# Preliminary Statement

For the year ended
31 December 2012

Bank of Ireland Group

For small steps, for big steps, for life

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Bank of Ireland

# Preliminary Statement

for the year ended 31 December 2012

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## Forward-Looking Statement

*This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the Group) plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would', or their negative variations or similar expressions identify forward looking statements. Examples of forward looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected Impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, UK, European and other regulators and plans and objectives for future operations.*

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

- *concerns on sovereign debt and financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;*
- *general economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *the effects of the 2011 PCAR, the 2011 PLAR and the deleveraging reviews conducted by the Central Bank and any further capital assessments undertaken by regulators;*
- *property market conditions in Ireland and the UK;*
- *the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;*
- *the implementation of the Irish Government's austerity measures relating to the financial support package from the EU / IMF;*
- *the availability of customer deposits to fund the Group's loan portfolio;*
- *the outcome of the Group's participation in the ELG scheme;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the NPRFC) and possible increases in the level of such stockholding;*
- *the impact of further downgrades in the Group's and the Irish Government's credit rating;*
- *changes in the Irish banking system;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation and personal insolvency laws by the Irish Government;*
- *the exercise by regulators of powers of regulation and oversight;*
- *the outcome of any legal claims brought against the Group by third parties;*
- *development and implementation of the Group's strategy, including the Group's deleveraging plan, competition for customer deposits and the Group's ability to achieve estimated net interest margin increases and cost reductions; and*
- *the Group's ability to address information technology issues.*

*Analyses of asset quality and impairment in addition to liquidity and funding is set out in the Risk Management section.*

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

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*www.bankofireland.com*

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# Performance Summary

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011[5] €m |
|---|---|---|
| **Group performance on an underlying[1] basis** | | |
| Operating income (net of insurance claims) | 1,880 | 2,058 |
| Operating expenses | (1,638) | (1,645) |
| **Operating profit before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA** | **242** | **413** |
| Impairment charges on loans and advances to customers | (1,724) | (1,939) |
| Impairment charges on available for sale (AFS) financial assets | (45) | (21) |
| Impairment charges on assets sold to NAMA | - | (44) |
| Gain / (loss) on sale of assets to NAMA | (1) | 33 |
| Share of results of associates and joint ventures (after tax) | 41 | 39 |
| **Underlying[1] loss before tax** | **(1,487)** | **(1,519)** |
| Total non-core items | (679) | 1,329 |
| **Loss before tax** | **(2,166)** | **(190)** |
| | | |
| **Group performance (underlying[1])** | | |
| Net interest margin[2] | 1.25% | 1.33% |
| | | |
| **Per unit of €0.05 ordinary stock** | | |
| Basic loss per share (€ cent) | (6.7) | (0.7) |
| Underlying loss per share (€ cent) | (4.7) | (9.6) |
| | | |
| **Divisional performance[3]** | | |
| **Underlying[1] operating profit / (loss) before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA (€ million)** | | |
| Retail Ireland | 159 | 285 |
| Bank of Ireland Life | 97 | 26 |
| Retail UK | 26 | 106 |
| *Retail UK (Stg£ million equivalent)* | *18* | *94* |
| Corporate and Treasury | 507 | 599 |
| Group Centre | (529) | (572) |
| Other reconciling items[4] | (18) | (31) |
| **Underlying[1] operating profit before impairment charges on financial assets and gain / (loss) on sale to NAMA** | **242** | **413** |
| | | |
| **Impairment charges on loans and advances to customers (€ million)** | | |
| Residential mortgages | 462 | 469 |
| Non-property SME and corporate | 413 | 497 |
| Property and construction | 797 | 893 |
| Consumer | 52 | 80 |
| **Impairment charges on loans and advances to customers** | **1,724** | **1,939** |

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: loss on deleveraging of financial assets, (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', cost of restructuring programmes, (loss) / profit on disposal / liquidation of business activities, gain on Contingent Capital Note, gain on liability management exercises, gross-up for policyholder tax in the Life business and investment return on treasury stock held for policyholders. See page 16 for further information.*

[2] *The net interest margin is stated before government guarantee fees.*

[3] *For more details on the performance of each division see pages 27 to 36.*

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

[5] *The impact of amendments to defined benefit pension schemes of €2 million is shown in operating expenses whereas previously it had been shown within non-core items.*

| Balance sheet and funding metrics | 31 December 2012 €bn | 31 December 2011 €bn |
|---|---|---|
| Stockholders' equity | 8.6 | 10.2 |
| Total assets | 148 | 155 |
| | | |
| Total loans and advances to customers (after impairment provisions) | 93 | 102 [1] |
| Total customer deposits | 75 | 71 |
| Loan to deposit ratio | 123% | 144% |
| | | |
| Wholesale funding | 39 | 51 |
| Wholesale funding > 1 year to maturity | 27 | 28 |
| Wholesale funding < 1 year to maturity | 12 | 23 |
| Drawings from Monetary Authorities (net) | 15 | 22 |
| | | |
| **Capital** | | |
| Core tier 1 ratio (PCAR / EBA)[2] | 14.4% | 14.3% |
| Total capital ratio | 15.3% | 14.7% |
| Risk weighted assets (€bn) | 56.5 | 67.1 |

[1] *On the balance sheet on page 64, these amounts are presented on separate lines being Loans and advances to customers and Assets classified as held for sale.*
[2] *Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

# Group Chief Executive's Review

Bank of Ireland has made good progress against our strategic objectives as we enhance our core franchises and rebuild profitability within a restructured, robust balance sheet, in what was another challenging year for the Group. Actions we have taken began to have a positive financial impact in the second half of 2012 giving us good momentum coming into 2013.

**Capital**

Our capital position has remained robust. As at 31 December 2012, the Group's Core tier 1 capital ratio (PCAR / EBA basis) was 14.4% and broadly unchanged from the ratio of 14.3% at 31 December 2011, primarily reflecting actions taken to reduce Risk Weighted Assets (RWAs) offsetting the loss incurred in the year. Our total capital ratio at 31 December 2012 of 15.3% represented an improvement from the ratio of 14.7% at 31 December 2011, partially due to our successful issuance of €250 million 10 year Tier 2 capital in December 2012.

The €10.6 billion reduction in RWAs during the year, to €56.5 billion at 31 December 2012, primarily arose from our actions to dispose of certain loan assets and rundown certain portfolios outside Ireland in order to bring the Group's balance sheet to a more appropriate, sustainable level.

We are awaiting the authorities' finalisation of Basel III requirements which will impact on the Group's regulatory capital measurement and regulatory capital ratios. As a result, any estimates of the impact of Basel III are preliminary and the impact may be mitigated, over the Basel III phase in period, by both earnings and management actions. Nevertheless, our current assumption is that the Common equity tier 1 (CET 1) minimum regulatory requirement under Basel III will be 10% for Bank of Ireland and, on a phased basis, the Group would expect to maintain a buffer above this regulatory requirement. In addition, based on our current interpretation of the draft Basel III regulations, the Group's pro forma CET 1 ratio, including the 2009 Preference stock (which will continue to be considered as CET 1 until 31 December 2017), is estimated at 8.5% as at 31 December 2012, on a 'fully loaded' basis.

**Funding**

Despite extremely competitive deposit markets, particularly in the first half of 2012, our successful focus on reducing deposit pay rates, the strength of our brand franchises and distribution enabled us to increase the Group's deposit volumes by €4.7 billion in 2012 to €75.2 billion at 31 December 2012. In addition, in November 2012, we successfully issued €1 billion of Irish Mortgage Asset Backed Securities.

We have taken a number of actions including deleveraging the Group's balance sheet, repositioning assets within the Group, increasing deposit volumes at less expensive rates and accessing longer term funding markets. At 31 December 2012 these actions resulted in a decrease in the Group's loan to deposit ratio to 123% (2011: 144%), increased the proportion of wholesale funding with a maturity of greater than 1 year to 68% (2011: 55%) and materially reduced the Group's utilisation of Monetary Authority Funding to €15.4 billion. Of this Monetary Authority Funding, €4.4 billion related to NAMA Bonds and €3.1 billion related to the Government guaranteed IBRC repo entered into in June 2012, which was redeemed on a no profit, no loss basis in February 2013. All current Monetary Authority Funding utilisation is through the ECB's Long Term Refinancing Operations (LTRO).

**Focused on key levers to rebuild profitability**

*Operating income*

Total operating income for the year ended 31 December 2012 of €1,880 million was 9% lower than the prior year. The reduction in operating income arose from both a €10 billion (7%) reduction in the Group's average interest earning assets and a reduction in the net interest margin (before ELG costs) from 1.33% to 1.25%, partially offset by a 14% reduction in ELG fees. The lower net interest margin reflected the relatively high cost of customer deposits, particularly in the first half of the year, and the continuing negative impact of historically low official interest rates on earnings from certain of the Group's assets.

Re-building the net interest margin is one of the Group's key priorities. Prior to and during 2012, the Group took a number of actions, including the re-pricing of assets and liabilities, to improve the net interest margin. The benefits from these actions began to manifest themselves in an improvement in the Group's net interest margin to 1.34% in the second half of 2012.

The Group is fully prepared for the announced expiry of the ELG scheme at the end of March 2013 and this should have a materially positive impact on the Group's operating income. ELG costs reduced by €61 million to €388 million for the year ended 31 December 2012 through the implementation of actions to reduce the quantum of deposits covered by the ELG scheme. As a result of these actions, total liabilities covered by the ELG scheme were €26 billion at the end of 2012, compared to €42 billion at 31 December 2011.

*Cost of operations*

Total operating expenses reduced marginally to €1,638 million for the year ended 31 December 2012, compared to €1,645 million the previous year, primarily driven by sustained efforts to reduce costs and deliver efficiencies and despite a significant increase in regulatory costs and the adverse impact of currency exchange translations. In May 2012, the Group recommenced its voluntary redundancy programmes and by the year end the number of people employed in the Group had reduced by c.9% with most of the departures taking place in the last quarter of 2012. The redundancy programmes are continuing in 2013. We are continuing to make appropriate investments to improve our customer propositions and to generate operating efficiencies.

Persistently low bond yields and increased regulatory constraints on investment allocation choices have resulted in an increase in the deficits in the Group sponsored Defined Benefit Pension schemes. A process of engagement has commenced with employees, scheme members, trustees and trade unions on the options available to mitigate these deficits.

*Credit Management*

The economic environment in our principal markets of Ireland and the UK remains difficult. The credit environment remained challenging in 2012, despite some signs of stabilisation in the Irish domestic economy as reflected in modest GDP growth, a levelling off in unemployment levels, some improvement in measurements of consumer sentiment, a stabilisation of house prices in the main urban areas and an increase in commercial real estate transactions driven by overseas investors.

Reflecting this stabilisation, and a range of initiatives we have been taking, there was a reduction in the pace of increase in defaulted loans from the first half of the year to the second half of the year. Impairment charges on loans and advances to customers, available for sale assets and assets sold to NAMA fell from €2,004 million for the year ended 31 December 2011 to a still elevated €1,769 million for the year ended 31 December 2012.

Our international Corporate Banking, unsecured Consumer and UK Mortgage books have continued to perform relatively well. We are seeing some signs of stabilisation in the prime segments of the Irish Commercial Real Estate market, however, other markets in Ireland and in Northern Ireland remain subdued. A similar trend is evident in the Commercial Real Estate sector in Great Britain, with London continuing to enjoy some growth while other regions have remained weak.

Based on the latest available statistics published by the Council of Mortgage Lenders in the UK and by the Central Bank of Ireland, the levels of default arrears in our UK and Irish Mortgage books are below industry averages - roughly a third lower than the rest of the sector for our Irish Owner occupied mortgages. The pace of formation of arrears (both default and early arrears) in our Irish mortgage books reduced steadily from the first quarter of 2012. This reflected some slight improvement in overall economic conditions and both the wide range of actions we have been taking and support we are providing to our mortgage customers who are engaging with us.

A key focus for the Group is working with challenged SME and Mortgage borrowers in Ireland, implementing enhanced processes and solutions to help bring businesses to viability and mortgage customers to sustainable repayment arrangements. We have made considerable progress with these objectives and programmes. €1.4 billion of the SME loan book was benefitting from formal forbearance arrangements at 31 December 2012, while approximately 15,600 of Bank of Ireland's mortgage accounts were receiving formal forbearance solutions. In addition a significant number (c.2,000) of mortgage customers in early arrears and default categories had informal over pay arrangements in place to deal with their arrears on an acceptable basis for the customer and for the Bank. While making good progress on the management of arrears with customers, we are continuing to develop our capabilities to manage our Irish Mortgage risks.

**Our Customers**

We have continued to be focussed on nurturing and developing the Group's core franchises, while working to restructure and strengthen the Group's balance sheet, ensuring we can appropriately fund ourselves, reduce costs and improve efficiencies and manage our credit risks.

In Ireland, the Group has been investing to ensure we have a strong, viable branch network and to further enhance our ebanking and mobile phone banking propositions and our payment systems. We have grown our market shares in the consumer and business banking sectors, meeting our publically disclosed lending targets for mortgages and SMEs, deepened a number of Corporate relationships and won a number of important new Corporate relationships. Our international acquisition finance business has continued to do well, providing an important source of profits for the Group. In the UK we have been very pleased to strengthen, on a mutually beneficial basis, our very important relationship with our UK Post Office Partner during 2012, with the partnership continuing to see strong growth in the numbers of customers to whom it is providing products and services.

**Relationship with the Irish State**

The Group has received support and investment from the Irish taxpayers. We are grateful for this. The State's gross cash investment in the Bank is €4.8 billion. In the period January 2009 to 1 March 2013 the State has received cash of c.€3.8 billion in payments for its support, returns on its investments and repayment of investments. In addition the State holds €1.8 billion in preference shares in the Bank and a 15% equity shareholding in the Bank.

Investment in our Irish businesses and providing products and services to an increasing number of Irish consumers and businesses is vital for our strategic objectives and to enable us achieve sustainable returns for the Group's shareholders. The Irish State is an important customer for the Group and we hold significant investments in Irish Government bonds. We were pleased to have been able to facilitate the State through the IBRC repo transaction entered into in 2012 and terminated in February 2013.

**My Colleagues**

My colleagues throughout our Group have remained resilient, committed and focussed with professionalism on our shared objectives for the Group and for the Group's customers, despite the many challenges we have faced. I am very grateful to my colleagues for this.

**Outlook**

While the economic environment has improved somewhat in recent months it still remains difficult and the Group continues to face many challenges. However, we are starting to see some of the benefits flowing from the focus we have had over the past four years on our strategic objectives aimed at enhancing our core franchises and rebuilding profitability within a restructured, robust balance sheet. My colleagues and I must, and will, continue to keep this focus during 2013 as we strive to reward our shareholders for their patience and their confidence in the Group.

**Richie Boucher**
1 March 2013

# Operating and Financial Review

## Basis of Presentation

This Operating and Financial Review is presented on an underlying basis. For an explanation of underlying see page 16.

Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented.

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

## Overview and Market Environment

**Global and Eurozone Economy**
The pace of growth in the global economy is estimated to have slowed in 2012 to 3.2% (compared to 3.9% in 2011 and 5.1% in 2010). The IMF is forecasting slightly higher growth of 3.5% in 2013[1]. Over the course of 2012, markets have been volatile and risk aversion has been a recurring feature reflecting concerns about sovereign debt dynamics in the eurozone and weak global economic activity, notably in Europe, with both the UK and the eurozone contracting. The ECB has responded by easing monetary policy, reducing the main refinancing rate and continuing to provide longer term funding to the banking sector in an effort to promote stability in the market. The ECB also announced that it could, in certain circumstances, buy bonds of eurozone countries in Troika programmes. The program, called Outright Monetary Transactions (OMT), has reassured markets of ECB support for programme countries and helped to reduce tensions in euro sovereign debt markets. European Governments agreed further support measures for Greece in addition to Spain's banking sector and have also agreed to set up a banking regulator. Modest economic growth continued in the US, where GDP is estimated to have grown by 2.2% in 2012[2] outpacing activity in both the eurozone and UK. That pace of growth has not been sufficient to significantly strengthen the recovery in the jobs market prompting the Federal Reserve to ease monetary policy further by announcing additional asset purchases and implementing new commitments to keep the Federal Funds rate low while unemployment stays above 6.5%.

**Irish Economy[3]**
The Irish recovery has been slow, uneven and dependent on exports. Real GDP rose by 1.4% in 2011, the first full year of growth since 2007 and a modest rise in GDP of 0.8%[4] is forecast for 2012 as Irish consumer demand remained subdued during the year due to high unemployment, while exports growth has been dampened by the difficult external environment. The labour market remains weak as employment is still falling but the pace of decline is now much slower and unemployment appears to have stabilised.

There appears to be signs of stabilisation in the residential property market. Mortgage lending has improved, albeit from a low base, and the value of mortgage drawdowns in Q4 2012 was up 56.3%[5] on the same period in 2011 while residential property prices may have reached a bottom, as prices were flat in the second half of 2012. Government finances are improving and the fiscal targets under the EU / IMF programme are being met. The 2013 Budget estimated that the General Government Deficit in 2012 would be 8.2%[6], more than achieving the target of 8.6%[7], however better than expected tax returns in December 2012 means the final deficit for 2012 may now be lower than 8%. The 2013 Budget target is a deficit of 7.5% of GDP. The NTMA has successfully re-entered the bond market and over the twelve months to January 2013 raised €12.2 billion[8] in new and exchange bonds.

**UK Economy[9]**
Economic activity was very volatile in the UK in 2012, contracting in the first half of the year before rebounding strongly in the third quarter (real GDP expanding by 1.0%, boosted somewhat by unusual factors including the Olympics) but turned negative once again in Q4 with GDP contracting by 0.3%. In response to the slowdown in the UK economy during 2012, the Bank of England increased asset purchases and introduced new credit and liquidity schemes.

Unemployment in the UK has fallen despite the weakness of economic activity. Mortgage lending has remained broadly stable during 2012, improving slightly in the last months of the year, but at c.£9-10 billion per month which is about half the level recorded in a more normal economic and credit environment[10]. The UK property sector has been in an uneven recovery since 2009 and uncertainty remains around the pace and scale of future performance. Average house prices fell by 1% in the year to December 2012 although, the three month moving average has been positive in every month of Q4 following eight consecutive months of declines prior to that, suggesting that the housing market was picking up into the end of 2012[11].

1 *IMF World Economic Outlook update, January 2013*
2 *Bureau of Economic Analysis*
3 *All data in this section, unless stated, is Central Statistics Office (CSO)*
4 *Reuters Consensus Poll, January 2013*
5 *Irish Banking Federation, Mortgage Market Profile, Quarter 4, 2012*
6 *Budget 2013*
7 *Budget 2012*
8 *www.ntma.ie*
9 *All data in this section, unless stated, is Office for National Statistics*
10 *Bank of England, Trends in Lending, January 2013*
11 *Nationwide House Price Index, December 2012*

## Group Income Statement

## Summary Consolidated Income Statement on an Underlying[1] Basis

| | Table | Year ended 31 December 2012 €m | Year ended 31 December 2011[2] €m | Change % |
|---|---|---|---|---|
| Net interest income (before Government guarantee fees) | 1 | 1,746 | 1,983 | (12%) |
| Government guarantee fees | | (388) | (449) | 14% |
| Net other income | 2 | 522 | 524 | - |
| **Operating income (net of insurance claims)** | | **1,880** | **2,058** | **(9%)** |
| Operating expenses | 3 | (1,638) | (1,645) | - |
| **Operating profit before impairment charges on financial assets and (loss) / gain on sale of assets to NAMA** | | **242** | **413** | **(41%)** |
| Impairment charges on loans and advances to customers | 4 | (1,724) | (1,939) | 11% |
| Impairment charges on available for sale (AFS) financial assets | 5 | (45) | (21) | - |
| Impairment charges on assets sold to NAMA | | - | (44) | - |
| (Loss) / gain on sale of assets to NAMA | | (1) | 33 | - |
| Share of results of associates and joint ventures (after tax) | | 41 | 39 | 5% |
| **Underlying[1] loss before tax** | | **(1,487)** | **(1,519)** | **2%** |
| Non-core items | 6 | (679) | 1,329 | |
| *- Loss on deleveraging of financial assets* | *7* | *(326)* | *(565)* | |
| *- (Charges) / gains arising on the movement in the Group's credit spreads[3]* | | *(297)* | *56* | |
| *- Cost of restructuring programmes* | | *(150)* | *3* | |
| *- Gain on liability management exercises* | | *69* | *1,789* | |
| *- Other non-core items* | | *25* | *46* | |
| **Loss before tax** | | **(2,166)** | **(190)** | |
| Tax credit | | 337 | 230 | |
| **(Loss) / profit for the period** | | **(1,829)** | **40** | |
| (Loss) / profit attributable to stockholders | | (1,824) | 45 | |
| Loss attributable to non-controlling interests | | (5) | (5) | |
| **(Loss) / profit for the period** | | **(1,829)** | **40** | |

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 16 for further information.*
[2] *The impact of amendments to defined benefit pension schemes of €2 million is shown in operating expenses whereas previously it had been shown within non-core items.*
[3] *This relates to (charges) / gains arising on the movement in the spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'.*

# Operating income (net of insurance claims)

## Net interest income

**TABLE 1**

| Net interest income / Net interest margin | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Net interest income (before Government guarantee fees) | 1,746 | 1,983 | (12%) |
| IFRS income classifications[1] | (87) | (102) | 15% |
| **Net interest income (before Government guarantee fees) after IFRS income classifications** | **1,659** | **1,881** | **(12%)** |
| **Average interest earning assets (€bn)[2]** | **132** | **142** | **(7%)** |
| **Net interest margin** | **1.25%** | **1.33%** | **(8bps)** |

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

*2 For the year ended 31 December 2011, average interest earning assets of €142 billion include loans and advances to customers before average specific impairment provisions of €4.6 billion.*

**Net interest income (before Government guarantee fees) after IFRS income classifications** of €1,659 million for the year ended 31 December 2012 has decreased by €222 million or 12% compared to the previous year.

The reduction in net interest income is driven by a €10 billion or a 7% reduction in the Group's average interest earning assets and a net reduction of 8 basis points in the average net interest margin. The reduction in average interest earning assets is due to balance sheet deleveraging, loan repayments and impairment provisions partly offset by new lending. The net reduction of 8 basis points in net interest margin reflects the relatively high cost of customer deposits and the continued negative impact of historically low official interest rates.

The Group has taken a number of actions during 2012 to rebuild its net interest margin, including:

- reducing the pay rate on customer deposits in the Irish domestic market while substantially maintaining deposit volumes;
- increasing the standard variable rate on existing UK mortgages by 150 basis points and increasing the standard variable rate on existing Irish mortgages by 50 basis points;
- repricing relevant loan portfolios in Ireland to incorporate a liquidity charge that references the actual cost of funds; and
- obtaining higher margins on new lending, albeit demand for new lending remains muted.

As a result, the Group has seen an improvement in its net interest margin during the second half of 2012 to 1.34%.

The net interest margin (after the cost of Government guarantee fees) reduced to 0.96% in the year ended 31 December 2012 compared to 1.01% in the previous year.

## Government guarantee fees

**Government guarantee fees** of €388 million for the year ended 31 December 2012 are €61 million lower than the previous year. Total liabilities covered by the ELG reduced from €42 billion at 31 December 2011 to €26 billion at 31 December 2012, reflecting the withdrawal of Bank of Ireland (UK) plc and the Group's Isle of Man subsidiary from the scheme, the sale of non ELG covered deposits and the repayment of ELG covered wholesale funding.

On 26 February 2013 the Minister for Finance announced that the Eligible Liabilities Guarantee (ELG) Scheme will be withdrawn from midnight 28 March 2013 from all participating banks. The Group has prepared for and is ready for the

## Government guarantee fees (continued)

withdrawal. Significant progress has already been made to date by the Group on disengaging from the ELG Scheme, and ELG covered liabilities have reduced by 80% from €136 billion in September 2008 to less than €28 billion. The vast majority (c.98%) of Bank of Ireland personal and business customers will not be impacted by the withdrawal of the ELG Scheme, and their deposits will continue to be guaranteed under the existing statutory Deposit Guarantee Scheme (DGS) – a guarantee which covers eligible deposits of all banks regulated by the Central Bank of Ireland. Depositors with BOI (UK) plc are unaffected as this subsidiary came out of the ELG Scheme in 2012.

## Net other income

**TABLE 2**

| **Net other income** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change €m |
|---|---|---|---|
| Net other income | 522 | 524 | (2) |
| IFRS income classifications[1] | 87 | 102 | (15) |
| **Net other income after IFRS income classifications** | **609** | **626** | **(17)** |

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

| **Net other income after IFRS income classifications** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change €m |
|---|---|---|---|
| Other income from Retail Banking and Corporate and Treasury businesses | 476 | 524 | (48) |
| Other income from Bank of Ireland Life | 133 | 169 | (36) |
| **Business income** | **609** | **693** | **(84)** |
| Other items (see below) | - | (67) | 67 |
| **Net other Income after IFRS income classifications** | **609** | **626** | **(17)** |
| | | | |
| **Other Items:** | | | |
| Transfer from available for sale reserve on asset disposal | 60 | (28) | 88 |
| Investment variance - Bank of Ireland Life | 21 | (28) | 49 |
| Economic assumption changes - Bank of Ireland Life | (3) | (19) | 16 |
| Change in valuation of international investment properties | 1 | (12) | 13 |
| European property investment provision | - | (13) | 13 |
| Fair value movements on derivatives hedging the Group's balance sheet | (57) | (5) | (52) |
| BoISS and FCE Corporation | - | 31 | (31) |
| Fair value movement on Contingent Capital Note embedded derivative | (22) | (7) | (15) |
| NAMA related adjustments | - | 14 | (14) |
| | **-** | **(67)** | **67** |

## Net other income (continued)

**Net other income**, after IFRS income classifications, for the year ended 31 December 2012 decreased by €17 million compared to the previous year.

Other income from Banking businesses of €476 million for the year ended 31 December 2012 decreased by €48 million compared to the previous year. The decrease in other income primarily reflects:

- lower levels of net other income associated with lower levels of new business and lower activity levels during the year ended 31 December 2012 when compared to the year ended 31 December 2011; and
- higher commission payments following the extension and strengthening of the financial services relationship with the UK Post Office in the second half of 2012.

Other income in Bank of Ireland Life of €133 million decreased by €36 million from the previous year reflecting a change in the mix of new business sales. Customers continue to invest in and switch to low risk funds, predominantly invested in deposit based products resulting in a higher proportion of Bank of Ireland Life's income being recognised in Net interest income for the year ended 31 December 2012 (€38 million) compared to the previous year (€5 million).

Other items within Net other income, after IFRS income classifications, amount to nil for the year ended 31 December 2012, compared to a net charge of €67 million in the previous year, reflecting:

- a positive movement of €88 million relating to transfers from the available for sale reserve on asset disposals, reflecting a gain of €60 million for the year ended 31 December 2012 following the Group's participation in Irish sovereign exchanges during 2012 compared to a charge of €28 million in the previous year;
- a positive movement of €49 million in the investment variance in Bank of Ireland Life, reflecting a gain of €21 million in the year ended 31 December 2012 compared to a charge of €28 million in the previous year;
- a positive movement of €16 million in economic assumption changes and interest rate movements in Bank of Ireland Life due to a charge of €3 million for the year ended 31 December 2012 compared to a charge of €19 million for the previous year;
- a positive movement of €13 million due to gains of €1 million on international investment properties in the year ended 31 December 2012 compared to a charge of €12 million for the previous year;
- a positive movement of €13 million reflecting a provision on a European investment property for the year ended 31 December 2011 which did not reoccur in 2012;
- a negative movement of €52 million reflecting the accounting impact of fair value movements in derivatives that economically hedge the Group's balance sheet;
- a reduction of €31 million in fees and commissions arising in BoISS and FCE Corporation in the year ended 31 December 2011, businesses which were no longer held by the Group in the year ended 31 December 2012;
- a negative movement of €15 million reflecting the accounting impact of fair value movements on the Contingent Capital Note embedded derivative; and
- a gain of €14 million in the year ended 31 December 2011 arising from a positive fair value movement on a NAMA related derivative which did not reoccur in 2012.

## Operating expenses

| TABLE 3<br>Operating expenses | Year ended 31 December 2012 €m | Year ended 31 December 2011[1] €m | Change % |
|---|---|---|---|
| Staff costs (excluding pension costs) | 771 | 772 | - |
| Pension costs | 59 | 88 | 33% |
| Financial Services Compensation Scheme | 30 | - | - |
| Other costs | 778 | 785 | 1% |
| **Operating expenses** | **1,638** | **1,645** | **-** |
| | | | Change |
| **Staff numbers at period end** | **12,016** | **13,234** | **(1,218)** |
| **Average staff numbers** | **13,091** | **13,671** | **(580)** |

*[1] The impact of amendments to defined benefit pension schemes of €2 million is shown in operating expenses where as previously it had been shown within non-core items.*

**Operating expenses** of €1,638 million for the year ended 31 December 2012 are €7 million lower than the previous year.

During 2012 the Group continued its focus on its strategy to reduce operating expenses and deliver efficiencies, however the savings achieved have been partly offset by the impact of an additional charge in respect of the UK Financial Services Compensation Scheme (FSCS) and the adverse impact of exchange rate movements.

In May 2012 the Group recommenced its voluntary redundancy programmes. These programmes have led to a reduction in staff numbers of 1,218 or 9% since December 2011. The programmes will continue in 2013 and a restructuring charge of €150 million has been included within non-core items in the year ended 31 December 2012.

**Staff costs** (excluding pension costs) of €771 million for the year ended 31 December 2012 were €1 million lower than the previous year. The impact of lower average staff numbers, including the reduction as a result of business disposals, has been partly offset by the adverse impact of exchange rate movements in 2012 together with the significant investments made by the Group in programmes to support customers in financial difficulty.

**Pension costs** of €59 million for the year ended 31 December 2012 were €29 million lower than the previous year. During 2012 the trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed to recover the 2011 and 2012 Irish pension levies from the relevant ROI members. As a result, the current year net charge of €59 million reflects a recovery of €20 million in respect of the 2011 pension levy.

The operating expenses for 2012 include a charge of €30 million in respect of the **UK Financial Services Compensation Scheme (FSCS)**. This charge relates to a levy by the FSCS for costs incurred in respect of actions taken in 2008 to protect and / or compensate depositors in failing UK banks. The charge has been allocated between current FSCS members, including Bank of Ireland (UK) plc, based on deposit volumes at dates on or before 31 December 2012.

**Other costs** of €778 million for the year ended 31 December 2012 were €7 million lower than the previous year. This reflects efficiencies achieved through investment in customer service and technology initiatives and the implementation of initiatives to consolidate, standardise and simplify the Group's operations, partly offset by the cost of investments aimed at further improvement in efficiencies and customer service over time. This includes the extension and strengthening of the financial services relationship with the UK Post Office as well as targeted investments in the future branch model, online and mobile channels.

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## Impairment charges on loans and advances to customers

**TABLE 4**

| **Impairment charges on loans and advances to customers** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Residential mortgages | 462 | 469 | (1%) |
| *- Retail Ireland* | *418* | *444* | *(6%)* |
| *- Retail UK* | *44* | *25* | *76%* |
| Non-property SME and corporate | 413 | 497 | (17%) |
| *- Republic of Ireland SME* | *223* | *281* | *(21%)* |
| *- UK SME* | *53* | *74* | *(28%)* |
| *- Corporate* | *137* | *142* | *(4%)* |
| Property and construction | 797 | 893 | (11%) |
| *- Investment* | *437* | *593* | *(26%)* |
| *- Land and development* | *360* | *300* | *20%* |
| Consumer | 52 | 80 | (35%) |
| **Total impairment charges on loans and advances to customers** | **1,724** | **1,939** | **(11%)** |

**Impairment charges on loans and advances to customers** of €1,724 million for the year ended 31 December 2012 were €215 million or 11% lower than the previous year.

The impairment charge on **Residential mortgages** of €462 million for the year ended 31 December 2012 has decreased by €7 million from €469 million in the previous year.

The impairment charge on the Retail Ireland mortgage portfolio of €418 million for the year ended 31 December 2012 has decreased by €26 million from €444 million in the previous year. While the volume of default arrears (based on loan volumes 90 days or more past due) has continued to increase, the pace of default arrears formation has reduced since the first quarter of 2012. The impairment charge for the six months ended 31 December 2012 amounted to €127 million compared with a charge of €291 million for the six months ended 30 June 2012 and a charge of €304 million for the six months ended 31 December 2011. In addition to the reduction in formation of arrears, the Group has continued to formally restructure a significant number of customer mortgages on a sustainable basis.

