)

Company

The Company has entered into a series of interest rate swaps of €95m which have been classified as level 3 as the valuations for these swaps are obtained from third party brokers that include inputs that are unobservable market data. The following table shows the sensitivity of the fair value of these instruments to a +1% / -1% movement in the key interest rate assumptions:

	2012		2011	
	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Reflected in income statement	€m	€m	€m	€m
Debt securities AFS				
- Nominal yields	-	-	0.1	(0.1)
- Credit spreads	-	-	0.1	(0.1)
Derivative assets				
- Interest Rates	25.4	(26.3)	2.8	(2.8)

Discontinued operations (Life Group comparatives only)

Derivative assets and liabilities

CPPI products amounted to €688m at 31 December 2011.

These instruments were classified as level 2 in the fair value hierarchy below. Valuations were obtained from a third party broker who extracts the valuation from their proprietary model. This used a standard option pricing model comprising Monte-Carlo simulation and discounted cash flows. Significant inputs included volatility of returns, risk-free discount rate and expected returns.

Options used in tracker products amounted to €38m at 31 December 2011.

These options were classified as level 3 in the fair value hierarchy below. These options were valued by a third party broker based on a valuation model incorporating proprietary inputs, some of which were market unobservable data.

Debt securities at fair value through profit or loss (FVTPL)

The fair values of debt securities in an active market were based on quoted market prices. Debt securities in inactive markets were 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, credit spreads and forward foreign exchange rates.

The bulk of debt securities valuations were sourced from quoted market prices. Management review the source of the market prices, the liquidity of the security, the credit risk and recent market history to assess the reasonableness of the valuations.

The significant categories of debt securities where fair value valuations are not obtained using quoted market prices are as follows:

(a) Zero coupon bonds amounted to €81m at 31 December 2011.
These bonds were classified as level 2 in the fair value hierarchy below. Valuations were determined by a discounted cash flow model produced by a third party system. Model inputs include bond cash flows, interest rates and term to maturity, all of which were market observable data.

(b) French government strip bonds amounted to €642m at 31 December 2011.
These bonds were classified as level 2 in the fair value hierarchy below. Valuations were obtained from a third party broker who extracts the valuation from their proprietary model. Model inputs include bond cash flow, interest rates and credit spreads which were market observable data.

(c) Housing finance agency inflation-linked bond amounted to €44m at 31 December 2011.
These bonds were classified as level 2 in the fair value hierarchy below. Valuations were obtained from a third party broker market maker. The broker considers interest rates, credit spreads and inflation expectations in arriving at their quote.

(d) European investment bank inflation-linked notes amounted to €453m at 31 December 2011.
These notes were classified as level 3 in the fair value hierarchy below. Valuations were obtained from an external broker using a valuation technique incorporating significant inputs, some of which were market unobservable data. Such inputs include a discount to reflect the lack of liquidity in the market for these instruments.

37. Fair value of financial instruments (continued)

Equity shares and units in unit trusts
The fair value of quoted equities were based on quoted market price sourced from external pricing services where securities are traded on a recognised exchange. Equity investments valued using quoted market prices totalled €11,431m out of a total balance of €11,792m as at 31 December 2011.

The net asset value ("NAV") based on the underlying fair value of the investments of the unit trusts and funds, as reported by the investment managers has been used as the basis for determining the fair value of the Group's interest in unit trusts and funds.

Therefore, units in unlisted unit trusts and unlisted investment funds were valued using the latest price or valuation issued by unit trust and fund managers. Each unit trust price is reviewed by management to assess the reasonableness of the price. Management considers the illiquidity and pricing basis of any underlying assets, any restrictions on redemptions put in place by the unit trust and fund managers and evidence of trading taking place at the issued price. If appropriate the latest price or valuation issued by the unit trust and fund managers is adjusted to reflect the illiquidity or latest valuations of underlying assets.

The significant categories of equity shares and units in unit trusts where fair value valuations were not obtained using quoted market prices are as follows:

(a) Units in unit trusts that are not priced or traded on a daily basis amounted to €113m at 31 December 2011.
(b) Units held in a property unit trust amounted to €189m at 31 December 2011.
These units were classified as level 2 in the fair value hierarchy below since the units were priced and traded by the investment manager on a monthly basis.
(c) Unlisted shares held in private companies amounted to €21m at 31 December 2011.
These shares are classified as level 3 in the fair value hierarchy below. These valuations were prepared internally using the most recently available financial information for these companies, which were market unobservable data. The unlisted shares included the Group's shareholding in National Asset Management Agency Investment Limited ("NAMAIL"). The valuation of these shares were based on external valuations discounted for the illiquid nature of these shares.

Financial instruments measured at fair value	31 December 2011			
	Quoted market prices Level 1	Valuation techniques using observable market data Level 2	Valuation techniques using unobservable market data Level 3	Total
	€m	€m	€m	€m
Financial assets				
Debt securities				
At fair value through profit and loss (FVTPL)	6,258	799	453	7,510
Equity shares and units in unit trusts	11,431	340	21	11,792
Derivative assets	35	718	38	791
Financial liabilities				
Derivative liabilities	5	104	-	109
Investment contract liabilities *	-	22,153	-	22,153

* Investment contract liabilities are backed by assets attributable to the Life Group including assets which are carried at FVTPL which are measured at quoted market prices and valuation techniques using observable market data.

Reconciliation of level 3 fair value measurements of financial assets	31 December 2011				
	Debt securities at FVTPL	Equity shares and units in unit trusts	Assets held for sale Equity shares and units in unit trusts	Derivative assets	Total
	€m	€m	€m	€m	€m
Opening balance	452	36	64	56	608
Total gains or losses - in income statement					
- Investment return	88	(11)	-	(32)	45
Sales	(87)	(5)	-	(2)	(94)
Purchases	-	1	-	16	17
Disposals	-	-	(64)	-	(64)
	453	21	-	38	512
Total gains or losses for the year included in income statement for assets held at the end of the reporting year.					
- Investment return	71	(11)	-	(22)	38

37. Fair value of financial instruments (continued)

Sensitivity analysis of level 3 fair value measurements (non unit-linked funds)

At 31 December 2011, financial instruments classified as level 3 amounted to €10m debt securities and €31m equity shares.

Debt securities at fair value through profit or loss (FVTPL)

For European investment bank inflation-linked notes not held within unit-linked funds of €31m at 31 December 2011 and the fair value of such notes are sensitive to changes in the underlying assumptions (inflation expectations, nominal yields and credit spreads). The following table shows the sensitivity of the fair value of these notes to a +1% / -1% movement in the assumptions respectively as at year end:

Reflected in income statement	31 December 2011	
	Favourable change	Unfavourable change
	€m	€m
Debt securities at FVTPL		
- Inflation expectations	8	(6)
- Nominal yields	6	(5)
- Credit spreads	6	(5)

Equity shares and units in unit trusts

The equity shares classified as level 3 include €10m at 31 December 2011 that relate to the Life Group's shareholding in NAMAIL. Valuations of these shares were based on external valuations discounted for the illiquid nature of these shares and possible alternative assumptions would not have a material impact on the valuations.

Sensitivity analysis of level 3 fair value measurements (unit-linked funds)

Financial instruments classified as level 3 included €471m at 31 December 2011 of debt securities, equity shares and units in unit trusts and derivative assets, which were held within unit-linked funds in respect of the Life Group. For unit-linked funds, any fair value changes in unit-linked assets were matched by changes in unit-linked liabilities.

Debt securities at fair value through profit or loss (FVTPL)

For European Investment Bank inflation linked notes held within the unit linked funds of €422m at 31 December 2011, the valuations were obtained from the external broker who is the principal market maker for these instruments. All inputs to the valuation were market observable. Hence, the fair value of such notes is sensitive to changes in the underlying assumptions (inflation expectations, nominal yields and credit spreads). The details of the sensitivity are set out below. As these are unit linked assets there is no impact on the income statement of the overall Group for a change in the underlying assumptions.

- A 1% favourable / unfavourable move in the inflation expectations would have had a valuation effect of €82m / (€107m) at 31 December 2011 on unit-linked assets and liabilities and no impact on shareholder values.
- A 1% favourable / unfavourable move in credit spreads would have had a valuation effect of €119m / (€90m) at 31 December 2011 on unit-linked assets and liabilities and no impact on shareholder values.
- A 1% favourable / unfavourable move in nominal yields would have had a valuation effect of €119m / (€90m) at 31 December 2011 on unit-linked assets and liabilities and no impact on shareholder values.

Equity shares and units in unit trusts

The equity shares classified as level 3 included €11m at 31 December 2011 held in unit-linked wrapper funds. Valuations were based on the most recently available financial information for these companies and possible alternative assumptions would not have had a material impact on the valuations.

Derivative assets

Derivatives classified in level 3 of €38m at 31 December 2011 were in respect of options used in tracker products. The valuations were obtained from a third party broker who values the options using a model with proprietary inputs. The brokers provide regular valuations throughout the year. Historically trades have been executed at values very close to the most recent valuation quote. Therefore, the directors do not believe that alternative assumptions give a reasonable alternative valuation, although future equity growth would impact the value of the derivatives.

38. Financial risk management

Risk management framework

The Board of Directors approves overall policy in relation to the types and levels of risk that the Group is permitted to assume in the implementation of its strategic and business plans. The Group Board established a Board committee, the Board Risk and Compliance Committee ("BRCC"), to provide oversight and advice to the Group Board on risk governance, and to support the Group 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 has responsibility for oversight and advice to the Board 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 throughout the Group of a supportive culture in relation to the management of risk. 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 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 Assets & Liabilities Committee. The terms of reference for each committee, whose members include members of Senior Management, are reviewed regularly by the BRCC.

The Group risk identification and assessment process identifies the following risks as being material to the operations of ptsb.

1. Credit risk
2. Liquidity risk
3. Market risk (including interest rate risk)
4. Operational risk
5. Insurance risk - discontinued operations (comparatives only)

The Group’s approach to management of these risks is set out in the following pages.

The key financial risks arise in the underlying subsidiary companies of the Group. For 2012, all of the Directors of ptsb except one Non Executive Director are also Directors on the Board of ptsbgh. In addition, they have representation on the Boards of ptsbf and CHL, its key subsidiary companies. This allows the Directors to monitor the key risks and controls in the underlying subsidiaries.

Discontinued operations
Discontinued operations consisted of the Life Group which was sold on 29 June 2012. Therefore, no balances remain in the Group's statement of financial position in respect of the Life Group at 31 December 2012. Information provided herein for the discontinued operations are for comparative purposes only. Further details are included in notes 4 and 5.

The Life Group's risk management process was managed by Life Group's Assets and Liabilities Committee along with other Group Committees whose members included members of Group Senior Management and the terms of reference for these committees were regularly reviewed by the BRCC.

1. Credit risk
Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor’s failure to meet the terms of any contract with the Group or its failure to perform as agreed.

The Group maintains detailed credit policies for each business unit which outlines relevant conditions under which a loan can be made. Credit policies establish coherent limit systems for credit risk. The various limit structures in place create a credit risk ceiling. Limit structures are in place to manage credit default risk, concentration risk, settlement risk and counterparty risk, as described below. For the Group, this risk can be categorised into:

(a) Credit default risk
(b) Concentration risk
(c) Securitisation risk
(d) Settlement risk
(e) Reinsurance counterparty risk - discontinued operations (comparatives only)

(a) Credit default risk - The potential for loss occasioned by the counterparty's inability or lack of willingness to pay.
A robust management process is in place to ensure that credit risk taken on is in line with Group risk appetite and that effective credit risk measurement takes place across the Group.

Measurement and internal ratings
The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the Group is exposed, from the level of individual facilities up to the total portfolio for all financial assets excluding derivatives whose credit risk is managed separately as outlined below. Integral to this is the use of an internal ratings system as part of the Group's Internal Risk Based Approach ("IRBA"). This system is comprised of three elements – probability of default, exposure at default and loss given default – which are listed and explained below. These parameters are fundamental in assessing credit quality of loan exposures, with variants of these used for the calculation of regulatory and economic capital. The key building blocks of this process are as below:

- Probability of default ("PD") – the likelihood of a borrower being unable to repay or make repayments on his / her outstanding obligations;
- Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his obligations, at the point of default; and
- Loss given default ("LGD") – the loss associated with a defaulted loan or borrower.

38. Financial risk management (continued)

Credit default risk represents the most significant element of credit risk for the Group. The Group capitalises for credit default risk using the key risk parameters of PD, LGD and EAD. These parameters are utilised to calculate expected loss (“EL”) and a stand-alone unexpected loss figure at a credit risk sub-portfolio level. The stand-alone unexpected loss can then be converted to a sub-portfolio unexpected loss contribution which generates required economic capital. Expected losses should be covered by the normal business operating profits but unexpected losses are by definition rare and of significant impact, necessitating the setting aside of a capital cushion.

Use of PD, LGD and EAD within credit risk management processes
The Group uses an internal ratings based ("IRB") approach to calculate the risk weighted assets ("RWA") for all of its retail asset class portfolios which are mainly structured repayment facilities (mortgages, term loans, hire purchase and leasing agreements). As detailed in the capital requirement directive ("CRD"), this approach measures credit risk using a mathematical function which is driven by the Group’s own estimates of PD, LGD and credit conversion factors ("CCF") for all of its retail asset class exposures. In respect of corporate asset class exposures (including the Group's larger exposures to commercial and larger residential investment properties), the Group’s own estimates of PD are used and the LGD and CCF are taken directly from the CRD. Credit conversion factor refers to "undrawn" amounts in the consumer finance portfolio.

Probability of default ("PD")
Internal ratings are assigned as part of the credit approval process. The consistency and transparency of the internal ratings are ensured by the use of rating models. A rating model is a set of specified and distinct rating criteria, which assigns a grade on the basis of a set of characteristics or attributes associated with an exposure.

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.

Scorecard output is used as part of a calibration process to determine a PD percentage for each exposure. In doing so, exposures have been calibrated to one-year default rates that are applicable for each segment based on the CRD definition of default i.e. >90 days etc. The one-year default rates used in this calibration process have been adjusted to ensure they cater for the long-run.

With regard to the Group’s treasury exposures, External Credit Assessment Institutions ("ECAI") grades are used in tandem with other relevant factors in the ratings assignment process.

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 CRD’s 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 gradings 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 impaired and unimpaired greater than 90 days past due.

Loss given default ("LGD")
As a means of meeting the CRD requirements with regard to LGD the Group makes use of the “workout” approach to LGD estimation for all retail IRB portfolios. It is used for each of the Group’s key retail portfolios including residential mortgages.

The process splits into two key areas: estimation of ‘realised’ LGD at pool level and the calibration of pools to meet the downturn requirements set out in the CRD. Therefore, as part of the estimation process, realised LGD is worked out based on the discounted realised recoveries and associated discounted costs for all observed defaults in the dataset. Having identified relevant drivers of loss, exposures are placed into 'pools' and realised LGD is estimated for each pool. The second step sees the calibration of each pool to appropriate downturn conditions.

In relation to non-retail portfolios mainly sovereign, institutional and corporate exposures, the given LGD values set out in the CRD in relation to Foundation Internal Ratings Based Approach ("FIRB") firms are applied.