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

Owner occupied default arrears (based on loan volumes 90 days or more past due) were 9.88% at 31 December 2012 as compared with 9.22% at 30 June 2012 and 7.40% at 31 December 2011. The volume of default arrears in the Owner occupied segment has continued to increase, primarily reflecting the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and sustained high unemployment levels. However, the pace of Owner occupied default arrears formation (based on loan volumes 90 days or more past due) has been reducing since the first quarter of 2012 reflecting a stabilisation in unemployment levels and the restructure of customer mortgages on a sustainable basis. A similar trend is evident in the less than 90 days past due arrears. The level of Owner occupied default arrears for the Group remains materially below the industry average as published on a quarterly basis by the Central Bank of Ireland.

Buy to let default arrears (based on loan volumes 90 days or more past due) were 23.36% at 31 December 2012 compared to 20.77% at 30 June 2012 and 16.81% at 31 December 2011. The volume of default arrears in the Buy to let segment has continued to increase primarily reflecting the continued impact on borrowers of rising repayments as interest only periods come to an end and customers move to fully amortising loans. As part of the Group's Mortgage Arrears Resolution Strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are

## Impairment charges on loans and advances to customers (continued)

coming to an end, to restructure customer mortgages prior to them moving to fully amortising. The pace of Buy to let arrears formation (based on loan volumes 90 days or more past due) has reduced since the first quarter of 2012, and the level of Buy to let default arrears for the Group remains below the industry average as published on a quarterly basis by the Central Bank of Ireland.

The impairment charge on the Retail UK mortgage portfolio of €44 million for the year ended 31 December 2012 has increased by €19 million from €25 million in the previous year.

Default arrears (number of cases 3+ payments past due) and the associated impairment charge on Retail UK mortgages (particularly in the Standard and Self certified segments) increased marginally in the second six months of the year ended 31 December 2012, albeit from a low base. The level of default arrears for the Group at 1.53% at 31 December 2012 remains below the industry average as published by the Council of Mortgage Lenders.

The impairment charge on the **Non property SME and corporate** loan portfolio of €413 million for the year ended 31 December 2012 has decreased by €84 million from €497 million in the previous year.

Republic of Ireland SME impairment charges of €223 million for the year ended 31 December 2012 have decreased by €58 million from €281 million in the previous year. The impairment charge for the six months ended 31 December 2012 amounted to €100 million compared with a charge of €123 million for the six months ended 30 June 2012 and a charge of €140 million for the six months ended 31 December 2011. The reduction in Republic of Ireland SME impairment charges reflect some early indicators of improvement in certain elements of the SME sector (e.g. strong export performance, lower increase in business insolvencies, and some improvement in the levels of consumer sentiment), however, the sector is fragile and challenges remain. As a result, the level of Republic of Ireland SME impairment charges continues to be at an elevated level, particularly for those sectors correlated with consumer spending.

Impairment charges on the UK SME portfolio reduced to €53 million for the year ended 31 December 2012 compared to €74 million in the previous year, albeit UK economic conditions remain subdued.

The Group's corporate banking portfolios remain broadly stable, with impairment charges on the Corporate portfolios reduced to €137 million for the year ended 31 December 2012 compared to €142 million in the previous year. The domestic Irish Corporate portfolio continues to be impacted by more challenging domestic demand and market conditions, albeit the pace of migration of new cases into our challenged portfolios has reduced. Our international corporate banking portfolios continue to perform satisfactorily reflecting their exposure to global, rather than exclusively Irish, economic indicators.

The impairment charge on the **Property and construction** loan portfolio of €797 million for the year ended 31 December 2012 decreased by €96 million compared to €893 million in the previous year.

The impairment charge on the Investment property element of the Property and construction portfolio was €437 million for year ended 31 December 2012 compared to €593 million in the previous year.
In December 2011, the Irish Government introduced a range of initiatives and policies which addressed a number of areas of market uncertainty. Following this, there have been continued signs of increased activity levels in central business district areas during 2012, with increasing interest from international institutional investors entering the market. As a result, prime investment yields are showing some signs of stabilisation. Outside of prime, central locations, markets remain subdued.

The Irish market has experienced a significant fall in asset values, with Irish commercial property capital values down 67%[1] from peak, reflecting continued low levels of activity and illiquidity in property markets. In addition, a challenging Retail sector for much of 2012, as evidenced by increased retail tenant defaults and vacancy levels, has contributed to continued elevated impairment charges on our Investment property portfolio.

UK commercial property values are down 33%[2] from peak. Conditions in the UK market remained challenging throughout 2012, and the market has become increasingly segmented, with properties in central London continuing to deliver strong returns, however, across the rest of the UK markets have remained weak. The UK retail sector also remains under pressure with a number of high profile tenant failures during 2012.

The impairment charge on the Land and development element of the Property and construction portfolio was €360 million for the year ended 31 December 2012 compared to €300 million for the previous year reflecting the continued challenging conditions in this sector, highly illiquid markets, and deteriorating individual borrower circumstances.

The impairment charge of €52 million on **Consumer** loans for the year ended 31 December 2012 is €28 million lower compared to the impairment charge of €80 million in the previous year. Consumer loans have continued to reduce reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expected in both the Republic of Ireland and the UK.

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

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

## Impairment charge on available for sale (AFS) financial assets

The **impairment charge on available for sale (AFS) financial assets** of €45 million for the year ended 31 December 2012 included a charge of €40 million relating to the NAMA subordinated bonds following NAMA's updated outlook for its long term performance. The charge of €21 million in the previous year was due primarily to a charge of €16 million reflecting the liability management exercise announced by Irish Life and Permanent in respect of their subordinated bonds.

**TABLE 5**

| **Impairment charges on available for sale (AFS) financial assets** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| NAMA subordinated bonds | 40 | - |
| Irish Life and Permanent plc subordinated bonds | - | 16 |
| Other | 5 | 5 |
| **Impairment charges on available for sale (AFS) financial assets** | **45** | **21** |

## Non-core items

Underlying performance excludes non-core items which are those items that the Group believes obscure from the underlying performance trends in the business. The Group has treated the following items as non-core in the year ended 31 December 2012:

**TABLE 6**

| **Non-core items** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change €m |
|---|---|---|---|
| Loss on deleveraging of financial assets | (326) | (565) | 239 |
| (Charges) / gains arising on the movement in the Group's credit spreads[1] | (297) | 56 | (353) |
| Cost of restructuring programmes | (150) | 3 | (153) |
| (Loss) / profit on disposal / liquidation of business activities | (69) | 34 | (103) |
| Gain on Contingent Capital Note | 79 | - | 79 |
| Gain on liability management exercises | 69 | 1,789 | (1,720) |
| Gross-up for policyholder tax in the Life business | 16 | 10 | 6 |
| Investment return on treasury stock held for policyholders | (1) | 2 | (3) |
| **Total non-core items** | **(679)** | **1,329** | **(2,008)** |

[1] *This relates to (charges) / gains arising on the movement in the spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'.*

## Non-core items (continued)

**Loss on deleveraging of financial assets**

During 2012 the Group completed its 2011 to 2013 divestment target of €10 billion of international loans under the 2011 PCAR. This included the sale of Burdale loans of €0.7 billion which were disposed as part of the sale of that business.

An analysis of the divestments completed during the year ended 31 December 2012 (which includes the sale of loan portfolios to third parties together with managed re-financing decisions taken by the Group) is set out below:

**TABLE 7**

| Year ended 31 December 2012 | Consideration received (net of costs) €m | Carrying value of assets derecognised €m | Total loss on deleveraging €m |
|---|---|---|---|
| **Corporate and Treasury division** | | | |
| Project Finance loan portfolios | 817 | 989 | (172) |
| Other international loans | 568 | 599 | (31) |
| **Retail UK division** | | | |
| UK Mortgage loan portfolio | 514 | 635 | (121) |
| UK Investment property loans | 82 | 84 | (2) |
| **Total** | **1,981** | **2,307** | **(326)** |

**(Charges) / gains arising on the movement in the Group's credit spreads**

A charge of €297 million was recognised during the year ended 31 December 2012 arising from reductions in credit spreads relating to the Group's own debt and deposits accounted for at 'fair value through profit or loss'. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits. A gain of €56 million was recognised in the previous year as the relevant credit spreads increased in that year. These charges and gains do not impact the Group's regulatory capital.

**Cost of restructuring programmes**

In May 2012, the Group announced that it had recommenced a series of programmes and initiatives to reduce the number of people employed by the Group, primarily in areas affected by business change and lower activity levels. The Group recognised a charge of €150 million in relation to restructuring programmes at 31 December 2012. The Group recognised a gain of €3 million in the previous year reflecting the release of restructuring provisions in that year.

**(Loss) / profit on disposal / liquidation of business activities**

The loss on disposal of business activities of €69 million in the year ended 31 December 2012 primarily reflects a loss of €14 million which arose on the sale of Burdale and a loss of €56 million which arose on the recycling of foreign exchange reserves on the liquidation of a number of legal entities with a sterling reporting currency within the Group.

As part of the Group's focus on simplifying its corporate structure the Group is winding up a number of wholly owned dormant and non-trading subsidiary companies. In accordance with accounting standards, the cumulative unrealised foreign exchange gains and losses are required to be realised on disposal and recycled through the income statement.

The profit on disposal of business activities of €34 million in the previous year primarily reflects the sale of BIAM, the sale of BoISS and the sale of FCE Corporation, partly offset by a charge relating to the impairment of the goodwill in Burdale following the announcement of the sale of this business to Wells Fargo International Banking Corporation. Further information is set out in note 14.

**Gain on Contingent Capital Note**

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

**Gain on liability management exercises**

A gain of €69 million on liability management exercises was recognised in the year ended 31 December 2012 reflecting the repurchase of certain Group debt securities. Gains of €1,789 million were recognised in the year ended 31 December 2011, reflecting the successful completion in July 2011 of a Debt for Equity Exchange (including a cash offer) together with other liability management exercises completed by the Group during the year ended 31 December 2011.

## Non-core items (continued)

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

**Investment return on treasury stock held for policyholders**
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was a €1 million loss in the year ended 31 December 2012 compared to a €2 million gain in the previous year. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2012 were 24 million units (31 December 2011: 23 million units).

## Taxation

The taxation credit for the Group was €337 million for the year ended 31 December 2012 compared to a taxation credit of €230 million in the previous year. Excluding the impact of non-core items, the effective tax rate for the year ended 31 December 2012 is 17% (taxation credit) which is higher than the comparable rate for the previous year of 11% (taxation credit). The effective tax rate is influenced by changes in the geographic mix of profits and losses and the impact on deferred tax of the reduction in the UK corporation tax rate to 23% with effect from 1 April 2013.

## Group Balance Sheet

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

## Summary Consolidated Balance Sheet

| Summary Consolidated Balance Sheet | Table | 31 December 2012 €bn | 31 December 2011 €bn | Change % |
|---|---|---|---|---|
| Loans and advances to customers (after impairment provisions) | | 93 | 102[1] | (9%) |
| Liquid assets | 8 | 33 | 31 | 6% |
| Other assets | 13 | 22 | 22 | - |
| **Total assets** | | **148** | **155** | **(5%)** |
| Customer deposits | 9 | 75 | 71 | 6% |
| Wholesale funding | 10 | 39 | 51 | (24%) |
| Subordinated liabilities | 11 | 2 | 1 | - |
| Other liabilities | 13 | 23 | 22 | 5% |
| **Total liabilities** | | **139** | **145** | **(4%)** |
| Stockholders' equity | 12 | 9 | 10 | (10%) |
| **Total liabilities and stockholders' equity** | | **148** | **155** | **(5%)** |
| **Loan to deposit ratio** | | **123%** | **144%** | |
| **Core tier 1 ratio (PCAR / EBA)[2]** | | **14.4%** | **14.3%** | |

*[1] On the balance sheet on page 64, these amounts are presented on separate lines being Loans and advances to customers and Assets classified as held for sale.*
*[2] Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

## Loans and advances to customers

The Group's **loan and advances to customers (after impairment provisions)** of €92.6 billion have decreased by 9% since 31 December 2011. Excluding the impact of foreign exchange, loans and advances to customers have decreased by €10.0 billion or 10% during 2012.

The key drivers of the decrease include net loan repayments and loan book sales in particular the UK mortgage and international Corporate portfolios, partly offset by the impact of foreign exchange rate movements.

During 2012, the Group completed its target of €10 billion divestments at a weighted average discount of 8%.

Loan redemptions and repayments in the Group's loan portfolios remain in line with the Group's expectation and the Group expects to reduce the size of its loan book to c.€90 billion by December 2013.

The composition of the Group's loans and advances to customers by portfolio and by division at 31 December 2012 was broadly consistent with 31 December 2011.

The stock of impairment provisions on loans and advances to customers of €7.5 billion has increased by €1.1 billion since 31 December 2011.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in 'Asset Quality and Impairment' of the Risk Management section. See pages 40 to 60.

## Liquid assets

**TABLE 8**

| **Liquid assets** | **31 December 2012 €bn** | 31 December 2011 €bn |
|---|---|---|
| Cash at banks | 9 | 8 |
| *- Irish Bank Resolution Corporation (IBRC)* | *3* | - |
| *- Other* | *6* | *8* |
| Cash and balances at Central Banks | 9 | 8 |
| *- Bank of England* | *8* | *7* |
| *- Other* | *1* | *1* |
| Government bonds | 6 | 5 |
| NAMA senior bonds | 4 | 5 |
| Covered bonds | 3 | 3 |
| Senior bank bonds and other | 2 | 2 |
| | **33** | **31** |

The Group's portfolio of liquid assets of €33.2 billion has increased by €1.9 billion since 31 December 2011. The increase is primarily due to the Group's participation in the IBRC repo transaction of €3.1 billion which it entered into in June 2012. There was also a net incremental investment of €1.5 billion in Irish sovereign and government guaranteed senior bank bonds funded by the long term refinancing operation (LTRO) of the ECB in February 2012. These additions were partly offset by redemptions of NAMA senior bonds, the sale and maturity of covered bonds, and reductions in collateral required to be placed with derivative counterparties.

Of the €33 billion of liquid assets, €8.2 billion relates to Bank of Ireland (UK) plc. During 2012, regulatory approval was granted for the sale of businesses and specific tranches of loans from other Group entities to Bank of Ireland (UK) plc. As a result, loans totalling €5.8 billion were sold from other Group entities to Bank of Ireland (UK) plc during the year, leading to a reduction in the liquid assets held by the Bank of Ireland (UK) plc in excess of regulatory liquidity requirements. At 31 December 2012, Bank of Ireland (UK) plc had a portfolio of liquid assets that was €3.1 billion in excess of regulatory liquidity requirements.

As set out in note 34, the IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013.

Further analysis of the Group's sovereign and other bonds is set out on pages 117 to 125.

## Customer deposits

**TABLE 9**

| **Customer deposits** | **31 December 2012 €bn** | 31 December 2011 €bn |
|---|---|---|
| Retail Ireland | 35 | 36 |
| *- Deposits* | *24* | *25* |
| *- Current account credit balances* | *11* | *11* |
| Retail UK | 30 | 27 |
| Retail UK (Stg£bn equivalent) | 25 | 22 |
| *- UK Post Office* | *19* | *16* |
| *- Other Retail UK* | *6* | *6* |
| Corporate and Treasury | 10 | 8 |
| **Total customer deposits** | **75** | **71** |
| | | |
| **Loan to deposit ratio** | **123%** | **144%** |
| | | |
| Deposits covered by ELG scheme | 21 | 26 |

**Group customer deposits** of €75.2 billion have increased by €4.7 billion since 31 December 2011. On a constant currency basis, the Group's customer deposits have increased by €4.0 billion since 31 December 2011. The Group's loan to deposit ratio was 123% at 31 December 2012 as compared with 144% at 31 December 2011 which is ahead of the Group's targets.

During 2012, a key objective for the Group was to disengage from the Irish Government guarantee scheme (ELG scheme) and further progress was made on this during the year.

During 2012, the Group reduced the volume of customer deposits that were covered by the ELG scheme to €21 billion or 28% of the Group's total customer deposits at 31 December 2012 from €26 billion or 37% at 31 December 2011. Bank of Ireland (UK) plc withdrew from the ELG scheme on 1 April 2012 for all new deposits and the Group's Isle of Man subsidiary withdrew from the scheme with effect from 10 August 2012. There was no adverse impact on deposit volumes following these decisions.

On 26 February 2013 the Minister for Finance announced that the Eligible Liabilities Guarantee (ELG) Scheme will be withdrawn from midnight 28 March 2013 from all participating banks. The Group has prepared for and is ready for the withdrawal. The vast majority (c.98%) of Bank of Ireland personal and business customers will not be impacted by the withdrawal of the ELG Scheme, and their deposits will continue to be guaranteed under the existing statutory Deposit Guarantee Scheme (DGS) – a guarantee which covers eligible deposits of all banks regulated by the Central Bank of Ireland. At 31 December 2012, €22 billion of the Group's customer deposits are guaranteed under the Deposit Guarantee Scheme (31 December 2011: €22 billion). Depositors with BOI (UK) plc are unaffected as this subsidiary came out of the ELG Scheme in 2012. At 31 December 2012, €24 billion of the Bank of Ireland (UK) plc customer deposits are guaranteed under the UK Financial Services Compensation Scheme (FSCS) (31 December 2011: €21 billion).

During 2012 the Group successfully executed a pricing strategy to reduce the cost of and extend the maturity of its deposits, particularly in Ireland, while substantially maintaining deposit volumes. Current account credit balances are in line with the previous year.

Through its strategic partnership with the UK Post Office, the Group's retail deposit gathering activities in the UK continue to exceed expectations and balances amounted to £18.5 billion at 31 December 2012, representing an increase of £2.4 billion since 31 December 2011. Deposits in the Group's other UK businesses performed well and remain broadly in line with 31 December 2011.

In line with the Group's strategy of reducing the price paid for deposits, the Corporate and Treasury division has also significantly reduced the average price it pays for customer deposits. During 2012, deposits balances increased to €10.5 billion. The book primarily comprises a stable base of corporate, SME and structured retail customer deposits, which has proven resilient.

The Group continues to focus on maintaining a granular deposit book with the top twenty depositors representing less than 5% of Group customer deposits at 31 December 2012 (31 December 2011: 2%).

Customer deposits at 31 December 2012 of €75.2 billion (31 December 2011: €70.5 billion) do not include €2.5 billion (31 December 2011: €2.2 billion) of savings and investment products sold by Bank of Ireland Life. These products have a fixed term (typically of five years) and consequently are an additional stable source of retail funding for the Group.

## Wholesale funding

**TABLE 10**

| **Wholesale funding sources** | **31 December 2012 €bn** | **31 December 2012 %** | 31 December 2011 €bn | 31 December 2011 % |
|---|---|---|---|---|
| Secured funding | 31 | 79% | 40 | 78% |
| *- Monetary Authority (gross) other* | *12* | *31%* | *23* | *45%* |
| *- Monetary Authority (gross) IBRC* | *3* | *8%* | *-* | *-* |
| *- Covered bonds* | *7* | *18%* | *6* | *12%* |
| *- Securitisations* | *4* | *10%* | *4* | *8%* |
| *- Private market repo* | *5* | *12%* | *7* | *14%* |
| Unsecured funding | 8 | 21% | 11 | 22% |
| *- Senior debt* | *6* | *16%* | *9* | *18%* |
| *- Bank deposits* | *2* | *5%* | *2* | *4%* |
| **Total Wholesale funding** | **39** | **100%** | **51** | **100%** |
| Wholesale funding > 1 year to maturity | 27 | 68% | 28 | 55% |
| Drawings from Monetary Authorities (net) | 15 | - | 22 | - |
| Wholesale funding covered by ELG scheme | 5 | - | 16 | - |

**Wholesale funding** of €39.3 billion has decreased by €11.4 billion (net) since 31 December 2011 reflecting continued deleveraging of loans and advances to customers, increased deposit volumes across the Group and the sale of assets from other Group entities to Bank of Ireland (UK) plc, leading to a reduction in the liquid assets held by Bank of Ireland (UK) plc in excess of regulatory liquidity requirements. At 31 December 2012, €27 billion or 68% of wholesale funding had a term to maturity of greater than one year (31 December 2011: €28 billion or 55%). This includes the Group's participation in the ECB's December 2011 and February 2012 three year LTROs.

During 2012, following stockholder approval, the Group executed a 364 day repo transaction with the State and IBRC for an amount of €3.1 billion. This transaction increased the Group's holding of liquid assets and the Group's funding from Monetary Authorities. See note 32 for more detail.

Other funding from Monetary Authorities (gross) of €12.3 billion has decreased by €10.2 billion since 31 December 2011 and includes €4.4 billion of funding related to NAMA senior bonds and €1.5 billion of a net incremental investment in Irish sovereign and government guaranteed senior bank bonds as part of the Group's participation in the December 2011 and February 2012 three year LTROs.

In November 2012, the Group accessed public term debt markets for the first time since October 2010 with a €1 billion three-year Irish Asset Covered Security (ACS) transaction. In December 2012 the Group became a member of Eurex Repo, accessing €0.7 billion of liquidity from this platform as at 31 December 2012.

During 2012, the Group repaid €2.7 billion of senior unsecured debt. As the Group continues to meet ongoing deleveraging targets, the Group's requirement for new issuance during 2013 is likely to be significantly lower than scheduled redemptions of secured and unsecured debt.

During 2012, the Group issued and retained Government guaranteed Own-Use Bonds (OUB's) which are eligible for ECB monetary policy operations. While none were in issue at 31 December 2012, the Group has approval to issue up to €9.5 billion of OUB's up to March 2013 if required.

As set out in note 34, the IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013, reducing wholesale funding by €3.1 billion.

## Subordinated liabilities

**TABLE 11**

| **Subordinated liabilities** | **31 December 2012 €m** | 31 December 2011 €m |
|---|---|---|
| Contingent Capital Note | 986 | 1,009 |
| €250 million 10% Fixed Rate Notes | 250 | - |
| Other | 471 | 417 |
| **Total** | **1,707** | **1,426** |

The Group's subordinated liabilities have increased from €1,426 million to €1,707 million during 2012 primarily due to the issue of a new 10% subordinated bond in December 2012 with a maturity of 10 years.

On 9 January 2013, the State sold its entire holding in the Contingent Capital Note to a diverse group of international institutional investors.

## Stockholders' equity

**TABLE 12**

| **Movements in Stockholders' Equity** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| **Stockholders' equity at beginning of period** | **10,202** | **7,351** |
| Movements: | | |
| (Loss) / profit attributable to stockholders | (1,824) | 45 |
| Dividends on preference stock | (196) | (222) |
| Pension fund obligations | (789) | (117) |
| Available for sale (AFS) reserve movements | 875 | 103 |
| Cash flow hedge reserve movement | 148 | 314 |
| Foreign exchange movements | 136 | 180 |
| Purchase of non-controlling interest in Midasgrange | 39 | - |
| 2011 Capital Raising - Net new equity capital issued | - | 2,557 |
| Other movements | - | (9) |
| **Stockholders' equity at end of period** | **8,591** | **10,202** |

**Stockholders' equity** decreased from €10,202 million at 31 December 2011 to €8,591 million at 31 December 2012.

The loss attributable to stockholders of €1,824 million for the year ended 31 December 2012 compares to the profit attributable to stockholders of €45 million in the previous year.

On 20 February 2012, the Group paid a dividend of €188.3 million on the 2009 Preference Stock held by the National Pension Reserve Fund Commission and dividends of €2.3 million and £1.2 million on its euro and sterling Preference Stock respectively. On 20 August 2012, the Group paid dividends of €2.3 million and £1.2 million on its euro and sterling Preference Stock respectively.

The movement in retirement benefit obligations is primarily driven by a reduction in the discount rate from 5.3% to 3.9%. The market value of pension scheme assets increased by 13.4% during 2012.

The AFS reserve movement during 2012 is primarily due to a tightening of credit spreads, particularly on the portfolio of Irish Government bonds.

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

Foreign exchange movements relate primarily to the impact from the translation of the Group's net investments in foreign operations arising primarily from a strengthening of sterling against the euro during 2012 and the recycling of foreign exchange reserves of €56 million on the liquidation of a number of legal entities with a sterling reporting currency within the Group.

There was no new equity capital issued during 2012.

The net new equity capital issued of €2,557 million during 2011 formed part of the additional equity capital requirement of the Group following the 2011 PCAR.

## Other assets and other liabilities

**TABLE 13**

| **Other assets and other liabilities** | **31 December 2012 €bn** | 31 December 2011 €bn |
|---|---|---|
| Other assets | 22.3 | 21.9 |
| *- Bank of Ireland Life assets* | *13.2* | *12.0* |
| *- Derivative financial instruments* | *5.8* | *6.4* |
| *- Deferred tax asset* | *1.7* | *1.4* |
| *- Other assets* | *1.6* | *2.1* |
| Other liabilities | 23.3 | 22.1 |
| *- Bank of Ireland Life liabilities* | *13.2* | *12.0* |
| *- Derivative financial instruments* | *5.3* | *6.0* |
| *- Pension deficit* | *1.2* | *0.4* |
| *- Other liabilities* | *3.6* | *3.7* |

At 31 December 2012, Bank of Ireland Life assets and liabilities were €13.2 billion, an increase of €1.2 billion since 31 December 2011, primarily due to positive investment returns on policyholder managed funds in the year.

Other assets, at 31 December 2012, include derivative financial instruments with a positive fair value of €5.8 billion compared to a positive fair value of €6.4 billion at 31 December 2011. Other liabilities, at 31 December 2012, include derivative financial instruments with a negative fair value of €5.3 billion compared to a negative fair value of €6.0 billion at 31 December 2011. The movement in the fair value of derivative assets and derivative liabilities is due to the impact of the movement in foreign exchange rates (particularly the euro / sterling exchange rate) and interest rates during 2012.

At 31 December 2012, the deferred tax asset was €1.7 billion, an increase of €0.3 billion since 31 December 2011. The increase in the year ended 31 December 2012 is primarily due to the tax effect of further losses in both Ireland and the UK and the increase in the pension deficit from €0.4 billion to €1.2 billion. The deferred tax asset of €1.7 billion at 31 December 2012 includes an amount of €1.5 billion in respect of operating losses which are available to relieve future profits from tax. Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses and based on its estimates of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

At 31 December 2012, the pension deficit was €1.2 billion, an increase of €0.8 billion from 31 December 2011. The primary driver of this increase was a reduction in the discount rate to 3.9% at 31 December 2012 from 5.3% at 31 December 2011 which increased the deficit by €1.2 billion. The reduction in the discount rate is due to the significant fall in yields on high-quality (AA-rated) corporate bonds since 31 December 2011. This was partly offset by higher scheme assets of €0.6 billion.

# Capital

### Regulatory capital and key capital ratios

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| **Capital Base** | | |
| Total equity | 8,604 | 10,252 |
| **Regulatory adjustments** | **(120)** | **(146)** |
| *- Retirement benefit obligations* | *1,154* | *414* |
| *- Intangible assets and goodwill* | *(362)* | *(380)* |
| *- Cash flow hedge reserve* | *(227)* | *(79)* |
| *- Dividend expected on 2009 Preference Stock* | *(162)* | *(162)* |
| *- Available for sale reserve* | *(150)* | *725* |
| *- Capital contribution on Contingent Capital Note* | *(116)* | *(116)* |
| *- Own credit spread adjustment (net of tax)* | *(112)* | *(372)* |
| *- Pension supplementary contributions* | *(54)* | *(117)* |
| *- Other adjustments* | *(91)* | *(59)* |
| Regulatory deductions | (364) | (498) |
| *- Expected loss deduction* | *(242)* | *(366)* |
| *- Securitisation deduction* | *(75)* | *(85)* |
| *- Deduction for unconsolidated investments* | *(47)* | *(47)* |
| **Core tier 1 capital (PCAR / EBA)[1]** | **8,120** | **9,608** |
| Tier 1 hybrid debt | 93 | 92 |
| **Total tier 1 capital** | **8,213** | **9,700** |
| | | |
| **Tier 2** | | |
| Tier 2 dated debt | 1,208 | 1,172 |
| Tier 2 undated debt | 96 | 94 |
| Regulatory deductions | (364) | (498) |
| *- Expected loss deduction* | *(242)* | *(366)* |
| *- Securitisation deduction* | *(75)* | *(85)* |
| *- Deduction for unconsolidated investments* | *(47)* | *(47)* |
| Standardised IBNR provisions | 78 | 111 |
| Other adjustments | 114 | 61 |
| **Total Tier 2 capital** | **1,132** | **940** |
| | | |
| **Total Tier 1 and Tier 2 capital** | **9,345** | **10,640** |
| | | |
| **Regulatory deductions** | | |
| *- Life and pension business[2]* | *(694)* | *(748)* |
| **Total Capital** | **8,651** | **9,892** |

*1 Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

*2 With effect from 1 January 2013 the deduction for the Group's participation in its Life and pension business will be deducted 50:50 from Core tier 1 (PCAR / EBA) and Tier 2 capital in accordance with the Capital Requirements Directive resulting in a 0.6% decrease in the Core tier 1 (PCAR / EBA) ratio.*

## Capital (continued)

| Risk Weighted Assets (RWA) - Basel II | 31 December 2012 €bn | 31 December 2011 €bn |
|---|---|---|
| Credit risk | 51.9 | 61.5 |
| Market risk | 1.0 | 1.1 |
| Operational risk | 3.6 | 4.5 |
| **Total RWA** | **56.5** | **67.1** |

| Key Capital Ratios | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | €bn | % of RWA | €bn | % of RWA |
| Core tier 1 (PCAR / EBA)[1] | 8.1 | 14.4% | 9.6 | 14.3% |
| Tier 1 | 8.2 | 14.5% | 9.7 | 14.4% |
| Total capital | 8.7 | 15.3% | 9.9 | 14.7% |

[1] *Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

**Risk Weighted Assets (RWA)** at 31 December 2012 are €10.6 billion lower than 31 December 2011 primarily due to a reduction in the quantum of loans and advances to customers due to deleveraging, loan repayments, the impact of a higher level of impaired loans at 31 December 2012 as compared to 31 December 2011 and a reduction in operational risk RWA.

The **Core tier 1 (PCAR / EBA) ratio** at 31 December 2012 of 14.4% compares to 14.3% at 31 December 2011 primarily driven by lower RWA partly offset by losses in the year ended 31 December 2012.

The **Tier 1 ratio** at 31 December 2012 of 14.5% compares to 14.4% at 31 December 2011 driven by lower RWA partly offset by losses in the year ended 31 December 2012.

The **Total capital ratio** at 31 December 2012 of 15.3% compares to 14.7% at 31 December 2011 driven by lower RWA, subordinated debt issuance (€250 million issued in December 2012) and a lower expected loss deduction partly offset by losses in the year ended 31 December 2012 and the amortisation of dated debt.

The Group issued a Contingent Capital Note with a nominal value of €1 billion and maturity of five years to the State in July 2011. This Tier 2 classified note would convert into Bank of Ireland ordinary stock on a breach of the Core tier 1 or Common equity tier 1 trigger ratio of 8.25% or on a 'Non-Viability event' as determined by the Central Bank of Ireland. At 31 December 2012, the Core tier 1 ratio of the Group as calculated under the methodology set out in the Contingent Capital Note was 14.4%. In January 2013, the State sold 100% of its holding of the Contingent Capital Note at a price of 101% of its par value plus accrued interest to a diverse group of international institutional investors thereby fixing all future cash coupon payments on the notes at 10% per annum.

## Capital (continued)

**Basel III**

The current assumption is that the Common equity tier 1 (CET 1) regulatory requirement under Basel III will be 10% for Bank of Ireland and, on a phased basis, the Group would expect to maintain a buffer above this regulatory requirement. In addition, based on our current interpretation of the draft Basel III regulations, the Group's pro forma CET 1 ratio, including the 2009 Preference Shares (which will continue to be considered as CET 1 until 31 December 2017), is estimated at 8.5% as at 31 December 2012 on a 'fully loaded' basis.