38. Financial risk management (continued)

Validation of estimates
The Group has established an internal validation process in accordance with CRD and regulatory requirements to ensure that the rating systems in place for PD and LGD remain robust and appropriate for the relevant IRB portfolios.

The validation unit has a direct reporting line to the Chief Risk Officer independent of the Group's operational reporting structure and the head of the validation unit also has the ability to directly raise any matters of concern at the executive oversight group for the Group's internal rating systems (the Credit Risk Models committee, which is charied by the Chief Risk Officer).

The validation unit carries out two principal activities, namely annual reviews (periodic validation) and reviews of new enhancements (initial validation).

On an annual basis each of the Group's internal rating systems is subjected to a periodic validation which involves a comprehensive review of the rating system including model performance, back testing, business use of the models and data quality. All enhancements or new developments are subjected to initial validation which ensures the suitability of the methodologies used to develop the rating systems, improvements in model performance where enhancements have been made and compliance with CRD requirements. No enhancement to the Group's internal rating system is permitted to go live unless it receives a recommendation for approval from the Group's validation unit and is approved in accordance with the Group's IRB approach governance process outlined earlier.

The results of both the annual rating system periodic validations and any initial validation reviews carried out as necessary in relation to enhancements are reported on a regular basis to the Credit Risk Models Committee which is a sub committee of the Group Credit Committee. The validations performed during 2012 show that the ratings systems within the Group are meeting their overall requirements with any enhancements scheduled to be implemented.

The activities of the validation unit are subject to review on a yearly basis by Group Internal Audit.

Use of PD, LGD and EAD within impairment provisioning process in accordance with IAS 39
The parameters outlined above are utilised in selecting the Group's provisioning approach and applying loss rates, particularly in collective & IBNR provisioning. The Group is cognisant of the outputs from its risk metrics / internal rating systems and management use the outputs to inform its provisioning process.

In calibrating the regulatory capital parameters of PD, LGD and EAD for use in the impairment provisioning calculation some adjustments are required. The 1 year PD in the regulatory capital calculation needs to be adjusted to the emergence period selected in impairment provisioning. The LGD in the regulatory capital calculation contains a downturn adjustment which is not permitted in impairment provisioning under IAS 39 incurred loss approach. Overall, the impairment approach is required to measure only incurred loss whereas regulatory capital calculations are calibrated to capture both expected and unexpected loss.

Derivative assets
Credit default risk also arises on non-traded / over-the-counter derivative exposures since the Group is exposed to the risk of the counterparty defaulting prior to the maturity of "in-the-money" products, thereby necessitating replacement of the contract at applicable market rates. To manage this risk, counterparty limits are maintained in the Group's investment accounting system, and specialist Risk Management and Compliance teams undertake regular independent monitoring of counterparty exposure against limits. All breaches of counterparty limits are notified to the ALCO.

In the case of most counterparties, to avoid a build-up of exposure on derivatives, the Group uses a credit support annex ("CSA"), which is an addendum to the bi-lateral ISDA Agreement with a counterparty, and which requires daily settlement of mark to market values of outstanding derivative deals.

(b) Concentration risk - The risk that any single (direct and / or indirect) exposure or group of exposures has the potential to produce losses large enough to threaten the institution's health or its ability to maintain its core business.

The Group risk appetite statement explicitly outlines limits for lending and non-lending concentration that will be tolerated by the Group and its position against these limits is monitored on a regular basis by the Group Credit Committee, the BRCC and the Board.

The Group's lending strategy in Ireland is not targeted at any particular geographic locations and should, in the ordinary course, be spread throughout the country proportional to local economic activity.

(c) Securitisation risk - The risk of loss associated with buying or selling asset-backed securities.
Securitisation risk occurs when issuing mortgage-backed securities as a risk transfer or funding device. Securitisation risk is minimised through the use of "standard" (as opposed to exotic) securitisation structures, the use of only high- quality counterparties to perform the structuring, and oversight and governance provided by appropriately qualified and experienced external and internal parties.

Monitoring of securitisation risk within the Group principally occurs through three processes:

(a) A review of the mortgage pool to be used in the securitisation including checking the pool is appropriately homogeneous by reference to time in arrears and loan-to-value ("LTV") amongst other parameters;
(b) A review of the internal securitisation process following the execution of a transaction allowing the process to be improved in terms of efficiency and risk reduction; and
(c) Monthly monitoring of the underlying mortgage pool performance following the transaction.

High quality counterparties to securitisation structuring are chosen from a panel of suitable counterparties after consideration of selection parameters such as:

- Recent securitisation activity and performance;
- Presence of an ongoing successful relationship with ptsb; and
- Position in relevant industry league tables.

38. Financial risk management (continued)

(d) Settlement risk - The risk that the Group delivers a sold asset or cash to a counterparty and then does not receive the cash or purchased asset as expected.

The Group is involved in a limited volume of trading that could give rise to such a risk, and thus this risk is limited in the Group context. Robust management controls are in place including established counterparty limits. The potential risk is also limited by a restriction on entering into trades with only counterparties with an A- credit rating or higher from the middle rating of Standard & Poor's, Moody's and Fitch ratings, as first notched down on the ratings table where one or more defined risk factors are observed; and the addition of a further risk factor to the marked to market exposure, depending on the complexity of the contract traded and the tenure.

(e) Reinsurance counterparty risk - The risk associated with losses arising from a reinsurance counterparty being unable to honour reinsurance claims, which occurs in the Life Group.

Reinsurance counterparty risk is managed through the Group's reinsurance strategy. The reinsurance strategy is established by the Life Assurance Assets and Liabilities Committee and approved by the Irish Life Assurance plc Board.

The Group regularly reviews the financial security of its reinsurance companies. Where the reinsurance arrangement involves asset accumulation on the part of the reinsurance company, these companies have a Moody’s rating of at least A. Other limits are set with reference to premium income, assets and shareholder capital of the reinsurance company.

Credit risk mitigation

The credit policy includes guidelines on the acceptability of specific classes of collateral or risk mitigation. The principal collateral types for loans and receivables are mortgages over residential properties, charges over business assets and guarantees. Independent valuations of collateral are assessed at the time of borrowing and are generally updated when a loan is individually assessed as impaired.

The Group has a concentration of credit risk in retail mortgages which reflects the Group’s strategic decision to focus on this market.

The Group makes use of collateral agreements to mitigate exposures to wholesale credit risk. Collateral is obtained on credit risk exposures in line with the Group’s lending policies and procedures. The accepted collateral is also governed by the Group’s lending policies.

Forbearance measures

The Group offers a range of forbearance arrangements to customers who are experiencing financial difficulties on a case by case basis after taking into consideration the borrowers’ current and future financial position, their committment to resolve these issues, as well as any other legal obligations.

The Group has fully adopted the requirements of the CBI 2010 Code of Conduct on Mortgage Arrears ("CCMA") which requires mortgage lenders to establish a Mortgage Arrears Resolution Process ("MARP") for owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of forbearance measures for qualifying borrowers.

The Group has also developed a Mortgage Arrears Resolution Strategy (“MARS”) for dealing with customers in financial difficulty or likely to be in financial difficulty incorporating both owner occupier and buy to let mortgages. The Group has built this strategy based on two key factors: affordability and sustainability of customers to pay their mortgages with a view to ensure that customers are treated fairly throughout the arrears management and resolution process and to minimise losses arising from non repayments.

The Group offers both temporary and permanent forbearance treatments. Temporary treatments currently include interest only arrangements, reduced payment both less than interest only and greater than interest only and payment moratorium. Permanent treatments mainly include term extensions and arrears capitalisations.

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:

- Breach of contract such as delinquency in interest or principal repayments;
- Significant financial difficulty of the borrower;
- 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; and
- Significant exceptional events.

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans. However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated.

ROI Residential Mortgages – individual assessment

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;
- 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.

UK Residential Mortgages – individual assessment

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.

38. Financial risk management (continued)

Commercial Mortgages – Individual assessment
Commercial loans meeting the following criteria are reviewed individually for impairment:
- Loans greater than 90 days in arrears and greater than €1m in value;
- Large exposures; and
- Watchlist 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 mitigant) 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.

Collective & IBNR impairment
Loans which are not specifically impaired are assessed for future impairment and included in the collective & IBNR provisioning approach. The impairment on unimpaired loans which are not individually assessed is calculated using statistical models by determining the probability of arrears levels deteriorating and applying LGD's to the impaired loan balance. These LGDs take into account the key factors required including valuation of collateral, discounting and expected cure rates, based on historical experience.

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 collective & IBNR impairment provision factors in the historical loss experience in portfolios with similar credit risk characteristics, current economic conditions and behavioural trends of borrowers.

38. Financial risk management (continued)

1. Credit risk

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 the assets of the Group and Company at the statement of financial position date for the continuing operations unless otherwise specifically stated as discontinued operations.

Continuing operations		Group		Company	
31 December	Notes	2012	2011	2012	2011
		€m	€m	€m	€m
Assets					
Cash and balances with central banks	13	**71**	88	**70**	87
Items in course of collection	13	**76**	109	**76**	98
Debt securities (i)	14	**6,827**	6,657	**12,349**	11,689
Derivative assets (ii)	15	**212**	247	**307**	258
Loans and receivables to banks (iii)	16	**1,396**	1,623	**967**	1,187
Loans and receivables to customers (iv)	17	**31,758**	33,677	**26,206**	33,448
Assets and liabilities held for sale	5	**-**	56	**-**	-
Repossessed assets	23	**51**	52	**36**	31
		40,391	42,509	**40,011**	46,798
Contingent liabilities and commitments	41	**407**	451	**407**	449
		40,798	42,960	**40,418**	47,247

Discontinued operations (comparatives only)	31 December 2011		
	Total	Unit-linked funds*	Group exposure
	€m	€m	€m
Assets			
Cash and balances with central banks	94	(35)	59
Debt securities	7,510	(5,517)	1,993
Derivative assets	791	(766)	25
Loans and receivables to banks	3,446	(2,313)	1,133
Reinsurance assets (v)	2,118	(39)	2,079
	13,959	(8,670)	5,289

*Excludes unit-linked tracker funds where an investment guarantee is given by the shareholder, which are shown as Group exposure in the tables above.

The following tables outline the Group's exposure to credit risk by asset class.

(i) Debt securities

The Group and Company are exposed to credit risk on third parties where the Group and Company hold debt securities (including sovereign debt). An internal ratings basis 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 Group and Company have set counterparty limits for all debts and loans on a Group-wide / Company-wide basis.

The following table gives an indication of the level of creditworthiness of the Group's and Company debt securities and is based on an internally set rating that is equivalent to Moody's rating.

	Group			Company	
31 December		2011			
	2012	Continuing operations	Discontinued operations	2012	2011
	€m	€m	€m	€m	€m
Neither past due nor impaired	**6,827**	6,650	1,993	**12,349**	11,682
Impaired	**-**	7	-	**-**	7
Total	**6,827**	6,657	1,993	**12,349**	11,689

Debt securities neither past due nor impaired

	Group				Company		
			31 December 2011				
	31 December 2012	% Change	Continuing operations	Discontinued operations	31 December 2012	% Change	2011
	€m		€m	€m	€m		€m
Rating							
Aaa	**75**	**88%**	40	1,554	**75**	**88%**	40
Aa	**10**	**-91%**	110	-	**10**	**-91%**	110
A	**357**	**-47%**	679	104	**363**	**-47%**	679
Baa*	**6,367**	**20%**	5,324	-	**6,367**	**20%**	5,318
At or below Ba	**18**	**-96%**	497	335	**18**	**-96%**	497
Issued by subsidiaries	**-**	**-**	-	-	**5,516**	**9%**	5,038
Total	**6,827**		6,650	1,993	**12,349**		11,682

*The increase in exposure to Baa is due to increased exposure to Irish Government debt and improvement in market values of these securities.

38. Financial risk management (continued)

The following table discloses, by country, the Group's and Company's exposure to sovereign and corporate debt as at:

Group

	31 December 2012		31 December 2011			
			Continuing operations		Discontinued operations	
	Sovereign debt	**Corporate debt**	Sovereign debt	Corporate debt	Sovereign debt	Corporate debt
	€m	**€m**	€m	€m	€m	€m
Country						
Australia	**-**	**3**	-	5	-	-
Austria	**-**	**-**	-	-	54	-
Finland	**-**	**-**	-	-	18	-
France	**-**	**-**	-	-	845	-
Germany	**-**	**30**	-	40	535	-
Ireland	**5,413**	**761**	4,999	917	311	23
Italy	**-**	**65**	-	106	55	-
Jersey	**-**	**-**	-	2	-	-
Netherlands	**-**	**25**	-	34	85	-
Poland	**85**	**-**	82	-	-	-
Portugal	**-**	**66**	-	71	-	-
Spain	**-**	**16**	-	16	49	-
United Kingdom	**-**	**118**	-	140	18	-
United States	**-**	**246**	4	242	-	-
	5,498	**1,330**	5,085	1,573	1,970	23
Provision	**-**	**(1)**	-	(1)	-	-
Total		**6,827**		6,657		1,993

Included in the debt securities portfolio are holdings of external residential mortgage backed securities ("RMBS") with a carrying value of €258m at 31 December 2012 (31 December 2011: €484m). 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 77% and reserve funds set aside of approximately 5% of the outstanding issued loan notes. All of the Group's bonds are considered senior in the relevant funding structure of the RMBS vehicle.

The Group also holds €5m at 31 December 2012 (31 December 2011: €50m) 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 €3.0bn at 31 December 2012 (31 December 2011: €3.2bn) which carry a guarantee from the Irish Government either directly or under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG scheme") and debt securities of €21m at 31 December 2012 (31 December 2011: €19m) which carry a parent entity guarantee.

Company

	31 December 2012			31 December 2011		
	Sovereign debt	**Corporate debt**	**Total**	Sovereign debt	Corporate debt	Total
	€m	**€m**	**€m**	€m	€m	€m
Country						
Australia	**-**	**3**	**3**	-	5	5
France	**-**	**-**	**-**	-	-	-
Germany	**-**	**30**	**30**	-	40	40
Ireland	**5,414**	**1,363**	**6,777**	4,999	945	5,944
Italy	**-**	**65**	**65**	-	106	106
Jersey	**-**	**-**	**-**	-	2	2
Netherlands	**-**	**25**	**25**	-	34	34
Poland	**85**	**-**	**85**	82	-	82
Portugal	**-**	**66**	**66**	-	71	71
Spain	**-**	**16**	**16**	-	16	16
United Kingdom	**-**	**5,037**	**5,037**	-	5,144	5,144
United States	**-**	**246**	**246**	4	242	246
	5,499	**6,851**	**12,350**	5,085	6,605	11,690
Provision	**-**	**-**	**(1)**	-	-	(1)
Total			**12,349**			11,689

(ii) Derivative assets

	Group				**Company**		
			31 December 2011				
	31 December 2012		Continuing operations	Discontinued operations	**31 December 2012**		31 December 2011
	€m	**% Change**	€m	€m	**€m**	**% Change**	€m
Rating							
Aa	**6**	**-95%**	114	25	**6**	**200%**	2
A	**97**	**782%**	11	-	**97**	**-21%**	123
Baa	**1**	**-96%**	26	-	**96**	**159%**	37
Covered by netting agreements	**108**	**13%**	96	-	**108**	**13%**	96
Total	**212**		247	25	**307**		258

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 €207m at 31 December 2012 (31 December 2011: €223m) amounted to €201m at 31 December 2012 (31 December 2011: €195m).

38. Financial risk management (continued)

(iii) Loans and receivables to banks

Loans and receivables to banks are with investment grade counterparties. The following table gives an indication of the level of creditworthiness of the Group's and Company's loans and receivables to banks and is based on the internally set rating that is equivalent to rating prescribed by Moody's Investor Services Limited.

	Group				Company		
			31 December 2011				
	31 December 2012		Continuing operations	Discontinued operations	**31 December 2012**		31 December 2011
	€m	**% Change**	€m	€m	**€m**	**% Change**	€m
Rating							
Aaa	**232**	**-21%**	294	111	**232**	**-21%**	294
Aa	**128**	**-85%**	832	775	**125**	**-69%**	401
A*	**1,021**	**119%**	466	247	**600**	**29%**	466
Baa and below	**15**	**-52%**	31	-	**10**	**-61%**	26
Total	**1,396**		1,623	1,133	**967**		1,187

*The increase in exposure to A is due to a fall in the rating of certain credit institutions from Aa to A at 31 December 2012 as well as a general fall in the ratings from AA to A of other banks where deposits are held.

(iv) Loans and receivables to customers

Loans and receivables are summarised as follows:	Group			Company		
	31 December 2012		31 December 2011	**31 December 2012**		31 December 2011
	€m	**% Change**	€m	**€m**	**% Change**	€m
ROI residential mortgages	**24,588**	**-3%**	25,419	**24,122**	**-3%**	24,952
UK residential mortgages	**7,399**	**-1%**	7,493	**-**	**-**	-
Commercial	**2,248**	**21%**	1,863	**2,248**	**21%**	1,863
Consumer finance						
Film finance / finance leases	**68**	**-88%**	585	**-**	**-**	-
Term loans / other	**378**	**-8%**	412	**378**	**-8%**	412
Subsidiaries	**-**	**-**	-	**2,553**	**-69%**	8,111
	34,681		35,772	**29,301**		35,338
Provision for loan impairment (note 18)	**(3,150)**		(2,298)	**(3,307)**		(2,141)
Deferred fees, discounts and fair value adjustments	**227**		259	**212**		251
Reclassification to assets classified as held for sale (note 5(b))	**-**		(56)	**-**		-
	31,758		33,677	**26,206**		33,448

Loans and receivables by asset quality

Loans and receivables after impairments in respect of ROI residential mortgages and consumer finance (excluding film finance / finance leases) are classified as 'core'. Loans and receivables after impairments in respect of UK residential mortgages, commercial mortgages and film finance / finance leases (included under consumer finance) are classified as non-core loans.

Group	**31 December 2012**							
	Residential mortgages						**Analysed to:**	
	ROI	**UK**	**Commercial***	**Consumer finance****	**Total**	**% of total loans pre impairment**	**Core**	**Non-core**
	€m	**€m**	**€m**	**€m**	**€m**	**%**	**€m**	**€m**
Excellent	**13,292**	**4,304**	**132**	**134**	**17,862**	**51%**	**13,403**	**4,459**
Satisfactory	**2,672**	**2,443**	**676**	**105**	**5,896**	**17%**	**2,736**	**3,160**
Fair risk	**1,606**	**215**	**212**	**40**	**2,073**	**6%**	**1,641**	**432**
Neither past due nor impaired	**17,570**	**6,962**	**1,020**	**279**	**25,831**	**74%**	**17,780**	**8,051**
Past due but not impaired	**2,201**	**308**	**111**	**24**	**2,644**	**8%**	**2,225**	**419**
Impaired – provisions held	**4,817**	**129**	**1,117**	**143**	**6,206**	**18%**	**4,961**	**1,245**
	24,588	**7,399**	**2,248**	**446**	**34,681**	**100%**	**24,966**	**9,715**
Provision for impairment losses	**(2,191)**	**(74)**	**(735)**	**(150)**	**(3,150)**		**(2,341)**	**(809)**
	22,397	**7,325**	**1,513**	**296**	**31,531**		**22,625**	**8,906**
Deferred fees, discounts and fair value adjustment	**230**	**(3)**	**-**	**-**	**227**		**230**	**(3)**
	22,627	**7,322**	**1,513**	**296**	**31,758**		**22,855**	**8,903**
Impaired loans as a % of total loans and receivables	**14%**	**0%**	**3%**	**0%**	**18%**		**14%**	**4%**
Impairment provision as a % of impaired loans	**45%**	**57%**	**66%**	**105%**	**51%**		**47%**	**65%**

*Commercial mortgage loans include loans of €413m (31 December 2011: €427m) to the Life Group which was sold on 29 June 2012. At 31 December 2011 these loans were eliminated on consolidation.

** Included in consumer finance loans are loans classified as held for sale of €nil (31 December 2011: €56m).

38. Financial risk management (continued)

The Group's core loans after impairment amounted to €22.6bn or 72% of total loans and receivables at 31 December 2012 (31 December 2011: €24.1bn or 72%). The Group's non-core loans after impairment amounted to €8.9bn or 28% of total loans and receivables at 31 December 2012 (31 December 2011: €9.4bn or 28%).

Loans and receivables to customers which are neither past due nor impaired amounted to €25.8bn or 74% of the loan book (before provision for impairment losses) at 31 December 2012 compared to €27.8bn or 78% of the loan book (before provision for impairment losses) at 31 December 2011. A description of the internal gradings outlined in these asset quality tables is provided in the credit default risk section earlier in this note.

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. As at 31 December 2012, 8% (€2.6bn) of the loan portfolios are within these categories compared to 8% (€2.8bn) at 31 December 2011.

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. The impaired loans have increased by €1bn with €704m of this increase relating to the ROI residential mortgage portfolio. The increase in impaired provisions held is attributable to a combination of a general economic downturn leading to reductions in disposable income and increasing unemployment. Total interest income at 31 December 2012 on impaired loans in the income statement amounted to €69m (31 December 2011: €80m). The fair value of collateral held for ROI and UK residential mortgages is outlined in the LTV tables on the following pages. The fair value of collateral on the commercial portfolio is estimated to be €1,268m at 31 December 2012 (31 December 2011: €1,351m) and for consumer finance it is estimated to be €nil at 31 December 2012 (31 December 2011: €366m).

Impaired loans for 2011 (for Group and Company) have been re-presented incorporating collateral values and LTV thresholds in line with current definition of impaired loans. The restatement was required to enhance comparability and consistency across current year and prior year information in line with the definition of impaired loans adopted at 31 December 2012.

Group	31 December 2011							
	Residential mortgages							
	ROI	UK	Commercial*	Consumer finance**	Total	% of total loans pre impairment	Core	Analysed to: Non-core
	€m	€m	€m	€m	€m	%	€m	€m
Excellent	14,641	4,393	180	313	19,527	55%	14,780	4,747
Satisfactory	2,822	2,343	514	299	5,978	17%	2,895	3,083
Fair risk	1,500	414	286	124	2,324	6%	1,548	776
Neither past due nor impaired	18,963	7,150	980	736	27,829	78%	19,223	8,606
Past due but not impaired	2,343	191	162	76	2,772	8%	2,377	395
Impaired – provisions held	4,113	152	721	185	5,171	14%	4,231	940
	25,419	7,493	1,863	997	35,772	100%	25,831	9,941
Provision for impairment losses	(1,629)	(78)	(406)	(185)	(2,298)		(1,752)	(546)
	23,790	7,415	1,457	812	33,474		24,079	9,395
Deferred fees, discounts and fair value adjustment	262	(3)	-	-	259		262	(3)
	24,052	7,412	1,457	812	33,733		24,341	9,392
Impaired loans as a % of total loans and receivables	11%	0%	2%	0%	14%		12%	3%
Impairment provision as a % of impaired loans	40%	51%	56%	100%	44%		41%	58%

Company	**31 December 2012**							
	ROI Residential mortgages	**Commercial**	**Consumer finance**	**Subsidiaries**	**Total**	**% of total loans pre impairment**	**Core**	**Analysed to: Non-core**
	€m	**€m**	**€m**	**€m**	**€m**	**%**	**€m**	**€m**
Excellent	**13,294**	**133**	**112**	**-**	**13,539**	**46%**	**13,393**	**146**
Satisfactory	**2,566**	**675**	**63**	**312**	**3,616**	**11%**	**2,629**	**987**
Fair risk	**1,606**	**212**	**35**	**-**	**1,853**	**6%**	**1,641**	**212**
Neither past due nor impaired	**17,466**	**1,020**	**210**	**312**	**19,008**	**64%**	**17,663**	**1,345**
Past due but not impaired	**2,122**	**110**	**24**	**-**	**2,256**	**9%**	**2,146**	**110**
Impaired – provisions held	**4,534**	**1,118**	**144**	**2,241**	**8,037**	**27%**	**5,125**	**2,912**
	24,122	**2,248**	**378**	**2,553**	**29,301**	**100%**	**24,934**	**4,367**
Provision for impairment losses	**(2,041)**	**(735)**	**(150)**	**(381)**	**(3,307)**		**(2,318)**	**(989)**
	22,081	**1,513**	**228**	**2,172**	**25,994**		**22,616**	**3,378**
Deferred fees, discounts and fair value adjustment	**212**	**-**	**-**	**-**	**212**		**212**	**-**
	22,293	**1,513**	**228**	**2,172**	**26,206**		**22,828**	**3,378**
Impaired loans as a % of total loans and receivables	**15%**	**4%**	**0%**	**8%**	**27%**		**17%**	**10%**
Impairment provision as a % of impaired loans	**45%**	**66%**	**104%**	**17%**	**41%**		**45%**	**34%**

The Company's core loans after impairment amounted to €22.6bn or 87% of total loans and receivables at 31 December 2012 (31 December 2011: €24bn or 72%). The Company's non-core loans after impairment amounted to €3.4bn or 13% of total loans and receivables at 31 December 2012 (31 December 2011: €9.2bn or 28%). The decrease in non-core is due to a a deed dated March 2012 signed between ptsb and its subsidiary, CHL, it was agreed that ptsb's obligation to pay interest and principal on the CHL deposits be set off against CHL's obligation to pay interest and principal on the credit facility provided by ptsb.

38. Financial risk management (continued)

Loans and receivables to customers which are neither past due nor impaired amounted to €19bn or 65% of the loan book (before provision for impairment losses) at 31 December 2012 compared to €27.6bn or 78% of the loan book (before provision for impairment losses) at 31 December 2011. A total of €17.7bn of the €19bn are classified as 'core' at 31 December 2012. A description of the internal gradings outlined in these asset quality tables is provided in the credit default risk section earlier in this note.

The tables above reflect an increase in the past due but not impaired categories at 31 December 2012. At 31 December 2012 8% (€2.3bn) of the loan portfolio is in this categories compared to 7% (€2.5bn) at 31 December 2011.

At 31 December 2012 the Company's impaired provisions held increased by €2.8bn to €8.0bn, €663m of this increase relates to the ROI residential mortgage portfolio and €1.6bn relates to subsidiary loans. The increase was attributable to the general economic downturn, leading to reductions in disposable income and increasing unemployment. The fair value of collateral held for ROI and UK residential mortgages are outlined in the LTV tables on the following pages. At 31 December 2012 the fair value of collateral on the commercial portfolio is estimated to be €1,268m (31 December 2011: €1,672m) while consumer finance is estimated to be €nil (31 December 2011: €366m).

Company	31 December 2011							
	ROI Residential mortgages	Commercial	Consumer finance	Subsidiaries	Total	% of total loans pre impairment	Core	Analysed to: Non-core
	€m	€m	€m	€m	€m	%	€m	€m
Excellent	14,639	180	73	-	14,892	42%	14,626	266
Satisfactory	2,648	514	30	7,552	10,744	30%	2,678	8,066
Fair risk	1,500	285	157	-	1,942	5%	1,656	286
Neither past due nor impaired	18,787	979	260	7,552	27,578	78%	18,960	8,618
Past due but not impaired	2,294	163	34	-	2,491	7%	2,328	163
Impaired – provisions held	3,871	721	118	559	5,269	15%	4,442	827
	24,952	1,863	412	8,111	35,338	100%	25,730	9,608
Provision for impairment losses	(1,503)	(406)	(123)	(109)	(2,141)		(1,735)	(406)
	23,449	1,457	289	8,002	33,197		23,995	9,202
Deferred fees, discounts and fair value adjustment	251	-	-	-	251	-	251	-
	23,700	1,457	289	8,002	33,448		24,246	9,202
Impaired loans as a % of total loans and receivables	11%	2%	0%	2%	15%		13%	2%
Impairment provision as a % of impaired loans	39%	56%	104%	19%	41%		39%	49%

Loans and receivables which are past due but not impaired:
The table below provides an aged analysis of loans and receivables which are past due but not impaired.

Group	**31 December 2012**				
	ROI Residential mortgages	**UK Residential mortgages**	**Commercial**	**Consumer finance**	**Total**
	€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]	**1,892**	**293**	**63**	**-**	**2,248**

[1]Fair value of collateral held	**31 December 2012**				
	ROI Residential mortgages	**UK Residential mortgages**	**Commercial**	**Consumer finance**	**Total**
	€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**

38. Financial risk management (continued)

Group	31 December 2011				
	ROI Residential mortgages	UK Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
0-30 days	1,008	21	83	37	1,149
31-60 days	577	20	45	14	656
61-90 days	493	38	34	8	573
91-180 days	220	112	-	17	349
181-360 days	26	-	-	-	26
> 360 days	19	-	-	-	19
Total past due not impaired	2,343	191	162	76	2,772
Fair value of collateral held[2]	1,913	183	119	19	2,234

[2]Fair value of collateral held	31 December 2011				
	ROI Residential mortgages	UK Residential mortgages	Commercial	Consumer finance	Total
	€m	€m	€m	€m	€m
0-30 days	808	21	58	8	895
31-60 days	455	19	35	4	513
61-90 days	390	36	26	2	454
91-180 days	218	107	-	5	330
181-360 days	24	-	-	-	24
> 360 days	18	-	-	-	18
Total past due not impaired	1,913	183	119	19	2,234

Company	**31 December 2012**			
	ROI Residential mortgages	**Commercial**	**Consumer finance**	**Total**
	€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[3]	**1,819**	**63**	**-**	**1,882**

[3]Fair value of colletral held	**31 December 2012**			
	ROI Residential mortgages	**Commercial**	**Consumer finance**	**Total**
	€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**

38. Financial risk management (continued)

Company	31 December 2011 ROI Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m
0-30 days	1,009	84	19	1,112
31-60 days	577	45	5	627
61-90 days	479	34	3	516
91-180 days	205	-	7	212
181-360 days	15	-	-	15
> 360 days	9	-	-	9
Total past due not impaired	2,294	163	34	2,491
Fair value of collateral held[4]	1,867	119	-	1,986

[4]Fair value of colletral held	31 December 2011 ROI Residential mortgages €m	Commercial €m	Consumer finance €m	Total €m
0-30 days	809	58	-	867
31-60 days	455	35	-	490
61-90 days	377	26	-	403
91-180 days	205	-	-	205
181-360 days	13	-	-	13
> 360 days	8	-	-	8
Total past due not impaired	1,867	119	-	1,986

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:

Group	**31 December 2012**				
	ROI residential mortgages		**UK residential mortgages**		
	Owner occupier	**Buy-to-let**	**Owner occupier**	**Buy-to-let**	**Total**
	€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**

Group	31 December 2011				
	ROI residential mortgages		UK residential mortgages		
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m
0-30 days	749	259	2	19	1,029
31-60 days	412	165	2	18	597
61-90 days	322	171	5	33	531
91-180 days	219	1	21	91	332
181-360 days	25	1	-	-	26
> 360 days	17	2	-	-	19
Total	1,744	599	30	161	2,534

Company	**31 December 2012**			31 December 2011		
	ROI residential mortgages			ROI residential mortgages		
	Owner occupier	**Buy-to-let**	**Total**	Owner occupier	Buy-to-let	Total
	€m	**€m**	**€m**	€m	€m	€m
0-30 days	**511**	**169**	**680**	750	259	1,009
31-60 days	**330**	**106**	**436**	412	165	577
61-90 days	**269**	**84**	**353**	308	171	479
91-180 days	**140**	**18**	**158**	205	-	205
181-360 days	**139**	**18**	**157**	14	1	15
> 360 days	**285**	**53**	**338**	7	2	9
Total	**1,674**	**448**	**2,122**	1,696	598	2,294

38. 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.