## Divisional Performance

### Divisional Performance - on an Underlying Basis

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

| Income statement - underlying (loss) / profit before tax | Table | Year ended 31 December 2012 €m | Year ended 31 December 2011[2] €m | Change % |
|---|---|---|---|---|
| Retail Ireland | | (984) | (1,017) | 3% |
| Bank of Ireland Life | | 97 | 26 | - |
| Retail UK | | (366) | (324) | (13%) |
| Corporate and Treasury | | 351 | 386 | (9%) |
| Group Centre | | (567) | (559) | (1%) |
| Other reconciling items[1] | | (18) | (31) | 42% |
| **Underlying loss before tax** | | **(1,487)** | **(1,519)** | **2%** |
| Non-core items | 6 | (679) | 1,329 | |
| **Loss before tax** | | **(2,166)** | **(190)** | |

[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*
[2] *The impact of amendments to defined benefit pension schemes of €2 million is shown in operating expenses whereas previously it had been shown within non-core items.*

## Retail Ireland

Retail Ireland incorporates the Group's Branch Network, Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and is built on a broad distribution platform and a comprehensive suite of retail and business products and services.

Retail Ireland reported an **underlying loss before tax** of €984 million for the year ended 31 December 2012 compared to €1,017 million for the previous year.

| Retail Ireland: Income statement | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Net interest income | 665 | 849 | (22%) |
| Net other income | 330 | 297 | 11% |
| **Operating income** | **995** | **1,146** | **(13%)** |
| Operating expenses | (836) | (861) | 3% |
| **Operating profit before impairment charges on financial assets and gain on sale of assets to NAMA** | **159** | **285** | **(44%)** |
| Impairment charges on loans and advances to customers | (1,149) | (1,297) | 11% |
| Impairment charges on assets sold to NAMA | - | (9) | - |
| Gain on sale of assets to NAMA | 5 | 1 | - |
| Share of results of associates and joint ventures (after tax) | 1 | 3 | - |
| **Underlying loss before tax** | **(984)** | **(1,017)** | **3%** |
| Loans and advances to customers (€bn) | 41 | 45 | |
| Customer deposits (€bn) | 35 | 36 | |

**Loans and advances to customers** (after impairment provisions) of €41 billion at 31 December 2012 have decreased by €4 billion since 31 December 2011. This decrease is primarily a result of loan repayments and subdued demand for new lending across all sectors, together with increased impairment provisions.

**Customer deposits** of €35 billion at 31 December 2012 have decreased by €1 billion since 31 December 2011. During 2012 the Group successfully executed a pricing strategy to reduce the cost of its deposits while substantially maintaining deposit volumes. Current account credit balances of €11 billion at 31 December 2012 are in line with the previous year.

**Net interest income** of €665 million for the year ended 31 December 2012 was €184 million or 22% lower than the previous year. This decrease is driven by the relatively high cost of customer deposits and other funding sources, together with the continued negative impact of historically low official interest rates and lower average loan volumes. These factors have been partly offset by higher lending margins on new lending, albeit demand for new lending remains muted, and by repricing relevant loan portfolios to incorporate a liquidity charge that references the actual cost of funds.

**Net other income** of €330 million for the year ended 31 December 2012 was €33 million or 11% higher than the previous year. This is primarily due to the impact of gains of €1 million on investment properties compared to charges of €12 million in the previous year and the impact of a provision of €13 million in the previous year relating to a court hearing in connection with a European property investment, together with an increase in retail banking fees and commissions in 2012. This was partly offset by the loss of income which resulted from the sale of FCE Corporation in August 2011.

**Operating expenses** of €836 million for the year ended 31 December 2012 are €25 million or 3% lower than the previous year. The impacts of lower staff numbers, lower infrastructure costs and the sale of FCE Corporation in August 2011 were partly offset by investments in a programme to provide support for customers in mortgage arrears. Staff numbers have reduced from 4,965 at 31 December 2011 to 4,297 at 31 December 2012.

The **share of results of associates and joint ventures (after tax)** gave rise to a gain of €1 million for the year ended 31 December 2012 compared to a gain of €3 million in the previous year.

## Retail Ireland (continued)

| Impairment charges on loans and advances to customers | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Residential mortgages | 418 | 444 | (6%) |
| Non-property SME and corporate | 223 | 281 | (21%) |
| Property and construction | 479 | 520 | (8%) |
| Consumer | 29 | 52 | (44%) |
| **Impairment charges on loans and advances to customers** | **1,149** | **1,297** | **(11%)** |

**Impairment charges on loans and advances to customers** of €1,149 million for the year ended 31 December 2012 were €148 million or 11% lower compared to the previous year.

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

## Bank of Ireland Life

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

**Operating profit** of €79 million for the year ended 31 December 2012 was €6 million or 8% higher than the previous year, primarily due to lower operating expenses.

| **Bank of Ireland Life: Income statement (IFRS performance)** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Net interest income | 38 | 5 | - |
| Net other income | 133 | 169 | (21%) |
| Operating income | 171 | 174 | (2%) |
| Operating expenses | (92) | (101) | 9% |
| **Operating profit** | **79** | **73** | **8%** |
| | | | |
| Investment variance | 21 | (28) | - |
| Economic assumption changes | (3) | (19) | 84% |
| **Underlying profit before tax** | **97** | **26** | **-** |

**Operating income** of €171 million for the year ended 31 December 2012 is €3 million or 2% lower than the previous year, primarily as a result of a lower risk discount rate in 2012, offset by the benefit of higher new business volumes and improved persistency and mortality experience. Customers continue to invest in and switch to low risk funds, predominantly invested in deposit based products, resulting in a higher mix of income in interest income.

Bank of Ireland Life has performed well during the year ended 31 December 2012, with sales growing by 4% compared to a market which decreased by 5% over the same period. Market share continues to grow in a challenging environment and had grown to 24% by 31 December 2012. Annual premium equivalent (APE) sales for the year ended 31 December 2012 were 4% higher than the previous year. Higher sales volumes were achieved in regular premium pension products and single premium life products. Bank channel sales were particularly strong over the period.

Experience variances on existing business were positive over the period as actual mortality and morbidity experience compared favourably to that assumed. Persistency experience improved on the prior year and continues to trend towards long term assumptions.

**Operating expenses** of €92 million for the year ended 31 December 2012 are €9 million or 9% lower than the previous year, reflecting efficiencies achieved through investment in customer service and technology initiatives together with lower staff numbers, and a lower property impairment in respect of NIAC's owner occupied property.

The **underlying profit before tax f**or the year ended 31 December 2012 has benefited from a positive investment variance.

During the year ended 31 December 2012, investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €21 million. This compares to a negative investment variance of €28 million in the previous year following a fall in investment markets in that year.

The impact of economic assumption changes and interest rate movements (including changes in the value of sovereign bonds and lower interest rates) gave rise to a net charge of €3 million for the year ended 31 December 2012, compared to a net charge of €19 million for the previous year. As yields fell the value of Government bonds increased during the year ended 31 December 2012. Risk free rates also reduced over the same period. As a result, the discount rate applied to future cash flows was reduced from 7.0% at 31 December 2011 to 6.6% at 31 December 2012 and the future growth rate on unit linked assets was reduced from 4.75% at 31 December 2011 to 4.15% at 31 December 2012.

## Bank of Ireland Life (continued)

**Embedded Value Performance**

| **Bank of Ireland Life: Income Statement (Embedded value performance)** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| New Business profits | 23 | 23 | - |
| Existing business profits | 70 | 60 | 17% |
| *Expected return* | *70* | *73* | *(4%)* |
| *Experience variance* | *2* | *(8)* | - |
| *Assumption changes* | *(2)* | *(5)* | *60%* |
| Inter company payments | (12) | (11) | (9%) |
| **Operating profit** | **81** | **72** | **13%** |
| | | | |
| Investment variance | 42 | (65) | - |
| Economic assumption changes | (13) | (32) | 59% |
| **Underlying profit / (loss) before tax** | **110** | **(25)** | **-** |

The alternative method of presenting the performance of the Life business is on an **Embedded Value basis**. This method is widely used in the life assurance industry.

Under this approach, operating profit for the year ended 31 December 2012 of €81 million was €9 million or 13% higher than the previous year. New business profits of €23 million for the year ended 31 December 2012 were in line with the previous year. Existing business profits of €70 million were €10 million higher than the previous year. Experience variances on existing business were positive over the period as actual mortality and morbidity experience compared favourably to that assumed. Persistency experience improved compared to the previous year and continues to trend towards long term assumptions.

The key assumptions used in the Embedded Value methodology are consistent with those used under the IFRS methodology, being a discount rate of 6.6% (31 December 2011: 7.0%), future growth rate on unit linked assets of 4.15% (31 December 2011: 4.75%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2011: 12.5%).

The **underlying profit before tax**, on an embedded value basis, of €110 million for the year ended 31 December 2012 compares to an underlying loss before tax of €25 million for the previous year.

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## Retail UK (Sterling)

The Retail UK Division incorporates the financial services relationship and foreign exchange joint venture with the UK Post Office, the UK residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Great Britain and Northern Ireland. The Retail UK division includes the activities of Bank of Ireland (UK) plc, a wholly owned UK licensed banking subsidiary that commenced trading on 1 November 2010.

Retail UK reported an **underlying loss before tax** of £300 million for the year ended 31 December 2012 compared to £279 million in the previous year.

| **Retail UK: Income statement** | **Year ended 31 December 2012 £m** | Year ended 31 December 2011 £m | Change % |
|---|---|---|---|
| Net interest income | 298 | 319 | (7%) |
| Net other income | 32 | 103 | (69%) |
| **Operating income** | **330** | **422** | **(22%)** |
| Operating expenses | (312) | (328) | 5% |
| **Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA** | **18** | **94** | **(81%)** |
| Impairment charges on loans and advances to customers | (342) | (375) | 9% |
| Impairment charge on available for sale (AFS) financial assets | (1) | - | - |
| Impairment charge on assets sold to NAMA | - | (23) | - |
| Loss on sale of assets to NAMA | (7) | (6) | (17%) |
| Share of results of associates and joint ventures (after tax) | 32 | 31 | 3% |
| **Underlying loss before tax** | **(300)** | **(279)** | **(8%)** |
| **Underlying loss before tax (€m equivalent)** | **(366)** | **(324)** | **(13%)** |
| Loans and advances to customers (£bn) | 32 | 36[1] | |
| Customer deposits (£bn) | 25 | 22 | |

[1] *Includes Assets classified as held for sale.*

**Loans and advances to customers** (after impairment provisions) of £32 billion have decreased by £4 billion since 31 December 2011. This decrease is primarily a result of loan repayments exceeding new lending coupled with the sale during 2012 of a £0.5 billion portfolio of residential mortgages.

**Customer deposits** of £25 billion have increased by £3 billion since 31 December 2011 driven by a growth in deposits originated under the UK Post Office brand.

**Net interest income** of £298 million for the year ended 31 December 2012 is £21 million or 7% lower than the previous year. The decrease is primarily due to a 14% reduction in average lending volumes and high deposit and other funding costs, partly offset by increased asset pricing, primarily on residential mortgages where the standard variable rate was increased by 150 basis points in two phases during 2012.

**Net other income** of £32 million for the year ended 31 December 2012 is £71 million lower than the previous year. Commissions payable to the UK Post Office and to the Group's provider of ISA savings products were £21 million higher than the previous year, reflecting a combination of a 19% increase in average deposit volumes originated under the Post Office brand and revised commission arrangements for all products agreed with UK Post Office as part of the extension and strengthening of the overall financial services relationship.

Transaction related fees and commissions and foreign exchange income decreased during the year reflecting lower levels of fee generating current account activity and lower transactional activity in other products. Net other income for the year ended 31 December 2011 also included the benefit of certain gains amounting to £22 million (including NAMA related adjustments) which did not re-occur in 2012.

**Operating expenses** of £312 million for the year ended 31 December 2012 are £16 million lower than the previous year. Reductions in staff and infrastructure costs have been partly offset by investment in the relationship with the UK Post Office and higher regulatory costs.

The **share of results of associates and joint ventures (after tax)** of £32 million, which relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, is £1 million higher than the previous year. The Group's share of income from FRES has been maintained despite a continued decline in the overall UK travel market.

## Retail UK (Sterling) (continued)

| Impairment charges on loans and advances to customers | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m | Change % |
|---|---|---|---|
| Residential mortgages | 35 | 22 | 59% |
| Non-property SME and corporate | 43 | 64 | (33%) |
| Property and construction | 246 | 265 | (7%) |
| Consumer | 18 | 24 | (25%) |
| **Impairment charges on loans and advances to customers** | **342** | **375** | **(9%)** |

**Impairment charges on loans and advances to customers** of £342 million for the year ended 31 December 2012 were £33 million or 9% lower than the previous year.

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

## Corporate and Treasury

The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. During the year ended 31 December 2012, the Group has divested of certain project finance loan portfolios, the Burdale business and certain other international loans, all of which formed part of the Corporate Banking business.

| Corporate and Treasury: Income statement | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Net interest income | 633 | 742 | (15%) |
| Net other income | 57 | 44 | 30% |
| **Operating income** | **690** | **786** | **(12%)** |
| Operating expenses | (183) | (187) | 2% |
| **Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA** | **507** | **599** | **(15%)** |
| Impairment charges on loans and advances to customers | (153) | (207) | 26% |
| Impairment charge on available for sale (AFS) financial assets | (4) | (21) | 81% |
| Impairment charges on assets sold to NAMA | - | (9) | - |
| Gain on sale of assets to NAMA | 1 | 24 | (96%) |
| **Underlying profit before tax** | **351** | **386** | **(9%)** |
| Loans and advances to customers (€bn) | 12 | 14[1] | |
| Customer deposits (€bn) | 10 | 8 | |

[1] *Includes Assets classified as held for sale.*

Corporate and Treasury reported an **underlying profit before tax** of €351 million for the year ended 31 December 2012 compared to €386 million in the previous year.

**Loans and advances to customers** (after impairment provisions) of €12 billion at 31 December 2012 were €2 billion lower than the previous year, primarily as a result of loan book sales together with net loan repayments.

**Customer deposits** at 31 December 2012 were €2 billion higher than the previous year. In line with the Group's strategy of reducing the price paid for deposits, the Corporate and Treasury division has also significantly reduced the average price it pays for customer deposits. The book primarily comprises a stable base of corporate, SME and structured retail customer deposits, which has proven resilient.

The change in 'Net interest income' and 'Net other income' is impacted by IFRS income classifications between the two income categories (see pages 10 to 12).

| Net interest income | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Net interest income | 633 | 742 | (15%) |
| IFRS income classifications | (87) | (102) | 15% |
| **Net interest income (after IFRS income classifications)** | **546** | **640** | **(15%)** |

**Net interest income (after IFRS classifications)** of €546 million for the year ended 31 December 2012 has decreased by €94 million or 15% compared to the previous year. This decrease is primarily as a result of a reduction in average loan volumes due to both deleveraging and loan repayments and a reduction in the size of the liquid asset portfolio due to lower requirements to hold liquid assets as the Group increases the term of its wholesale funding profile. These factors are partly offset by improved margins on the corporate loan books as term facilities at historic lower margins are replaced by facilities reflecting current market pricing and a higher yield on the liquid asset portfolio.

## Corporate and Treasury (continued)

| Net Other Income | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Net other income | 57 | 44 | 30% |
| IFRS income classifications | 87 | 102 | (15%) |
| **Net other income (after IFRS income classifications)** | **144** | **146** | **(1%)** |

**Net other income (after IFRS classifications)** of €144 million for the year ended 31 December 2012 has decreased by €2 million or 1% compared to the previous year. This decrease is driven primarily by lower upfront fees in Corporate Banking, lower fee income on the termination of loans (the higher income in the prior year arose from the Group's deleveraging initiatives) and the loss of income from BoISS following its disposal in 2011, partly offset by higher transfers from the available for sale reserve on asset disposals in the year ended 31 December 2012.

**Operating expenses** of €183 million for the year ended 31 December 2012 have decreased by €4 million or 2% compared to the previous year. The decrease is primarily due to lower costs following the sale of BoISS during 2011 and the Burdale business in 2012, as well as the benefits from continued tight management of all other costs, offset by the impact of some costs recoveries in 2011 which did not reoccur in 2012.

| Impairment charges on loans and advances to customers | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Non-property SME and Corporate | 137 | 142 | (4%) |
| Property and construction | 16 | 65 | (75%) |
| **Total impairment charges on loans and advances to customers** | **153** | **207** | **(26%)** |

**Impairment charges on loans and advances to customers** of €153 million for the year ended 31 December 2012 have decreased by €54 million or 26% compared to the previous year.

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

The **impairment charge on available for sale (AFS) financial assets** of €4 million for the year ended 31 December 2012 has decreased by €17 million or 81% compared to the previous year, due primarily to an impairment charge of €16 million in 2011 which the Group incurred on subordinated debt issued by Irish Life and Permanent plc.

# Group Centre

Group Centre incorporates income and costs which are not specific to other divisions, including capital management activities, Government guarantee fees and unallocated group support costs.

Group Centre reported an **underlying loss before tax** of €567 million for the year ended 31 December 2012 compared to €559 million for the year ended 31 December 2011.

| Group Centre: Income statement | Year ended 31 December 2012 €m | Year ended 31 December 2011[1] €m | Change % |
|---|---|---|---|
| **Government guarantee fees** | **(388)** | **(449)** | **14%** |
| Other income | 4 | (7) | - |
| **Net operating expense** | **(384)** | **(456)** | **16%** |
| Operating expenses | (145) | (116) | (25%) |
| Impairment charge on available for sale financial assets (AFS) | (40) | - | - |
| Gain on sale of assets to NAMA | 2 | 13 | (85%) |
| **Underlying loss before tax** | **(567)** | **(559)** | **(1%)** |

*[1] The impact of the amendments to defined benefit pension schemes of €2 million is shown in operating expenses whereas previously it had been shown within non-core items.*

**Net operating expense** was a charge of €384 million for the year ended 31 December 2012 compared to a charge of €456 million for the previous year. The decreased charge of €72 million in the year is driven primarily by:

- lower **Government guarantee fees** of €388 million for the year ended 31 December 2012 compared to €449 million for the previous year, primarily due to a reduction in total liabilities covered by the ELG from €42 billion at 31 December 2011 to €26 billion at 31 December 2012, reflecting the withdrawal of Bank of Ireland (UK) plc and the Group's Isle of Man subsidiary from the scheme, the sale of non ELG covered deposits and the repayment of ELG covered wholesale funding;
- lower interest expense on subordinated debt securities following the liability management exercises completed during 2011;
- favourable trading gains on the exchange of the Group's holding of Irish Government bonds in respect of a 4% Treasury bond 2014 for a new 4.5% Treasury bond maturing in 2015 and in respect of a 5% Treasury bond 2013 and a 4% Treasury bond 2014 for a new 5.5% Treasury bond maturing in 2017;

partly offset by:

- charges associated with hedging the Group's structural balance sheet given the movement in exchange rates together with hedge ineffectiveness.

**Operating expenses** of €145 million for the year ended 31 December 2012 are €29 million higher than the previous year. Operating expenses for 2012 include a charge of €30 million in respect of the UK Financial Services Compensation Scheme (FSCS). This charge relates to a levy by the FSCS for costs incurred in respect of actions taken in 2008 to protect and / or compensate depositors in failing UK banks. The charge has been allocated between current FSCS members, including Bank of Ireland (UK) plc, based on deposit volumes at dates on or before 31 December 2012.

Increases in other regulatory and compliance costs have been partly offset by efficiencies achieved through investment in customer service and technology initiatives and the implementation of initiatives to consolidate, standardise and simplify the Group's operations.

During 2012 the Group and the trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed to recover the 2011 and 2012 Irish pension levies from the relevant ROI members. Operating expenses in the current year reflects the recovery of the 2011 pension levy.

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

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# Income Statement - Operating Segments

| **Year ended 31 December 2012** | Net interest income €m | Insurance net premium income €m | Other income €m | **Total operating income €m** | Insurance contract liabilities and claims paid €m | **Total operating income net of insurance claims €m** | Operating expenses €m | **Operating profit / (loss) before impairment charges on financial assets and loss on sale to NAMA €m** | Impairment charge on loans and advances to customers €m | Impairment charge on available for sale assets €m | Loss on sale of assets to NAMA €m | Loss on deleveraging €m | Share of results of associates and joint ventures (after tax) €m | Loss on disposal / liquidation of business activities €m | **Profit / (loss) before taxation €m** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Ireland | 665 | - | 330 | **995** | - | **995** | (836) | **159** | (1,149) | - | 5 | - | 1 | - | **(984)** |
| Bank of Ireland Life | 38 | 1,146 | 725 | **1,909** | (1,720) | **189** | (92) | **97** | - | - | - | - | - | - | **97** |
| Retail UK | 368 | - | 40 | **408** | - | **408** | (382) | **26** | (422) | (1) | (9) | - | 40 | - | **(366)** |
| Corporate and Treasury | 633 | - | 57 | **690** | - | **690** | (183) | **507** | (153) | (4) | 1 | - | - | - | **351** |
| Group Centre | (347) | 10 | (42) | **(379)** | (5) | **(384)** | (145) | **(529)** | - | (40) | 2 | - | - | - | **(567)** |
| Other reconciling items | 1 | - | (19) | **(18)** | - | **(18)** | - | **(18)** | - | - | - | - | - | - | **(18)** |
| **Group - underlying[1]** | **1,358** | **1,156** | **1,091** | **3,605** | **(1,725)** | **1,880** | **(1,638)** | **242** | **(1,724)** | **(45)** | **(1)** | **-** | **41** | **-** | **(1,487)** |
| | | | | | | | | | | | | | | | |
| - Loss on deleveraging | - | - | - | **-** | - | **-** | - | - | - | - | - | (326) | - | - | **(326)** |
| - Charges arising on the movement in the Group's credit spreads[2] | - | - | (297) | **(297)** | - | **(297)** | - | **(297)** | - | - | - | - | - | - | **(297)** |
| - Cost of restructuring programmes | - | - | - | **-** | - | **-** | (150) | **(150)** | - | - | - | - | - | - | **(150)** |
| - Loss on disposal / liquidation of business activities | - | - | - | **-** | - | **-** | - | **-** | - | - | - | - | - | (69) | **(69)** |
| - Gain on Contingent Capital Note | 79 | - | - | **79** | - | **79** | - | **79** | - | - | - | - | - | - | **79** |
| - Gain on liability management exercises | - | - | 69 | **69** | - | **69** | - | **69** | - | - | - | - | - | - | **69** |
| - Gross-up for policyholder tax in the Life business | - | - | 16 | **16** | - | **16** | - | **16** | - | - | - | - | - | - | **16** |
| - Investment return on treasury stock held for policyholders | - | - | (1) | **(1)** | - | **(1)** | - | **(1)** | - | - | - | - | - | - | **(1)** |
| | | | | | | | | | | | | | | | |
| **Group total** | **1,437** | **1,156** | **878** | **3,471** | **(1,725)** | **1,746** | **(1,788)** | **(42)** | **(1,724)** | **(45)** | **(1)** | **(326)** | **41** | **(69)** | **(2,166)** |

[1] *Underlying performance excludes the impact of non-core items (see page 16).*
[2] *This relates to charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at fair value through profit or loss.*

## Income Statement - Operating Segments

| Year ended 31 December 2011[1] | Net interest income €m | Insurance net premium income €m | Other income €m | Total operating income €m | Insurance contract liabilities and claims paid €m | Total operating income net of insurance claims €m | Operating expenses €m | Operating profit / (loss) before impairment charges on financial assets and gain on sale to NAMA €m | Impairment charge on loans and advances to customers €m | Impairment charge on available for sale assets €m | Impairment charge on assets held for sale to NAMA €m | Gain on sale of assets to NAMA €m | Loss on deleveraging €m | Share of results of associates and joint ventures (after tax) €m | Gain on disposal of business activities €m | Profit / (loss) before taxation €m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Ireland | 849 | - | 297 | 1,146 | - | 1,146 | (861) | 285 | (1,297) | - | (9) | 1 | - | 3 | - | (1,017) |
| Bank of Ireland Life | 5 | 916 | (66) | 855 | (728) | 127 | (101) | 26 | - | - | - | - | - | - | - | 26 |
| Retail UK | 367 | - | 119 | 486 | - | 486 | (380) | 106 | (435) | - | (26) | (5) | - | 36 | - | (324) |
| Corporate and Treasury | 742 | - | 44 | 786 | - | 786 | (187) | 599 | (207) | (21) | (9) | 24 | - | - | - | 386 |
| Group Centre | (420) | 13 | (27) | (434) | (22) | (456) | (116) | (572) | - | - | - | 13 | - | - | - | (559) |
| Other reconciling items | (9) | - | (22) | (31) | - | (31) | - | (31) | - | - | - | - | - | - | - | (31) |
| Group - underlying[2] | 1,534 | 929 | 345 | 2,808 | (750) | 2,058 | (1,645) | 413 | (1,939) | (21) | (44) | 33 | - | 39 | - | (1,519) |
| | | | | | | | | | | | | | | | | |
| - Loss on deleveraging | - | - | - | - | - | - | - | - | - | - | - | - | (565) | - | - | (565) |
| - Charges arising on the movement in the Group's credit spreads[3] | - | - | 56 | 56 | - | 56 | - | 56 | - | - | - | - | - | - | - | 56 |
| - Cost of restructuring programmes | - | - | - | - | - | - | 3 | 3 | - | - | - | - | - | - | - | 3 |
| - Gain on disposal of business activities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 34 | 34 |
| - Gain on liability management exercises | - | - | 1,789 | 1,789 | - | 1,789 | - | 1,789 | - | - | - | - | - | - | - | 1,789 |
| - Gross-up for policyholder tax in the Life business | - | - | 10 | 10 | - | 10 | - | 10 | - | - | - | - | - | - | - | 10 |
| - Investment return on treasury stock held for policyholders | - | - | 2 | 2 | - | 2 | - | 2 | - | - | - | - | - | - | - | 2 |
| | | | | | | | | | | | | | | | | |
| Group total | 1,534 | 929 | 2,202 | 4,665 | (750) | 3,915 | (1,642) | 2,273 | (1,939) | (21) | (44) | 33 | (565) | 39 | 34 | (190) |

1 The impact of the amendments to defined benefit pension schemes of €2 million is shown in operating expenses whereas previously it had been shown within non-core items.
2 Underlying performance excludes the impact of non-core items (see page 16).
3 This relates to charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at fair value through profit or loss.

# Risk Management

## Credit Risk

**Key points:**
- Total loans and advances to customers reduced from €108 billion in 2011 to €100 billion with deleveraging initiatives contributing to this reduction.
- Although the Irish economy has begun to stabilise, challenging conditions remain, impacting on the asset quality of the Group's loans and advances to customers.
- The pace of arrears formation in the Group's Irish mortgage book has reduced, and the Group has continued to formally restructure a significant number of customer mortgages on a sustainable basis.
- Focus on the active management of loans continues, with the segregation of certain 'at risk' portfolios and the realignment of specialist resources to manage those assets.
- The Group's international corporate, unsecured consumer and UK mortgage books have continued to perform well.
- The commercial property sector continues to be characterised by low levels of activity, illiquid markets and continued pressure in the RoI and UK retail sectors where downward pressure on rents, some high profile administrations, and weaker consumer spending and sentiment are negatively impacting trading conditions, yields and collateral values.
- Total impairment charges on loans and advances to customers reduced from €1,939 million at 31 December 2011 to €1,724 million at 31 December 2012.

## Book Profile - Loans and advances to customers

Loans and advances to customers are shown in the tables on pages 40 and 46 to 52. The 2011 comparative tables include loans held for sale.

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

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

## Book Profile - Loans and advances to customers (continued)

| 31 December 2011<br>Geographical / industry analysis | ROI<br>€m | UK<br>€m | US<br>€m | ROW<br>€m | Total<br>€m |
|---|---|---|---|---|---|
| Personal | 29,847 | 30,957 | - | - | 60,804 |
| - *Residential mortgages* | *27,854* | *29,636* | - | - | *57,490* |
| - *Other consumer lending* | *1,993* | *1,321* | - | - | *3,314* |
| Property & Construction | 10,381 | 10,199 | - | - | 20,580 |
| - *Investment* | *8,231* | *8,633* | - | - | *16,864* |
| - *Land and Development* | *2,150* | *1,566* | - | - | *3,716* |
| Business & other services | 9,193 | 3,526 | 260 | 63 | 13,042 |
| Distribution | 3,469 | 480 | 111 | - | 4,060 |
| Manufacturing | 3,160 | 684 | 379 | 71 | 4,294 |
| Transport | 1,186 | 83 | 115 | - | 1,384 |
| Financial | 906 | 232 | 11 | 19 | 1,168 |
| Agriculture | 1,628 | 205 | - | - | 1,833 |
| Energy | 838 | 99 | - | - | 937 |
| Total | 60,608 | 46,465 | 876 | 153 | 108,102 |

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

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

The Group's Residential mortgage portfolio is widely diversified by individual borrower and amounted to 55% of total loans at 31 December 2012 (31 December 2011: 53%). 50% of Residential mortgages related to Ireland and 50% related to the UK at 31 December 2012. The Group has previously announced its withdrawal from the intermediary sourced mortgage market in the UK. At 31 December 2012, the Group's UK Residential mortgage book amounted to £22.5 billion (31 December 2011: £25 billion) (before impairment provisions).

The Property and construction sector accounted for 19% or €19 billion of total loans at 31 December 2012 (31 December 2011: 19% or €21 billion). This book consists primarily of investment loans.

## Impairment charges on loans and advances to customers

| Impairment Charge by nature of impairment provision | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Specific charge individually assessed | 1,672 | 1,294 |
| Specific charge collectively assessed | 355 | 453 |
| Incurred but not reported | (303) | 192 |
| **Total Impairment charge** | **1,724** | **1,939** |

Incurred but not reported (IBNR) impairment provisions reduced by €0.3 billion from €1.0 billion at 31 December 2011 to €0.7 billion at 31 December 2012.

In the year ended 31 December 2012, IBNR provisions related to the Property and construction portfolio reduced by €87 million and the Non-property SME and corporate reduced by €81 million primarily as a result of a reduction in the volume of loans in both the 'lower quality but not past due nor impaired' and 'past due but not impaired'.

In addition, the IBNR provisions in the year ended 31 December 2012 related to the Retail Ireland mortgage portfolio reduced by €127 million primarily as a result of a reduction in the volume of Retail Ireland mortgage loans 'past due but not impaired', from €1.4 billion to €1.0 billion.

The decline in the IBNR provisions in the year was offset by an increase in both the individual and collective specific provisions as a result of an increase in the volume of loans classified as 'impaired' in the Retail Ireland mortgage, Property and construction and Non-property SME and corporate portfolios.

| Impairment charges on loans and advances to customers | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m | Change % |
|---|---|---|---|
| Residential mortgages | 462 | 469 | (1%) |
| *- Retail Ireland* | *418* | *444* | (6%) |
| *- Retail UK* | *44* | *25* | 76% |
| Non-property SME and corporate | 413 | 497 | (17%) |
| *- Republic of Ireland SME* | *223* | *281* | (21%) |
| *- UK SME* | *53* | *74* | (28%) |
| *- Corporate* | *137* | *142* | (4%) |
| Property and construction | 797 | 893 | (11%) |
| *- Investment* | *437* | *593* | (26%) |
| *- Land and development* | *360* | *300* | 20% |
| Consumer | 52 | 80 | (35%) |
| **Total impairment charges on loans and advances to customers** | **1,724** | **1,939** | (11%) |

## Impairment charges on loans and advances to customers (continued)

**Impairment charges on loans and advances to customers** of €1,724 million for the year ended 31 December 2012 were €215 million or 11% lower than the previous year.

The impairment charge on **Residential mortgages** of €462 million for the year ended 31 December 2012 has decreased by €7 million from €469 million in the previous year.

The impairment charge on the Retail Ireland mortgage portfolio of €418 million for the year ended 31 December 2012 has decreased by €26 million from €444 million in the previous year. While the volume of default arrears (based on loan volumes 90 days or more past due) has continued to increase, the pace of default arrears formation has reduced since the first quarter of 2012. The impairment charge for the six months ended 31 December 2012 amounted to €127 million compared with a charge of €291 million for the six months ended 30 June 2012 and a charge of €304 million for the six months ended 31 December 2011. In addition to the reduction in formation of arrears, the Group has continued to formally restructure a significant number of customer mortgages on a sustainable basis.

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

Owner occupied default arrears (based on loan volumes 90 days or more past due) were 9.88% at 31 December 2012 as compared with 9.22% at 30 June 2012 and 7.40% at 31 December 2011. The volume of default arrears in the Owner occupied segment has continued to increase, primarily reflecting the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and sustained high unemployment levels. However, the pace of Owner occupied default arrears formation (based on loan volumes 90 days or more past due) has been reducing since the first quarter of 2012 reflecting a stabilisation in unemployment levels and the restructure of customer mortgages on a sustainable basis. A similar trend is evident in the less than 90 days past due arrears. The level of Owner occupied default arrears for the Group remains materially below the industry average as published on a quarterly basis by the Central Bank of Ireland.