The PD's associated with non defaulted accounts which have been granted forbearance is 12.6% (12.3% for home loans and 14.1% for BTLs). The PD's for non defaulted accounts excluding cases in forbearance is 3.12% (2.79% for home loans & 4.15% for BTLs). The PD's for defaulted accounts is 100% irrespective of the account status (forbearance or non forbearance).

Residential mortgages

The tables below set out the volume of loans for which the Group has entered formal forbearance arrangements with customers as at 31 December 2012 and 31 December 2011. Interest only arrangements, reduced payment, both less than interest only and greater than interest only and payment moratorium are considered as temporary forbearance arrangements, while term extensions and arrears capitalisations are considered as permanent forbearance arrangements. Both temporary and permanent forbearance arrangements, detailed below is based on information captured after 1 January 2009.

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 forborne arrangements for owner occupied residential mortgages only is analysed below:

Group	**31 December 2012**			
	All Loans		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €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**
Other*	**532**	**76**	**220**	**35**
Total	**14,308**	**2,136**	**4,867**	**820**

* Other is a combination of two or more forbearance arrangements.

Group	31 December 2011			
	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	2,033	326	374	66
Reduced payment (less than interest only)	2,543	486	548	110
Reduced payment (greater than interest only)	5,740	871	1,267	217
Payment moratorium	528	87	65	9
Arrears capitalisation	999	148	447	76
Term extension	1,022	98	144	16
Other*	558	82	205	30
Total	13,423	2,098	3,050	524

The tables above reflect an increase of 885 at 31 December 2012 for the Group in the number of ROI residential owner occupier loans in forbearance arrangements, an increase of €38m. The average value of forborne loans is relatively unchanged year on year (2012: €0.149m versus 2011: €0.156m). At 31 December 2012, 34% of the number of loans in forbearance are >90 days for the Group and / or impaired compared to 23% at 31 December 2011.

Company	**31 December 2012**			
	All Loans		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €m**
Interest only	**2,611**	**357**	**173**	**37**
Reduced payment (less than interest only)	**2,834**	**488**	**1,884**	**326**
Reduced payment (greater than interest only)	**4,903**	**780**	**1,573**	**265**
Payment moratorium	**718**	**93**	**98**	**12**
Arrears capitalisation	**1,241**	**191**	**572**	**94**
Term extension	**1,275**	**108**	**208**	**19**
Other*	**531**	**76**	**219**	**34**
Total	**14,113**	**2,093**	**4,727**	**787**

* Other is a combination of two or more forbearance arrangements.

38. Financial risk management (continued)

Company	31 December 2011			
	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	1,937	307	330	57
Reduced payment (less than interest only)	2,397	450	420	77
Reduced payment (greater than interest only)	5,680	861	1,227	210
Payment moratorium	517	85	64	9
Arrears capitalisation	966	139	425	70
Term extension	1,021	98	143	16
Other*	552	80	200	29
Total	13,070	2,020	2,809	468

The tables above reflect an increase of 1,043 at 31 December 2012 for the Company in the number of ROI residential owner occupier loans in forbearance arrangements, an increase of €73m. The average value of forborne loans is relatively unchanged year on year (2012: €0.148m versus 2011: €0.155m). At 31 December 2012, 33% of the number of loans in forbearance are >90 days and / or impaired compared to 22% at 31 December 2011.

(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:

Group	**31 December 2012**			
	All Loans		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €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**
Other*	**195**	**118**	**49**	**24**
Total	**1,354**	**470**	**523**	**184**

* Other is a combination of two or more forbearance arrangements.

Group	31 December 2011			
	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	28	6	6	2
Reduced payment (less than interest only)	10	2	3	-
Reduced payment (greater than interest only)	170	59	35	14
Payment moratorium	13	3	2	-
Arrears capitalisation	139	50	86	36
Term extension	115	21	17	3
Other*	178	92	28	11
Total	653	233	177	66

Company	**31 December 2012**			
	All Loans		**Loans > 90 days in arrears and / or impaired**	
	Number	**Balances €m**	**Number**	**Balances €m**
Interest only	**247**	**62**	**29**	**10**
Reduced payment (less than interest only)	**142**	**32**	**119**	**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**
Other*	**195**	**118**	**49**	**24**
Total	**1,352**	**469**	**521**	**184**

* Other is a combination of two or more forbearance arrangements.

38. Financial risk management (continued)

Company	31 December 2011			
	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances €m	Number	Balances €m
Interest only	28	6	6	2
Reduced payment (less than interest only)	10	2	3	-
Reduced payment (greater than interest only)	170	59	35	14
Payment moratorium	13	3	2	-
Arrears capitalisation	139	50	86	36
Term extension	115	21	17	3
Other*	178	92	28	4
Total	653	233	177	59

* Other is a combination of two or more forbearance arrangements.

Impairment charge on loans and receivables to customers by product line

The balances in the preceding tables denoted impaired loan balances which are in forbearance arrangements. The table below lists the impairment charges in respect of these balances, by lending type.

Group	**31 December 2012**			31 December 2011		
	Forborne loans			Forborne loans		
	Total	**Performing**	**Non-performing**	Total	Performing	Non-performing
	€m	**€m**	**€m**	€m	€m	€m
Residential						
- Owner occupier	**285**	**74**	**211**	154	36	118
- Buy-to-let	**105**	**30**	**75**	37	11	26
Total impairment charge	**390**	**104**	**286**	191	47	144

Company	**31 December 2012**			31 December 2011		
	Forborne loans			Forborne loans		
	Total	**Performing**	**Non-performing**	Total	Performing	Non-performing
	€m	**€m**	**€m**	€m	€m	€m
Residential						
- Owner occupier	**275**	**74**	**201**	136	36	100
- Buy-to-let	**105**	**30**	**75**	37	11	26
Total impairment charge	**380**	**104**	**276**	173	47	126

Repossessed collateral

Properties are repossessed where the borrower either (i) voluntarily surrenders the property or (ii) the Group and Company takes legal repossession due to non repayment of the loan facility. The Group and Company will seek to maximise the proceeds from the sales of repossessed properties with a view to extinguishing the outstanding loan facility. The following tables outline the main movements in this category during the year.

Group	**31 December 2012**		31 December 2011	
Stock of repossessions	**Number**	**Balance outstanding €m**	Number	Balance outstanding €m
Residential repossessions				
ROI:				
Owner occupier	**255**	**68**	191	50
Buy-to-let	**138**	**33**	83	21
Commercial	**31**	**17**	19	15
UK:				
Owner occupier	**5**	**1**	7	1
Buy-to-let	**94**	**16**	141	24
Total	**523**	**135**	441	111

Repossessed assets are sold as soon as practicable, with proceeds offset against any outstanding indebtedness. These assets which total €51m for the Group at 31 December 2012 (31 December 2011: €52m) are included within other assets in the statement of financial position.

Company	**31 December 2012**		31 December 2011	
Stock of repossessions	**Number**	**Balance outstanding €m**	Number	Balance outstanding €m
Residential repossessions				
ROI:				
Owner occupier	**237**	**62**	169	43
Buy-to-let	**135**	**33**	80	20
Commercial	**31**	**17**	19	15
Total	**403**	**112**	268	78

Repossessed assets total €36m for the Company at 31 December 2012 (31 December 2011: €31m) are included within other assets in the statement of financial position.

38. Financial risk management (continued)

The Group disposed of 132 of owner occupier, 393 of buy-to-let and 1 commercial property during 2012. 398 of these disposals were in the UK, which represents 76% of the total disposals. The Company disposed of 87 of owner occupier, 24 of buy-to-let and 1 commercial property during 2012. The details of the Group and Company disposals are provided in the tables below.

Group	**Year ended 31 December 2012**					
	Number of disposals	**Balance outstanding at repossession**	**Gross sales proceeds**	**Costs to sell**	**Pre provisioning loss on sale***	**Weighted average LTV at sale price****
Residential repossessions		**€m**	**€m**	**€m**	**€m**	**%**
ROI:						
Owner occupier	**102**	**28**	**12**	**1**	**17**	**351%**
Buy-to-let	**25**	**4**	**2**	**-**	**2**	**290%**
Commercial	**1**	**1**	**-**	**-**	**1**	**729%**
UK:						
Owner occupier	**30**	**7**	**5**	**-**	**2**	**168%**
Buy-to-let	**368**	**55**	**40**	**4**	**19**	**168%**
Total	**526**	**95**	**59**	**5**	**41**	**232%**

Group	Year ended 31 December 2011					
	Number of disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*	Weighted average LTV at sale price**
Residential repossessions		€m	€m	€m	€m	%
ROI:						
Owner occupier	39	11	5	-	6	248%
Buy-to-let	3	2	-	-	2	380%
Commercial	1	1	-	-	1	246%
UK:						
Owner occupier	19	4	3	-	1	167%
Buy-to-let	244	36	23	1	14	227%
Total	306	54	31	1	24	265%

Company	**Year ended 31 December 2012**					
	Number of disposals	**Balance outstanding at repossession**	**Gross sales proceeds**	**Costs to sell**	**Pre provisioning loss on sale***	**Weighted average LTV at sale price****
Residential repossessions		**€m**	**€m**	**€m**	**€m**	**%**
ROI:						
Owner occupier	**87**	**24**	**10**	**1**	**14**	**332%**
Buy-to-let	**24**	**4**	**2**	**-**	**2**	**293%**
Commercial	**1**	**1**	**-**	**-**	**1**	**729%**
Total	**112**	**29**	**12**	**1**	**17**	**345%**

Company	Year ended 31 December 2011					
	Number of disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Pre provisioning loss on sale*	Weighted average LTV at sale price**
Residential repossessions		€m	€m	€m	€m	%
ROI:						
Owner occupier	29	8	4	-	4	239%
Buy-to-let	4	2	1	-	1	380%
Commercial	1	1	1	-	-	246%
Total	34	11	6	-	5	264%

*Calculated as gross sales proceeds less balance outstanding at repossession less costs to sell. These losses would have been provided for as part of the provisioning process.

** Due to the nature of foreclosures and timing of disposals these LTV's would not be representative of loans held within the loans portfolios of the Group.

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 table will outline the composition of this ratio for the residential loan portfolio.

Valuation Methodologies

The valuation methodologies for the Bank's key portfolios of collateral held are as follows:

- ROI residential property valuations are based on the CSO residential property price index or based 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 and estimated discount rates; and
- In the UK property values are determined using drive by valuations, local knowledge of the properties and valuations using a recognised desktop provider.

The valuation methodologies outlined above are determined as close to the reporting date as is feasible and are therefore considered by the Directors to reflect their best estimate of current values of collateral held.

38. Financial risk management (continued)

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 for the Group on the ROI and UK residential mortgage portfolios is 112% and for the Company on the ROI residential mortgage is 119% at 31 December 2012. This compares to 110% for the Group and 116% for the Company at 31 December 2011.

In the ROI residential mortgage portfolio there are increases in the LTVs above 100% year on year. Owner occupier has increased from 56% at 31 December 2011 to 59% at 31 December 2012. Buy-to-let portfolio has increased from 78% at 31 December 2011 to 80% at 31 December 2012. The increases reflect the further decline in house prices during 2012, ptsb use the CSO index which has fallen by 1.1% in the year 31 December 2012. For the Group the UK portfolios also reflect an increase in the categories of LTV above 100% but the increase is less pronounced reflecting a stabilisation of house prices in the UK market.

Group	**31 December 2012**				
	ROI residential mortgages		**UK residential mortgages**		
	Owner occupier	**Buy-to-let**	**Owner occupier**	**Buy-to-let**	**Total**
	%	%	%	%	%
Less than 50%	**12%**	**3%**	**13%**	**4%**	**9%**
50%-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%**	**-**	**6%**
141% to 150%	**6%**	**10%**	**-**	**-**	**6%**
151% to 160%	**6%**	**8%**	**-**	**-**	**5%**
161% to 170%	**6%**	**8%**	**-**	**-**	**5%**
171% to 180%	**4%**	**5%**	**-**	**-**	**3%**
Greater than 180%	**9%**	**17%**	**-**	**-**	**8%**
Subtotal	**59%**	**80%**	**31%**	**25%**	**56%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Weighted average LTV:					
Stock of residential mortgages at year end	**112%**	**138%**	**85%**	**87%**	**112%**
New residential mortgages during year	**62%**	**45%**	**46%**	**54%**	**61%**
Impaired mortgages in total	**146%**	**156%**	**98%**	**106%**	**150%**

Group	31 December 2011				
	ROI residential mortgages		UK residential mortgages		
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	Total
	%	%	%	%	%
Less than 50%	13%	4%	12%	4%	9%
50%-70%	11%	5%	10%	10%	9%
71% to 90%	13%	8%	32%	35%	18%
91% to 100%	7%	5%	15%	25%	11%
Subtotal	44%	22%	69%	74%	47%
101% to 110%	7%	7%	17%	20%	10%
111% to 120%	7%	9%	12%	5%	7%
121% to 130%	7%	10%	2%	1%	6%
131% to 140%	7%	11%	-	-	6%
141% to 150%	7%	8%	-	-	6%
151% to 160%	6%	8%	-	-	5%
161% to 170%	5%	7%	-	-	4%
171% to 180%	2%	5%	-	-	2%
Greater than 180%	8%	13%	-	-	7%
Subtotal	56%	78%	31%	26%	53%
Total	100%	100%	100%	100%	100%
Weighted average LTV:					
Stock of residential mortgages at year end	110%	134%	86%	88%	110%
New residential mortgages during year	67%	78%	-	68%	67%
Impaired mortgages in total	131%	144%	98%	106%	135%

38. Financial risk management (continued)

Company	31 December 2012 ROI residential mortgages Owner occupier	31 December 2012 ROI residential mortgages Buy-to-let	31 December 2012 Total	31 December 2011 ROI residential mortgages Owner occupier	31 December 2011 ROI residential mortgages Buy-to-let	31 December 2011 Total
	%	%	%	%	%	%
Less than 50%	13%	3%	10%	13%	4%	11%
50%-70%	10%	5%	9%	11%	5%	9%
71% to 90%	12%	7%	11%	13%	8%	11%
91% to 100%	7%	5%	6%	7%	5%	6%
Subtotal	42%	20%	36%	44%	22%	37%
101% to 110%	7%	6%	7%	7%	7%	7%
111% to 120%	7%	8%	7%	7%	9%	8%
121% to 130%	7%	9%	7%	7%	10%	8%
131% to 140%	7%	10%	7%	7%	11%	8%
141% to 150%	6%	10%	7%	7%	8%	7%
151% to 160%	6%	8%	7%	6%	8%	6%
161% to 170%	6%	8%	6%	5%	7%	6%
171% to 180%	4%	5%	4%	2%	5%	3%
Greater than 180%	8%	16%	12%	8%	13%	10%
Subtotal	58%	80%	64%	56%	78%	63%
Total	100%	100%	100%	100%	100%	100%
Weighted average LTV:						
Stock of residential mortgages at year end	112%	138%	119%	110%	134%	116%
New residential mortgages during year	62%	45%	61%	67%	78%	67%
Impaired mortgages in total	146%	156%	150%	131%	144%	130%

Analysis by LTV ratio of residential mortgage lending which is neither past due nor impaired

The tables below illustrates that 51% of residential mortgages for the Group and 41% for the Company that are neither past due nor impaired are in positive equity at 31 December 2012, which shows no change on 31 December 2011 for the Group and a slight decline of 1% for the Company.

	Group 31 December 2012 €m	Group 31 December 2012 %	Group 31 December 2011 €m	Group 31 December 2011 %	Company 31 December 2012 €m	Company 31 December 2012 %	Company 31 December 2011 €m	Company 31 December 2011 %
Less than 50%	2,474	10%	2,721	10%	2,140	13%	2,392	13%
50%-70%	2,525	10%	2,628	10%	1,749	10%	1,897	10%
71% to 90%	4,709	19%	4,975	20%	2,133	12%	2,292	12%
91% to 100%	2,836	12%	3,050	12%	1,152	7%	1,286	7%
101% to 110%	2,419	10%	2,769	11%	1,241	7%	1,373	7%
111% to 120%	1,737	7%	1,746	7%	1,308	7%	1,420	7%
121% to 130%	1,297	5%	1,430	5%	1,249	7%	1,381	7%
131% to 140%	1,237	5%	1,430	5%	1,221	7%	1,411	7%
141% to 150%	1,200	5%	1,274	5%	1,191	7%	1,262	7%
151% to 160%	1,113	5%	1,062	4%	1,108	6%	1,053	6%
161% to 170%	942	4%	912	3%	938	5%	909	5%
171% to 180%	524	2%	482	2%	522	3%	480	3%
Greater than 180%	1,519	6%	1,634	6%	1,514	9%	1,631	9%
Total	24,532	100%	26,113	100%	17,466	100%	18,787	100%

Analysis by LTV ratio of residential mortgage lending which are 90 days past due

In total 22% of the ROI and UK residential mortgage portfolios for the Group and 22% for the ROI residential mortgage portfolio in the Company which are 90 days past due have an LTV of up to 100% and 40% of loans for the Group and 41% for the Company have an LTV exceeding 150%.

Group	31 December 2012 ROI residential mortgages Owner occupier	31 December 2012 ROI residential mortgages Buy-to-let	31 December 2012 UK residential mortgages Owner occupier	31 December 2012 UK residential mortgages Buy-to-let	31 December 2012 Total
	%	%	%	%	%
Less than 50%	6%	1%	4%	0%	4%
50%-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	3,472	2,029	46	214	5,761

38. Financial risk management (continued)

Group	31 December 2011				
	ROI residential mortgages		UK residential mortgages		
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	Total
	%	%	%	%	%
Less than 50%	8%	2%	2%	-	5%
50%-70%	7%	2%	5%	2%	5%
71% to 90%	11%	5%	26%	13%	9%
91% to 100%	6%	4%	21%	18%	6%
Subtotal	32%	13%	54%	33%	25%
101% to 110%	7%	6%	16%	31%	8%
111% to 120%	7%	8%	14%	24%	8%
121% to 130%	8%	9%	10%	8%	8%
131% to 140%	8%	13%	3%	3%	10%
141% to 150%	8%	10%	1%	1%	8%
151% to 160%	8%	11%	1%	-	9%
161% to 170%	7%	9%	-	-	7%
171% to 180%	5%	5%	-	-	5%
Greater than 180%	10%	16%	1%	-	12%
Subtotal	68%	87%	46%	67%	75%
Total	100%	100%	100%	100%	100%
	€m	€m	€m	€m	€m
Residential mortgages greater than 90 days in arrears	2,710	1,668	47	217	4,642

Company	**31 December 2012**			31 December 2011		
	ROI residential mortgages			ROI residential mortgages		
	Owner occupier	**Buy-to-let**	**Total**	Owner occupier	Buy-to-let	Total
	%	**%**	**%**	%	%	%
Less than 50%	**7%**	**1%**	**5%**	8%	2%	6%
50%-70%	**7%**	**2%**	**5%**	8%	2%	5%
71% to 90%	**10%**	**4%**	**8%**	11%	5%	8%
91% to 100%	**5%**	**3%**	**4%**	6%	4%	5%
Subtotal	**29%**	**10%**	**22%**	33%	13%	24%
101% to 110%	**6%**	**4%**	**5%**	6%	6%	6%
111% to 120%	**7%**	**6%**	**7%**	7%	8%	7%
121% to 130%	**7%**	**8%**	**7%**	7%	9%	8%
131% to 140%	**7%**	**11%**	**9%**	8%	13%	10%
141% to 150%	**7%**	**12%**	**9%**	8%	10%	9%
151% to 160%	**8%**	**10%**	**9%**	8%	11%	9%
161% to 170%	**8%**	**9%**	**9%**	8%	9%	8%
171% to 180%	**7%**	**7%**	**7%**	5%	5%	5%
Greater than 180%	**14%**	**23%**	**16%**	10%	16%	14%
Subtotal	**71%**	**90%**	**78%**	67%	87%	76%
Total	**100%**	**100%**	**100%**	100%	100%	100%
	€m	**€m**	**€m**	€m	€m	€m
Residential mortgages greater than 90 days in arrears	**3,164**	**2,023**	**5,187**	2,437	1,663	4,100

38. Financial risk management (continued)

Loan origination profile of the residential mortgage loan portfolio before provision for impairment:
For the Group the table below illustrates that €7.9bn or 32% of the ROI residential mortgage portfolio and €2.2bn or 30% of the UK residential mortgage portfolio originated before 2006. Between 2006 and 2008 origination was €15.8bn or 64% of the ROI residential mortgages and €5.2bn or 70% for the UK residential mortgages. The residual of 4% of the ROI residential mortgage portfolio and 0% of the UK residential mortgage portfolio were originated between 2009 and 2012. For the Company the ROI residential mortgage portfolio €7.9bn or 33% originated before 2006, €15.4bn between 2006 and 2008 or 64% and the residual 4% between 2009 and 2012.

Group	**31 December 2012**							
	ROI residential mortgages portfolio		**Impaired ROI residential mortgages portfolio**		**UK residential mortgages portfolio**		**Impaired UK residential mortgages portfolio**	
	Number	**Balance €m**	**Number**	**Balance €m**	**Number**	**Balance €m**	**Number**	**Balance €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**

Group	31 December 2011							
	ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio		UK residential mortgages portfolio		Impaired UK residential mortgages portfolio	
	Number	Balance €m	Number	Balance €m	Number	Balance €m	Number	Balance €m
1996 and before	7,857	130	921	19	194	8	4	-
1997	2,766	66	261	9	89	4	3	-
1998	3,482	110	292	14	350	30	3	-
1999	5,198	206	497	29	671	72	4	-
2000	6,101	306	545	39	600	58	4	-
2001	6,199	375	582	48	811	85	5	1
2002	8,319	648	604	61	997	108	9	1
2003	11,917	1,107	846	106	2,066	305	19	3
2004	16,238	1,971	1,252	196	4,018	602	59	12
2005	22,243	3,476	2,099	465	6,221	959	113	25
2006	30,775	6,319	3,750	1,065	9,265	1,480	95	21
2007	26,923	6,118	3,856	1,239	12,753	2,384	359	69
2008	18,103	3,667	2,523	758	6,834	1,367	100	20
2009	4,765	608	288	62	139	22	-	-
2010	1,758	180	18	3	42	8	-	-
2011	1,162	132	1	-	5	1	-	-
Total	173,806	25,419	18,335	4,113	45,055	7,493	777	152

38. Financial risk management (continued)

Company	31 December 2012				31 December 2011			
	ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio		ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio	
	Number	Balance €m	Number	Balance €m	Number	Balance €m	Number	Balance €m
1996 and before	6,499	96	36	2	7,857	130	921	19
1997	2,257	55	17	1	2,766	66	261	9
1998	3,239	94	36	4	3,482	110	292	14
1999	4,867	181	82	8	5,198	206	497	29
2000	5,752	274	139	15	6,101	306	545	39
2001	5,939	346	207	26	6,199	375	582	48
2002	7,746	596	314	43	8,319	648	604	61
2003	11,455	1,033	668	100	11,917	1,107	846	106
2004	15,770	1,866	1,232	219	16,238	1,971	1,252	196
2005	21,809	3,346	2,310	549	22,243	3,476	2,099	465
2006	30,387	6,122	4,429	1,282	30,775	6,291	3,750	1,068
2007	25,961	5,879	4,287	1,408	26,221	5,986	3,518	1,141
2008	16,626	3,337	2,540	799	16,823	3,412	2,017	630
2009	4,377	534	329	73	4,474	556	203	43
2010	1,711	172	38	5	1,758	180	18	3
2011	1,148	130	3	-	1,162	132	1	-
2012	611	61	1	-	-	-	-	-
Total	166,154	24,122	16,668	4,534	171,533	24,952	17,406	3,871

(v) Transfers 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 receivables 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 securities; and
(ii) securitisation activities in which loans and receivables 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

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 receivables to customers (note 17) 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 the transferred assets during the term of the arrangement.

Securitisations

The Group sells loans and receivables 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, then the transfer is from the Group (that includes the consolidated SPE) to investors in the notes. 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. Derecognition of the transferred assets is prohibited because the cash flows that it collects from the transferred assets on behalf of the investors are not passed through to them without material delay. 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 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 2012	Sale and repurchase agreements		Securitisations	
	Group €m	Company €m	Group €m	Company €m
Carrying amount of assets	22,101	17,192	1,512	14,306
Carrying amount of associated liabilities	13,723	13,723	1,231	13,912
Liabilities that have recourse only to the transferred financial assets				
Fair value of assets	18,285	14,087	1,207	9,982
Fair value of associated liabilities	13,748	13,748	1,041	8,455
Net position	4,537	339	166	1,527

38. Financial risk management (continued)

(b) Transferred financial assets that are derecognised in their entirety

The Group has not transferred any financial assets that were derecognised in their entirety.

(vi) Reinsurance assets - discontinued operations (comparatives only)

The Life Group cede insurance and investment risk to a number of reinsurance companies. There were three main categories of reinsurance assets as set out below:

Group	31 December 2011 €m
Assets held in a charged account	1,417
Assets where credit risk is borne by the policyholder	39
Other assets where credit risk is borne by the shareholder	662
Total	2,118

The assets held in a charged account are in respect of reinsurance treaties for annuity business, where all withdrawals from the charged account have to be authorised by Irish Life Assurance plc. Assets are managed in accordance with a mandate which matches the assets and liabilities.

The reinsurance assets where the credit risk is borne by the shareholder are broken down by credit rating of the counterparty as follows:

Group	31 December 2011 €m
Rating	
Aa	247
A	415
Total	662

38. 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 portfolio at appropriate maturities or rates.

The ELG scheme has been critical in providing Irish financial institutions with access to funding. The ELG Scheme, which ptsb joined on 4 January 2010, facilitates debt issuance for terms up to 5 years. The scheme enabled the Group to secure longer term funding, as evidenced by the issuance under the ELG Scheme of a 3 year US $1.75bn bond in January 2010, a 5 year €2bn bond in March 2010 and a 5 year €1.25bn bond in April 2010, all of which are guaranteed by the ELG Scheme. The charge to the income statement in respect of the ELG scheme for the year ended 31 December 2012 was €165m (31 December 2011: €173m) as disclosed in note 6. On 26 February 2013, the Minister for Finance announced the withdrawal of the ELG scheme from 29 March 2013. This announcement is not expected to have a significant adverse effect on the volume or cost of funding. The cost of ELG will fall significantly as deposits mature.

Without the Government guarantee, the cost and availability of funding is influenced by the credit rating allocated to the Group by industry rating agencies. A downgrade of the Group's credit rating may increase financing costs and restrict market access whilst an upgrade may achieve a corresponding improvement. At 31 December 2012, the un-guaranteed long-term unsecured senior debt of ptsb was rated; Moody's Investor Services Limited Ba2 and Standard and Poor's B+. The ratings change for ptsb when covered by the Irish Government guarantee scheme to Moody's Investor Services Limited Ba1 and Standard and Poor's BBB+.

The downgrading of the Group and sovereign credit ratings, the EU / IMF Programme of Financial Support for Ireland and the consequent withdrawal of funds from Irish banks have affected the Group's funding plans in 2011 and 2012. There have been significant ongoing liquidity challenges for the Group and for the Irish banking system generally and these challenges gave rise to breaches of regulatory liquidity requirements in 2011 and the first six months of 2012. The downgrade in credit ratings and the risk of further sovereign or Group downgrades has limited the Group's access to capital markets in the last few years. However strong deposit flows and the proceeds from the sale of the Life Group in 2012 has resulted in a decrease in its recourse to Eurosystem financing facilities. At 31 December 2012, the Group had €10.7bn (31 December 2011: €11.7bn) of collateralised funding from the European Central Bank as disclosed in note 24.

In 2011 and in early 2012, the Group used collateral to access special liquidity facilities from the CBI. If required, the Group expects to have sufficient collateral to enable it to access these facilities to meet its immediate and estimated funding requirements for the coming year.

Liquidity management for the Group is carried out by the Group's treasury function. In carrying out this responsibility, treasury's principle objective is to ensure that the Group has sufficient funding available, at an optimal cost, to meet the operational needs of the bank and to adhere to regulatory and prudential requirements. 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;
- Statement of financial position 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 statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt securities in issue.

The Group's liquidity policies and protocols establish quantitative rules and targets in relation to measurement and monitoring of liquidity risk. The ALCO plays a fundamental role in the monitoring of liquidity risk measures through the monthly review of liquidity reports.

The ALCO monitors sources of funding and reviews short-term and long-term borrowings and their respective maturity profiles. The Group's funding profile was:

	31 December 2012 %	31 December 2011 %
Customer accounts	**45**	37
Long-term debt	**33**	29
Short-term debt	**22**	34
	100	100

An analysis of the maturity profile of debt securities in issue is given in note 26. ECB drawings are reflected in the above table in accordance with their contractual maturities. As a result of the dislocation of financial markets in the last few years, the Group's access to wholesale funding remains challenging, durations shortened and credit spreads widened. However, the Group has the ability to use the loan book as collateral for borrowings as detailed in note 17.