Buy to let default arrears (based on loan volumes 90 days or more past due) were 23.36% at 31 December 2012 compared to 20.77% at 30 June 2012 and 16.81% at 31 December 2011. The volume of default arrears in the Buy to let segment has continued to increase primarily reflecting the continued impact on borrowers of rising repayments as interest only periods come to an end and customers move to fully amortising loans. As part of the Group's Mortgage Arrears Resolution Strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are coming to an end, to restructure customer mortgages prior to them moving to fully amortising. The pace of Buy to let arrears formation (based on loan volumes 90 days or more past due) has reduced since the first quarter of 2012, and the level of Buy to let default arrears for the Group remains below the industry average as published on a quarterly basis by the Central Bank of Ireland.

The impairment charge on the Retail UK mortgage portfolio of €44 million for the year ended 31 December 2012 has increased by €19 million from €25 million in the previous year.

Default arrears (number of cases 3+ payments past due) and the associated impairment charge on Retail UK mortgages (particularly in the Standard and Self certified segments) increased marginally in the second six months of the year ended 31 December 2012, albeit from a low base. The level of default arrears for the Group at 1.53% at 31 December 2012 remains below the industry average as published by the Council of Mortgage Lenders.

The impairment charge on the **Non property SME and corporate** loan portfolio of €413 million for the year ended 31 December 2012 has decreased by €84 million from €497 million in the previous year.

Republic of Ireland SME impairment charges of €223 million for the year ended 31 December 2012 have decreased by €58 million from €281 million in the previous year. The impairment charge for the six months ended 31 December 2012 amounted to €100 million compared with a charge of €123 million for the six months ended 30 June 2012 and a charge of €140 million for the six months ended 31 December 2011. The reduction in Republic of Ireland SME impairment charges reflect some early indicators of improvement in certain elements of the SME sector (e.g. strong export performance, lower increase in business insolvencies, and some improvement in the levels of consumer sentiment), however, the sector is fragile and challenges remain. As a result, the level of Republic of Ireland SME impairment charges continues to be at an elevated level, particularly for those sectors correlated with consumer spending.

## Impairment charges on loans and advances to customers (continued)

Impairment charges on the UK SME portfolio reduced to €53 million for the year ended 31 December 2012 compared to €74 million in the previous year, albeit UK economic conditions remain subdued. The Group's corporate banking portfolios remain broadly stable, with impairment charges on the Corporate portfolios reduced to €137 million for the year ended 31 December 2012 compared to €142 million in the previous year. The domestic Irish Corporate portfolio continues to be impacted by more challenging domestic demand and market conditions, albeit the pace of migration of new cases into our challenged portfolios has reduced. Our international corporate banking portfolios continue to perform satisfactorily reflecting their exposure to global, rather than exclusively Irish economic indicators.

The impairment charge on the **Property and construction** loan portfolio of €797 million for the year ended 31 December 2012 decreased by €96 million compared to €893 million in the previous year.

The impairment charge on the Investment property element of the Property and construction portfolio was €437 million for year ended 31 December 2012 compared to €593 million in the previous year.

In December 2011, the Irish Government introduced a range of initiatives and policies which addressed a number of areas of market uncertainty. Following this, there have been continued signs of increased activity levels in central business district areas during 2012, with increasing interest from international institutional investors entering the market. As a result, prime investment yields are showing some signs of stabilisation. Outside of prime, central locations, markets remain subdued.

The Irish market has experienced a significant fall in asset values, with Irish commercial property capital values down 67%[1] from peak, reflecting continued low levels of activity and illiquidity in property markets. In addition, a challenging Retail sector for much of 2012, as evidenced by increased retail tenant defaults and vacancy levels, has contributed to continued elevated impairment charges on our Investment property portfolio.

UK commercial property values are down 33%[2] from peak. Conditions in the UK market remained challenging throughout 2012, and the market has become increasingly segmented, with properties in central London continuing to deliver strong returns, however, across the rest of the UK, markets have remained weak. The UK retail sector also remains under pressure with a number of high profile tenant failures during 2012.

The impairment charge on the Land and development element of the Property and construction portfolio was €360 million for the year ended 31 December 2012 compared to €300 million for the previous year reflecting the continued challenging conditions in this sector, highly illiquid markets, and deteriorating individual borrower circumstances.

The impairment charge of €52 million on **Consumer** loans for the year ended 31 December 2012 is €28 million lower compared to the impairment charge of €80 million in the previous year. Consumer loans have continued to reduce reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expected in both the Republic of Ireland and the UK.

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

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

## Credit Risk (continued)

## Asset Quality - Loans and advances to customers

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

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

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

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

**'Past due but not impaired' loans are defined as follows:**

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

**'Impaired' loans are defined as follows:**

- loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are greater than 90 days in arrears.

**'Defaulted' loans are defined as follows:**

- impaired loans together with Residential mortgages which are greater than 90 days in arrears.

## Asset Quality - Loans and advances to customers (continued)

| **Loans and advances to customers Book composition (before impairment provisions)** | **31 December 2012 €m** | **31 December 2012 %** | 31 December 2011 €m | 31 December 2011 % |
|---|---|---|---|---|
| Residential mortgages | 55,028 | 55% | 57,490 | 53% |
| *- Retail Ireland* | *27,485* | *27%* | *27,854* | *26%* |
| *- Retail UK* | *27,543* | *28%* | *29,636* | *27%* |
| Non-property SME and corporate | 22,973 | 23% | 26,718 | 25% |
| *- Republic of Ireland SME* | *10,733* | *11%* | *11,497* | *11%* |
| *- UK SME* | *3,524* | *3%* | *3,662* | *3%* |
| *- Corporate* | *8,716* | *9%* | *11,559* | *11%* |
| Property and construction | 19,162 | 19% | 20,580 | 19% |
| *- Investment* | *15,561* | *15%* | *16,864* | *16%* |
| *- Land and development* | *3,601* | *4%* | *3,716* | *3%* |
| Consumer | 3,002 | 3% | 3,314 | 3% |
| **Total loans and advances to customers** | **100,165** | **100%** | **108,102** | **100%** |

The Group's loans and advances to customers before impairment provisions at 31 December 2012 were €100.2 billion compared to €108.1 billion at 31 December 2011.

Residential mortgages accounted for 55% of total loans and advances to customers at 31 December 2012, broadly unchanged from 53% at 31 December 2011. The other loan portfolios accounted for broadly equivalent proportions of the loan book at 31 December 2012 and at 31 December 2011.

### Risk profile of loans and advances to customers

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

| **31 December 2012** **Risk profile of loans and advances to customers (before impairment provisions)** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total loans and advances to customers €m** | **Total loans and advances to customers %** |
|---|---|---|---|---|---|---|
| High quality | 46,820 | 4,332 | 926 | 2,076 | 54,154 | 54% |
| Satisfactory quality | 445 | 8,742 | 3,652 | 485 | 13,324 | 14% |
| Acceptable quality | 1,194 | 3,929 | 3,149 | 27 | 8,299 | 8% |
| Lower quality but not past due nor impaired | - | 1,321 | 2,070 | - | 3,391 | 3% |
| **Neither past due nor impaired** | **48,459** | **18,324** | **9,797** | **2,588** | **79,168** | **79%** |
| | | | | | | |
| Past due but not impaired | 3,723 | 291 | 556 | 133 | 4,703 | 5% |
| Impaired | 2,846 | 4,358 | 8,809 | 281 | 16,294 | 16% |
| **Total** | **55,028** | **22,973** | **19,162** | **3,002** | **100,165** | **100%** |

## Asset Quality - Loans and advances to customers (continued)

| 31 December 2011<br><br>Risk profile of loans and advances to customers including held for sale (before impairment provisions) | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total loans and advances to customers €m | Total loans and advances to customers % |
|---|---|---|---|---|---|---|
| High quality | 49,924 | 5,530 | 836 | 2,154 | 58,444 | 54% |
| Satisfactory quality | 564 | 10,329 | 4,526 | 619 | 16,038 | 15% |
| Acceptable quality | 1,008 | 4,446 | 3,961 | 45 | 9,460 | 9% |
| Lower quality but not past due nor impaired | - | 1,940 | 2,592 | - | 4,532 | 4% |
| Neither past due nor impaired | 51,496 | 22,245 | 11,915 | 2,818 | 88,474 | 82% |
| | | | | | | |
| Past due but not impaired | 4,520 | 430 | 1,042 | 158 | 6,150 | 6% |
| Impaired | 1,474 | 4,043 | 7,623 | 338 | 13,478 | 12% |
| Total | 57,490 | 26,718 | 20,580 | 3,314 | 108,102 | 100% |

Loans and advances to customers classified as 'neither past due nor impaired' amounted to €79.2 billion or 79% of the Group's loan book at 31 December 2012 compared to €88.5 billion or 82% at 31 December 2011. Asset disposals as part of the Group's deleveraging initiatives contributed significantly to the reduction in loans and advances to customers classified as 'neither past due nor impaired'.

The 'past due but not impaired' category amounted to €4.7 billion or 5% of loans and advances to customers at 31 December 2012 compared to €6.2 billion or 6% at 31 December 2011.

'Impaired' loans increased to €16.3 billion or 16% of loans and advances to customers at 31 December 2012 from €13.5 billion or 12% of loans and advances to customers at 31 December 2011, an increase of four percentage points. The increase is primarily driven by continued deterioration in the Residential mortgages and Investment property sectors.

**'Past due and / or impaired'**

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

| **31 December 2012**<br><br>**Loans and advances to customers - past due and / or impaired** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Past due up to 30 days | 810 | 193 | 197 | 71 | 1,271 |
| Past due 31 - 60 days | 1,049 | 69 | 230 | 42 | 1,390 |
| Past due 61 - 90 days | 456 | 29 | 129 | 20 | 634 |
| | **2,315** | **291** | **556** | **133** | **3,295** |
| | | | | | |
| Past due more than 90 days but not impaired | 1,408 | - | - | - | 1,408 |
| Impaired | 2,846 | 4,358 | 8,809 | 281 | 16,294 |
| **Defaulted loans** | **4,254** | **4,358** | **8,809** | **281** | **17,702** |
| | | | | | |
| **Total past due and / or impaired loans** | **6,569** | **4,649** | **9,365** | **414** | **20,997** |

## Asset Quality - Loans and advances to customers (continued)

| 31 December 2011<br>Loans and advances to customers including held for sale - past due and / or impaired | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Past due up to 30 days | 1,384 | 273 | 479 | 82 | 2,218 |
| Past due 31 - 60 days | 741 | 84 | 416 | 54 | 1,295 |
| Past due 61 - 90 days | 431 | 73 | 147 | 22 | 673 |
| | 2,556 | 430 | 1,042 | 158 | 4,186 |
| Past due more than 90 days but not impaired | 1,964 | - | - | - | 1,964 |
| Impaired | 1,474 | 4,043 | 7,623 | 338 | 13,478 |
| Defaulted loans | 3,438 | 4,043 | 7,623 | 338 | 15,442 |
| Total past due and / or impaired loans | 5,994 | 4,473 | 8,665 | 496 | 19,628 |

Loans and advances to customers classified as 'past due and / or impaired' amounted to €21.0 billion or 21% of the Group's loan book at 31 December 2012 compared to €19.6 billion or 18% at 31 December 2011.

Residential mortgages classified as 'past due and / or impaired' increased by €0.6 billion from €6.0 billion at 31 December 2011 to €6.6 billion at 31 December 2012 reflecting the increased volume of Irish residential mortgage defaulted loans classified as 'impaired'. Residential mortgage loans past due but not impaired decreased from €2.6 billion at 31 December 2011 to €2.3 billion at 31 December 2012.

Property and construction loans classified as 'past due and / or impaired' were €9.4 billion at 31 December 2012 (€8.7 billion at 31 December 2011) an increase of €0.7 billion reflecting the impact of continued low levels of activity, illiquid property markets and challenging retail sector market conditions, on the Investment property element of the Property and construction book.

The volume of Non-property SME and corporate loans that are 'past due and / or impaired' has remained broadly stable at €4.6 billion at 31 December 2012 (€4.5 billion at 31 December 2011).

Consumer loans that are 'past due and / or impaired' are €414 million at 31 December 2012 compared to €496 million at 31 December 2011, reflecting the overall reduction in consumer loans due to accelerated repayments and subdued demands for new loans and other credit facilities.

## Asset Quality - Loans and advances to customers (continued)

| **31 December 2012**<br><br><br>**Loans and advances to customers**<br>**Composition and impairment** | **Advances (pre-impairment)**<br>**€m** | **Defaulted loans**<br>**€m** | **Defaulted loans as % of advances**<br>**%** | **Impairment provisions**<br>**€m** | **Impairment provisions as % of defaulted loans**<br>**%** |
|---|---|---|---|---|---|
| Residential Mortgages | 55,028 | 4,254 | 7.7% | 1,594 | 37% |
| *- Retail Ireland* | *27,485* | *3,610* | *13.1%* | *1,452* | *40%* |
| *- Retail UK* | *27,543* | *644* | *2.3%* | *142* | *22%* |
| Non-property SME and corporate | 22,973 | 4,358 | 19.0% | 1,836 | 42% |
| *- Republic of Ireland* | *10,733* | *2,845* | *26.5%* | *1,213* | *43%* |
| *- UK SME* | *3,524* | *632* | *17.9%* | *234* | *37%* |
| *- Corporate* | *8,716* | *881* | *10.1%* | *389* | *44%* |
| Property & construction | 19,162 | 8,809 | 46.0% | 3,876 | 44% |
| *- Investment property* | *15,561* | *5,585* | *35.9%* | *1,931* | *35%* |
| *- Land and development* | *3,601* | *3,224* | *89.5%* | *1,945* | *60%* |
| Consumer | 3,002 | 281 | 9.4% | 238 | 85% |
| **Total loans and advances to customers** | **100,165** | **17,702** | **17.7%** | **7,544** | **43%** |

| 31 December 2011<br><br>Loans and advances to customers<br>including held for sale<br>Composition and impairment | Advances (pre-impairment)<br>€m | Defaulted loans<br>€m | Defaulted loans as % of advances<br>% | Impairment provisions<br>€m | Impairment provisions as % of defaulted loans<br>% |
|---|---|---|---|---|---|
| Residential Mortgages | 57,490 | 3,438 | 6.0% | 1,159 | 34% |
| *- Retail Ireland* | *27,854* | *2,709* | *9.7%* | *1,026* | *38%* |
| *- Retail UK* | *29,636* | *729* | *2.5%* | *133* | *18%* |
| Non-property SME and corporate | 26,718 | 4,043 | 15.1% | 1,723 | 43% |
| *- Republic of Ireland* | *11,497* | *2,335* | *20.3%* | *1,088* | *47%* |
| *- UK SME* | *3,662* | *605* | *16.5%* | *217* | *36%* |
| *- Corporate* | *11,559* | *1,103* | *9.5%* | *418* | *38%* |
| Property & construction | 20,580 | 7,623 | 37.0% | 3,205 | 42% |
| *- Investment property* | *16,864* | *4,553* | *27.0%* | *1,562* | *34%* |
| *- Land and development* | *3,716* | *3,070* | *82.6%* | *1,643* | *54%* |
| Consumer | 3,314 | 338 | 10.2% | 278 | 82% |
| Total loans and advances to customers | 108,102 | 15,442 | 14.3% | 6,365 | 41% |

| **Impairment Provision by nature of impairment provision** | **31 December 2012**<br>**€m** | 31 December 2011<br>€m |
|---|---|---|
| Specific provisions individually assessed | 5,658 | 4,321 |
| Specific provisions collectively assessed | 1,183 | 1,045 |
| Incurred but not reported | 703 | 999 |
| **Total Impairment provision** | **7,544** | **6,365** |

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## Asset Quality - Loans and advances to customers (continued)

**Loans and advances to customers** reduced by 7% or €7.9 billion, from €108.1 billion at 31 December 2011 to €100.2 billion at 31 December 2012 due to deleveraging initiatives undertaken by the Group, muted demand for new lending and actions taken by customers to reduce their levels of debt.

**Defaulted loans** increased from €15.4 billion or 14.3% of Loans and advances to customers at 31 December 2011 to €16.9 billion or 16.2% at 30 June 2012 and to €17.7 billion or 17.7% at 31 December 2012, with the pace of increase slowing in the second six months of 2012. The loan book continued to be impacted by the general economic downturn in Ireland, resulting in high levels of unemployment, lower disposable incomes, and a heightened level of business insolvencies, allied with illiquid property markets.

The stock of **impairment provisions** increased from €6.4 billion at 31 December 2011 to €7.5 billion at 31 December 2012, while impairment provisions as a percentage of defaulted loans ('defaulted book cover') also increased from 41% at 31 December 2011 to 43% at 31 December 2012.

Total **Residential mortgages** defaulted loans increased to €4.3 billion or 7.7% of the loan book at 31 December 2012 from €3.4 billion or 6.0% of the loan book at 31 December 2011, reflecting increased default arrears (based on loan volumes 90 days or more past due), in the Irish mortgage book, in both the Owner occupied and Buy to let segments. The increase in default arrears reflects the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and sustained high unemployment levels.
The Retail UK Residential mortgage book is broadly stable, with increase in coverage ratios reflective of decreased UK Residential mortgage defaulted loans in an environment of relatively stable house prices.

Further additional disclosures on the Retail Ireland and Retail UK Residential mortgages is set out in the Supplementary Asset Quality Disclosures section on page 126.

**Non-property SME and corporate** defaulted loans increased to €4.4 billion or 19.0% of the loan book at 31 December 2012 from €4.0 billion or 15.1% of the loan book at 31 December 2011. Despite some early signs of improvement for certain elements of the SME sector, our customers continue to face difficult trading conditions given the general pressure in the Irish SME sector from the continued challenging economic conditions in Ireland which is particularly impacting those sectors correlated with consumer spending. Our international corporate banking portfolios continue to perform satisfactorily.

Defaulted loans in the **Property and construction** portfolio increased from €7.6 billion or 37.0% of the portfolio at 31 December 2011 to €8.8 billion or 46.0% of the portfolio at 31 December 2012.

In the Investment property sector, defaulted loans increased from €4.6 billion at 31 December 2011 to €5.6 billion at 31 December 2012 reflecting continued low levels of activity and illiquidity in property markets, in both Ireland and the UK. In addition, a challenging retail sector for much of 2012, as evidenced by increased retail tenant defaults and vacancy levels, has contributed to elevated impairment on our Investment property portfolio.

Land and development defaulted loans increased to €3.2 billion or 89.5% of the portfolio at 31 December 2012 from €3.1 billion or 82.6% of the portfolio at 31 December 2011, reflecting the significant challenges faced by this sector and the very illiquid markets.

**Consumer** defaulted loans amounted to €281 million or 9.4% of the loan portfolio at 31 December 2012 (31 December 2011: defaulted loans of €338 million or 10.2% of the loan portfolio). Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities.

## Asset Quality - Segmental Analysis

**31 December 2012**

| **Risk profile of loans and advances to customers Total before impairment provisions** | **Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** |
|---|---|---|---|---|
| High Quality | 24,080 | 27,715 | 2,359 | 54,154 |
| Satisfactory Quality | 5,329 | 3,217 | 4,778 | 13,324 |
| Acceptable Quality | 3,624 | 2,200 | 2,475 | 8,299 |
| Lower quality but not past due or impaired | 1,485 | 1,281 | 625 | 3,391 |
| **Neither past due nor impaired** | **34,518** | **34,413** | **10,237** | **79,168** |
| | | | | |
| Past due but not impaired | 2,597 | 2,074 | 32 | 4,703 |
| Impaired | 10,023 | 4,734 | 1,537 | 16,294 |
| **Past due but not impaired and impaired** | **12,620** | **6,808** | **1,569** | **20,997** |
| | | | | |
| **Total** | **47,138** | **41,221** | **11,806** | **100,165** |

31 December 2011

| Risk profile of loans and advances to customers including held for sale Total before impairment provisions | Retail Ireland €m | Retail UK €m | Corporate and Treasury €m | Total Group €m |
|---|---|---|---|---|
| High Quality | 25,627 | 29,569 | 3,248 | 58,444 |
| Satisfactory Quality | 6,107 | 4,081 | 5,850 | 16,038 |
| Acceptable Quality | 4,074 | 2,790 | 2,596 | 9,460 |
| Lower quality but not past due or impaired | 2,268 | 1,422 | 842 | 4,532 |
| Neither past due nor impaired | 38,076 | 37,862 | 12,536 | 88,474 |
| | | | | |
| Past due but not impaired | 3,439 | 2,440 | 271 | 6,150 |
| Impaired | 7,754 | 3,994 | 1,730 | 13,478 |
| Past due but not impaired and impaired | 11,193 | 6,434 | 2,001 | 19,628 |
| | | | | |
| Total | 49,269 | 44,296 | 14,537 | 108,102 |

## Asset Quality - Segmental Analysis (continued)

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

| **31 December 2012 Loans and advances to customers which are past due and / or impaired** | **Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** |
|---|---|---|---|---|
| Past due up to 30 days | 885 | 379 | 7 | 1,271 |
| Past due up to 31 - 60 days | 419 | 953 | 18 | 1,390 |
| Past due up to 61 - 90 days | 259 | 368 | 7 | 634 |
| | **1,563** | **1,700** | **32** | **3,295** |
| Past due more than 90 days | 1,034 | 374 | - | 1,408 |
| Impaired | 10,023 | 4,734 | 1,537 | 16,294 |
| **Defaulted loans** | **11,057** | **5,108** | **1,537** | **17,702** |
| **Total past due and / or impaired loans** | **12,620** | **6,808** | **1,569** | **20,997** |

| 31 December 2011 Loans and advances to customers including held for sale which are past due and / or impaired | Retail Ireland €m | Retail UK €m | Corporate and Treasury €m | Total Group €m |
|---|---|---|---|---|
| Past due up to 30 days | 1,094 | 912 | 212 | 2,218 |
| Past due up to 31 - 60 days | 614 | 674 | 7 | 1,295 |
| Past due up to 61 - 90 days | 370 | 251 | 52 | 673 |
| | 2,078 | 1,837 | 271 | 4,186 |
| Past due more than 90 days | 1,361 | 603 | - | 1,964 |
| Impaired | 7,754 | 3,994 | 1,730 | 13,478 |
| Defaulted loans | 9,115 | 4,597 | 1,730 | 15,442 |
| Total past due and / or impaired loans | 11,193 | 6,434 | 2,001 | 19,628 |

### Repossessed collateral

At 31 December 2012, the Group had collateral held as security, as follows:

| **Repossessed collateral** | **31 December 2012 €m** | 31 December 2011 €m |
|---|---|---|
| Residential properties; | | |
| Ireland | 17 | 19 |
| UK and other | 45 | 36 |
| | **62** | **55** |
| Other | 7 | 15 |
| **Total** | **69** | **70** |

## Asset Quality - Other Financial Instruments

**Asset quality: Other financial instruments**

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

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

| **Asset quality:** | **31 December 2012** | | 31 December 2011 | |
|---|---|---|---|---|
| **Other financial instruments with ratings equivalent to:** | **€m** | **%** | €m | % |
| AAA to AA+ | 4,135 | 11% | 7,005 | 21% |
| AA to A- | 12,659 | 36% | 14,213 | 42% |
| BBB+ to BBB- | 17,213 | 48% | 11,310 | 33% |
| BB+ to BB- | 952 | 3% | 646 | 2% |
| B+ to B- | 245 | 1% | 521 | 2% |
| Lower than B- | 309 | 1% | 163 | - |
| **Total** | **35,513** | **100%** | **33,858** | **100%** |

Other financial instruments at 31 December 2012 amounted to €35.5 billion, an increase of €1.7 billion as compared with €33.9 billion at 31 December 2011. This increase primarily reflects a higher level of available for sale financial assets (AFS) and loans and advances to banks.

The increase in the amount of financial instruments with a credit rating of BBB+ to BBB- primarily reflects both the Group's repo transaction with IBRC of €3.1 billion and the impact of the downgrade of certain AFS covered bonds from AAA to AA+ during 2012.

## Liquidity Risk

**Key points**

- Deleveraging of the Group's loan book continued with the loan to deposit ratio reducing to 123% from 144% at 31 December 2011 and 175% in December 2010.
- The Group has grown its customer deposits to €75 billion while actively bringing down pay rates in all markets.
- The safe and measured disengagement from the Eligible Liabilities Guarantee (ELG) scheme has been a core strategic priority of the Group. The Group has prepared for, and is ready for, the withdrawal of the ELG on 28 March 2013.
- The Group was successful in issuing c.€1 billion of euro fixed rate covered bonds with a three year maturity. This was the first benchmark size euro denominated public issue based on Irish mortgage collateral from an Irish institution since late 2009. This transaction represented an important step in the Group's strategy to return to a more sustainable and normalised funding position with a reduced usage of monetary authority borrowings.
- The Group has decreased funding from Monetary Authorities to €15 billion (€12 billion net, excluding the IBRC transaction).
- Following the announcement by the Irish Government in early February 2013 that it would liquidate the Irish Banking Resolution Corporation (IBRC), the Group's IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013. The Group's wholesale funding was reduced on 13 February 2013 to reflect the cancellation of the funding required for the IBRC transaction resulting in no net impact on the Group's liquidity position.

**Liquidity Risk Measurement**

The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on balance sheet and off balance sheet transactions. The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2012 and 31 December 2011 based on the remaining contractual maturity period at the balance sheet date (discounted) and the totals agree to the balance sheet on page 64. NAMA senior bonds have been included in the table based on their ultimate expected maturity. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,256 million and €7,988 million respectively (31 December 2011: €4,954 million and €7,037 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on retail deposit books to reflect their inherent stability.

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

## Liquidity Risk (continued)

| **31 December 2012**<br>**Maturities of financial assets and liabilities** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 8,472 | - | - | - | - | 8,472 |
| Trading securities | - | - | 35 | 39 | 69 | 143 |
| Derivative financial instruments | 713 | 150 | 274 | 2,454 | 2,256 | 5,847 |
| Other financial assets at fair value through profit or loss[1] | 737 | 98 | 87 | 355 | 1,878 | 3,155 |
| Loans and advances to banks | 2,134 | 3,988 | 3,329 | 7 | 48 | 9,506 |
| Available for sale financial assets[1] | - | 435 | 945 | 7,657 | 2,002 | 11,039 |
| NAMA senior bonds | - | - | 667 | 1,880 | 1,881 | 4,428 |
| Loans and advances to customers (before impairment provisions) | 6,240 | 7,631 | 7,344 | 24,783 | 54,167 | 100,165 |
| **Total** | **18,296** | **12,302** | **12,681** | **37,175** | **62,301** | **142,755** |
| **Liabilities** | | | | | | |
| Deposits from banks | 467 | 3,494 | 452 | 2,759 | - | 7,172 |
| Drawings from Monetary Authorities (gross) other | - | - | - | 12,300 | - | 12,300 |
| Drawings from Monetary Authorities (gross) IBRC | - | 3,060 | - | - | - | 3,060 |
| Customer accounts | 46,906 | 20,475 | 5,187 | 2,521 | 81 | 75,170 |
| Derivative financial instruments | 559 | 110 | 278 | 1,885 | 2,442 | 5,274 |
| Debt securities in issue | - | 528 | 4,513 | 8,078 | 3,694 | 16,813 |
| Subordinated liabilities | - | - | - | 1,051 | 656 | 1,707 |
| **Total** | **47,932** | **27,667** | **10,430** | **28,594** | **6,873** | **121,496** |

[1] *excluding equity shares which have no contractual maturity.*

| 31 December 2011<br>Maturities of financial assets and liabilities | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances at central banks | 8,181 | - | - | - | - | 8,181 |
| Trading securities | - | - | 4 | - | 2 | 6 |
| Derivative financial instruments | 735 | 271 | 207 | 2,602 | 2,547 | 6,362 |
| Other financial assets at fair value through profit or loss[1] | 968 | 25 | 76 | 489 | 1,438 | 2,996 |
| Loans and advances to banks | 2,809 | 4,807 | 237 | 1 | 205 | 8,059 |
| Available for sale financial assets[1] | - | 1,264 | 675 | 6,113 | 2,096 | 10,148 |
| NAMA senior bonds | - | - | - | - | 5,016 | 5,016 |
| Loans and advances to customers including held for sale (before impairment provisions) | 6,283 | 7,702 | 7,104 | 28,210 | 58,803 | 108,102 |
| Total | 18,976 | 14,069 | 8,303 | 37,415 | 70,107 | 148,870 |
| Liabilities | | | | | | |
| Deposits from banks | 115 | 4,010 | 906 | 3,895 | 78 | 9,004 |
| Drawings from Monetary Authorities (gross) | 430 | 14,600 | - | 7,500 | - | 22,530 |
| Customer accounts | 48,368 | 18,223 | 2,331 | 1,371 | 213 | 70,506 |
| Derivative financial instruments | 614 | 224 | 419 | 2,033 | 2,728 | 6,018 |
| Debt securities in issue | - | 2,006 | 719 | 12,391 | 4,007 | 19,123 |
| Subordinated liabilities | - | - | - | 1,069 | 358 | 1,427 |
| Total | 49,527 | 39,063 | 4,375 | 28,259 | 7,384 | 128,608 |

[1] *excluding equity shares which have no contractual maturity.*

## Liquidity Risk (continued)

**Liquidity Risk Mitigation**

**Wholesale Funding diversification**
While liquidity conditions are constrained at present, the Group in the normal course aims to maintain funding diversification, minimise concentrations across funding sources and control the level of short term wholesale sources of funds.

The credit market backdrop for Irish debt has improved, supported in part by investors' search for yield, although cost remains elevated. The Group successfully accessed the public wholesale markets in late 2012 in both secured and subordinated format with a €1 billion three year Asset Covered Security and €250 million 10 year Lower tier 2 issue.

**Customer Deposits**
The Group's customer deposit strategy is focussed on growing high quality stable deposits at acceptable pricing by leveraging the Group's extensive retail and corporate customer franchise in Ireland and by accessing the UK retail market through Bank of Ireland (UK) plc and particularly the Group's strategic partnership with the UK Post Office. The Irish retail deposit base has declined marginally over 2012. The continued success of the partnership with the UK Post Office has delivered a deposit base of Stg£18.5 billion at 31 December 2012 which has exceeded the Group's targets. In addition, the positive market sentiment shown towards the Group has aided retention and growth of banking customer relationships in the Corporate and Treasury Division, in Ireland, the UK and internationally.

The Group continues to focus on the growth of retail deposits and relationship-based corporate deposits which arise from the Group's broader lending and treasury risk management activities with a view to further reducing its dependence on wholesale funding and further reducing its customer loan to deposit ratio.

During 2012, the Group reduced the volume of customer deposits that were covered by the ELG scheme to €21 billion or 28% of the Group's total customer deposits at 31 December 2012 from €26 billion or 37% at 31 December 2011.

Included within deposits is €1 billion relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

On a constant currency basis the Group's customer deposits at 31 December 2012 grew by €4.0 billion when compared to the Group's customer deposits at 31 December 2011.