The ALCO also monitors the dependencies inherent in funding by reviewing the Group's usage of lines of credit with financial institutions.

Liquidity reports to the ALCO each month include the loan-to-deposit ratio which stood at the end of 2012 at 191% compared to 227% at the end of 2011.

The regulatory protocol, under which the Group operates, requires levels of liquidity based on various cash flow stress tests. The key limits applied are that an institution must have sufficient available liquidity to cover 100% of outflows over the next 8 days and 90% of outflows over the subsequent 9 – 30 days. The Group monitors the liquidity ratio daily and reports weekly to the CBI. 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 since 15 December 2010. However, at the date of signing of this Annual Report the Group is compliant with these limits.

38. 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 and as such will not agree directly with the balances on the consolidated statement of financial position. 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 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**

31 December 2011	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	6,423	7,536	-	-	-	3,125	17,084
Customer accounts	7,959	2,288	1,383	2,129	1,044	882	15,685
Debt securities in issue	14	111	123	69	2,888	6,970	10,175
Subordinated liabilities	-	-	-	41	40	545	626
Derivative liabilities	(17)	(56)	(6)	43	(103)	(16)	(155)
Total liabilities	14,379	9,879	1,500	2,282	3,869	11,506	43,415

The Group does not manage liquidity risk in the basis of contractual maturity. Instead the Group manages liquidity risk based on forecast expected cash flows.

The table below presents the expected cash flows used by management in managing liquidity risk. Cash flows with respect to debt securities and loans and receivables are based on contractual maturity. However, it is assumed that eligible pledged / repo'd collateral with ECB or other counterparties becomes available when the secured funding matures. Customer deposit flows reflect certain management assumptions, within regulatory guidelines, as to the stability of various non-Government deposits. Derivatives instruments are included in the table based on the expected cash flows. Debt securities and debt securities in issue also includes management assumptions around the future eligibility of bonds issued and bought by the Group itself.

The Group manages the inherent liquidity risk based on expected cash inflows and cash outflows. This maturity mismatch approach takes into account the inherent stability of particular funding sources. This approach is inherent to ensure that the bank can meet all its obligations as they fall due while continuing to provide for all other funding requirements of the bank. Regulatory limits based on this approach are imposed.

The Group's forward looking approach to liquidity management also incorporates running stressed scenarios for the purposes of contingency funding. The inclusion of information on financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

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**
Assets							
Debt securities	**4,363**	**1,552**	**1**	**-**	**2**	**3,124**	**9,042**
Loans and receivables to banks	**336**	**-**	**-**	**-**	**-**	**-**	**336**
Loans and receivables to customers	**2,335**	**1,883**	**365**	**736**	**975**	**24,968**	**31,262**
Derivative assets	**26**	**89**	**31**	**(16)**	**40**	**105**	**275**
Total assets	**7,060**	**3,524**	**397**	**720**	**1,017**	**28,197**	**40,915**
Liabilities							
Deposits by banks	**2,974**	**5,927**	**-**	**-**	**-**	**5,122**	**14,023**
Customer accounts	**1,922**	**1,131**	**298**	**541**	**314**	**13,311**	**17,517**
Debt securities in issue	**1,350**	**3,287**	**1,325**	**68**	**252**	**2,269**	**8,551**
Subordinated liabilities	**-**	**-**	**-**	**40**	**40**	**504**	**584**
Derivative liabilities	**14**	**33**	**18**	**23**	**49**	**204**	**341**
Total liabilities	**6,260**	**10,378**	**1,641**	**672**	**655**	**21,410**	**41,016**
Gap	**800**	**(6,854)**	**(1,244)**	**48**	**362**	**6,787**	**(101)**

38. Financial risk management (continued)

31 December 2011	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
Assets							
Debt securities	3,841	3,881	3	12	27	1,304	9,068
Loans and receivables to banks	829	-	-	-	-	-	829
Loans and receivables to customers	688	1,342	478	838	947	28,422	32,715
Derivative assets	22	59	10	(42)	108	37	194
Total assets	5,380	5,282	491	808	1,082	29,763	42,806
Liabilities							
Deposits by banks	7,411	7,544	-	-	-	3,095	18,050
Customer accounts	1,886	769	337	468	192	12,571	16,223
Debt securities in issue	37	3,556	130	70	2,856	2,615	9,264
Subordinated liabilities	-	-	-	41	41	545	627
Derivative liabilities	37	40	25	26	48	146	322
Total liabilities	9,371	11,909	492	605	3,137	18,972	44,486
Gap	(3,991)	(6,627)	(1)	203	(2,055)	10,791	(1,680)

The balances in the above tables will not agree directly to the consolidated statement of financial position as the tables incorporate all cash flows, on an undiscounted basis, related to both principal and interest payments.

The following table details the Group's liquidity analysis for derivative instruments that are not used 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 by the yield curves at the end of the reporting year.

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)**
At 31 December	**6**	**21**	**(2)**	**-**	**-**	**3**	**28**

31 December 2011	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)	-	(3)	(2)	2	(5)
Gross settled:							
FX forwards							
- inflow	1,309	1,601	5	-	-	-	2,915
- outflow	(1,335)	(1,629)	(5)	-	-	-	(2,969)
At 31 December	(27)	(29)	-	(3)	(2)	2	(59)

38. Financial risk management (continued)

3. Market risk

Market risk is the risk of change in fair value of a financial instrument due to changes in equity prices, property prices, interest rates or foreign currency exchange rates. All market risks within the Group are subject to strict internal controls and reporting procedures and are monitored by the Group's ALCO. All 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 Board.

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, mark to market / stop loss reports and is reported on an overall basis.

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 and trading portfolio. VaR reports are produced and quantified by treasury risk management and reported to Senior Management daily and to the ALCO on a monthly basis.

The prices of similar financial instruments do not 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.

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.

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 2012, a 1% increase is (€45.0m) negative and a 1% decrease is €46.8m positive.

	31 December 2012	31 December 2011
	€m	€m
Euro		
1% increase	**(45.0)**	(60.9)
1% decrease	**46.8**	43.8

Mark to market / stop loss limits are applied to the trading portfolio and to individual traders. Group treasury report stop losses to Senior Management on a daily basis.

Value at risk – non-trading and trading	**31 December 2012**	31 December 2011
	€m	€m
At 31 December	**3.1**	3.7
Average	**4.7**	9.9
Minimum	**2.7**	3.7
Maximum	**7.6**	29.2

The non-trading book comprises the bank'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 Group treasury.

The Group does not operate an active trading book and consequently there was no significant value at risk in the Group's trading portfolio at 31 December 2012 and 31 December 2011.

38. Financial risk management (continued)

3.1 Interest rate risk

Interest rate risk is managed principally through monitoring interest rate gaps. Repricing gap is a duration based interest rate gap analysis which displays the bank'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 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.

On a daily basis management are provided with the following analysis:

- Deals are grouped into assets and liabilities in each currency;
- Deals are grouped in quarterly 'buckets' according to their duration;
- Weighted average rates for the various 'buckets' of assets and liabilities are calculated and displayed;
- A break-even rate is calculated and displayed; and
- Five year equivalent risk figure is calculated and displayed.

A summary of the Group's interest rate gap position is as follows:

Interest Rate Repricing

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**	

38. Financial risk management (continued)

31 December 2011

	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	32,938	369	524	3,557	742	38,130
Sterling	7,029	78	33	153	-	7,293
US dollar	32	-	4	89	-	125
Other	1	-	-	-	-	1
Total assets (A)	40,000	447	561	3,799	742	45,549
Liabilities						
Euro	(25,182)	(1,269)	(1,823)	(7,202)	(2,166)	(37,642)
Sterling	(3,102)	(16)	(18)	(25)	-	(3,161)
US dollar	(169)	(5)	(6)	(1,376)	-	(1,556)
Other	(12)	(8)	-	(10)	-	(30)
Total liabilities (B)	(28,465)	(1,298)	(1,847)	(8,613)	(2,166)	(42,389)
Derivatives						
Euro	284	63	(181)	2,895	(297)	2,764
Sterling	(4,021)	(54)	(22)	(131)	-	(4,228)
US dollar	124	-	-	1,299	-	1,423
Other	-	8	-	10	-	18
Derivatives affecting interest rate sensitivities (C)	(3,613)	17	(203)	4,073	(297)	(23)
Interest rate repricing gap						
Euro	8,040	(837)	(1,480)	(750)	(1,721)	3,252
Sterling	(94)	8	(7)	(3)	-	(96)
US dollar	(13)	(5)	(2)	12	-	(8)
Other	(11)	-	-	-	-	(11)
Interest rate repricing gap (A) + (B) + (C)	7,922	(834)	(1,489)	(741)	(1,721)	3,137
Cumulative interest rate repricing gap	7,922	7,088	5,599	4,858	3,137	

38. Financial risk management (continued)

4. Operational risk

Operational risk at ptsb is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk management within the Group also addresses regulatory risk which is defined as the risk of uncertainty in profits due to unforeseen changes in regulation. Regulatory risk is not the failure to meet regulations (that is compliance risk), rather it is the risk that the Group is not sufficiently aware of the changing regulatory environment, increasing the cost of compliance and reducing the effectiveness of risk management processes.

The Group operates an industry standard operational risk framework which includes the measurement and monitoring of both operational and regulatory risk. The aim of this framework is to help focus management attention on the subset of operational risks which are material at each level of the organisation (either in terms of financial impact, or more broadly because of reputational or regulatory impacts).

Group management, and each of the business units within the Group, identify the material operational risks to which they are exposed. The identification process is based on a detailed review of business activities, supplemented by reference to external industry information. Each business unit has a designated operational risk manager who is responsible for coordinating operational risk management within that business unit. The local management team of each business unit is responsible for reviewing and authorising the register of main operational risks for each business unit on an annual basis.

The Group operational risk framework utilises the business unit operational risk registers to identify the Group's material operational risks. Materiality is determined by a quantitative and qualitative assessment of each risk by reference to its likelihood of incidence and potential impact. These material operational risks are regularly reported to the Enterprise Risk Management Committee and the BRCC. The Enterprise Risk Management Committee is responsible for steering progress on the measurement and mitigation of these risks. Key risk indicators are used to carry out this monitoring process.

Each of the operational risks considered material for the Group is the subject of a documented, in depth analysis of the cause and impact of the risk. An appropriate control environment is established to protect against the risk.

A sub-register of significant operational risks at business unit level is also maintained by the Group. Each of the business units (or Group function as appropriate) manages and monitors these operational risks to Group requirements.

ptsb has a formal, documented Operational Risk Policy which has been approved by the Board.

Operational risk recording
The Group operates an industry best practice risk and event recording database. The database is managed by the Group Operational Risk function and records all operational risk (including regulatory risk and reputational risk) events and near misses across the Group. Risk events and their associated impact are analysed in accordance with the Group's operational risk categories which also comply with Basel II requirements. All loss events are recorded in the register.

The operational risk database generates risk reports for review at the Enterprise Risk Management Committee meetings. Each report details the number of operational risk loss events and near misses by business unit for the period.

Operational risk economic capital
ptsb employs the Basel II standardised approach as the basis for calculating economic operational risk. This approach utilises an established multiplier ("beta" factor) against a three- year average "risk-weighted relevant indicator" measure of net income to derive a capital requirement. The beta multipliers are drawn from Basel II benchmark values and are differentiated by business line.

Operational risk mitigation
Operational risk cannot be entirely eliminated from an entity's business operations. Acknowledging this fact, the Group has implemented risk mitigation techniques (such as business continuity planning for example) to reduce the level of this risk where possible. The Group maintains a comprehensive suite of insurance cover in order to mitigate against operational risk to the extent possible. Aligned closely to the operational risk event types established by Basel II, insurance cover includes:

- Theft and fraud (internal and external);
- Civil liability;
- Employer's liability;
- Business interruption;
- Directors' and officers' liability; and
- Natural catastrophe cover (business continuity planning).

38. Financial risk management (continued)

5. Discontinued operations (comparatives only)

5.1 Liquidity risk

Liquidity risk for the Life Group's unit-linked funds was managed by Irish Life Investment Managers, by means of asset selection process. For certain property linked funds there is the ability to defer encashment for up to six months to allow time to sell properties. If properties cannot be sold within this period then the shareholder may have to provide liquidity for these funds. A deferral period is applied to most property linked funds, but the shareholder is not providing liquidity to the funds. The liquidity position of the property linked funds is monitored on a regular basis by the Life Assurance Financial Risk Committee. The liquidity risk for non-linked funds is managed through the matching of asset and liability cash flows as shown in the liquidity risk table for Life Group.

The following tables set out the expected cash flows for the assets and liabilities relating to insurance contract liabilities including discretionary participating contracts where the shareholder is exposed to a financial risk. They exclude all unit-linked funds.

31 December 2011	Not more than 1 year	Over 1 year but less than 5 years	Over 5 years but less than 10 years	Over 10 years but less than 20 years	Over 20 years	No fixed term	Total
	€m	€m	€m	€m	€m	€m	€m
Assets							
Debt securities	290	505	619	582	1,216	-	3,212
Equities	-	-	-	-	-	5	5
Investment properties	-	-	-	-	-	2	2
Reinsurance assets	86	336	434	848	1,171	-	2,875
Total assets	376	841	1,053	1,430	2,387	7	6,094
Liabilities							
Insurance contracts	277	782	954	1,803	1,992	-	5,808
Gap	99	59	99	(373)	395	7	286

The Life Group is also exposed to financial risk on certain investment contracts, principally tracker products where the shareholder has given the guarantee and other fixed interest return single premium bonds. Both assets and liabilities are held at fair value in the statement of financial position. It is Group policy to purchase assets to match liabilities. The undiscounted cash flows for the assets and liabilities by maturity date are:

31 December 2011	Not more than 1 year	Over 1 year but less than 5 years	No fixed term	Total
	€m	€m	€m	€m
Assets				
Debt securities	40	208	-	248
Derivative assets	3	13	-	16
Total assets	43	221	-	264
Liabilities				
Investment contracts*	41	213	52	306
Gap	2	8	(52)	(42)

*Liabilities relating to financial options and guarantees are derived using stochastic modelling techniques, and are shown in the "no fixed term" column above.

Shareholders' assets in excess of those required to back the insurance and investment contract liabilities of the Life Group are predominately invested in cash, fixed interest and property assets. An analysis of the shareholders' regulatory capital held in respect of the life and fund management business, is set out below:

	31 December 2011
	€m
Property	190
Equities	19
Debt securities	27
Deposits	443
Other assets and liabilities, including regulatory adjustments	105
	784

Life Group liabilities are primarily denominated in euro and it is Group policy to match the currency exposure of the liabilities and the underlying assets.

38. Financial risk management (continued)

5.2 Market risk

The Life Group investment policies set out the principles in respect of the management of market risk. They are determined by the Irish Life Assurance plc Board and are designed to ensure that investment activity is carried out in a prudent and controlled manner. They are subject to annual review by the Irish Life Assurance plc Board. The policies take into account the differing requirements and risk profiles of different classes of policyholder funds, whether the investments are in respect of guaranteed or non-guaranteed business and the solvency and financial strength requirements of the life companies. Adherence to the policy is monitored by the Life Assurance Financial Risk Committee.