The Minister for Finance announced the withdrawal of the Eligible Liabilities Guarantee effective from midnight 28 March 2013, in late February 2013. The majority of personal and business customer deposits will continue to be guaranteed under the existing statutory Deposit Guarantee Scheme.

| Customer deposits | 31 December 2012 €bn | 31 December 2011 €bn |
|---|---|---|
| Retail Ireland | 35 | 36 |
| *- Deposits* | *24* | *25* |
| *- Current account credit balances* | *11* | *11* |
| Retail UK | 30 | 27 |
| Retail UK (Stg£bn equivalent) | 25 | 22 |
| *- UK Post Office* | *19* | *16* |
| *- Other Retail UK* | *6* | *6* |
| Corporate and Treasury | 10 | 8 |
| **Total customer deposits** | **75** | **71** |
| | | |
| **Loan to deposit ratio** | **123%** | **144%** |

# Funding and Liquidity Position

**Funding and Liquidity Position**
The Group's credit ratings of BB+/Ba2/BBB/BBB for Standard & Poor's, Moody's, Fitch and DBRS respectively have remained stable during 2012. The Group's Fitch credit rating Outlook was revised to Stable from Negative following the revision of the Irish Sovereign Outlook to Stable in November 2012.

| Ireland - Senior debt | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Standard & Poor's | BBB+ (Negative)[1] | BBB+ (Negative) |
| Moody's | Ba1 (Negative) | Ba1 (Negative) |
| Fitch | BBB+ (Stable) | BBB+ (Negative) |
| DBRS | A (Low) (Negative trend) | A (Low) (Negative trend) |

| BOI - Senior debt | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Standard & Poor's | BB+ (Negative) | BB+ (Negative) |
| Moody's | Ba2 (Negative) | Ba2 (Negative) |
| Fitch | BBB (Stable) | BBB (Negative) |
| DBRS | BBB (High) (Negative trend) | BBB (High) (Negative trend) |

[1] *Subsequent to year end Standard & Poor's has upgraded the Irish Sovereign Outlook from Negative to Stable on 11 February 2013*

**Funding Position**
The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. The Group has decreased its usage of liquidity facilities made available by Monetary Authorities by asset deleveraging, growing customer deposits and the use of collateralised market term funding. The Group's funding from Monetary Authorities further decreased to €12 billion (net and excluding the IBRC repo transaction) from €22 billion (net) at 31 December 2011. As described in note 32(e), the Group participates in the ELG scheme, which guarantees certain liabilities of Irish financial institutions. The scheme is being withdrawn effective 28 March 2013. Any existing or future qualifying liabilities (i.e. those opened from 11 January 2010 up to and including 28 March 2013) will continue to be covered until maturity / end of notice period up to a limit of 5 years.

A key priority of the Group is to continue to reduce its usage of Monetary Authorities as market conditions improve and the Group's wholesale funding requirement reduces.

## Funding and Liquidity Position (continued)

| Summary Consolidated Balance Sheet | 31 December 2012 €bn | 31 December 2011 €bn | Change % |
|---|---|---|---|
| Loans and advances to customers (after impairment provisions) | 93 | 102 [1] | (9%) |
| Liquid assets | 33 | 31 | 6% |
| Other assets | 22 | 22 | - |
| **Total assets** | **148** | **155** | **(5%)** |
| Customer deposits | 75 | 71 | 6% |
| Wholesale funding | 39 | 51 | (24%) |
| Subordinated liabilities | 2 | 1 | - |
| Other liabilities | 23 | 22 | 5% |
| **Total liabilities** | **139** | **145** | **(4%)** |
| Stockholders' equity | 9 | 10 | (10%) |
| **Total liabilities and stockholders' equity** | **148** | **155** | **(5%)** |
| **Loan to deposit ratio** | **123%** | **144%** | |

[1] *On the balance sheet on page 64, these amounts are presented on separate lines being Loans and advances to customers and Assets classified as held for sale.*

**Deleveraging**
The 2011 PCAR incorporates a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013. This plan included the proposed divestments of c.€10 billion of the non-core loan portfolios by 31 December 2013. As reported on 28 June 2012, the Group has achieved this divestment target. For further information see notes 13 and 14.

The Group's loans and advances to customers (after impairment provisions) at 31 December 2012 of €93 billion reflects a decrease of 9% when compared to the Group's loans and advances to customers of €102 billion at 31 December 2011 and a reduction of 34% from the peak reported level of €144 billion at 30 September 2008.

The Group's loan to deposit ratio was 123% at 31 December 2012 down from 144% at 31 December 2011, and 175% at 31 December 2010.

## Funding and Liquidity Position (continued)

| Wholesale funding sources | 31 December 2012 €bn | 31 December 2012 % | 31 December 2011 €bn | 31 December 2011 % |
|---|---|---|---|---|
| Secured funding | 31 | 79% | 40 | 78% |
| *- Monetary Authority (gross) other* | *12* | *31%* | *23* | *45%* |
| *- Monetary Authority (gross) IBRC* | *3* | *8%* | *-* | *-* |
| *- Covered bonds* | *7* | *18%* | *6* | *12%* |
| *- Securitisations* | *4* | *10%* | *4* | *8%* |
| *- Private market repo* | *5* | *12%* | *7* | *14%* |
| Unsecured funding | 8 | 21% | 11 | 22% |
| *- Senior debt* | *6* | *16%* | *9* | *18%* |
| *- Bank deposits* | *2* | *5%* | *2* | *4%* |
| **Total Wholesale funding** | **39** | **100%** | **51** | **100%** |
| Wholesale funding > 1 year to maturity | 27 | 68% | 28 | 55% |
| Wholesale funding < 1 year to maturity | 12 | 32% | 23 | 45% |
| Drawings from Monetary Authorities (net) | 15 | - | 22 | - |

| Wholesale funding maturity analysis | 31 December 2012 €bn | 31 December 2012 % | 31 December 2011 €bn | 31 December 2011 % |
|---|---|---|---|---|
| Less than 3 months | 7 | 19% | 21 | 41% |
| 3 months to one year | 5 | 13% | 2 | 4% |
| One to five years | 23 | 59% | 24 | 47% |
| More than five years | 4 | 9% | 4 | 8% |
| **Wholesale funding** | **39** | **100%** | **51** | **100%** |

**Wholesale funding** of €39.3 billion has decreased by €11.4 billion (net) since 31 December 2011 reflecting continued deleveraging of loans and advances to customers, increased deposit volumes across the Group and the sale of assets from other Group entities to Bank of Ireland (UK) plc leading to a reduction in the liquid assets held by Bank of Ireland (UK) plc in excess of regulatory liquidity requirements. At 31 December 2012, €27 billion or 68% of wholesale funding had a term to maturity of greater than one year (31 December 2011: €28 billion or 55%). This includes the Group's participation in the ECB's December 2011 and February 2012 three year LTROs.

During 2012, following stockholder approval, the Group executed a 364 day repo transaction with the state and IBRC for an amount of €3.1 billion. This transaction increased the Group's holding of liquid assets and the Group's funding from Monetary Authorities. See note 32 for more detail.

Other funding from Monetary Authorities (gross) of €12.3 billion has decreased by €10.2 billion since 31 December 2011 and includes €4.4 billion of funding related to NAMA senior bonds and €1.5 billion of a net incremental investment in Irish sovereign and government guaranteed senior bank bonds as part of the Group's participation in the December 2011 and February 2012 three year LTROs.

In November 2012, the Group accessed public term debt markets for the first time since October 2010 with a €1 billion three-year Irish Asset Covered Security (ACS) transaction. In December 2012 the Group became a member of Eurex Repo, accessing €0.7 billion of liquidity from this platform as at 31 December 2012.

During 2012, the Group repaid €2.7 billion of senior unsecured debt. As the Group continues to meet ongoing deleveraging targets, the Group's requirement for new issuance during 2013 is likely to be significantly lower than scheduled redemptions of secured and unsecured debt.

## Funding and Liquidity Position (continued)

During 2012, the Group issued and retained Government guaranteed Own-Use Bonds (OUB's) which are eligible for ECB monetary policy operations. While none were in issue at 31 December 2012, the Group has approval to issue up to €9.5 billion of OUB's up to March 2013 if required.

As set out in note 34, the IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013, reducing wholesale funding by €3.1 billion.

**Liquidity Risk Reporting**

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

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

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

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# Financial information

## Consolidated income statement for the year ended 31 December 2012

| | Note | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|---|
| Interest income | 2 | 4,006 | 4,618 |
| Interest expense | 3 | (2,569) | (3,084) |
| **Net interest income** | | **1,437** | **1,534** |
| Net insurance premium income | 4 | 1,156 | 929 |
| Fee and commission income | 5 | 515 | 612 |
| Fee and commission expense | 5 | (215) | (192) |
| Net trading (expense) / income | 6 | (275) | 19 |
| Life assurance investment income, gains and losses | 7 | 678 | (38) |
| Gain on liability management exercises | | 69 | 1,789 |
| Other operating income | 8 | 106 | 12 |
| **Total operating income** | | **3,471** | **4,665** |
| Insurance contract liabilities and claims paid | 9 | (1,725) | (750) |
| **Total operating income, net of insurance claims** | | **1,746** | **3,915** |
| Other operating expenses | 10 | (1,638) | (1,645) |
| Cost of restructuring programmes | 11 | (150) | 3 |
| **Operating (loss) / profit before impairment charges on financial assets, (loss) / gain on NAMA and loss on deleveraging** | | **(42)** | **2,273** |
| Impairment charges on financial assets | 12 | (1,769) | (2,004) |
| (Loss) / gain on sale of assets to NAMA including associated costs | | (1) | 33 |
| Loss on deleveraging of financial assets | 13 | (326) | (565) |
| **Operating loss** | | **(2,138)** | **(263)** |
| Share of results of associates and jointly controlled entities (after tax) | | 41 | 39 |
| (Loss) / profit on disposal / liquidation of business activities | 14 | (69) | 34 |
| **Loss before tax** | | **(2,166)** | **(190)** |
| Taxation credit | 15 | 337 | 230 |
| **(Loss) / profit for the year** | | **(1,829)** | **40** |
| | | | |
| Attributable to stockholders | | (1,824) | 45 |
| Attributable to non-controlling interests | | (5) | (5) |
| **(Loss) / profit for the year** | | **(1,829)** | **40** |
| | | | |
| Earnings per unit of €0.05 ordinary stock | 16 | (6.7c) | (0.7c) |
| | | | |
| Diluted earnings per unit of €0.05 ordinary stock | 16 | (6.7c) | (0.7c) |

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

# Consolidated statement of comprehensive income for the year ended 31 December 2012

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| **(Loss) / profit for the year** | **(1,829)** | **40** |
| **Other comprehensive income, net of tax:** | | |
| **Available for sale reserve, net of tax:** | | |
| Changes in fair value | 889 | 60 |
| Transfer to income statement | | |
| - Asset disposal | (53) | 24 |
| - Impairment | 39 | 19 |
| **Net change in available for sale reserve** | **875** | **103** |
| **Net actuarial loss on defined benefit pension funds, net of tax** | **(789)** | **(117)** |
| **Cash flow hedge reserve, net of tax:** | | |
| Changes in fair value | 546 | (800) |
| Transfer to income statement | (398) | 1,114 |
| **Net change in cash flow hedge reserve** | **148** | **314** |
| **Foreign exchange reserve:** | | |
| Foreign exchange translation gains | 80 | 180 |
| Transfer to income statement on liquidation of non-trading entities | 56 | - |
| **Net change in foreign exchange reserve** | **136** | **180** |
| **Revaluation of property, net of tax** | **(1)** | **(6)** |
| **Other comprehensive income for the year, net of tax** | **369** | **474** |
| **Total comprehensive income for the year, net of tax** | **(1,460)** | **514** |
| Total comprehensive income attributable to equity stockholders | (1,455) | 520 |
| Total comprehensive income attributable to non-controlling interests | (5) | (6) |
| **Total comprehensive income for the year, net of tax** | **(1,460)** | **514** |

*The effect of tax on the above items is shown in note 15.*

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

# Consolidated balance sheet as at 31 December 2012

| | Note | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | 8,472 | 8,181 |
| Items in the course of collection from other banks | | 448 | 443 |
| Trading securities | | 143 | 6 |
| Derivative financial instruments | | 5,847 | 6,362 |
| Other financial assets at fair value through profit or loss | 17 | 9,460 | 8,914 |
| Loans and advances to banks | 18 | 9,506 | 8,059 |
| Available for sale financial assets | 19 | 11,093 | 10,262 |
| NAMA senior bonds | 20 | 4,428 | 5,016 |
| Loans and advances to customers | 21 | 92,621 | 99,314 |
| Interest in associates | | 39 | 31 |
| Interest in jointly controlled entities | | 227 | 245 |
| Intangible assets | | 371 | 393 |
| Investment properties | | 1,066 | 1,204 |
| Property, plant and equipment | | 333 | 336 |
| Current tax assets | | 33 | 9 |
| Deferred tax assets | 28 | 1,653 | 1,381 |
| Other assets | | 2,404 | 2,270 |
| Retirement benefit asset | 29 | 2 | 8 |
| Assets classified as held for sale | | - | 2,446 |
| **Total assets** | | **148,146** | **154,880** |
| **Equity and liabilities** | | | |
| Deposits from banks | 23 | 21,272 | 31,534 |
| Customer accounts | 24 | 75,170 | 70,506 |
| Items in the course of transmission to other banks | | 268 | 271 |
| Derivative financial instruments | | 5,274 | 6,018 |
| Debt securities in issue | 25 | 18,073 | 19,124 |
| Liabilities to customers under investment contracts | | 5,256 | 4,954 |
| Insurance contract liabilities | | 7,988 | 7,037 |
| Other liabilities | | 3,144 | 3,111 |
| Current tax liabilities | | 23 | 86 |
| Provisions | 27 | 119 | 38 |
| Deferred tax liabilities | 28 | 92 | 88 |
| Retirement benefit obligations | 29 | 1,156 | 422 |
| Subordinated liabilities | 26 | 1,707 | 1,426 |
| Liabilities classified as held for sale | | - | 13 |
| **Total liabilities** | | **139,542** | **144,628** |
| **Equity** | | | |
| Capital stock | 31 | 2,452 | 2,452 |
| Stock premium account | | 1,210 | 5,127 |
| Retained earnings | | 4,607 | 3,507 |
| Other reserves | | 336 | (869) |
| Own stock held for the benefit of life assurance policyholders | | (14) | (15) |
| **Stockholders' equity** | | **8,591** | **10,202** |
| Non-controlling interests | | 13 | 50 |
| **Total equity** | | **8,604** | **10,252** |
| **Total equity and liabilities** | | **148,146** | **154,880** |

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

# Consolidated statement of changes in equity for the year ended 31 December 2012

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| **Capital stock** | | |
| Balance at the beginning of the year | 2,452 | 1,210 |
| Issue of ordinary stock | - | 1,242 |
| **Balance at the end of the year** | **2,452** | **2,452** |
| **Stock premium account** | | |
| Balance at the beginning of the year | 5,127 | 3,926 |
| Transfer to retained earnings | (3,920) | (16) |
| Transaction costs | 3 | (114) |
| Premium on issue of ordinary stock | - | 1,331 |
| **Balance at the end of the year** | **1,210** | **5,127** |
| **Retained earnings** | | |
| Balance at the beginning of the year | 3,507 | 3,740 |
| *(Loss) / profit for the year attributable to stockholders* | *(1,824)* | *45* |
| *Dividends on 2009 Preference Stock and other preference equity interests paid in cash* | *(196)* | *(222)* |
| *Transfer to capital reserve* | *(47)* | *(2)* |
| Loss retained | (2,067) | (179) |
| Transfer from stock premium account | 3,920 | 16 |
| Purchase of non-controlling interest | 39 | - |
| Net actuarial loss on defined benefit pension funds | (789) | (117) |
| Repurchase of capital note | - | 41 |
| Transfer from share based payment reserve | - | 5 |
| Transfer from revaluation reserve | - | 2 |
| Other movements | (3) | (1) |
| **Balance at the end of the year** | **4,607** | **3,507** |
| **Other Reserves:** | | |
| **Available for sale reserve** | | |
| Balance at the beginning of the year | (725) | (828) |
| Net changes in fair value | 1,015 | 68 |
| Deferred tax on reserve movements | (125) | (14) |
| Transfer to income statement (pre tax) | | |
| - Asset disposal (note 8) | (60) | 28 |
| - Impairment (note 12) | 45 | 21 |
| **Balance at the end of the year** | **150** | **(725)** |
| **Cash flow hedge reserve** | | |
| Balance at the beginning of the year | 79 | (235) |
| Changes in fair value | 590 | (1,034) |
| Transfer to income statement (pre tax) | | |
| - Net trading income (foreign exchange) | (473) | 1,226 |
| - Net interest income (note 2) | 56 | 154 |
| Deferred tax on reserve movements | (25) | (32) |
| **Balance at the end of the year** | **227** | **79** |

# Consolidated statement of changes in equity for the year ended 31 December 2012 (continued)

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| **Foreign exchange reserve** | | |
| Balance at the beginning of the year | (862) | (1,042) |
| Exchange adjustments during the year | 80 | 180 |
| Transfer to income statement on liquidation of non-trading entities (note 14) | 56 | - |
| **Balance at the end of the year** | **(726)** | **(862)** |
| | | |
| **Capital reserve** | | |
| Balance at the beginning of the year | 510 | 508 |
| Transfer from retained earnings | 47 | 2 |
| **Balance at the end of the year** | **557** | **510** |
| | | |
| **Share based payment reserve** | | |
| Balance at the beginning of the year | 7 | 12 |
| Transfer to retained earnings | - | (5) |
| **Balance at the end of the year** | **7** | **7** |
| | | |
| **Revaluation reserve** | | |
| Balance at the beginning of the year | 6 | 14 |
| Revaluation of property | (2) | (8) |
| Deferred tax on revaluation of property | 1 | 2 |
| Transfer to retained earnings | - | (2) |
| **Balance at the end of the year** | **5** | **6** |
| | | |
| **US$150 million capital note** | | |
| Balance at the beginning of the year | - | 61 |
| Repurchase of capital note | - | (61) |
| **Balance at the end of the year** | **-** | **-** |
| | | |
| **Capital contribution** | | |
| Balance at the beginning of the year | 116 | - |
| Contribution during the year | - | 116 |
| **Balance at the end of the year** | **116** | **116** |
| | | |
| **Total other reserves** | **336** | **(869)** |

# Consolidated statement of changes in equity for the year ended 31 December 2012 (continued)

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| **Own stock held for the benefit of life assurance policyholders** | | |
| Balance at the beginning of the year | (15) | (15) |
| Changes in value and amount of stock held | 1 | - |
| **Balance at the end of the year** | **(14)** | **(15)** |
| | | |
| **Total stockholders' equity excluding non-controlling interests** | **8,591** | **10,202** |
| | | |
| **Non-controlling interests** | | |
| Balance at the beginning of the year | 50 | 56 |
| Capital contribution by non-controlling interest | 14 | - |
| Share of net loss | (5) | (5) |
| Purchase of non-controlling interest | (47) | - |
| Other movements | 1 | (1) |
| **Balance at the end of the year** | **13** | **50** |
| | | |
| **Total equity** | **8,604** | **10,252** |
| | | |
| **Total comprehensive income included within the above:** | | |
| Total comprehensive income attributable to equity stockholders | (1,455) | 520 |
| Total comprehensive income attributable to non-controlling interests | (5) | (6) |
| **Total comprehensive income for the year, net of tax** | **(1,460)** | **514** |

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

# Consolidated cash flow statement for the year ended 31 December 2012

| | Note | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | (2,166) | (190) |
| Share of results of associates and jointly controlled entities | | (41) | (39) |
| Loss / (profit) on disposal / liquidation of business activities | 14 | 69 | (34) |
| Depreciation and amortisation | | 142 | 136 |
| Impairment charges on financial assets | 12 | 1,769 | 2,004 |
| Loss on deleveraging of financial assets | 13 | 326 | 565 |
| Charge on revaluation of property | | 11 | 15 |
| Revaluation of investment property | | 12 | 10 |
| Interest expense on subordinated liabilities and other capital instruments | 3 | 159 | 171 |
| Charge for retirement benefit obligation | 10 | 59 | 88 |
| Gain on liability management exercises | | (69) | (1,789) |
| Charges / (gains) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' | 6 | 297 | (56) |
| Gain on Contingent Capital Note | 3 | (79) | - |
| Other non-cash items | | 139 | 10 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **628** | **891** |
| Net change in items in the course of collection from other banks | | (4) | 30 |
| Net change in trading securities | | (137) | 145 |
| Net change in derivative financial instruments | | (111) | 1,021 |
| Net change in other financial assets at fair value through profit or loss | | (545) | 1,124 |
| Net change in loans and advances to banks | | (3,107) | 148 |
| Net change in loans and advances to customers | | 5,467 | 4,938 |
| Net change in other assets | | 416 | 252 |
| Net change in deposits from banks | | (10,270) | (9,556) |
| Net change in customer accounts | | 3,970 | 4,272 |
| Net change in debt securities in issue | | (509) | (8,478) |
| Net change in liabilities to customers under investment contracts | | 302 | (317) |
| Net change in insurance contract liabilities | | 951 | (151) |
| Net change in other liabilities | | (431) | (105) |
| Effect of exchange translation and other adjustments | | (674) | (757) |
| **Net cash flow from operating assets and liabilities** | | **(4,682)** | **(7,434)** |

# Consolidated cash flow statement for the year ended 31 December 2012 (continued)

| | Note | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|---|
| **(a) Investing activities** | | | |
| Additions to available for sale financial assets | | (5,570) | (21,532) |
| Disposal / redemption of available for sale financial assets | | 6,013 | 27,160 |
| Additions to property, plant and equipment | | (42)[1] | (31) |
| Disposal of property, plant and equipment | | 6 | 5 |
| Additions to intangible assets | | (78) | (72) |
| Disposals of intangible assets | | 3 | - |
| Disposal of investment property | | 127 | 30 |
| Dividends received from jointly controlled entities | | 60 | 52 |
| Net change in interest in associates | | (6) | (6) |
| Net proceeds from disposal of loan portfolios | 13 | 1,981 | 6,996 |
| Net proceeds from disposal of business activities | 14 | 655 | 148 |
| **Cash flows from investing activities** | | **3,149** | **12,750** |
| **(b) Financing activities** | | | |
| Proceeds from issue of new subordinated liabilities | 26 | 250 | - |
| Net proceeds from Rights Issue | | - | 1,794 |
| Net proceeds from Contingent Capital Note | | - | 985 |
| Capital contribution by non-controlling interest | | 14 | - |
| Consideration paid in respect of purchase of non-controlling interest | | (3) | - |
| Interest paid on subordinated liabilities | | (136) | (240) |
| Dividend paid on 2009 Preference stock and other preference equity interests | | (196) | (222) |
| Consideration paid in respect of liability management exercises | | (680) | (983) |
| **Cash flows from financing activities** | | **(751)** | **1,334** |
| **Net cash flow from operating activities before tax** | | **(4,054)** | **(6,543)** |
| Tax (paid) / refunded | | (36) | 22 |
| **Net cash flow from operating activities** | | **(4,090)** | **(6,521)** |
| Investing activities (section a) | | 3,149 | 12,750 |
| Financing activities (section b) | | (751) | 1,334 |
| **Net change in cash and cash equivalents** | | **(1,692)** | **7,563** |
| Opening cash and cash equivalents | | 15,772 | 8,135 |
| Effect of exchange translation adjustments | | 252 | 74 |
| **Closing cash and cash equivalents** | | **14,332** | **15,772** |

[1] *Excludes €12 million of property, plant and equipment acquired under finance lease agreements.*

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

## Accounting policies

The following are Bank of Ireland Group's principal accounting policies.

## Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2012 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments — Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

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

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 74 to 76.

There have been no significant changes to the Group's accounting policies as set out on pages 182 to 206 of the Annual Report to 31 December 2011.

The financial statements in this preliminary announcement are not the statutory financial statements of the Group, a copy of which is required to be annexed to the Bank's annual return to the Companies Registration Office in Ireland. A copy of the statutory financial statements required to be annexed to the Bank's annual return in respect of the year ended 31 December 2011 has in fact been so annexed. The auditors of the Group have made a report, without any qualification, on their audit of those statutory financial statements. A copy of the statutory financial statements in respect of the year ended 31 December 2012 will be annexed to the next annual return. The directors approved the Group's statutory financial statements for the year ended 31 December 2012 on 1 March 2013 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

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

## Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the twelve months ended 31 December 2012 is a period of twelve months from the date of approval of these annual financial statements ('the period of assessment').

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

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

Since that time and in common with the Banking Industry globally, the Group has had limited access to market sources of wholesale funding and specifically it has not accessed the unguaranteed unsecured term wholesale funding markets. As a result of these factors, the Group became dependent on secured funding from the European Central Bank (the 'ECB'). Apart from the ECB's Long-Term Refinancing Operation (LTRO), this funding rolls on a short term basis. In addition, the Group accessed exceptional liquidity assistance from the Central Bank of Ireland (the 'Central Bank) between late 2010 and late 2011. The limited access to available wholesale funding poses a liquidity risk for the Group which the Directors addressed in detail as part of the going concern assessment.

Concerns regarding the European sovereign debt crisis remained heightened during 2012, resulting in continued instability in financial markets, adversely impacting market sentiment and restricting access to wholesale funding markets for certain sovereigns and financial institutions across Europe. These concerns prompted a series of strong policy responses from European governments and institutions including the EU and the ECB, summarised below. However, political and economic risks remain.

On 21 July 2011, a formal statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States. This Statement ultimately led to the decision by the ECB to actively implement its Securities Markets Programme.

The Statement also included a number of announcements that were positive for Ireland such as a reduction in the interest rates on loans under the EU / IMF Programme and an extension to the maturity date of these loans. It also noted the commitment of the Heads of State or Government of the euro area and the EU institutions to the success of the EU / IMF Programme and critically it confirmed their determination to provide support to countries under such programmes until they have regained market access, provided they successfully implement those programmes.

A package of measures to restore confidence and address the tensions in financial markets was agreed by the European Council and euro area Heads of State or Government on 9 December 2011. These measures included a new fiscal compact and the strengthening of stabilisation tools for the euro area, including a more effective European Financial Stability Facility (EFSF), and the bringing forward of the implementation of the European Stability Mechanism (ESM). Following a referendum on 31 May 2012, Ireland ratified the new fiscal compact.

On 29 June 2012, the euro area Heads of State or Government announced that, following the establishment of a single European banking supervisory mechanism, involving the ECB, banks in the euro area could be recapitalised directly by the European Stability Mechanism (ESM). The announcement also stated that the Eurogroup 'will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme'.

In July 2012 the president of the ECB stated that 'within our mandate, the ECB is ready to do whatever it takes to preserve the Euro'. This was followed in September 2012 by the launch of a bond-buying programme, known as Outright Monetary Transactions (OMT), to lower the borrowing costs of governments at the centre of the crisis. Bond yields subsequently fell for peripheral Eurozone countries.

Irish sovereign bond yields narrowed significantly during 2012. In July 2012 the NTMA returned to the term funding markets with the sale of €4.2 billion of bonds maturing in 2017 and 2020. In January 2013 the NTMA issued a further €2.5 billion of five-year bonds. In addition, the NTMA completed six auctions each of €500 million short dated treasury bills between July 2012 and February 2013.

In February 2013 the Government announced the restructuring of its obligations in relation to the Anglo Irish Bank promissory note following the liquidation of its successor, the Irish Bank Resolution Corporation (IBRC). This action has enabled the Government to achieve a significant deferral in the repayment obligations associated with the promissory note, improving the State's sovereign debt maturity risk over the coming years.

Also in February 2013, Ireland successfully concluded the ninth quarterly review of the EU / IMF programme, with the Troika commenting on the continued strong programme implementation and confirming that Ireland had met all of its commitments.

**Capital**
As part of the EU / IMF programme, the Central Bank undertook the 2011 PCAR incorporating a Prudential Liquidity Assessment Review ('2011 PLAR') and the results were announced on 31 March 2011.

As a result of the 2011 PCAR, the Central Bank assessed that the Group needed to generate an additional €4.2 billion (including a prudent regulatory buffer of €0.5 billion) of equity capital. In addition, €1.0 billion of contingent capital was required via the issue of a debt instrument which, under certain stressed circumstances, would convert to equity capital.

The Group successfully generated all of the required equity capital of €4.2 billion by 31 December 2011, and in July 2011 the Group issued a €1 billion debt instrument to the Irish Government which under certain stressed circumstances would convert to equity capital. In January 2013 the Irish Government sold, at a small premium, its entire holding of this instrument to a diverse group of international institutional investors.

The Group separately passed the EBA stress test in July 2011 and the EBA capital exercise (incorporating a capital buffer against sovereign exposures) in December 2011 without any requirement for further additional capital.

In December 2012 the Group issued lower tier 2 capital of €250 million in the form of subordinated debt to a diverse group of international investors.

Changes to the Capital Requirements Directive ('CRD IV') will implement Basel III rules in the EU. The legislation remains in draft form with consideration of the final proposals expected during 2013. The rules are expected to be implemented on a phased basis from 2014. The Directors believe that the impact on the Group's capital position from the phased implementation of CRD IV during the period of assessment will be managed within the Group's existing capital resources.

A further PCAR exercise is expected to take place and this may be undertaken in late 2013.

The Directors believe this satisfactorily addresses the capital risk.

**Liquidity and funding**
The 2011 PLAR established funding targets in order to reduce the leverage of the Group, reduce its reliance on short-term, largely ECB and Central Bank funding, and ensure convergence to Basel III liquidity standards over time.

Following the announcement that the Irish banks would generate the 2011 PCAR capital, the ECB confirmed on 31 March 2011 that the Eurosystem would continue to provide liquidity to banks in Ireland and hence the Group.

As a consequence of the 2011 PLAR the Group was required to achieve a target loan to deposit ratio of 122.5% by December 2013. An objective of the Central Bank in the 2011 PLAR was to ensure that the required improvement in banks' loan to deposit ratios would be significantly incremented by way of deleveraging i.e. the reduction of loans through the disposal and run-down of non-core portfolios.

In June 2012, the Group announced loan divestments totalling €10.5 billion, which exceeded the required three year (2011 – 2013) target of €10 billion.

The Group's loan-to-deposit ratio at 31 December 2012 was 123%. In November 2012 the Group transitioned to an Advanced Monitoring Framework which tracks the Group's progress towards achieving compliance with the minimum levels for Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) under the Basel III framework.

The Group's net drawings from Monetary Authorities reduced by €11 billion during 2012, from €23 billion at 31 December 2011 to €12 billion at 31 December 2012, (excluding €3 billion relating to the IBRC repo transaction, which terminated on a no gain/no loss basis in February 2013). Drawings from Monetary Authorities consisted entirely of secured funding from the ECB with no drawings under the exceptional liquidity facilities of the Central Bank during the year ended 31 December 2012 (drawings at 31 December 2011: €nil). The €12 billion of Monetary Authority funding matures in early 2015, in line with the ECB's LTRO.

In November 2012, the Group accessed public term debt markets in an unguaranteed format for the first time since October 2010 with a €1 billion three-year Irish Asset Covered Security (ACS) transaction.

It is expected that the Group will continue to require access to the Monetary Authorities for funding during the period of assessment.

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

The Directors believe that this satisfactorily addresses the liquidity risk above.

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

## Foreign currency translation

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

| | **31 December 2012** | | 31 December 2011 | |
|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing |
| € / US$ | 1.2848 | 1.3194 | 1.3920 | 1.2939 |
| € / Stg£ | 0.8109 | 0.8161 | 0.8679 | 0.8353 |

## Critical accounting estimates and judgements

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

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

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

A key judgemental area is in relation to the Residential mortgages portfolio, which has been significantly impacted by the current economic climate, due to a considerable reduction in security values and very low levels of activity in the sector. At 31 December 2012, the Residential mortgages portfolio before impairment provisions amounted to €55 billion (31 December 2011: €57 billion), against which were held provisions for impairment of €1.6 billion (31 December 2011: €1.2 billion). A key assumption used in the calculation of the impairment charge for Residential mortgages is the expected decline in the value of the underlying residential properties securing the loans. At 31 December 2012, the assumption adopted by the Group in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. The assumptions relating to the anticipated peak to trough house price decline, together with all other key impairment provisioning model factors, continue to be reviewed as part of our year-end and half year-end financial reporting cycle. Actual house prices in Ireland, as published by the CSO in its Residential Property Price Index, showed a decline of 50% nationally from peak to 31 December 2012, supporting the continuing appropriateness of the 55% peak to trough assumption. A 2% decline in average values beyond this assumed level would give rise to additional impairment provisions of c.€75 million to €85 million. At 31 December 2012 a 2% decline in average values in UK residential properties beyond the assumed peak to trough would give rise to additional impairment provisions of c.£4 million to £5 million.

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

'Time to Sale' assumptions estimate the period of time taken from the recognition of the impairment charge to the sale of that collateral. An increase of three months in this assumption for Irish residential mortgage properties would give rise to additional impairment provisions of c. €10 million to €15 million. An increase of three months in this assumption for UK residential mortgage properties would give rise to additional impairment provisions of c. £2 million to £3 million.

'Loss emergence periods' refer to the period of time between a loss event occurring and the recognition of the impairment charge. An increase of one month in this assumed loss emergence period for Irish residential properties would give rise to additional impairment provisions of c.€10 million to €20 million. An increase of one month in this assumed loss emergence period for UK residential properties would give rise to additional impairment provisions of c.£1 million to £3 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. The loans in this portfolio have been similarly affected by the current economic climate. Property and construction loans before impairment provisions at 31 December 2012 amounted to €19.2 billion (31 December 2011: €20.6 billion), against which were held provisions for impairment of €3.9 billion (31 December 2011: €3.2 billion).

In the case of the Property and construction portfolio a collective impairment provision is also made for impairment charges that have been incurred but not recognised (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence of the loss event and the ultimate recognition of that loss. An increase of one month in this emergence period beyond this assumed level would give rise to additional impairment provisions of c.€50 million to €55 million.

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

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the Risk Management section.

**(b) Taxation**

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

At 31 December 2012, the Group had a net deferred tax asset of €1,561 million (31 December 2011: €1,293 million), of which €1,500 million (31 December 2011: €1,195 million) related to incurred trading losses. See note 28.

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

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

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish and UK tax legislation, there is no time restriction on the utilisation of these losses. There is however, a restriction on the utilisation of Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits against which the carried forward trading losses can be utilised. A significant portion of the Group's deferred tax balance is projected to be recovered in a period greater than 10 years from the balance sheet date. The balance of the trading losses continues to be available for indefinite carry forward and there is no time limit on the utilisation of these losses.

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

**(c) Fair value of financial instruments**

The Group measures certain of its financial instruments at fair value on the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and where an active market exists.

Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs. Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

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

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

**(d) Retirement benefits**

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, dividend growth, salary and pensions increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. An analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 29 on retirement benefit obligations.

**(e) Life assurance operations**

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

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

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

## Index to selected note information

## 1 Operating segments

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

**Retail Ireland**

Retail Ireland distributes a wide range of financial products and services through the Group's branch operations in the Republic of Ireland and through its direct channels (telephone and on-line). The product suite includes deposits, mortgages, consumer and business lending, credit cards, current accounts, money transmission services, commercial finance, asset finance and general insurance. Retail Ireland is managed through a number of business units namely Distribution Channels, Consumer Banking (including Bank of Ireland Mortgage Bank and ICS Building Society), Business Banking and Customer & Wealth Management (including Private Banking).

**Bank of Ireland Life (BoI Life)**

The Group operates in the life and pensions market in Ireland through its wholly owned subsidiary, New Ireland Assurance Company plc (NIAC). The product suite includes life assurance, protection, pensions and investment products which are manufactured by NIAC. Products are sold under the BoI Life brand in the Retail Ireland branch network and direct sales channels and under the NIAC brand in the intermediary market and through a direct sales force.

Under the terms of the 2011 EU restructuring plan, the Group has agreed to dispose of New Ireland Assurance Company plc by 31 December 2013, albeit the Group retains the right to distribute life assurance, protection, pensions and investment products to its customers after any disposal.

**Retail UK**

Retail UK comprises business banking in Great Britain and Northern Ireland, consumer banking via the branch network in Northern Ireland, the UK residential mortgage business and the business relationships with the UK Post Office. The Group has previously announced its withdrawal from the intermediary sourced mortgage market in the UK. Business banking comprises loan, current account and deposit facilities to medium and large corporate clients in addition to international banking, working capital financing, asset finance and electronic banking services. Offshore deposit taking services are offered in the Isle of Man. A range of retail financial services are provided in the UK via a relationship with the UK Post Office. A substantial part of Retail UK's operations are conducted through the Group's wholly owned UK licensed subsidiary, Bank of Ireland (UK) plc.

**Corporate and Treasury**

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

Corporate Banking provides integrated relationship banking services to a significant number of major Republic of Ireland and Northern Ireland corporations, financial institutions and multinational corporations operating in, or out of, Ireland. The range of lending products provided includes overdraft and short term loan facilities, term loans, project finance and structured finance. Corporate Banking is also engaged in international lending with offices located in London, Paris, Frankfurt and the United States. Its international lending business includes acquisition finance and term lending.

During the year ended 31 December 2012, the Group has divested of certain project finance loan portfolios, the Burdale business and certain other international loans, all of which formed part of the Corporate Banking business. Further information is shown in notes 13 and 14.

Global Markets is responsible for managing the Group's interest rate and foreign exchange risks, and is responsible for executing the Group's liquidity and funding requirements. Global Markets transacts in a range of market instruments on behalf of the Group itself and the Group's customers. The activities include transactions in inter-bank deposits and loans, foreign exchange spot and forward contracts, options, financial futures, bonds, swaps, forward rate agreements and equity tracker products. Global Markets' operations are based in Ireland, the United Kingdom and the United States.

IBI Corporate Finance provides independent financial advice to public and private companies on takeovers, mergers and acquisitions, disposals and restructurings, in addition to fund raising, public flotations and stock exchange listings.

## 1 Operating segments (continued)

**Group Centre**
Group Centre comprises capital management activities, unallocated Group support costs and the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme).

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

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

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

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Accounting policies' on pages 70 to 73. There was no material change to allocation methods. The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit or loss excludes:
- loss on deleveraging of financial assets;
- (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss';
- the cost of restructuring programmes;
- gain on liability management exercises;
- (loss) / profit on disposal / liquidation of business activities;
- gross-up for policyholder tax in the Life business;
- investment return on treasury stock held for policyholders in the Life business; and
- gain on Contingent Capital Note.

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

Gross external revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, gain on liability management exercises, other operating income and share of results of associates and jointly controlled entities.

Gross revenues deriving from transactions with the State, as defined on page 70, which amounted to 10% or more of Group revenues totalled c.€0.5 billion which is primarily derived from Government and other State issued bonds. The remaining revenues are derived from transactions in the normal course of business. These revenues are reported in the Retail Ireland, Bank of Ireland Life, Corporate and Treasury and Group Centre segments.

## 1 Operating segments (continued)

| Year ended 31 December 2012 | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Net interest income** | **665** | **38** | **368** | **633** | **(347)** | **1** | **1,358** |
| Other income, net of insurance claims | 330 | 151 | 40 | 57 | (37) | (19) | 522 |
| **Total operating income, net of insurance claims** | **995** | **189** | **408** | **690** | **(384)** | **(18)** | **1,880** |
| Other operating expenses | (793) | (86) | (347) | (176) | (94) | - | (1,496) |
| Depreciation and amortisation | (43) | (6) | (35) | (7) | (51) | - | (142) |
| **Total operating expenses** | **(836)** | **(92)** | **(382)** | **(183)** | **(145)** | **-** | **(1,638)** |
| **Underlying operating profit / (loss) before impairment charges on financial assets and loss on NAMA** | **159** | **97** | **26** | **507** | **(529)** | **(18)** | **242** |
| Impairment charges on financial assets | (1,149) | - | (423) | (157) | (40) | - | (1,769) |
| Loss on sale of assets to NAMA including associated costs | 5 | - | (9) | 1 | 2 | - | (1) |
| Share of results of associates and jointly controlled entities | 1 | - | 40 | - | - | - | 41 |
| **Underlying (loss) / profit before tax** | **(984)** | **97** | **(366)** | **351** | **(567)** | **(18)[1]** | **(1,487)** |

| **Reconciliation of underlying loss before tax to loss before tax** | **Group €m** |
|---|---|
| Underlying loss before tax | (1,487) |
| Loss on deleveraging of financial assets | (326) |
| Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' | (297) |
| Cost of restructuring programmes | (150) |
| Loss on disposal / liquidation of business activities | (69) |
| Gain on Contingent Capital Note | 79 |
| Gain on liability management exercises | 69 |
| Gross-up for policyholder tax in the Life business | 16 |
| Investment return on treasury stock held for policyholders in the Life business | (1) |
| **Loss before tax** | **(2,166)** |

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

# 1 Operating segments (continued)

| Year ended 31 December 2011 | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| Net interest income | 849 | 5 | 367 | 742 | (420) | (9) | 1,534 |
| Other income, net of insurance claims | 297 | 122 | 119 | 44 | (36) | (22) | 524 |
| Total operating income, net of insurance claims | 1,146 | 127 | 486 | 786 | (456) | (31) | 2,058 |
| Other operating expenses | (818) | (95) | (342) | (178) | (75)[1] | - | (1,508) |
| Depreciation and amortisation | (43) | (6) | (38) | (9) | (41) | - | (137) |
| Total operating expenses | (861) | (101) | (380) | (187) | (116) | - | (1,645) |
| Underlying operating profit / (loss) before impairment charges on financial assets and loss on NAMA | 285 | 26 | 106 | 599 | (572) | (31) | 413 |
| Impairment charges on financial assets | (1,306) | - | (461) | (237) | - | - | (2,004) |
| Gain / (loss) on sale of assets to NAMA including associated costs | 1 | - | (5) | 24 | 13 | - | 33 |
| Share of results of associates and jointly controlled entities | 3 | - | 36 | - | - | - | 39 |
| Underlying (loss) / profit before tax | (1,017) | 26 | (324) | 386 | (559) | (31)[2] | (1,519) |

| Reconciliation of underlying loss before tax to loss before tax | Group €m |
|---|---|
| Underlying loss before tax | (1,519) |
| Loss on deleveraging of financial assets | (565) |
| Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' | 56 |
| Cost of restructuring programmes | 3 |
| Profit on disposal / liquidation of business activities | 34 |
| Gain on liability management exercises | 1,789 |
| Gross-up for policyholder tax in the Life business | 10 |
| Investment return on treasury stock held for policyholders in the Life business | 2 |
| Loss before tax | (190) |

[1] *The impact of amendments to defined benefit pension schemes of €2 million is shown in operating expenses where as previously it had been shown as a separate line item.*
[2] *This relates to certain inter-segment transactions which are eliminated at a Group level. However, at a divisional level the transactions are reported as core income in the Corporate and Treasury division and non-core expense in the Retail UK division as part of the loss on deleveraging of financial assets.*

## 1 Operating segments (continued)

| **Year ended 31 December 2012 Analysis by operating segment** | **Retail Ireland €m** | **Bank of Ireland Life €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Group Centre €m** | **Other reconciling items €m** | **Group €m** |
|---|---|---|---|---|---|---|---|
| **Capital expenditure** | **28** | **3** | **12** | **2** | **87** | **-** | **132** |
| **Investment in associates and jointly controlled entities** | **158** | **42** | **66** | **-** | **-** | **-** | **266** |
| External assets | 43,462 | 12,289 | 51,193 | 37,264 | 3,938 | - | 148,146 |
| Inter segment assets | 51,267 | 2,558 | 43,589 | 129,317 | 40,830 | (267,561) | - |
| **Total assets** | **94,729** | **14,847** | **94,782** | **166,581** | **44,768** | **(267,561)** | **148,146** |
| External liabilities | 47,240 | 13,651 | 34,229 | 42,040 | 2,369 | 13 | 139,542 |
| Inter segment liabilities | 47,608 | 389 | 58,387 | 123,888 | 37,289 | (267,561) | - |
| **Total liabilities** | **94,848** | **14,040** | **92,616** | **165,928** | **39,658** | **(267,548)** | **139,542** |

| Year ended 31 December 2011 Analysis by operating segment | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| Capital expenditure | 14 | 4 | 18 | - | 67 | - | 103 |
| Investment in associates and jointly controlled entities | 150 | 52 | 74 | - | - | - | 276 |
| External assets | 45,860 | 11,486 | 55,034 | 39,834 | 2,666 | - | 154,880 |
| Inter segment assets | 66,792 | 2,228 | 39,955 | 149,010 | 38,894 | (296,879) | - |
| Total assets | 112,652 | 13,714 | 94,989 | 188,844 | 41,560 | (296,879) | 154,880 |
| External liabilities | 45,830 | 12,352 | 31,191 | 53,661 | 1,594 | - | 144,628 |
| Inter segment liabilities | 66,914 | 479 | 63,713 | 133,758 | 32,015 | (296,879) | - |
| Total liabilities | 112,744 | 12,831 | 94,904 | 187,419 | 33,609 | (296,879) | 144,628 |

| **Year ended 31 December 2012 Gross revenue by operating segments** | **Retail Ireland €m** | **Bank of Ireland Life €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Group Centre €m** | **Other reconciling items €m** | **Group €m** |
|---|---|---|---|---|---|---|---|
| Gross external revenue | 1,742 | 1,861 | 1,759 | 1,072 | (124) | (14) | 6,296 |
| Insurance contract liabilities and claims paid | - | (1,720) | - | - | (5) | - | (1,725) |
| **Gross revenue after claims paid** | **1,742** | **141** | **1,759** | **1,072** | **(129)** | **(14)** | **4,571** |

| Year ended 31 December 2011 | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| Gross external revenue | 1,850 | 912 | 1,933 | 1,487 | 1,798 | - | 7,980 |
| Insurance contract liabilities and claims paid | - | (728) | - | - | (22) | - | (750) |
| Gross revenue after claims paid | 1,850 | 184 | 1,933 | 1,487 | 1,776 | - | 7,230 |

## 1 Operating segments (continued)

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

| **Year ended 31 December 2012 Geographical analysis** | **Republic of Ireland €m** | **United Kingdom €m** | **Rest of World €m** | **Other reconciling items €m** | **Total €m** |
|---|---|---|---|---|---|
| Gross external revenue | 4,330 | 1,869 | 97 | - | 6,296 |
| Insurance contract liabilities and claims paid | (1,720) | - | (5) | - | (1,725) |
| **Gross revenue after claims paid** | **2,610** | **1,869** | **92** | **-** | **4,571** |
| **Capital expenditure** | **120** | **12** | **-** | **-** | **132** |
| External assets | 92,600 | 54,237 | 1,309 | - | 148,146 |
| Inter segment assets | 34,774 | 14,347 | 2,727 | (51,848) | - |
| **Total assets** | **127,374** | **68,584** | **4,036** | **(51,848)** | **148,146** |
| External liabilities | 102,647 | 35,545 | 1,350 | - | 139,542 |
| Inter segment liabilities | 18,438 | 30,969 | 2,441 | (51,848) | - |
| **Total liabilities** | **121,085** | **66,514** | **3,791** | **(51,848)** | **139,542** |

| Year ended 31 December 2011 Geographical analysis | Republic of Ireland €m | United Kingdom €m | Rest of World €m | Other reconciling items €m | Total €m |
|---|---|---|---|---|---|
| Gross external revenue | 5,366 | 2,462 | 152 | - | 7,980 |
| Insurance contract liabilities and claims paid | (728) | - | (22) | - | (750) |
| Gross revenue after claims paid | 4,638 | 2,462 | 130 | - | 7,230 |
| Capital expenditure | 85 | 18 | - | - | 103 |
| External assets | 94,503 | 58,632 | 1,745 | - | 154,880 |
| Inter segment assets | 43,869 | 16,007 | 2,905 | (62,781) | - |
| Total assets | 138,372 | 74,639 | 4,650 | (62,781) | 154,880 |
| External liabilities | 110,342 | 33,068 | 1,218 | - | 144,628 |
| Inter segment liabilities | 18,004 | 41,625 | 3,152 | (62,781) | - |
| Total liabilities | 128,346 | 74,693 | 4,370 | (62,781) | 144,628 |

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## 2 Interest income

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Loans and advances to customers | 3,332 | 3,980 |
| Available for sale financial assets | 466 | 465 |
| Finance leases and hire purchase receivables | 104 | 109 |
| Loans and advances to banks | 104 | 64 |
| **Interest income** | **4,006** | **4,618** |

Included within interest income is €231 million (year ended 31 December 2011: €202 million) of interest arising on impaired loans and advances to customers on which a specific impairment provision has been recognised. €189 million of this amount (year ended 31 December 2011: €163 million) relates to loans on which specific provisions have been individually assessed and €42 million (year ended 31 December 2011: €39 million) relates to loans on which specific provisions have been collectively assessed. Interest income of €17 million (year ended 31 December 2011: €15 million) relates to interest on impaired available for sale financial assets on which an individually assessed specific impairment charge has been recognised. Net interest income also includes a charge of €56 million (year ended 31 December 2011: €154 million) transferred from the cash flow hedge reserve (see page 65).

## 3 Interest expense

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Customer accounts | 1,659 | 1,598 |
| Debt securities in issue | 450 | 549 |
| Deposits from banks | 380 | 766 |
| Subordinated liabilities | 80 | 171 |
| *- Gross interest expense on subordinated liabilities* | *159* | *171* |
| *- Gain on Contingent Capital Note* | *(79)* | *-* |
| **Interest expense** | **2,569** | **3,084** |

Included within interest expense for the year ended 31 December 2012 is an amount of €388 million (year ended 31 December 2011: €449 million) relating to the cost of the ELG scheme. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 32.

Interest expense on subordinated liabilities for the year ended 31 December 2012 includes a gain of €79 million in relation to a change in the expected cashflows of future coupon payments on the Convertible Contingent Capital Note 2016 (see note 26).

## 4 Net insurance premium income

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Gross premiums written | 1,241 | 1,026 |
| Ceded reinsurance premiums | (89) | (104) |
| Net premiums written | 1,152 | 922 |
| Change in provision for unearned premiums | 4 | 7 |
| **Net insurance premium income** | **1,156** | **929** |

## 5 Fee and commission income and expense

| **Income** | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Retail banking customer fees | 384 | 386 |
| Insurance commissions | 61 | 76 |
| Credit related fees | 44 | 66 |
| Asset management fees | 5 | 28 |
| Brokerage fees | 3 | 11 |
| Other | 18 | 45 |
| **Fee and commission income** | **515** | **612** |

Included in other fees is an amount of €2 million (year ended 31 December 2011: €2 million) related to trust and other fiduciary fees.

**Expense**

Fee and commission expense of €215 million (year ended 31 December 2011: €192 million) primarily comprises brokerage fees, sales commissions and other fees to third parties and reflects higher commission payments following the extension and strengthening of the financial services relationship with the UK Post Office during 2012.

# 6 Net trading (expense) / income

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Financial assets designated at fair value | 4 | (1) |
| Financial liabilities designated at fair value | | |
| - (Charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits (see analysis below) | (245) | 42 |
| - Other | (116) | 14 |
| Related derivatives held for trading | 38 | (82) |
| | **(319)** | **(27)** |
| | | |
| Other financial instruments held for trading | 33 | 44 |
| Net fair value hedge ineffectiveness | 11 | 1 |
| Cash flow hedge ineffectiveness | - | 1 |
| **Net trading (expense) / income** | **(275)** | **19** |

Net trading (expense) / income includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €32 million (year ended 31 December 2011: €54 million) in relation to net gains arising from foreign exchange.

Net trading (expense) / income includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets, which are funded by those liabilities, is reported in net interest income. Net trading (expense) / income also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €87 million (year ended 31 December 2011: €102 million).

Net fair value hedge ineffectiveness reflects a net charge from hedging instruments of €65 million (year ended 31 December 2011: net gain of €56 million) offsetting a net gain from hedged items of €76 million (year ended 31 December 2011: net charge of €55 million).

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

| **(Charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits** | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Recognised in | | |
| - Net trading (expense) / income | (245) | 42 |
| - Insurance contract liabilities and claims paid | (47) | 11 |
| - Other operating income | (5) | 3 |
| | **(297)** | 56 |
| | | |
| Cumulative gains arising on the movement in credit spreads on the Group's own debt and deposits | 128 | 425 |

## 7 Life assurance investment income, gains and losses

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| Gross life assurance investment income, gains and losses | 679 | (39) |
| Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses | (1) | 1 |
| **Life assurance investment income, gains and losses** | **678** | **(38)** |

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

IFRS requires that Bank of Ireland stock held by the Group, including that held by Bank of Ireland Life for the benefit of policyholders, is reclassified as treasury stock and accounted for as a deduction from equity. The impact on the Group income statement for the year ended 31 December 2012 is that the gain arising on life assurance investment income, gains and losses of €679 million is reduced by €1 million which is the change in the value of Bank of Ireland stock held under insurance contracts.

## 8 Other operating income

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| Transfer from available for sale reserve on asset disposal | 60 | (28) |
| Other insurance income | 27 | 49 |
| Dividend income | 2 | 2 |
| Movement in value of in force asset | (1) | (19) |
| Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business | - | 1 |
| Other income | 18 | 7 |
| **Other operating income** | **106** | **12** |

Included in other operating income is a charge of €2 million relating to the Group's share of jointly controlled operation (JCO).

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## 9 Insurance contract liabilities and claims paid

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| **Claims paid** | | |
| Policy surrenders | (856) | (795) |
| Death and critical illness claims | (145) | (148) |
| Annuity payments | (48) | (41) |
| Policy maturities | (1) | (1) |
| Other claims | (25) | (39) |
| **Gross claims paid** | **(1,075)** | **(1,024)** |
| Recovered from reinsurers | 69 | 53 |
| **Net claims paid** | **(1,006)** | **(971)** |
| **Change in insurance contract liabilities** | | |
| Gross liabilities | (951) | 151 |
| Reinsured liabilities | 232 | 70 |
| **Net change in insurance contract liabilities** | **(719)** | **221** |
| **Insurance contract liabilities and claims paid** | **(1,725)** | **(750)** |

## 10 Other operating expenses

| **Administrative expenses and staff costs** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| Staff costs excluding cost of restructuring programmes (note 11) | 830 | 860[2] |
| Amortisation of intangible assets | 101 | 99 |
| Depreciation of property, plant and equipment | 41 | 37 |
| Financial Services Compensation Scheme (FSCS) | 30 | - |
| Revaluation of property | 11 | 15 |
| Reversal of impairment of intangible assets | - | (4) |
| Other administrative expenses excluding cost of restructuring programmes (note 11) | 625 | 638[1] |
| **Total** | **1,638** | **1,645** |
| **Total staff costs are analysed as follows:** | | |
| Total staff costs excluding restructuring | 830 | 860[2] |
| *- Wages and salaries* | *686* | *692* |
| *- Social security costs* | *73* | *72* |
| *- Retirement benefit costs (defined benefit plans) (note 29)* | *58* | *86*[2] |
| *- Retirement benefit costs (defined contribution plans)* | *1* | *2* |
| *- Other staff costs* | *12* | *8* |
| Staff costs included in cost of restructuring programmes (note 11) | 134 | - |
| **Total staff costs** | **964** | **860** |

[1] *Included in other administrative expenses for the year ended 31 December 2011 is a credit of €3 million relating to property and other restructuring costs (see note 11).*
[2] *Included in other operating expenses for the year ended 31 December 2011 is a gain on amendments to defined benefit pension schemes of €2 million which was previously shown as a separate line item on the income statement.*

## 10 Other operating expenses (continued)

Retirement benefit costs of €58 million for the year ended 31 December 2012 (year ended 31 December 2011: €86 million) includes a recovery of €20 million by the trustees in respect of the 2011 pension levy (note 29).

Other administrative expenses includes an amount of €60 million (year ended 31 December 2011: €69 million) relating to operating lease payments.

Also included in other administrative expenses is an amount of €2 million relating to the Group's share of jointly controlled operation (JCO).

**Staff numbers**

During 2012, the actual number of employees reduced by 1,218 from 13,234 at 31 December 2011 to 12,016 at 31 December 2012.

The average number of staff (full time equivalents) during the year was 13,091 (year ended 31 December 2011: 13,671) categorised as follows in line with the operating segments as stated in note 1.

| | **Year ended 31 December 2012** | Year ended 31 December 2011 |
|---|---|---|
| Retail Ireland | 4,887 | 5,374 |
| Retail UK | 2,112 | 2,236 |
| Bank of Ireland Life | 1,023 | 1,073 |
| Corporate and Treasury | 686 | 925 |
| Group Centre | 4,383 | 4,063 |
| **Total** | **13,091** | **13,671** |

In addition to the reduction in the average number of staff employed by the Group, the table also reflects the ongoing centralisation of support functions in order to maximise operating efficiencies.

## 11 Cost of restructuring programmes

| **Cost of restructuring programmes** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| Staff costs (note 10) | 134 | - |
| Property and other (note 10) | 16 | (3) |
| | **150** | **(3)** |

During 2012, the Group announced that it had recommenced a series of programmes and initiatives to reduce the number of people employed by the Group primarily in areas affected by business change and lower activity levels (see note 27).

The Group has recognised a charge of €150 million (staff costs: €134 million; other administrative expenses: €16 million) in relation to restructuring programmes during the year ended 31 December 2012, in respect of employees that had exited the Group by the reporting date and employees for which the Group has plans in place and has made appropriate communications as at 31 December 2012.

## 12 Impairment charges on financial assets

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Loans and advances to customers (note 22) | 1,724 | 1,939 |
| Available for sale financial assets (AFS) | 45 | 21 |
| Assets sold to NAMA | - | 44 |
| **Impairment charges on financial assets** | **1,769** | **2,004** |

Included within impairment charges on available for sale financial assets is a charge of €40 million (year ended 31 December 2011: €nil) relating to the NAMA subordinated bonds following an updated outlook from NAMA for its long term performance (note 19).

## 13 Loss on deleveraging of financial assets

During 2012, the Group completed further deleveraging of financial assets, all of which had been completed and settled at the balance sheet date. An analysis of the deleveraging completed during the year ended 31 December 2012 and the year ended 31 December 2011 (which includes the sale of loan portfolios to third parties together with managed refinancing decisions taken by the Group) is set out below:

| **Year ended 31 December 2012** | **Consideration received (net of costs) €m** | **Carrying value of assets derecognised €m** | **Loss €m** |
|---|---|---|---|
| **Corporate and Treasury division** | | | |
| Project Finance loan portfolios | 817 | 989 | (172) |
| Other international loans | 568 | 599 | (31) |
| **Retail UK division** | | | |
| UK Mortgage loan portfolio | 514 | 635 | (121) |
| UK Investment Property loan portfolio | 82 | 84 | (2) |
| **Total** | **1,981** | **2,307** | **(326)** |

**Project Finance loan portfolios**
Project Finance loans and certain associated derivatives with a carrying value of €1.0 billion were derecognised during the year ended 31 December 2012. The Group received consideration of €0.8 billion for these loans, giving rise to a loss on disposal after transaction costs of €0.2 billion.

**Other International loans**
Other International loans with a carrying value of €0.6 billion were derecognised during the year ended 31 December 2012. This was principally through managed refinancing decisions taken by the Group with some sales of individual loans.

**UK Mortgage loan portfolio**
During the year ended 31 December 2012, a loan portfolio with a carrying value of €0.6 billion was sold to ITL Limited, a subsidiary of Coventry Building Society. The consideration for these loans was €0.5 billion, giving rise to a loss on disposal after transaction costs of €0.1 billion.

**UK Investment Property loan portfolio**
UK Investment property loans with a carrying value of €0.1 billion were derecognised during the period through managed refinancing decisions taken by the Group.

## 13 Loss on deleveraging of financial assets (continued)

| Year ended 31 December 2011 | Consideration received (net of costs) €m | Carrying value of assets derecognised €m | Loss €m |
|---|---|---|---|
| **Retail UK division** | | | |
| UK Investment Property loan portfolio | 1,169 | 1,464 | (295) |
| UK Mortgage loan portfolio | 1,275 | 1,399 | (124) |
| **Corporate and Treasury division** | | | |
| Project Finance loan portfolios | 833 | 944 | (111) |
| US Investment Property loan portfolio | 803 | 805 | (2) |
| Other International loans | 2,916 | 2,949 | (33) |
| Total | 6,996 | 7,561 | (565) |

**UK Investment Property loan portfolio**

A loan portfolio and certain associated derivatives with a carrying value of €1.5 billion were sold to Kennedy Wilson and its institutional partners. The consideration for these loans was €1.2 billion, giving rise to a loss on disposal after transaction costs of €0.3 billion. The sale was completed in December 2011.

**UK Mortgage loan portfolio**

A loan portfolio with a carrying value of €1.4 billion was sold to The Mortgage Works (UK) plc, a wholly owned subsidiary of Nationwide Building Society. The consideration for these loans was €1.3 billion, giving rise to a loss on disposal after transaction costs of €0.1 billion. The sale was completed in December 2011.

**Project Finance loan portfolios**

During 2011, the Group agreed the sale of Project Finance loans with a total carrying value of €1.3 billion to GE Energy Financial Services, Sumitomo Mitsui Banking Corporation and other third parties. By 31 December 2011, €944 million of these sales had completed and the assets were derecognised. The consideration received for these loans was €833 million, giving rise to a loss on disposal after transaction costs of €111 million.

**US Investment Property loan portfolio**

A loan portfolio with a carrying value of €0.8 billion was sold to Wells Fargo Bank N.A. for a consideration of €0.8 billion. The sale was completed during September 2011.

**Other International loans**

Other International loans with a carrying value of €2.9 billion were derecognised during 2011, principally through managed refinancing decisions taken by the Group with some sales of individual loans.

## 14 (Loss) / profit on disposal / liquidation of business activities

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| **Corporate and Treasury Division** | | |
| Burdale | | |
| - Loss on disposal | (14) | - |
| - Impairment of goodwill | - | (45) |
| Bank of Ireland Asset Management (BIAM) | (1) | 39 |
| Bank of Ireland Securities Services (BoISS) | 2 | 32 |
| Paul Capital Investments LLC | - | - |
| **Retail Ireland Division** | | |
| Foreign Currency Exchange (FCE) Corporation | - | 8 |
| **Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities** | (56) | - |
| **(Loss) / profit on disposal / liquidation of business activities** | **(69)** | **34** |

**Burdale**

In line with the agreements given in the EU Restructuring Plan, on 19 December 2011 the Group announced the sale of Burdale to Wells Fargo Bank N.A. in exchange for cash of €655 million. The Group incurred a charge of €45 million in the year ended 31 December 2011, being the impairment of the goodwill on Burdale Financial Holdings Limited following the announcement of the sale of this business. The sale was completed on 1 February 2012. In the year ended 31 December 2012, the Group recognised a loss on disposal of €14 million.

**Bank of Ireland Asset Management (BIAM)**

In line with the agreements given in the EU Restructuring plan, on 22 October 2010 the Group announced the sale of BIAM to State Street Global Advisors for cash consideration of €57 million, subject to certain conditions. On 10 January 2011, all conditions of the sale were satisfied and the sale was completed. In the year ended 31 December 2011, the Group recognised a profit on disposal of €39 million.

**Bank of Ireland Securities Services (BoISS)**

On 24 February 2011, the Group announced the sale of BoISS to Northern Trust Corporation for cash and deferred consideration. The fair value of the consideration was estimated to be €51 million and the sale was completed on 1 June 2011. In the year ended 31 December 2011, the Group recognised a profit on disposal of €32 million.

**Paul Capital Investments LLC**

In line with the agreements given in the EU Restructuring plan, on 21 April 2011 the Group completed the sale of its 50% holding in Paul Capital Investments LLC to the firm's existing management team for consideration of €9 million. In the year ended 31 December 2011, the Group recognised a profit on disposal of less than €1 million.

**Foreign Currency Exchange (FCE) Corporation**

In line with the agreements given in the EU Restructuring plan, on 9 May 2011 the Group announced the sale of FCE Corporation to Wells Fargo Bank N.A. for consideration of €31 million. On 1 August 2011, all conditions were satisfied and the sale was completed. In the year ended 31 December 2011, the Group recognised a profit on disposal of €8 million.

**Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities**

As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During this process, the Group voluntarily appointed a liquidator to manage the winding up. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and has accounted for this loss of control as a disposal. In accordance with accounting standards, the Group must reclassify net cumulative foreign exchange losses of €56 million relating to these companies from the foreign exchange reserve to the income statement during the year ended 31 December 2012 (page 66).

# 15 Taxation

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| **Current tax** | | |
| Irish Corporation Tax | | |
| - Current year | (20) | (25) |
| - Adjustments in respect of prior year | 24 | 16 |
| - Transfer from deferred tax | 11 | 16 |
| Double taxation relief | 2 | 2 |
| Foreign tax | | |
| - Current year | (9) | (49) |
| - Adjustments in respect of prior year | 6 | 7 |
| - Transfer from deferred tax | 34 | - |
| | **48** | **(33)** |
| **Deferred tax credit** | | |
| - Current year losses | 363 | 323 |
| - Impact of Corporation Tax rate change | (33) | (18) |
| - Origination and reversal of temporary differences | (14) | (13) |
| - Transfer to current tax | (45) | (16) |
| - Adjustments in respect of prior year | 18 | (13) |
| **Taxation credit** | **337** | **230** |

The reconciliation of tax on the loss before taxation at the standard Irish corporation tax rate to the Group's actual tax credit for the year ended 31 December 2012 and the year ended 31 December 2011 is as follows:

| | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Loss before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2011: 12.5%) | 271 | 24 |
| Effects of: | | |
| Gains arising on repurchase of subordinated liabilities | - | 185 |
| Foreign earnings subject to different rates of tax | 66 | 84 |
| Other adjustments for tax purposes | 9 | (36) |
| Non-deductible goodwill impairment | - | (13) |
| Share of results of associates and jointly controlled entities shown post tax in the income statement | 5 | 5 |
| Impact of corporation tax rate change on deferred tax | (33) | (18) |
| Adjustments in respect of prior year | 48 | 10 |
| Bank of Ireland Life companies - different basis of accounting | (21) | (23) |
| Gain / (loss) on disposal / liquidation of business activities | (8) | 12 |
| **Taxation credit** | **337** | **230** |

The effective taxation rate for the year ended 31 December 2012 is 16% (tax credit) (year ended 31 December 2011: 121% (tax credit)). Excluding the impact of the gain on liability management exercises, loss on deleveraging of financial assets, charges / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', profit on disposal / liquidation of business activities, gross-up for policyholder tax in the Life business, cost of restructuring programmes, gain on Contingent Capital Note and investment return on treasury stock held for policyholders the effective taxation rate was 17% (tax credit) for the year ended 31 December 2012 (year ended 31 December 2011: 11% (tax credit)).