	Liability as at 31 December 2011*
Unit-linked funds where the financial risks are primarily borne by the policyholders	22,339
Other policyholder liabilities	3,966
Unit-linked tracker bonds** and non-linked fixed-interest return single premium bonds	253
Discretionary participation insurance contracts	27
Investment financial options and guarantees	52
	26,637

* Liabilities before reinsurance.

** Only includes unit-linked tracker bonds where the investment guarantee is given by the shareholder (it is Group policy to purchase assets to match these liabilities). Tracker bonds where the investment guarantee is given by a third party and the shareholder is not at risk are included in unit-linked funds liabilities.

The Life Group holds assets at fair value to back the liabilities set out above together with the assets relating to the Life Group solvency capital and free shareholder funds.

Unit-linked funds

For unit-linked funds, which comprise nil (2011: 92%) of the Life Group's long-term insurance and investment contracts net of reinsurance liabilities, policyholders primarily bear the investment risk, with changes in the underlying investments being matched by changes in the underlying contract liabilities. On a day-to-day basis, cash outflows which are necessitated by policyholders withdrawing their funds are generally met by cash inflows from new investors. In circumstances where funds are contracting, or to meet unusually high levels of withdrawals, the Group sells assets in the fund in order to meet the cash demands with any dealing costs charged to the underlying unit-linked fund and consequently the policyholders. The underlying assets in the unit-linked funds are subject to credit and market risks in the form of interest rate, equity prices, foreign exchange and other market risks depending on the fund, including movement in property values. These changes are matched by changes in the unit-linked liabilities.

Accordingly, the Life Group is not directly exposed to significant liquidity, credit or market risks, although the policyholders' benefits will vary as a consequence. As the Life Group is not exposed to any significant financial risk on assets or liabilities held within unit-linked funds, these are excluded from the risk analysis.

Decreases in the capital value of unit-linked funds (as a result of falls in market values of equities, property or fixed- interest assets) will, however, reduce the future annual investment management charges that will be earned from unit- linked business. An additional risk the Life Group faces in respect of unit-linked business is the risk that increases to surrender rates for both insurance and investment contracts reduces the value of future investment management charges. Actions to control and monitor this risk include charges applicable on some products where the investor surrenders early, regular experience monitoring, consideration of the sensitivity of product profitability to levels of lapse rates at the product development stage and initiatives within the relevant businesses to encourage customer retention.

Equity / property price risk

Equity / property price risk is defined as the risk of a potential loss in market values due to an adverse change in prices including changes in the value of investment properties. Investment in equities and property is generally limited to investments to match commitments to policyholders or to match a portion of the liabilities under discretionary participation contracts. The Group's shareholders are exposed to direct equity / property holdings in its shareholder assets, including assets acquired through providing liquidity support to certain property-linked funds, and from the indirect impact of changes in the value of equities and properties held in policyholder funds from which management charges are taken. The Group manages the Life Group measuring earnings in accordance with the European Embedded Value ("EEV") Principles issued in May 2004 by the European Chief Financial Officers' Forum.

Derivative risk

Derivatives are permitted to be held only as part of efficient portfolio management. All investments made are within the parameters set down by Senior Management as well as by statutory requirements. There is regular reporting of asset and liability mismatches to investment committees within the business units and to the Life Assurance Financial Risk Committee.

Interest rate risk

The Life Group carry interest rate risk exposures on its debt securities and its loans to banks portfolio and on its fixed-rate insurance and investment liabilities. It is the Group's policy where possible to match its asset and liability profile and this is monitored on a regular basis by the investment committees within each business unit and by the Life Assurance Financial Risk Committee.

38. Financial risk management (continued)

5.3 Insurance risk

Insurance risk is the risk associated with the variability in liability cash flows caused by fluctuations in policyholder claims under insured events. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risks are that the frequency of claims or the severity of claims is greater than expected. Insurance events are random by their nature and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Life Group manages its insurance risk through underwriting limits, approval procedures for new products and reinsurance where appropriate.

Reinsurance is managed in accordance with approved policy and is regularly reviewed by the Life Assurance Financial Risk Committee.

Insurance risk falls into three main categories:
- Life assurance contracts;
- Annuity contracts; and
- Insurance contracts with a discretionary participation feature.

Life assurance contracts

These are contracts where the benefit is payable on death or serious illness. The benefit may be a lump sum or in the case of serious illness an annual income stream which may be fixed or escalate at a fixed rate or in line with a relevant index.

Insurance risks associated with life insurance contracts include the risk of epidemics, accidents and changes in lifestyle such as smoking habits and stress-related diseases.

Life assurance contracts may be unit-linked or non-linked. For unit-linked contracts the Life Group charges for the insured risk on a monthly basis and has the right to alter these charges based on its risk experience. In this way the Life Group can limit its exposure. Non-linked business may be group business or individual contracts. Group business is normally written for a maximum of a three-year term and the insurance risk may be repriced at the end of each term. For individual business written for a fixed term there are no mitigating terms and conditions which reduce the insurance risk. Individual business risk is managed through the inclusion of medical selection in the underwriting criteria and through reinsurance of the risk.

The sum-at-risk amounts net of reinsurance are as follows:	31 December 2011 €m
Unit-linked contracts	8,604
Non-linked contracts	
- Individual	15,980
- Group	35,170

The calculation of the insurance contract liabilities allows for the discounted expected cost of the sum at risk amounts shown above using mortality and morbidity assumptions and interest rate assumptions.

Annuity contracts

These are contracts where the policyholder, in return for a single premium paid at the start of the contract, purchases an annual income stream for the remainder of his or her life. Annuities may be level, escalate at a fixed rate or in line with a relevant index.

Payments are often guaranteed for a minimum term regardless of survival. Annuities may also continue after death, in full or in part, to a surviving partner.

The main insurance risk associated with this product is longevity risk and in particular that improvements in medical science and social conditions would increase longevity. In recognition of this risk, in 2002 the Group decided to reinsure 57% of the in force portfolio of annuity contracts. All new annuity business written between 2002 and 2009 was 100% reinsured. Under the reinsurance treaties, longevity risk is borne by the reinsurance companies. Assets are held by the reinsurance companies in charged accounts, all withdrawals from which have to be authorised by Irish Life. Assets are managed in accordance with a mandate which matches the asset and liabilities.

The backing assets are held by Irish Life and are not transferred to the reinsurance company.

The reserves held for annuity contracts are as follows:	31 December 2011 €m
Gross	2,584
Reinsurer's share	(1,440)
	1,144

Insurance contracts with a discretionary participation feature

The Life Group has a closed book of with-profit business where the policyholder benefits from a discretionary annual bonus and a discretionary final bonus. There has been no new business written since it was set up as a closed fund in 1990. The shareholder does not participate in the with-profit fund. The assets of the fund are invested in a fund which invests in a mixture of equities and fixed-interest securities.

The Life Group has discretion on the level of bonuses declared.

The total guaranteed sums assured in the future and bonuses payable on death at 31 December 2011 were €34m. Technical provisions at 31 December 2011 were €27m which on a discounted cash flow basis are sufficient to meet fund liabilities.

39. Current / non-current assets and liabilities

The following tables provide an analysis of certain asset and liability line items, at 31 December 2012 and at 31 December 2011, 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).

Group	31 December 2012			31 December 2011		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	€m	**€m**	**€m**	€m	€m	€m
Assets						
Cash and balances at central banks (note 13)	**71**	**-**	**71**	88	-	88
Items in the course of collection (note 13)	**76**	**-**	**76**	109	-	109
Debt securities (note 14)	**2,815**	**4,012**	**6,827**	3,087	3,570	6,657
Derivative assets (note 15)	**59**	**153**	**212**	10	237	247
Loans and receivables to banks (note 16)	**1,396**	**-**	**1,396**	1,623	-	1,623
Loans and receivables to customers (note 17)	**336**	**31,422**	**31,758**	319	33,358	33,677
Assets classified as held for sale (note 5 (a))	**-**	**-**	**-**	28,841	-	28,841
Assets classified as held for sale (note 5 (b))	**-**	**-**	**-**	56	-	56
Assets classified as held for sale (note 5 (c))	**-**	**-**	**-**	3	-	3
Liabilities						
Deposits by banks including central banks (note 24)	**8,789**	**5,038**	**13,827**	13,942	3,024	16,966
Customer accounts (note 25)	**14,852**	**1,787**	**16,639**	13,307	1,066	14,373
Debt securities in issue (note 26)	**2,728**	**3,777**	**6,505**	100	8,256	8,356
Derivative liabilities (note 15)	**46**	**315**	**361**	68	232	300
Subordinated liabilities (note 30)	**-**	**337**	**337**	-	317	317
Liabilities classified as held for sale (note 5 (a))	**-**	**-**	**-**	27,828	-	27,828

Company	31 December 2012			31 December 2011		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	€m	**€m**	**€m**	€m	€m	€m
Assets						
Cash and balances at central banks (note 13)	**70**	**-**	**70**	87	-	87
Items in the course of collection (note 13)	**76**	**-**	**76**	98	-	98
Debt securities (note 14)	**2,820**	**9,529**	**12,349**	3,105	8,584	11,689
Derivative assets (note 15)	**59**	**248**	**307**	10	248	258
Loans and receivables to banks (note 16)	**967**	**-**	**967**	1,187	-	1,187
Loans and receivables to customers (note 17)	**290**	**25,916**	**26,206**	272	33,176	33,448
Assets classified as held for sale (note 5 (a))	**-**	**-**	**-**	1,300	-	1,300
Assets classified as held for sale (note 5 (c))	**-**	**-**	**-**	3	-	3
Liabilities						
Deposits by banks including central banks (note 24)	**8,685**	**5,038**	**13,723**	13,942	3,001	16,943
Customer accounts (note 25)	**15,012**	**1,748**	**16,760**	18,727	1,450	20,177
Debt securities in issue (note 26)	**2,728**	**3,779**	**6,507**	100	7,304	7,404
Derivative liabilities (note 15)	**46**	**315**	**361**	67	231	298
Subordinated liabilities (note 30)	**-**	**337**	**337**	-	317	317

Notes to the Financial Statements

40. Business combinations and goodwill

31 December 2012

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 the current year, 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**

Impact of the acquisitions on the results of the Group

The assets and liabilities acquired have been fully integrated into the funding model of the Group's business since the acquisition date and therefore it is impractical to separately assess the impact of the Northern Rock Ireland acquisition on the results of the Group.

31 December 2011

Irish Nationwide Building Society (INBS)

The Group announced on 24 February 2011 (date of acquisition), pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court, that INBS has transferred selected assets and liabilities into the Group's banking business with immediate effect. This transfer was made in the context of the EU / IMF programme of financial support for Ireland. The management expects that this transfer will broaden the customer base and provide liquidity to the Group.

As a result of this transfer the Group's Banking Ireland operation has acquired the following:

- €3.1bn of INBS deposits;
- €3.4bn of bonds;
- Irish Nationwide (IOM) Limited (100%) and
- certain other assets and liabilities.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

Consideration transferred

	€m
Cash and bonds transferred	105
Settlement of pre existing relationship	(74)
Total consideration	31

In consideration for the acquisition, the Group transferred cash of €29m and an Irish Government gilt at a fair value of €76m. The fair value of the gilt was based on the market value on the date of acquisition.

The Group acquired and redeemed €74m of ptsb's bonds as part of the INBS acquisition. Included in other operating income in the prior year income statement is €19m gain resulting from the settlement of pre-existing relationship i.e. buying back own debt securities.

Acquisition related costs amounting to €1.5m have been excluded from the consideration transferred and have been recognised as an expense in 2011, within administrative expenses, in the income statement.

40. Business combinations and goodwill (continued)

Identifiable assets acquired and liabilities assumed at the date of acquisition

	Irish Nationwide (IOM) Limited	Other	Total
	€m	€m	€m
Assets			
Debt securities	-	3,358	3,358
Loans and receivables to banks	135	-	135
Other assets	2	-	2
Intangible assets	-	124	124
Liabilities			
Deposits (Customer accounts)	(434)	(3,137)	(3,571)
Deferred tax liability	-	(16)	(16)
Other liabilities	(1)	-	(1)
Fair value of total identifiable net assets	(298)	329	31
Consideration			(31)

Debt securities includes €2.8bn of senior bonds issued by NAMA, €0.4bn in Government gilts and €0.2bn in corporate bonds. NAMA bonds are not traded in an active market so accordingly they have been classified within the loans and receivables portfolio. The gross contractual amounts receivable on these bonds amounted to €3.7bn, at acquisition date.

The Group acquired €3.6bn of deposits from INBS, €0.4bn in the IOM portfolio and €3.2bn in the ROI portfolio. These deposits comprised of retail and corporate customers and the funds were held in term (78%), demand (11%) and notice (11%) deposit products.

Impact of the acquisitions on the results of the Group

The assets and liabilities acquired have been fully integrated into the funding model of the Group's business since the acquisition date and therefore it is impractical to separately assess the impact of the INBS acquisition on the results of the Group.

41. Commitments and contingencies

The tables 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.

Capital commitments	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Guarantees and irrevocable letters of credit	**5**	7	**5**	5
Commitments to extend credit				
- less than 1 year	**336**	361	**336**	361
- 1 year and over	**66**	83	**66**	83
Total commitments to extend credit	**402**	444	**402**	444
Total capital commitments	**407**	451	**407**	449

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:

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	€m	€m	**€m**	€m
Less than 1 year	**8**	8	**8**	8
Greater than 1 year and less than 5 years	**32**	30	**32**	30
Greater than 5 years	**44**	53	**44**	53
Total operating lease commitments	**84**	91	**84**	91

These leases typically run for a period of 25 years, with remaining average term ranging from 10 - 15 years and with an option to renew the lease after that date. Lease payments may be increased every five years to reflect market rentals. None of these leases include contingent rentals.

Other contingencies
The Group, like all other banks, 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 Financial Regulator (Insurance Section) into deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (formerly Anglo Irish Bank) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). At 31 December 2012, these investigations were still ongoing.

Discontinued operations (Life Group)

Capital commitments
At 31 December 2011, the Life Group, had entered into capital commitments of €6m in respect of venture capital funds.

Operating lease commitments
The Life Group leased various offices under non-cancellable operating leases. The future aggregate minimum payments under these leases were as follows:

	31 December 2011
	€m
Less than 1 year	2
Greater than 1 year and less than 5 years	9
Greater than 5 years	8
Total operating lease commitments	19

These leases typically ran for a period of 25 years, with remaining average term ranging from 15 - 20 years and with an option to renew the lease after that date. The lease payments could be increased every five years to reflect market rentals. None of these leases included contingent rentals.

Other contingencies
The Life Group, like all other insurance companies, were subject to litigation in the normal course of its business. Based on legal advice, the Life Group did not believe that any such litigation would have had a material effect on its income statement at 31 December 2011.

As part of the agreement in August 2011 to dispose of Irish Life International Limited, the Group provided certain indemnities and warranties to the purchaser under a number of identified scenarios. At 31 December 2011, the Group believed that the crystallisation of any claim against the Group was unlikely.