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## 15 Taxation (continued)

The tax effects relating to each component of other comprehensive income are as follows:

| | Year ended 31 December 2012 | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | Pre tax €m | Tax €m | Net of tax €m | Pre tax €m | Tax €m | Net of tax €m |
| **Available for sale reserve** | | | | | | |
| Changes in fair value | 1,015 | (126) | 889 | 68 | (8) | 60 |
| Transfer to income statement | | | | | | |
| - On asset disposal | (60) | 7 | (53) | 28 | (4) | 24 |
| - Impairment | 45 | (6) | 39 | 21 | (2) | 19 |
| **Net change in reserve** | **1,000** | **(125)** | **875** | **117** | **(14)** | **103** |
| **Net actuarial loss on defined benefit pension funds** | **(908)** | **119** | **(789)** | **(137)** | **20** | **(117)** |
| **Cash flow hedge reserve** | | | | | | |
| Changes in fair value | 590 | (44) | 546 | (1,034) | 234 | (800) |
| Transfer to income statement | (417) | 19 | (398) | 1,380 | (266) | 1,114 |
| **Net change in cash flow hedge reserve** | **173** | **(25)** | **148** | **346** | **(32)** | **314** |
| **Net change in foreign exchange reserve** | **136** | **-** | **136** | **180** | **-** | **180** |
| **Net change in revaluation reserve** | **(2)** | **1** | **(1)** | **(8)** | **2** | **(6)** |
| **Other comprehensive income for the year** | **399** | **(30)** | **369** | **498** | **(24)** | **474** |

## 16 Earnings per share

The calculation of basic earnings per unit of €0.05 ordinary stock is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

The diluted earnings per share is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock.

For the year ended 31 December 2012 and the year ended 31 December 2011 there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

| | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| **Basic and diluted earnings per share** | | |
| (Loss) / profit attributable to stockholders | (1,824) | 45 |
| Dividend on 2009 Preference Stock[1] | (188) | (188) |
| Dividend on other preference equity interests | (7) | (7) |
| Repurchase of capital note | - | 41 |
| **Loss attributable to ordinary stockholders** | **(2,019)** | **(109)** |
| | **Units (millions)** | Units (millions) |
| Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders | 30,109[2] | 15,704 |
| **Basic and diluted earnings per share (cent)** | **(6.7c)** | **(0.7c)** |

[1] *Where a dividend on the 2009 Preference Stock is not paid in either cash or units of ordinary stock, that dividend must subsequently be paid in the form of units of ordinary stock before a subsequent dividend on the 2009 Preference Stock or dividend on ordinary stock can be paid. The dividend allocated for the year ended 31 December 2012 has been deducted in the calculation of basic earnings per share. On 20 February 2013, the Group paid a cash dividend of €188.3 million on the 2009 Preference Stock to the NPRFC.*

[2] *The increase in the Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders for the year ended 31 December 2012 is due to the increase in the number of units of ordinary stock in issue following the July 2011 Rights Issue.*

At 31 December 2012, there were stock options over 2.7 million units of potential ordinary stock (31 December 2011: 3 million units) which could potentially have a dilutive impact in the future, but which were anti-dilutive in the year ended 31 December 2012 and the year ended 31 December 2011.

## 17 Other financial assets at fair value through profit or loss

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| **Assets linked to policyholder liabilities** | | |
| Equity securities | 6,305 | 5,926 |
| Government bonds | 993 | 1,008 |
| Unit trusts | 713 | 855 |
| Debt securities | 290 | 92 |
| | **8,301** | **7,881** |
| **Other financial assets** | | |
| Government bonds | 810 | 804 |
| Other | 349 | 229 |
| | **1,159** | **1,033** |
| **Other financial assets at fair value through profit or loss** | **9,460** | **8,914** |

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2012, such assets amounted to €8,301 million (31 December 2011: €7,881 million).

Other financial assets of €1,159 million (31 December 2011: €1,033 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

## 18 Loans and advances to banks

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| Placements with other banks | 4,440 | 6,088 |
| Securities purchased with agreement to resell | | |
| - IBRC repo transaction (note 34) | 3,060 | - |
| - Other | 332 | 417 |
| Mandatory deposits with central banks | 1,293 | 1,392 |
| Funds placed with central banks | 381 | 162 |
| **Loans and advances to banks** | **9,506** | **8,059** |

Placements with other banks of €4.4 billion (31 December 2011: €6.1 billion) includes cash collateral of €1.7 billion (31 December 2011: €2.2 billion) placed with derivative counterparties in relation to net derivative liability positions.

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2012 was €3,863 million (31 December 2011: €417 million).

Mandatory deposits with central banks includes €1,051 million (31 December 2011: €1,012 million) relating to collateral in respect of the Group's issued notes in circulation in Northern Ireland.

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €35.5 billion (31 December 2011: €33.9 billion) in the Risk Management section on page 53.

Included in the above is €350 million (31 December 2011: €195 million) of assets held on behalf of Bank of Ireland Life policyholders.

## 19 Available for sale financial assets

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| Government bonds | 5,642 | 4,568 |
| Other debt securities | | |
| - listed | 5,120 | 5,326 |
| - unlisted | 277 | 315 |
| Equity securities | | |
| - listed | 1 | 1 |
| - unlisted | 53 | 52 |
| **Available for sale financial assets** | **11,093** | **10,262** |

At 31 December 2012, available for sale financial assets of €6.7 billion (31 December 2011: €7.8 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a fair value of €117 million (31 December 2011: €113 million) and a nominal value of €281 million (31 December 2011: €280 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (note 20). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. During the year ended 31 December 2012 and 31 December 2011, no interest was paid by NAMA on subordinated bonds. During the year ended 31 December 2012, the Group incurred an impairment charge of €40 million on the NAMA subordinated bonds (year ended 31 December 2011: €nil) (note 12).

## 20 NAMA senior bonds

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| **NAMA senior bonds** | **4,428** | **5,016** |

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

At 31 December 2012 and 31 December 2011, all NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March and 1 September. The contractual maturity of these bonds is 1 March 2013. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2012, NAMA redeemed senior bonds held by the Group with a nominal value of €615 million (year ended 31 December 2011: €221 million).

## 21 Loans and advances to customers

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| Loans and advances to customers | 98,658 | 104,006 |
| Finance leases and hire purchase receivables (see below) | 1,507 | 1,652 |
| | 100,165 | 105,658 |
| Less allowance for impairment charges on loans and advances to customers (note 22) | (7,544) | (6,344) |
| **Loans and advances to customers** | **92,621** | **99,314** |
| | | |
| **Amounts include** | | |
| Due from jointly controlled entities | 102 | 84 |

## 22 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers (including loans and advances included within assets classified as held for sale at 31 December 2011) during the year ended 31 December 2012 and 31 December 2011.

| **31 December 2012** | **Residential mortgages €m** | **Non-Property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total impairment provisions €m** |
|---|---|---|---|---|---|
| Provision at 1 January 2012 | 1,159 | 1,723 | 3,205 | 278 | 6,365 |
| Exchange adjustments | 3 | 8 | 23 | 1 | 35 |
| Charge against income statement | 462 | 413 | 797 | 52 | 1,724 |
| Recoveries | (3) | 1 | - | 13 | 11 |
| Amounts written off | (51) | (376) | (164) | (115) | (706) |
| Release of provision on loan book disposals | - | - | (18) | - | (18) |
| Other movements | 24 | 67 | 33 | 9 | 133 |
| **Provision at 31 December 2012** | **1,594** | **1,836** | **3,876** | **238** | **7,544** |

At 31 December 2012, there were no loans and advances to customers classified as assets held for sale (31 December 2011: €21 million).

| 31 December 2011 | Residential mortgages €m | Non-Property SME and corporate €m | Property and construction €m | Consumer €m | Total impairment provisions €m |
|---|---|---|---|---|---|
| Provision at 1 January 2011 | 725 | 1,475 | 2,529 | 321 | 5,050 |
| Exchange adjustments | 4 | 11 | 32 | 1 | 48 |
| Charge against income statement | 470 | 497 | 936 | 80 | 1,983 |
| Recoveries | (2) | 1 | (2) | 10 | 7 |
| Amounts written off | (49) | (254) | (166) | (147) | (616) |
| Release of provision on sale of assets to NAMA | (4) | - | (194) | - | (198) |
| Release of provision on loan book disposals | - | (25) | 15 | - | (10) |
| Other movements | 15 | 18 | 55 | 13 | 101 |
| Provision at 31 December 2011 | 1,159 | 1,723 | 3,205 | 278 | 6,365 |

The provision at 31 December 2011 is analysed as follows:

| | | | | | |
|---|---|---|---|---|---|
| Loans and advances to customers | 1,159 | 1,702 | 3,205 | 278 | 6,344 |
| Loans classified as held for sale | - | 21 | - | - | 21 |
| Provision at 31 December 2011 | 1,159 | 1,723 | 3,205 | 278 | 6,365 |

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Further details on the Group's impaired loans and impairment provisions are set out on page 49 of the Risk Management section.

## 23 Deposits from banks

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| Securities sold under agreement to repurchase | 19,307 | 29,585 |
| *- Monetary Authorities* | | |
| *- IBRC repo transaction (note 34)* | *3,060* | *-* |
| *- Other* | *11,040* | *22,530* |
| *- Private market repos* | *5,207* | *7,055* |
| Deposits from banks | 1,749 | 1,817 |
| Other bank borrowings | 216 | 132 |
| **Deposits from banks** | **21,272** | **31,534** |

At 31 December 2012, total drawings from Monetary Authorities amounted to €15 billion (net) (31 December 2011: €22 billion (net)), of which €1 billion (31 December 2011: €nil) is included in debt securities in issue (note 25). €12 billion is on a term funding basis, utilising the ECB's three year Long Term Refinancing Operation (LTRO). The LTRO matures in two tranches in January and February 2015. The Group has an option, from February 2013, to repay these facilities at an earlier date.

Deposits from banks include cash collateral of €1.1 billion (31 December 2011: €1.1 billion) received from derivative counterparties in relation to net derivative asset positions.

## 24 Customer accounts

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| Term deposits and other products | 42,318 | 39,379 |
| Demand deposits | 17,647 | 16,397 |
| Current accounts | 15,205 | 14,730 |
| **Customer accounts** | **75,170** | **70,506** |
| **Amounts include** | | |
| Due to associates and jointly controlled entities | 36 | 26 |

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products.

At 31 December 2012, the Group's largest 20 customer deposits amounted to 5% (31 December 2011: 2%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 55 in the Risk Management section.

Included within Term deposits and other products is €1 billion relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

## 25 Debt securities in issue

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| Bonds and medium term notes | 14,687 | 16,676 |
| Other debt securities in issue | 3,386 | 2,448 |
| **Debt securities in issue** | **18,073** | **19,124** |

## 26 Subordinated liabilities

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| **Undated loan capital** | | |
| Bank of Ireland UK Holdings plc | | |
| €600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities | 32 | 32 |
| Bank of Ireland | | |
| Stg£75 million 13⅜% Perpetual Subordinated Bonds | 93 | 91 |
| Bristol & West plc | | |
| Stg£32.6 million 8⅛% Non-Cumulative Preference Shares | 40 | 39 |
| | **165** | **162** |
| **Dated loan capital** | | |
| CAD$400 million Fixed / Floating Rate Subordinated Notes 2015 | 64 | 27 |
| €1,000 million 10% Convertible Contingent Capital Note 2016 | 986 | 1,009 |
| €600 million Subordinated Floating Rate Notes 2017 | 1 | 1 |
| €1,002 million 10% Fixed Rate Subordinated Notes 2020 | 239 | 225 |
| Stg£197 million 10% Fixed Rate Subordinated Notes 2020 | 2 | 2 |
| €250 million 10% Fixed Rate Subordinated Notes 2022 | 250 | - |
| | **1,542** | **1,264** |
| **Total subordinated liabilities** | **1,707** | **1,426** |

## 27 Provisions

| | Restructuring €m | Onerous contracts €m | Legal €m | Other €m | Total €m |
|---|---|---|---|---|---|
| As at 1 January 2012 | 3 | 15 | 16 | 4 | 38 |
| Reclassifications | - | 3 | (1) | 2 | 4 |
| Charge to income statement | 150 | 7 | - | 32 | 189 |
| Utilised during the year | (87) | (4) | (13) | (3) | (107) |
| Unused amounts reversed during the year | (1) | (2) | - | (2) | (5) |
| **As at 31 December 2012** | **65** | **19** | **2** | **33** | **119** |

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

**Restructuring**

During the year ended 31 December 2012, the Group recognised provisions relating to a series of programmes and initiatives to reduce the number of people employed by the Group primarily in areas affected by business change and lower activity levels. The Group has recognised a charge of €150 million in relation to these restructuring programmes as plans were in place and appropriate communications had been made at year end (see note 11). It is expected that this provision will be used within the next two years.

**Onerous contracts**

Partly as a result of the Group's restructuring of its operations, the Group is 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, less any rental income receivable from sub-leasing, has been provided for.

This provision relates to leases on properties ranging between one and thirteen years. It is expected that €4 million of this provision will be used within the next twelve months.

**Legal**

This provision relates to certain legal claims brought against the Group by third parties. These provisions range between one and seven years.

**Other**

It is expected that €32 million of this provision will be used within the next twelve months. The remaining provision ranges between one and five years.

## 28 Deferred tax

| | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| The movement on the deferred tax account is as follows: | | |
| At beginning of year | 1,293 | 1,037 |
| Income statement credit for year | 289 | 263 |
| Pension | 119 | 20 |
| Available for sale financial assets – charge to other comprehensive income | (125) | (14) |
| Cash flow hedges – charge to other comprehensive income | (25) | (32) |
| Revaluation / reclassification of property during the year | 1 | 2 |
| Other movements | 9 | 17 |
| **At end of year** | **1,561** | **1,293** |
| Deferred tax assets and liabilities are attributable to the following items: | | |
| **Deferred tax assets** | | |
| Unutilised tax losses | 1,500 | 1,195 |
| Pensions and other post retirement benefits | 161 | 62 |
| Provision for loan impairment | 12 | 14 |
| Accelerated capital allowances on equipment used by the Group | 12 | 4 |
| Available for sale reserve | - | 100 |
| Cash flow hedge reserve | - | 7 |
| Other temporary differences | 19 | 6 |
| **Deferred tax assets** | **1,704** | **1,388** |
| **Deferred tax liabilities** | | |
| Life companies | (54) | (46) |
| Available for sale reserve | (25) | - |
| Cash flow hedge reserve | (18) | - |
| Accelerated capital allowances on finance leases | (13) | (16) |
| Property revaluation surplus | (10) | (11) |
| Other temporary differences | (23) | (22) |
| **Deferred tax liabilities** | **(143)** | **(95)** |
| **Represented on the balance sheet as follows:** | | |
| Deferred tax assets | 1,653 | 1,381 |
| Deferred tax liabilities | (92) | (88) |
| | **1,561** | **1,293** |

The amount of the deferred tax asset expected to be recovered within one year is €10 million (31 December 2011: €23 million). The amount of deferred tax liability expected to be settled within one year is €6 million (31 December 2011: €3 million).

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €164 million (31 December 2011: €171 million).

## 28 Deferred tax (continued)

The deferred tax asset of €1,653 million (31 December 2011: €1,381 million) shown on the balance sheet is after netting by jurisdiction (€1,704 million before netting by jurisdiction, 31 December 2011: €1,388 million). This includes an amount of €1,500 million at 31 December 2012 (31 December 2011: €1,195 million) in respect of operating losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already reversed.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. There is, however, a restriction on the utilisation of Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits in any year against which the carried forward trading losses can be utilised. A significant portion of the Group's deferred tax balance is projected to be recovered in a period greater than 10 years from the balance sheet date. The balance of the trading losses continues to be available for indefinite carry forward and there is no time limit on the utilisation of these losses.

The UK Government announced that the main rate of corporation tax would reduce to 24% from 1 April 2012 (and not 25% as previously announced) to be followed by further reductions to 21% for the year beginning 1 April 2014. The reduction in the corporation tax rate to 23% from 1 April 2013 was substantively enacted at the balance sheet date and the effect of this change has been to reduce the deferred tax asset at 31 December 2012 by €33 million. The proposed reduction in the corporation tax rate to 21% by 1 April 2014 has yet to be enacted. The overall effect of the future reductions from 23% to 21% would be to reduce the deferred tax asset at 31 December 2012 by €47 million.

Deferred tax assets have not been recognised in respect of US tax losses of €70 million (31 December 2011: €71 million) and US temporary differences of €4 million (31 December 2011: €3 million). €23 million (31 December 2011: €23 million) of the tax losses expire in the period 2020 to 2028 with €47 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

The deferred tax credit in the income statement comprises the following temporary differences:

| | **31 December 2012 €m** | 31 December 2011 €m |
|---|---|---|
| Current year losses | 363 | 323 |
| Impact of corporation tax rate change | (33) | (18) |
| Pensions and other retirement benefits | (20) | (20) |
| Life companies | (8) | 8 |
| Accelerated tax depreciation | 15 | 11 |
| Other temporary differences | (1) | (12) |
| Transfer to current tax | (45) | (16) |
| Adjustments in respect of prior year | 18 | (13) |
| **Total deferred tax** | **289** | **263** |

## 29 Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the pension deficit on the consolidated Group balance sheet. The BSPF was closed to new members from 1 October 2006, with the exception of a number of new entry-level employees (who joined from 1 October 2006 to 21 November 2007), who were offered a one-off option to join the scheme. All new employees in the Group from 21 November 2007 are eligible to become members of the Bank of Ireland Group Pensions Fund (BIGPF) or the Bank of Ireland Group UK Pension Fund. The BIGPF is a hybrid scheme which includes elements of both a defined benefit and a defined contribution scheme.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

**Actuarial Valuation of the BSPF**

The last formal valuation of the BSPF, using the Attained Age method, was carried out as at 31 March 2010. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date.

The valuation disclosed that the fair value of scheme assets represented 85% of the benefits that had accrued to members after allowing for expected future increases in earnings and pensions and after taking account of the impact of the changes in pension benefits set out below. The actuary recommended that the contribution rate increase to 29.1% of salaries (inclusive of employee contributions) from 16.7% previously, in the funding programme following the conclusion of the valuation. The next formal valuation of the BSPF will be carried out during 2013, with an effective date of 31 December 2012. For any of the Group's defined benefit schemes in deficit as per the statutory funding standard, a Funding Proposal will also be submitted to the Pensions Board by 30 June 2013 to address this deficit in line with the required timescales of the Pensions Board.

The actuarial valuations are available for inspection by the members of the schemes but are not available for public inspection.

**Pension levy**

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The net impact of the 2011 and 2012 pension levies on the income statement for the year ended 31 December 2012 is a reduction in the pension charge of €22 million.

The Group has recognised a charge of €21 million in respect of the 2012 pension levy in its income statement for the year ended 31 December 2012, as the levy formed part of the Expected Return on Assets determined at the start of the year.

During 2012, the Group and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed that in exchange for additional security for scheme members, the cost of the pension levies incurred to date would be borne by the relevant Republic of Ireland scheme members, in the form of adjustments to members' benefits. The additional security was provided by a charge over a portfolio of Group assets with an initial value of €250 million (a contingent asset), including Group properties with a fair value of €42 million at 31 December 2012, which will remain in place until the scheme's current core liabilities satisfactorily meet the Minimum Funding Standard. The Group has recognised a negative past service cost of €43 million in the income statement during the year ended 31 December 2012 in relation to these benefit adjustments.

## 29 Retirement benefit obligations (continued)

The financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

| Financial assumptions | 31 December 2012 % p.a. | 31 December 2011 % p.a. |
|---|---|---|
| **Irish schemes** | | |
| Inflation rate | 2.00 | 2.00 |
| Discount rate | 3.90 | 5.30 |
| Rate of general increase in salaries | *2.50 | *2.50 |
| Rate of increase in pensions in payments | *1.90 | *1.90 |
| Rate of increase to deferred pensions | 1.90 | 1.90 |
| **UK schemes** | | |
| Consumer Price Inflation | 2.40 | 2.10 |
| Retail Price Inflation | 2.90 | 3.00 |
| Discount rate | 4.60 | 4.90 |
| Rate of general increase in salaries | *3.40 | *3.50 |
| Rate of increase in pensions in payments | *2.70 | *2.80 |
| Rate of increase to deferred pensions | 2.40 | 2.10 |

* *Weighted average increase across all Group schemes.*

### Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements are based on the results of the Society of Actuaries in Ireland mortality investigations.

| Post retirement mortality assumptions (All Schemes) | At 31 December 2012 years | At 31 December 2011 years |
|---|---|---|
| **Longevity at age 70 for current pensioners** | | |
| Males | 17.3 | 17.1 |
| Females | 18.7 | 18.6 |
| **Longevity at age 60 for active members currently aged 60 years** | | |
| Males | 26.9 | 26.8 |
| Females | 28.5 | 28.4 |
| **Longevity at age 60 for active members currently aged 40 years** | | |
| Males | 29.5 | 29.4 |
| Females | 30.7 | 30.6 |

## 29 Retirement benefit obligations (continued)

The expected long term rates of return on assets of the material defined benefit schemes on a combined basis for the years ended 31 December 2012 and 31 December 2011, and the market values of those assets as at 31 December 2012 and 31 December 2011, were as follows:

| % | 31 December 2012 Expected long term rates of return RoI % | UK % | Fund % | Market Value €m | 31 December 2011 Expected long term rates of return RoI % | UK % | Fund % | Market Value €m |
|---|---|---|---|---|---|---|---|---|
| Equities | 7.50 | 7.50 | 51.5 | 2,606 | 7.25 | 8.00 | 53.7 | 2,396 |
| Debt securities | 4.32 | 3.77 | 39.1 | 1,980 | 4.44 | 4.52 | 38.6 | 1,723 |
| Property | 6.00 | 6.00 | 5.0 | 252 | 6.00 | 6.00 | 6.1 | 271 |
| Cash and other | 2.30 | 3.00 | 4.4 | 225 | 2.60 | 4.10 | 1.6 | 73 |
| Total market value of schemes' assets | | | | 5,063 | | | | 4,463 |
| Actuarial value of liabilities of funded schemes | | | | (6,206) | | | | (4,867) |
| Aggregate deficit in funded schemes | | | | (1,143) | | | | (404) |
| Unfunded schemes | | | | (10) | | | | (9) |
| Net defined benefit pension deficit | | | | (1,153) | | | | (413) |
| Defined contribution schemes | | | | (1) | | | | (1) |
| | | | | **(1,154)** | | | | **(414)** |
| This is shown in the balance sheet as: | | | | | | | | |
| Retirement benefit obligations | | | | 1,156 | | | | 422 |
| Retirement benefit asset | | | | (2) | | | | (8) |
| | | | | **1,154** | | | | **414** |

The scheme assets have been valued on a bid basis.

The expected rates of return on individual asset classes were estimated using current and projected economic and market factors at the measurement date, based on the global asset model employed by the independent actuaries. The overall expected return on scheme assets was based upon the weighted average of the assumed returns on the major asset classes. The expected long term rate of return on the total of the Group schemes' assets for the year ended 31 December 2012 was 5.60% (31 December 2011: 6.06%).

IAS 19 (revised), which the Group will adopt effective 1 January 2013, replaces the concept of expected return on scheme assets with interest income based on the prevailing discount rates. From that date the expected return on scheme assets will no longer be used in calculating the Group's pension expense. The Group estimates that the application of IAS 19 (revised) will increase its retirement benefit charge for 2013 by c.€40 million.

The expected returns on the debt securities were derived from gilt yields and corporate bond yields. Approximately 70% (31 December 2011: 73%) of the value of debt securities is held in a Liability Driven Investment portfolio.

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €3 million (31 December 2011: €2 million) and property occupied by Bank of Ireland Group companies to the value of €24 million (31 December 2011: €24 million).

The following table sets out the components of the cost of the defined benefit schemes for the years ended 31 December 2012 and 31 December 2011.

| **Components of pension expense** | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m |
|---|---|---|
| Current service cost | 100 | 95 |
| Past service cost | (43) | - |
| Curtailments | - | (5) |
| Expected return on scheme assets | (253) | (253) |
| Interest on scheme liabilities | 254 | 247 |
| **Cost of providing defined retirement benefits** | **58** | **84** |

## 29 Retirement benefit obligations (continued)

| Actual return on scheme assets | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Expected return on scheme assets | 253[1] | 253 |
| Actuarial gain / (loss) on scheme assets | 252 | (37)[2] |
| **Actual return on scheme assets** | **505** | **216** |

[1] *Includes a charge of €21 million in respect of the Irish pension levy.*
[2] *Includes a charge of €20 million in respect of the Irish pension levy.*

| Movement in defined benefit obligations during the year | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Defined benefit obligations at beginning of year | 4,876 | 4,549 |
| Current service cost | 100 | 95 |
| Actual member contributions | 14 | 14 |
| Past service cost | (43) | - |
| Interest cost | 254 | 247 |
| Actuarial loss on scheme liabilities | 1,145 | 82 |
| Benefits paid | (155) | (138) |
| Curtailments | - | (5) |
| Currency loss | 25 | 32 |
| **Defined benefit obligations at end of year** | **6,216** | **4,876** |

| Movement in the fair value of scheme assets during the year | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Fair value of scheme assets at beginning of year | 4,463 | 4,126 |
| Expected return | 253 | 253 |
| Actual member contributions | 14 | 14 |
| Actuarial gain / (loss) on scheme assets | 252 | (37) |
| Contributions by employer | 226[1] | 230[1] |
| Benefits paid | (155) | (138) |
| Currency gain | 10 | 15 |
| **Fair value of scheme assets at end of year** | **5,063** | **4,463** |

[1] *Includes €120 million (year ended 31 December 2011: €116 million; year ended 31 December 2010: €68 million) of additional contributions related to the Group pensions review completed in 2010.*

| Statement of comprehensive income (SOCI) | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| Actuarial gain / (loss) on scheme assets | 252 | (37) |
| Experience gain on liabilities | 16 | 33 |
| Loss on change of assumptions (financial and demographic) | (1,161) | (115) |
| Currency loss | (15) | (18) |
| **Total loss recognised in the SOCI during the year before adjustment for tax** | **(908)** | **(137)** |
| Cumulative amount of losses recognised in SOCI to end of year before adjustment for tax | (1,666) | (758) |

## 29 Retirement benefit obligations (continued)

| History of experience gains and losses | **Year ended 31 December 2012 €m** | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m | Year ended 31 March 2009 €m |
|---|---|---|---|---|---|
| Actuarial gain / (loss) on scheme assets: | | | | | |
| Amount | 252 | (37) | 86 | 574 | (1,176) |
| Percentage of scheme assets | 5.0% | 0.8% | 2.1% | 15.4% | (39.2%) |
| Experience gain / (loss) on scheme liabilities: | | | | | |
| Amount | 16 | 33 | 115 | 33 | 63 |
| Percentage of scheme liabilities | 0.3% | 0.7% | 2.5% | 0.6% | 1.4% |
| Total actuarial (loss) / gain recognised in SOCI[1] | | | | | |
| Amount | (908) | (137) | 465 | (99) | (624) |
| Percentage of scheme liabilities | 14.6% | 2.8% | 10.2% | (1.8%) | (13.9%) |

[1] *Statement of comprehensive income before adjustment for tax.*

| Defined benefit pension schemes | **31 December 2012 €m** | 31 December 2011 €m | 31 December 2010 €m | 31 December 2009 €m | 31 March 2009 €m |
|---|---|---|---|---|---|
| Present value of obligations | 6,216 | 4,876 | 4,549 | 5,365 | 4,481 |
| Scheme assets | 5,063 | 4,463 | 4,126 | 3,734 | 3,003 |
| **Deficit within schemes** | **1,153** | **413** | **423** | **1,631** | **1,478** |

Expected employer contributions for the year ended 31 December 2013 are €217 million, inclusive of €120 million of additional contributions related to the Group pensions review. Expected employee contributions for the year ended 31 December 2013 are €14 million.

**Sensitivity analysis for each of the key assumptions used to measure the scheme liabilities at 31 December 2012.**

| Factor | Change in assumption | Group Impact on actuarial liabilities €m |
|---|---|---|
| Discount rate | 0.1% decrease | 127 |
| Rate of Inflation | 0.1% decrease | (111) |
| Rate of salary growth | 0.1% decrease | (11) |
| Life expectancy | 1 year increase | 163 |

While the table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

## 30 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

| | **31 December 2012 Contract amount €m** | 31 December 2011 Contract amount €m |
|---|---|---|
| **Contingent liabilities** | | |
| Acceptances and endorsements | 9 | 10 |
| Guarantees and irrevocable letters of credit | 742 | 983 |
| Other contingent liabilities | 349 | 249 |
| | **1,100** | **1,242** |
| **Commitments** | | |
| Documentary credits and short term trade related transactions | 93 | 178 |
| Undrawn note issuance and revolving underwriting facilities | - | 100 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| - revocable or irrevocable with original maturity of 1 year or less | 13,284 | 14,017 |
| - irrevocable with original maturity of over 1 year | 3,202 | 5,217 |
| | **16,579** | **19,512** |

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

**Guarantees and letters of credit** are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

**Other contingent liabilities** primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory and other actions arising out of its normal business operations. In this context, the Group has received correspondence from certain parties considering taking legal action against the Group with respect to their participation in Tier 1 and Tier 2 security exchanges in June 2011. The Group considers that it has a robust defence to any such claims and will defend them vigorously, should they arise.

**Documentary credits** commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

**Commitments** to lend are agreements to lend to a customer in the future, subject to certain conditions.

# 31 Capital stock

| Authorised | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Eur€** | **€m** | €m |
| 90 billion units of ordinary stock of €0.05 each | 4,500 | 4,500 |
| 228 billion units of deferred stock of €0.01 each | 2,280 | 2,280 |
| 100 million units of non-cumulative preference stock of €1.27 each | 127 | 127 |
| 100 million units of undesignated preference stock of €0.25 each | 25 | 25 |
| 3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each | 35 | 35 |
| **Stg£** | **£m** | £m |
| 100 million units of non-cumulative preference stock of Stg£1 each | 100 | 100 |
| 100 million units of undesignated preference stock of Stg£0.25 each | 25 | 25 |
| **US$** | **$m** | $m |
| 8 million units of non-cumulative preference stock of US$25 each | 200 | 200 |
| 100 million units of undesignated preference stock of US$0.25 each | 25 | 25 |

| Allotted and fully paid | 31 December 2012 €m | 31 December 2011 €m |
|---|---|---|
| 30.109 billion units of €0.05 ordinary stock | 1,505 | 1,505 |
| 91.981 billion units of €0.01 deferred stock | 920 | 920 |
| 45.586 million units of €0.05 treasury stock (31 December 2011: 45.133 million units) | 2 | 2 |
| 1.9 million units of non-cumulative preference stock of Stg£1 each | 3 | 3 |
| 3.0 million units of non-cumulative preference stock of €1.27 each | 4 | 4 |
| 1.837 billion units of non-cumulative 2009 Preference Stock of €0.01 each | 18 | 18 |
| | **2,452** | **2,452** |

**Ordinary stock**

The weighted average number of units of ordinary stock in issue at 31 December 2012, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally ranks for dividend, in line with accounting standards any dividend would not accrue in the Group financial statements.

| | Ordinary Stock | | Treasury Stock | |
|---|---|---|---|---|
| Movements in ordinary and treasury stock (units) | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| At beginning of year | 30,109,381,214 | 5,293,719,448 | 45,133,318 | 27,702,862 |
| 2011 Capital raise - Rights Issue | - | 19,077,889,032 | - | - |
| 2011 Capital raise - liability management exercise | - | 5,755,203,190 | - | - |
| Stock (purchased) / sold and held for the benefit of life assurance policyholders | (452,522) | (17,430,456) | 452,522 | 17,430,456 |
| **At end of year** | **30,108,928,692** | **30,109,381,214** | **45,585,840** | **45,133,318** |

## 32 Summary of relations with the State

The State, through both the Group's participation in the Government Guarantee Schemes and the investment by the NPRFC in the 2009 Preference Stock of the Bank, is a related party of the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

**(a) Ordinary stock**
At 31 December 2012 and 31 December 2011, the State held 15.13% of the ordinary stock of the Bank.