42. Related parties

The Group has a related party relationship with its Directors and Senior Management, its associate and the Group's pension schemes. Also, as a result of the Group's participation in Government Guarantee Schemes as described below and the issuance of the Group ordinary shares to the Minister for Finance, as disclosed in note 31, the Group also 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 2012			31 December 2011		
	Ordinary shares	Options	Share awards	Ordinary shares	Options	Share awards
Alan Cook	-	-	-	-	-	-
Jeremy Masding (appointed 28 February 2012)	-	-	-	-	-	-
Emer Daly	-	-	-	-	-	-
Dominic Dodd (appointed 01 October 2012)	-	-	-	-	-	-
Margaret Hayes	-	-	-	-	-	-
Sandy Kinney	-	-	-	-	-	-
Ray MacSharry	-	-	-	-	-	-
David McCarthy (resigned 29 June 2012)	-	-	-	39,479	138,520	-
Pat Ryan	-	-	-	-	-	-
Ciarán Long (Company Secretary)	16,629	37,010	-	16,629	45,410	-

David McCarthy resigned from the Board and as Group Finance Director respectively on 29 June 2012 as part of the sale of the Life Group.

(B) Transactions with key management personnel

Key management personnel include Non-Executive Directors, Executive Directors and ExCo. The Executive Director and members of the ExCo are listed below:

Key management personnel at 31 December 2012	
Jeremy Masding	Group Chief Executive Officer
Bill Hannan	Chief Risk Officer
Tony Hession	Group Head of Human Resources and Organisational Development
Appointed during the year:	
Kieran Bristow	Group Treasurer
Toby Clements	Chief Operating Officer
David Curtis	Customer Credit Director
Emil Ivanov	Group Strategy and Planning Director
Brendan Lynott	Distribution Director
Glen Lucken	Interim Chief Finance Officer
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
Resigned during the year ended 31 December 2012	
David Guinane	Chief Executive – permanent tsb
David Harney	Chief Executive – Irish Life Corporate Business*
Gerry Hassett	Chief Executive – Irish Life Retail*
Brendan Healy	Group Chief Information Officer - Irish Life*
Gerry Keenan	Chief Executive – Irish Life Investment Managers*
David McCarthy	Group Finance Director *
*Resigned as part of the sale of the Life Group.	

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 they are included in taxable expenses. 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.

42. Related parties (continued)

Total compensation to key management personnel is as follows:	**Year ended 31 December 2012 €'000**	Year ended 31 December 2011 €'000
Fees	**567**	670
Taxable benefits	**78**	56
Salary and other benefits	**4,487**	3,798
Pension benefits - defined benefit[1]	**257**	132
- defined contribution	**230**	31
Equity-settled benefits	**-**	26
	5,619	4,713

[2]For key management who are members of a defined benefit scheme, the pension benefit included above is the increase / (decrease) in transfer value during the year. For defined contribution schemes, the benefit included above are the contributions made by the Group to the scheme.

Number of key management personnel as at year end is as follows:	**31 December 2012**	31 December 2011
Non-Executive Directors	**7**	7
Executive Directors and Senior Management	**13**	9
	20	16

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 2012 €'000	31 December 2011 €'000
Balances		
Loans	**2,571**	256
Unsecured credit card balances and overdrafts	**10**	4
Deposits	**1,063**	1,263
Life assurance[1]	**-**	7,262
Pension policies[2]	**-**	4,485

1,2 Following the sale of the Life Group the liability in respect of these policies no longer resides with the Group as these policies are issued by the Life Group.

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Transactions during the year		
Loan advances	**38**	33
Loan repayments	**136**	204
Interest on loans	**63**	10
Interest on deposits	**(48)**	(40)
Life assurance and pension premiums	**42**	199
Life assurance claims	**-**	313

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 2012	**Balance as at 1 Jan €'000**	**Advances during period €'000**	**Principal repaid €'000**	***Sold by the Group during the year €'000**	**Balance as at 31 Dec €'000**	**Interest paid €'000**	**Maximum balance €'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 5(b). Therefore, at 31 December 2012 this loan is not considered part of loans to key management personnel.

31 December 2011	Balance as at 1 Jan €'000	Advances during period €'000	Principal repaid €'000	Balance as at 31 Dec €'000	Interest paid €'000	Maximum balance €'000
David McCarthy	136	-	136	-	(1)	136
	136	-	136	-	(1)	136

The loan to David McCarthy was fully repaid at 31 December 2011. At 31 December 2012, there was no interest outstanding on loans by the Directors / former Directors hence, no provision has been made for bad debts as was the case at 31 December 2011.

42. Related parties (continued)

(C) Irish Life Group Limited and its entities (the Life Group)
The Life Group, a wholly owned subsidiary of the Group was sold to the Minister for Finance on 29 June 2012. Following the sale, the Executive Chairman of the Group, Alan Cook, continues to serve as Executive Chairman of both ptsbgh and the Life Group.

As explained in (F) below, the Irish Government is recognised as a related party as it is deemed to have control over the Group as defined by IAS 24 Related Party Disclosures. Therefore, pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court on 28 March 2012 and the Share Repurchase Agreement signed on 29 June 2012, the Life Group is also recognised as a related party to the Group from 30 June 2012 due to the common control under the ownership of the Irish Government.

Outstanding balances between the Group and Life Group at 31 December 2012 are as follows:

	Notes	2012
		€m
Deposits included in customer accounts	25	**(581)**
Loans included in loans and receivables to customers	17	**413**
Net amounts due to the Life Group		**(168)**

A Separation Management Agreement was signed between ptsbgh and the Life Group on 29 June 2012 which deals with post separation support between the parties.

A Transitional Services Agreement was signed which is valid for 15 months from 29 June 2012. Under this Agreement the Life Group will provide support post sale for the key services of IT, HR and Payroll.

Irish Life bancassurance business continues to be sold through ptsb branches and the Group has a commission agreement with ILA (irish Life Assurance) for this business. Upon satisfying conditions, the Group is paid commission for bancassurance business written with ILA through ptsb. The targets were not reached in 2012 and as a result no commission was paid by ILA (2011: €nil).

(D) Former associate undertaking
Following the sale of the Life Group, Allianz – Irish Life Holdings plc ("Allianz"), a former associated company of the Group, which is held directly by the Life Group, is still recognised as a related party to the Group, as both the Group and the Life Group are under the common control of the Irish Government.

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 amounted to €6m (31 December 2011: €7m). In addition, a former subsidiary of the Group, Irish Life Investment Managers Limited had an investment agreement with Allianz. Fees earned under this agreement, to the date of disposal of the Life Group, amounted to €0.2m (31 December 2011: €0.4m). At 31 December 2012 the net balance due to Allianz of €0.9m (31 December 2011: €1.2m). All transactions with Allianz are priced on an arms-length basis.

(E) Other
In the normal course of business the Group's former subsidiary, Irish Life Investment Managers Limited (held directly by the Life Group) provided investment management to the Group's pension schemes. Fees earned under these agreements, to the date of disposal of the Life Group, amounted to €0.65m (31 December 2011: €3.3m).

(F) Irish Government and Government related entities
The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU / IMF programme for Ireland. The Act applies to covered institutions who have received financial support from the State. The Act also provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring action and recapitalisation measures envisaged in the programme. This allows the Minister to take the actions required to bringing about a domestic retail banking system that is proportionate to and focused on the Irish economy.

Following the High Court order made under the Credit Institutions (Stabilisation) Act 2010 the Group issued ordinary shares to the Minister for Finance. Hence, the 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 between the Group and the Government and Government related entities that are collectively significant.

ptsb and its subsidiary Permanent Bank International Ltd are participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") which guarantees certain eligible liabilities (including deposits) of up to five years in maturity. On 26 February 2013, the Minister for Finance announced the withdrawal of the ELG scheme from 29 March 2013.

The Group issued a 3 year US$1.75bln bond in January 2010, a 5 year €2bln bond in March 2010 and a 3 year €1.25bln bond in April 2010, all of which are guaranteed by the ELG Scheme. In January 2011, the Group issued a €3.4bln bond under the ELG Scheme which was bought by the Group itself. This bond has been rolled over throughout the year and at 31 December 2012 the amount in issue was €3.1bln.

42. Related parties (continued)

The charge to the income statement in respect of the ELG Scheme for the period ended 31 December 2012 was €165m (31 December 2011: €173m). The liabilities covered by the scheme at 31 December 2012 amounted to €14,452m (31 December 2011: €14,165m).

The Group holds securities issued by the Government and Government related entities of €5,410m (31 December 2011: €5,909m).

Customer accounts include deposits of €601m (31 December 2011:€nil) placed by the NTMA.

At 31 December 2012, the Group held €0.5bn of deposits placed by the CBI under the Special Mortgage Backed Promissory Note ("SMBPN") programme (31 December 2011: €nil). The deposits are secured by way of fixed floating charge over €1.6bn of ROI residential mortgages. See note 25 for further details. At 31 December 2012, there was no exceptional liquidity assistance from the Central Bank's exceptional liquidity facility (31 December 2011: €2.3bn). These deposits are secured on €nil (31 December 2011: €6.3bn) of ROI residential mortgages. See note 24 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.

The previously held investment property portfolio of the Group, held directly through the Life Group, included properties for which the Office of Public Works ("OPW"), on behalf of Government departments, is a tenant. These property investments were held in unit-linked funds. The total unit-linked rental income earned from these leases amounted to €6m (31 December 2011: €12m) out of a total rental income of €68m (31 December 2011: €146m) to the date of disposal of the Life Group. Some other investment properties might have included tenants who are agencies financed by the Government.

On 29 March 2010, the Group through its former subsidiary Irish Life Assurance plc, acquired 17 million B shares in National Asset Management Agency Investment Limited ("NAMAIL"), corresponding to one-third of the 51 million B shares issued by NAMAIL. NAMAIL also issued 49 million A shares to National Asset Management Agency ("NAMA"). As a result, the Group held 17% of the total ordinary share capital of NAMAIL which cost the Group €17m in acquiring these B shares. These shares have been disposed of as part of the sale of the Life Group.

The Government also has a 100% shareholding in Irish Bank Resolution Corporation Limited and a controlling interest in Allied Irish Bank plc including EBS Limited (formerly Educational Building Society) 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 the IAS 24.

The following table summarises the balances between the Group and these financial institutions:

		Debt securities held	Derivative assets	Loans and receivables to banks	Deposits by banks (including central banks)	Derivative liabilities
		€m	€m	€m	€m	€m
Irish Bank Resolution Corporation (formerly Anglo Irish Bank)	**2012**	**149**	**-**	**-**	**-**	**-**
	2011	131	-	-	-	-
EBS Limited (formerly Educational Building Society)	**2012**	**95**	**-**	**-**	**-**	**-**
	2011	146	-	174	-	-
Allied Irish Bank p.l.c	**2012**	**175**	**7**	**-**	**-**	**13**
	2011	239	1	29	-	17
Bank of Ireland	**2012**	**244**	**1**	**-**	**-**	**-**
	2011	255	-	103	78	-

42. Related parties (continued)

Company

In addition to the above relationships with Allianz and key management personnel, 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 arms length basis. The following amounts were included in the Company statement of financial position in respect of transactions with related parties:

	31 December 2012 €m	31 December 2011 €m
Loans and advances to credit institutions	**317**	351
Loans and receivables to customers		
Interest-bearing	**1,864**	7,745
Non-interest bearing	**308**	257
Debt Securities	**5,522**	5,038
Derivatives	**95**	10
Other assets	**7**	7
Liabilities		
Customer accounts*	**446**	6,076
Debt securities in issue	**1,233**	1,872
Derivatives	**-**	-
Other liabilities	**3**	32

*At 31 December 2011 Customer accounts include deposits of €683m from the Life Group. At the 31 December 2012, the Life Group is no longer a subsidiary of the Group, therefore these balances are not disclosed in the table above.

At 31 December 2012, the company held pools of mortgages amounting to €13,799m (31 December 2011: €19,140m) 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 2012, the company holds €13,286m of these notes (31 December 2011: €17,424m) to use as collateral against borrowings, this reduction is due to the loan notes of Fastnet Securities 4 Ltd being fully redeemed in December 2012.. Details of this collateral are included in note 17.

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 39 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 closed to new business in 2011. It has sold pools of mortgages amounting to £5,286m (31 December 2011: £5,478m) 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 2012, the Company holds notes of £4,010m (31 December 2011: £4,171m) 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 remains for Fastnet Securities 8 Limited. At 31 December 2012 this commitment amounted to €37m (2011: €413m).

Transactions with the Parent Company
At 31 December 2012, the amount receivable from the Parent Company amounted to €3m (31 December 2012: €nil).

43. Reclassifications

Reclassifications for the Group in respect of 2011 comparatives on the consolidated income statement are as follows:

Year ended 31 December 2011	As previously reported €m	Adjustment €m	Restated €m
a) Net interest income			
Interest payable	(1,110)	(21)	(1,131)
Administrative expenses			
Amortisation of intangible assets	(25)	21	(4)
b) Administrative expenses	(304)	37	(267)
Restructuring costs	-	(37)	(37)

a) The €21m restated from administrative expenses to net interest income relates to the amortisation of the core deposit intangible, as disclosed in note 21. This is now presented as interest payable as the core deposit intangible arose from the acquisition of the deposit book of business of Irish Nationwide Building Society which are interest bearing liabilities, and more appropriately reflects the cost of the funding of these liabilities.

b) The €37m restated from administrative expenses to restructuring costs relates to costs associated with the voluntary severance scheme operated by the Group in 2011 of €44m, a one-off pension curtailment gain of €9m and costs associated with proposed asset disposal initiatives, separation of the Life Group and the last phase of the 2011 transformation projects of €2m as disclosed in note 11. These costs were restated to enhance comparability to the users of the 2012 Annual Report.

There is no impact on the opening statement of financial position as a result of any of the above changes and therefore a restated statement of financial position was not required.

44. Principal subsidiaries undertakings

Name and registered office	Incorporated in	% of ordinary shares held
permanent tsb Finance Limited 56-59 St. Stephens Green, Dublin 2	Ireland	100
Capital Home Loans Limited Admiral House, Harlington Way, Fleet, Hampshire, GU13 8YA	UK	100
Permanent Bank International Limited (formerly Irish Nationwide IOM Limited) 2nd Floor, Brittannia House, 64 Athol Street Douglas, IM1 1JD	IOM	100
Springboard Mortgages Limited 56-59 St. Stephens Green, Dublin 2 (parent of Springboard Mortgages Limited)	Ireland	100

The principal country of operation of each company is the country in which it is incorporated.

The registered office of permanent tsb plc is 56-59 St. Stephens Green, Dublin 2.

45. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of Euro.

The following tables shows the average and closing rates, for the years ended 31 December 2011 and 2012, used by the Group and Company:

	31 December 2012	31 December 2011
€ / Stg £ exchange rate		
Closing	**0.8161**	0.8353
Average	**0.8118**	0.8713
€ / US$ exchange rate		
Closing	**1.3194**	1.2939
Average	**1.2929**	1.4001

46. Events after the reporting period

No events occurred between the reporting date 31 December 2012 and the date the financial statements were approved for issue by the Board of Directors being 26 March 2013 that may require adjustment to or disclosures in these financial statements.