**(b) 2009 Preference Stock: Dividend**
At 31 December 2012 and at 31 December 2011, there were 1,837,041,304 number of units of 2009 Preference Stock in issue, all of which were held by the NPRFC.

On 20 February 2013, the Group paid a cash dividend of €188.3 million (20 February 2012: €188.3 million) on the 2009 Preference Stock to the NPRFC.

**(c) Contingent Capital Note**
In July 2011, the Group issued a Contingent Capital Note to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of contingent capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The terms and conditions attaching to the Contingent Capital Note are outlined in note 26.

On 9 January 2013, the State sold its entire holding in the Convertible Contingent Capital Note 2016 to a diverse group of international institutional investors. During the year ended 31 December 2012, the Group incurred transaction costs associated with the sale of €7 million.

**(d) 2011 Recapitalisation of the Bank**
During the year ended 31 December 2011, fees paid to the State in connection with the 2011 recapitalisation of the Bank amounted to €83 million.

## 32 Summary of relations with the State (continued)

**(e) Guarantee schemes**

**Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme)**

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

After the date of withdrawal eligible liabilities will continue to include the following until date of maturity:
- deposits to the extent not covered by deposit protection schemes in Ireland or any other jurisdiction;
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and the EU Commission's Banking Communication (2008 / C270 / 02) and subject to prior consultation with the EU Commission.

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

A fee is payable in respect of each liability guaranteed under the ELG scheme. This fee amounted to €388 million for the year ended 31 December 2012 (year ended 31 December 2011: €449 million) (note 3).

From 1 April 2012, the Group's UK Banking subsidiary withdrew from the ELG scheme for all new deposits. On 10 August 2012, the Group's Isle of Man subsidiary withdrew from the ELG scheme for all new and existing instant access deposits.

The following table summarises the fees paid under the ELG scheme during the years ended 31 December 2012 and 2011 and the liabilities covered at each balance sheet date.

| | **Year ended 31 December 2012** | Year ended 31 December 2011 |
|---|---|---|
| **Liabilities covered at year end** | **€bn** | **€bn** |
| ELG | | |
| - Customer deposits | 21 | 26 |
| - Debt securities in issue | 5 | 6 |
| - Deposits by banks | - | 10[1] |
| **Total** | **26** | **42** |
| | | |
| **Fees for the year** | **€m** | **€m** |
| ELG | 388 | 449 |
| **Total** | **388** | **449** |

[1] *The charge under the guarantee relates to Government guaranteed debt issued and retained by the Group which are used as collateral for these deposits.*

## 32 Summary of relations with the State (continued)

**European Communities (Deposit Guarantee Schemes) Regulations, 1995**

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended by the State on 20 September 2008, deposits of up to €100,000 per depositor per licensed financial institution regulated by the Central Bank are guaranteed by the State. This Scheme covers current accounts, demand deposit accounts and term deposit accounts. The Scheme is funded by credit institutions lodging funds in a deposit protection account maintained at the Central Bank.

In addition to the deposits covered by these Regulations and by the ELG scheme as set out above, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc) and the Isle of Man Depositors Compensation Scheme (in respect of deposits issued by Bank of Ireland (I.O.M.) Limited). At 31 December 2012, €24.2 billion (31 December 2011: €21 billion) of Bank of Ireland (UK) plc deposits and €0.2 billion (31 December 2011: €0.2 billion) of Bank of Ireland (I.O.M.) Limited deposits were covered under these schemes.

**(f) Indemnity on Ministerial Guarantee**

On 23 December 2010, the Bank entered into a facility deed (the deed) with the Central Bank, providing for an uncommitted facility to the Group, guaranteed by the Minister for Finance. In entering into the deed, the Bank also entered into a counter indemnity agreement with the Minister for Finance. At 31 December 2011, the amount of the facility was €10 billion which was subsequently reduced to €5 billion on 23 January 2012. This facility expired on 30 June 2012 and the indemnity was released.

**(g) Bonds issued by the State**

At 31 December 2012, the Group held sovereign bonds issued by the State with a carrying value of €5,751 million (31 December 2011: €4,684 million) of which €5,420 million (31 December 2011: €4,222 million) are classified as available for sale financial assets and €331 million (31 December 2011: €462 million) are classified as other financial assets at fair value through profit or loss. Further details are set out on page 122.

**(i) National Asset Management Agency (NAMA)**

At 31 December 2012, the Group held bonds issued by NAMA with a carrying value of €4,545 million (31 December 2011: €5,129 million)

| | **31 December 2012 €m** | 31 December 2011 €m |
|---|---|---|
| NAMA senior bonds (guaranteed by the State) (note 20) | 4,428 | 5,016 |
| NAMA subordinated bonds (note 19) | 117 | 113 |
| **Total** | **4,545** | **5,129** |

An impairment charge of €40 million was incurred on the NAMA subordinated bonds during the year ended 31 December 2012 following an updated outlook from NAMA for its long term performance (see note 12).

**(h) National Asset Management Agency Investment Limited (NAMAIL)**

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired at that time in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL has also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six Directors to the board of NAMAIL. In total, the B shareholders may also jointly appoint up to six Directors and have collectively appointed one director. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

## 32 Summary of relations with the State (continued)

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €1.15 million was received by the Group on 2 April 2012 (1 April 2011: €1.7 million).

**(j) Securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)**
On 29 March 2012, the Bank, the State and IBRC, reached a conditional agreement to enter into a securities repurchase transaction (repo) whereby the Group would purchase long term Irish Government Bonds from IBRC for a purchase price of €3.1 billion, less any cash margin payable by IBRC to the Bank on the purchase date. IBRC had an obligation to repurchase the bonds for €3.1 billion in cash, less any cash margin held by the Bank on the repurchase date, not later than 364 days after the effective date of the transaction. The transaction was considered to be a related party transaction under the Listing Rules and consequently required independent stockholder approval which involved the publication of a stockholder circular and an Extraordinary General Court (EGC) which approved the transaction on 18 June 2012. The transaction was financed by the Group by using the bonds, which are eurosystem eligible, to access standard ECB open market operations. The margin for the Group over ECB funding which applies to this transaction was 135bps. The transaction was governed by a Global Master Repurchase Agreement which incorporates standard market terms including daily margining provisions with respect to changes in the value of the bonds. All IBRC's payment obligations to the Group under the terms of the transaction were guaranteed by the Minister for Finance. The impact of this transaction on the financial statements at 31 December 2012 was an increase in Loans and advances to banks of €3.1 billion, an increase in Deposits from banks of €3.1 billion and net interest income of €22 million. Transaction costs of €6 million were incurred and, under the terms of the transaction agreement, were reimbursed by IBRC.

Following the announcement by the Irish Government in early February 2013 that it would liquidate the Irish Bank Resolution Corporation (IBRC), the Group's IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013.

**(k) Other transactions with the State and entities under its control or joint control**
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks.

At 31 December 2012, the Group held senior bonds with a carrying value of €806 million issued by the following entities which are related parties of the Group, as follows:

| | **31 December 2012 €m** | 31 December 2011 €m |
|---|---|---|
| Allied Irish Banks plc (AIB) | 602 | 57 |
| Permanent TSB Group Holdings plc | 204 | - |
| Irish Bank Resolution Corporation (IBRC) | - | 36 |
| **Total** | **806** | **93** |

At 31 December 2012, €551 million (31 December 2011: €nil) of the AIB senior bonds and €204 million (31 December 2011: €nil) of the Permanent TSB Group Holdings plc senior bonds were guaranteed under the ELG scheme.

During the year ended 31 December 2011, the Group incurred an impairment charge of €16 million on a holding of Irish Life and Permanent (ILP) subordinated debt.

At 31 December 2012, the Group also had loans of €46 million to AIB (31 December 2011: €70 million) and €6 million to Permanent TSB Group Holdings plc (31 December 2011: €nil) which were included within loans and advances to banks.

At 31 December 2012, the Group held deposits from the National Treasury Management Agency (NTMA) of €1.3 billion (31 December 2011: €nil). The maximum amount of these deposits during the period was €1.3 billion (31 December 2011: €3.2 billion). In addition, the Group held deposits from IBRC of €12.9 million (31 December 2011: €9 million) which were included within deposits from banks. These deposits were on normal commercial terms.

The Group also held a number of deposits from the State, its agencies and entities under its control or joint control, which are considered to be collectively significant, totalling c.€0.9 billion (31 December 2011: c.€1.1 billion).

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## 33 Transferred financial assets

The Group has entered into a number of transactions which has resulted in the transfer of the ownership of financial assets. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

| Categories | Carrying amount of transferred assets €m | Carrying amount of associated liabilities €m | Fair value of transferred assets €m | Fair value of associated liabilities €m | Net fair value position €m |
|---|---|---|---|---|---|
| **Securitisation** | | | | | |
| *Loans and receivables* | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[1] | 1,602 | 1,945[3] | 1,424 | 1,744[3] | (320) |
| Irish Residential Mortgages (Kildare SPE) ICS Group[1] | 1,543 | 1,547 | 1,204 | 1,077 | 127 |
| Partholon CDO plc (corporate loans)[1] | 164 | 164 | 135 | 135 | - |
| **Sale and Repurchase** | | | | | |
| Available for sale financial assets[2] | 6,296 | 5,887 | N/a | N/a | N/a |
| ACS issuance | 22 | 13 | N/a | N/a | N/a |
| NAMA Senior bonds | 4,428 | 4,452 | N/a | N/a | N/a |

*Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:*

*[1] For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

*[2] Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

*[3] Certain of the liabilities consist of debt securities issued in currencies other than that of the transferred assets. Changes in foreign exchange rates result in changes in both the carrying value and the fair value of the liabilities. The foreign exchange risk is hedged with the cross-currency swaps.*

*N/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

## 34 Post balance sheet events

**Convertible Contingent Capital Note 2016**

On 9 January 2013, the State sold its entire holding in the Convertible Contingent Capital Note 2016 to a diverse group of international institutional investors, thereby fixing all future cash coupon payments on the notes at 10% per annum (see note 26 and 32).

**2009 Preference Stock: Dividend**

On 20 February 2013, the Group paid a cash dividend of €188.3 million (20 February 2012: €188.3 million) on the 2009 Preference Stock to the NPRFC.

**Liquidation of Irish Bank Resolution Corporation (IBRC)**

Following the announcement by the Irish Government in early February 2013 that it would liquidate the Irish Bank Resolution Corporation (IBRC), the Group's IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013. The Group's wholesale funding was reduced on 13 February 2013 to reflect the cancellation of the funding required for the IBRC transaction resulting in no net impact on the Group's liquidity position.

**Eligible Liabilities Guarantee Scheme**

On 26 February 2013, the Minister for Finance announced that the Eligible Liabilities Guarantee (ELG) will be withdrawn from midnight 28 March 2013 for all participating banks. After this date no new liabilities will be guaranteed under the scheme.

# Group exposures to selected countries

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items as at 31 December 2012. For these line items, further information on the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure (excluding loans and advances to customers) of over €250 million (being Ireland, Italy and Spain), is set out on pages 122 to 125.

| **31 December 2012**<br>**Assets** | **Ireland**<br>**€m** | **United Kingdom**<br>**€m** | **United States**<br>**€m** | **Spain**<br>**€m** | **Italy**<br>**€m** | **Other[3]**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | - | 8,040 | 128 | - | - | 304 | 8,472 |
| Trading securities | - | 45 | - | - | - | 98 | 143 |
| Derivative financial instruments (net)[1] | 265 | 622 | 34 | 18 | - | 145 | 1,084 |
| Other financial assets at fair value through profit or loss[2] | 372 | 67 | 8 | 8 | 38 | 666 | 1,159 |
| Loans and advances to banks[2] | 3,702 | 3,469 | 193 | 3 | - | 1,789 | 9,156 |
| Available for sale financial assets | 6,409 | 1,248 | 382 | 1,117 | 231 | 1,706 | 11,093 |
| NAMA senior bonds | 4,428 | - | - | - | - | - | 4,428 |
| **Total** | **15,176** | **13,491** | **745** | **1,146** | **269** | **4,708** | **35,535** |

*1 Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
*2 This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities. See page 120 for details.*
*3 Other is primarily made up of exposures to the following countries: France: €2.0 billion, Netherlands: €0.4 billion, Switzerland: €0.4 billion, Austria: €0.2 billion, Canada: €0.2 billion, Finland: €0.2 billion, Luxembourg: €0.2 billion, Germany: €0.1 billion, Denmark: €0.1 billion, Norway: €0.1 billion, Portugal: €0.1 billion, Sweden: €0.1 billion and Turkey: €0.1 billion. Also included in other is the Group's euro cash holding in branches.*

| 31 December 2011<br>Assets | Ireland<br>€m | United Kingdom<br>€m | United States<br>€m | Spain<br>€m | Italy<br>€m | Other<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | - | 7,671 | 194 | - | - | 316 | 8,181 |
| Trading securities | - | - | 2 | - | - | 4 | 6 |
| Derivative financial instruments (net) | 302 | 773 | 70 | 13 | - | 244 | 1,402 |
| Other financial assets at fair value through profit or loss | 509 | 53 | 16 | - | 24 | 431 | 1,033 |
| Loans and advances to banks | 635 | 4,793 | 458 | 7 | - | 1,971 | 7,864 |
| Available for sale financial assets | 4,453 | 1,537 | 405 | 1,319 | 378 | 2,170 | 10,262 |
| NAMA senior bonds | 5,016 | - | - | - | - | - | 5,016 |
| Total | 10,915 | 14,827 | 1,145 | 1,339 | 402 | 5,136 | 33,764 |

## Group exposures to selected countries (continued)

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2012 by asset class:

**Cash and balances at central banks**

Cash and balances at central banks is made up as follows:

| Cash and balances at central banks | Year ended 31 December 2012 €m | Year ended 31 December 2011 €m |
|---|---|---|
| United Kingdom (Bank of England) | 8,002 | 7,624 |
| United States (Federal Reserve) | 128 | 194 |
| Other (cash holdings) | 342 | 363 |
| **Total** | **8,472** | **8,181** |

Cash and balances at central banks are accounted for at amortised cost.

**Trading securities**

| 31 December 2012<br>Trading securities | Ireland €m | United Kingdom €m | United States €m | Other[1] €m | Total €m |
|---|---|---|---|---|---|
| Government bonds | - | 45 | - | 24 | 69 |
| Corporate and other bonds | - | - | - | 74 | 74 |
| **Total** | **-** | **45** | **-** | **98** | **143** |

[1] *Other is primarily made up of exposures to the following countries: Finland: €36 million, France: €35 million, Canada: €11 million and Denmark: €10 million.*

Trading securities are carried in the balance sheet at their fair value. Any changes in the fair value of these assets are treated as gains or charges in the Group's income statement.

| 31 December 2011<br>Trading securities | Ireland €m | United Kingdom €m | United States €m | Other €m | Total €m |
|---|---|---|---|---|---|
| Government bonds | - | - | 2 | - | 2 |
| Corporate and other bonds | - | - | - | 4 | 4 |
| Total | - | - | 2 | 4 | 6 |

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## Group exposures to selected countries (continued)

### Derivative financial instruments

| 31 December 2012 | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other[2] €m | Total €m |
|---|---|---|---|---|---|---|---|
| **Gross Derivative Assets** | | | | | | | |
| Sovereign | 62 | - | - | - | - | - | 62 |
| Financial institutions | 88 | 2,224 | 896 | 3 | - | 1,655 | 4,866 |
| Corporate | 174 | 615 | 24 | 16 | - | 90 | 919 |
| **Total** | **324** | **2,839** | **920** | **19** | **-** | **1,745** | **5,847** |
| **Net Derivative Assets[1]** | | | | | | | |
| Sovereign | 62 | - | - | - | - | - | 62 |
| Financial institutions | 39 | 8 | 10 | 2 | - | 55 | 114 |
| Corporate | 164 | 614 | 24 | 16 | - | 90 | 908 |
| **Total** | **265** | **622** | **34** | **18** | **-** | **145** | **1,084** |

[1] *Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
[2] *Other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €50 million, Germany: €39 million, Denmark: €12 million, France: €12 million, Australia: €11 million, Austria: €11 million and Netherlands: €5 million.*

| 31 December 2011 | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other[1] €m | Total €m |
|---|---|---|---|---|---|---|---|
| Gross Derivative Assets | | | | | | | |
| Sovereign | 83 | - | - | - | - | - | 83 |
| Financial institutions | 341 | 2,259 | 903 | 1 | - | 1,654 | 5,158 |
| Corporate | 172 | 733 | 41 | 13 | - | 162 | 1,121 |
| Total | 596 | 2,992 | 944 | 14 | - | 1,816 | 6,362 |
| Net Derivative Assets | | | | | | | |
| Sovereign | 83 | - | - | - | - | - | 83 |
| Financial institutions | 47 | 41 | 29 | - | - | 82 | 199 |
| Corporate | 172 | 732 | 41 | 13 | - | 162 | 1,120 |
| Total | 302 | 773 | 70 | 13 | - | 244 | 1,402 |

[1] *Other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €74 million, Germany: €55 million, Luxemburg:€43 million, Japan: €17 million, France: €16 million, Austria: €12 million, Netherlands: €11 million and Australia: €10 million.*

## Group exposures to selected countries (continued)

### Other financial assets at fair value through profit or loss

| 31 December 2012 | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other[1] €m | Total €m |
|---|---|---|---|---|---|---|---|
| Government bonds | 229 | - | - | - | 30 | 551 | 810 |
| Other | 143 | 67 | 8 | 8 | 8 | 115 | 349 |
| **Total** | **372** | **67** | **8** | **8** | **38** | **666** | **1,159** |

[1] *Other is primarily made up of exposures to the following countries: France: €0.4 billion and Austria: €0.2 billion.*

| 31 December 2011 | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other €m | Total €m |
|---|---|---|---|---|---|---|---|
| Government bonds | 354 | - | - | - | 24 | 426 | 804 |
| Other | 155 | 53 | 16 | - | - | 5 | 229 |
| Total | 509 | 53 | 16 | - | 24 | 431 | 1,033 |

The Group's holdings of 'Other financial assets at fair value through profit or loss' primarily relate to the Group's life assurance business.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. Included in Other financial assets at fair value through profit or loss at 31 December 2012, such assets amounted to €8,301 million (31 December 2011: €7,881 million). Included in Loans and advances to banks at 31 December 2012, such assets amounted to €350 million (31 December 2011: €195 million). The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. For the purposes of these disclosures on the Group's exposure, these assets have been excluded.

### Loans and advances to banks

| 31 December 2012 | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other[2] €m | Total €m |
|---|---|---|---|---|---|---|---|
| Loans and advances to banks[3] | 3,702[1] | 3,469 | 193 | 3 | - | 1,789 | 9,156 |

[1] *This includes the impact of the Group's participation in the IBRC repo transaction of €3.1 billion. See note 32 for details.*
[2] *Other is primarily made up of exposures to the following countries: France: €1.0 billion, Switzerland: €0.3 billion, Germany: €0.1 billion, Finland: €0.1 billion, Netherlands: €0.1 billion and Turkey: €0.1 billion.*
[3] *Loans and advances to banks at 31 December 2012, of €350 million (31 December 2011: €195 million) is held on behalf of Bank of Ireland Life policyholders.*

| 31 December 2011 | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other €m | Total €m |
|---|---|---|---|---|---|---|---|
| Loans and advances to banks | 635 | 4,793 | 458 | 7 | - | 1,971 | 7,864 |

Loans and advances to banks include loans to and placements with credit institutions and certain placements with central banks which are accounted for at amortised cost. No provisions are held against these balances. The Group exposures disclosed above are prepared on the basis of exposure to the country of operations of the counterparty except where cross border guarantees exist.

## Group exposures to selected countries (continued)

**Available for sale financial assets**

| **31 December 2012 Available for sale financial assets** | **Ireland €m** | **United Kingdom €m** | **United States €m** | **Spain €m** | **Italy €m** | **Other[2] €m** | **Total €m** |
|---|---|---|---|---|---|---|---|
| Government bonds | 5,420 | 123 | 1 | - | 32 | 66 | 5,642 |
| Senior bank debt | 755 | 157 | 58 | - | 190 | 484 | 1,644 |
| Covered bonds | 51 | 691 | 258 | 1,060 | - | 1,103 | 3,163 |
| Subordinated debt | 117[1] | - | - | - | - | - | 117 |
| Asset backed securities | 66 | 277 | 65 | 57 | 9 | 53 | 527 |
| **Total** | **6,409** | **1,248** | **382** | **1,117** | **231** | **1,706** | **11,093** |

*[1] NAMA subordinated debt of €117 million is classified as an available for sale debt instrument. The Group incurred an impairment charge of €40 million on the NAMA subordinated bonds during the year ended 31 December 2012.*
*[2] Other is primarily made up of exposures to the following countries: France: €0.7 billion, Netherlands: €0.3 billion, Luxembourg: €0.2 billion, Canada: €0.1 billion, Denmark: €0.1 billion, Finland: €0.1 billion, Portugal: €0.1 billion and Sweden: €0.1 billion.*

| 31 December 2011 Available for sale financial assets | Ireland €m | United Kingdom €m | United States €m | Spain €m | Italy €m | Other €m | Total €m |
|---|---|---|---|---|---|---|---|
| Government bonds | 4,222 | 298 | 1 | - | 29 | 20 | 4,570 |
| Senior bank debt | 93 | 274 | 53 | 71 | 238 | 665 | 1,394 |
| Covered bonds | - | 634 | 282 | 1,178 | 100 | 1,280 | 3,474 |
| Subordinated debt | 113 | - | - | 4 | - | 35 | 152 |
| Asset backed securities | 25 | 331 | 69 | 66 | 11 | 170 | 672 |
| Total | 4,453 | 1,537 | 405 | 1,319 | 378 | 2,170 | 10,262 |

Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholder’s equity.

**NAMA senior bonds**

At 31 December 2012, the Group had holdings of NAMA senior bonds which are guaranteed by the Irish Government with a nominal value of €4,475 million (31 December 2011: €5,079 million) and a fair value at that date of €4,468 million (31 December 2011: €5,055 million). The contractual maturity date of the NAMA senior bonds is 1 March 2013. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

## Group exposures to selected countries (continued)

**Additional information on selected European countries**

The tables below show the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Italy and Spain). The maturity analysis in the tables below is based on the residual contractual maturity of the exposures (except where otherwise indicated).

**Ireland**

As at 31 December 2012, Ireland's credit rating from Standard & Poor's was BBB+ (31 December 2011: BBB+). The table below shows the Group's exposure to Ireland by selected balance sheet line items:

| | **Carrying Value** | | | | | | | **Nominal value** |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2012** | **0-3 months €m** | **3-12 months €m** | **1-2 years €m** | **2-5 years €m** | **5-10 years €m** | **Over 10 years €m** | **Total €m** | **Total €m** |
| Other financial assets at fair value through profit or loss | 51 | 47 | 25 | 77 | 119 | 53 | 372 | 347 |
| *- Government bonds* | *-* | *-* | *-* | *77* | *99* | *53* | *229* | *211* |
| *- Other* | *51* | *47* | *25* | *-* | *20* | *-* | *143* | *136* |
| Loans and advances to banks | 526 | 3,176[1] | - | - | - | - | 3,702 | 3,702 |
| Available for sale financial assets | 6 | 51 | 334 | 4,833 | 1,133 | 52 | 6,409 | 6,245 |
| *- Government bonds* | *-* | *51* | *327* | *4,027* | *1,015* | *-* | *5,420* | *5,099* |
| *- Senior bank debt and other*[2] | *6* | *-* | *7* | *806* | *118* | *52* | *989* | *1,146* |
| NAMA senior bonds[3] | - | 667 | 396 | 1,484 | 1,881 | - | 4,428 | 4,475 |
| **Total**[4] | **583** | **3,941** | **755** | **6,394** | **3,133** | **105** | **14,911** | **14,769** |

| | Carrying Value | | | | | | | Nominal value |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2011 | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €m | Total €m | Total €m |
| Other financial assets at fair value through profit or loss | 89 | - | 52 | 231 | 79 | 58 | 509 | 563 |
| *- Government bonds* | *-* | *-* | *52* | *182* | *79* | *41* | *354* | *392* |
| *- Other* | *89* | *-* | *-* | *49* | *-* | *17* | *155* | *171* |
| Loans and advances to banks | 599 | 36 | - | - | - | - | 635 | 635 |
| Available for sale financial assets | 517 | 27 | 1,066 | 1,739 | 1,100 | 4 | 4,453 | 5,052 |
| *- Government bonds* | *437* | *-* | *1,066* | *1,732* | *987* | *-* | *4,222* | *4,648* |
| *- Senior bank debt and other*[2] | *80* | *27* | *-* | *7* | *113* | *4* | *231* | *404* |
| NAMA senior bonds[3] | - | - | - | - | 5,016 | - | 5,016 | 5,079 |
| Total[4] | 1,205 | 63 | 1,118 | 1,970 | 6,195 | 62 | 10,613 | 11,329 |

1 *This includes the impact of the Group's participation in the IBRC repo transaction of €3.1 billion. See note 32 for details.*
2 *Senior bank debt and other primarily relates to the Group's holdings of Irish Government guaranteed senior bank debt issued by Irish financial institutions. Further details are set out in note 32.*
3 *The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.*
4 *The Group also has a net derivative asset exposure to Ireland at 31 December 2012 of €265 million (31 December 2011: €302 million).*

# Group exposures to selected countries (continued)

**Ireland (continued)**

| **Available for sale financial assets As at 31 December 2012 Maturity profile** | **0-3 months €m** | **3-12 months €m** | **1-2 years €m** | **2-5 years €m** | **5-10 years €m** | **Over 10 years €m** | **Total €m** |
|---|---|---|---|---|---|---|---|
| Nominal value | 7 | 50 | 328 | 4,571 | 1,237 | 52 | 6,245 |
| Fair value | 6 | 51 | 334 | 4,833 | 1,133 | 52 | 6,409 |
| AFS reserve (before tax) | - | 1 | 6 | 362 | 55 | - | 424 |

| Available for sale financial assets As at 31 December 2011 Maturity profile | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €m | Total €m |
|---|---|---|---|---|---|---|---|
| Nominal value | 525 | 30 | 1,104 | 1,913 | 1,476 | 4 | 5,052 |
| Fair value | 517 | 27 | 1,066 | 1,739 | 1,100 | 4 | 4,453 |
| AFS reserve (before tax) | (8) | (4) | (15) | (92) | (171) | - | (290) |

**Spain**

As at 31 December 2012, Spain's credit rating from Standard & Poor's was BBB- (31 December 2011: A). The table below shows the Group's exposure to Spain by selected balance sheet line items:

| | **Carrying Value** | | | | | | | **Nominal Value** |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2012** | **0-3 months €m** | **3-12 months €m** | **1-2 years €m** | **2-5 years €m** | **5-10 years €m** | **Over 10 years €m** | **Total €m** | **Total €m** |
| Other financial assets at fair value through profit or loss | - | - | - | - | 8 | - | 8 | 7 |
| Loans and advance to banks | 3 | - | - | - | - | - | 3 | 3 |
| Available for sale financial assets | | | | | | | | |
| - Covered bonds and other | 100 | 132 | - | 698 | 177 | 10 | 1,117 | 1,166 |
| **Total[1]** | **103** | **132** | **-** | **698** | **185** | **10** | **1,128** | **1,176** |

| | Carrying Value | | | | | | | Nominal Value |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2011 | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €m | Total €m | Total €m |
| Loans and advance to banks | 7 | - | - | - | - | - | 7 | 7 |
| Available for sale financial assets | | | | | | | | |
| - Covered bonds and other | - | 104 | 284 | 491 | 429 | 11 | 1,319 | 1,449 |
| Total[1] | 7 | 104 | 284 | 491 | 429 | 11 | 1,326 | 1,456 |

[1] *The Group also has a net derivative asset exposure to Spain at 31 December 2012 of €18 million (31 December 2011: €13 million).*

## Group exposures to selected countries (continued)

**Spain (continued)**

| **Available for sale financial assets As at 31 December 2012 Maturity profile** | **0-3 months €m** | **3-12 months €m** | **1-2 years €m** | **2-5 years €m** | **5-10 years €m** | **Over 10 years €m** | **Total €m** |
|---|---|---|---|---|---|---|---|
| Nominal value | 100 | 134 | - | 713 | 207 | 12 | 1,166 |
| Fair value | 100 | 132 | - | 698 | 177 | 10 | 1,117 |
| AFS reserve (before tax) | - | (5) | - | (85) | (67) | (2) | (159) |

| Available for sale financial assets As at 31 December 2011 Maturity profile | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €m | Total €m |
|---|---|---|---|---|---|---|---|
| Nominal value | - | 105 | 290 | 534 | 506 | 14 | 1,449 |
| Fair value | - | 104 | 284 | 491 | 429 | 11 | 1,319 |
| AFS reserve (before tax) | - | (1) | (14) | (79) | (132) | (3) | (229) |

**Italy**

As at 31 December 2012, Italy's credit rating from Standard & Poor's was BBB+ (31 December 2011: BBB+). The table below shows the Group's exposure to Italy by selected balance sheet line items:

| | **Carrying Value** | | | | | | | **Nominal Value** |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2012** | **0-3 months €m** | **3-12 months €m** | **1-2 years €m** | **2-5 years €m** | **5-10 years €m** | **Over 10 years €m** | **Total €m** | **Total €m** |
| Other financial assets at fair value through profit or loss | - | - | - | - | 8 | 30 | 38 | 38 |
| Available for sale financial assets | | | | | | | | |
| - Government bonds | - | - | - | 32 | - | - | 32 | 30 |
| - Senior bank debt and other | 75 | 55 | 10 | 48 | 11 | - | 199 | 203 |
| **Total** | **75** | **55** | **10** | **80** | **19** | **30** | **269** | **271** |

| | Carrying Value | | | | | | | Nominal Value |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2011 | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €m | Total €m | Total €m |
| Other financial assets at fair value through profit or loss | - | - | - | - | - | 24 | 24 | 30 |
| Available for sale financial assets | | | | | | | | |
| - Government bonds | - | - | - | 29 | - | - | 29 | 31 |
| - Senior bank debt and other | 100 | 30 | 154 | 48 | 9 | 8 | 349 | 372 |
| Total | 100 | 30 | 154 | 77 | 9 | 32 | 402 | 433 |

## Group exposures to selected countries (continued)

**Italy (continued)**

| **Available for sale financial assets As at 31 December 2012 Maturity profile** | **0-3 months €m** | **3-12 months €m** | **1-2 years €m** | **2-5 years €m** | **5-10 years €m** | **Over 10 years €m** | **Total €m** |
|---|---|---|---|---|---|---|---|
| Nominal value | 75 | 55 | 10 | 80 | 13 | - | 233 |
| Fair value | 75 | 55 | 10 | 80 | 11 | - | 231 |
| AFS reserve (before tax) | - | - | - | (1) | (1) | - | (2) |

| Available for sale financial assets As at 31 December 2011 Maturity profile | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €m | Total €m |
|---|---|---|---|---|---|---|---|
| Nominal value | 100 | 30 | 164 | 90 | 10 | 9 | 403 |
| Fair value | 100 | 30 | 154 | 77 | 9 | 8 | 378 |
| AFS reserve (before tax) | - | - | (10) | (12) | (1) | (1) | (24) |

# Supplementary Asset Quality Disclosures

## Retail Ireland mortgages



## Retail UK mortgages

## Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail on the composition and quality of this loan book.

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to regular review. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the creditworthiness of the borrower, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2012, lending criteria for the Retail Ireland mortgage portfolio include:

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

## Book composition

**TABLE 1**

| **Retail Ireland mortgages - Volumes (before impairment provisions)** | **31 December 2012 €m** | 31 December 2011 €m |
|---|---|---|
| Owner occupied mortgages | 20,815 | 20,863 |
| Buy to let mortgages | 6,670 | 6,991 |
| **Total Retail Ireland mortgages** | **27,485** | **27,854** |

Retail Ireland mortgages were €27.5 billion at 31 December 2012 compared to €27.9 billion at 31 December 2011. The decrease of €369 million or 1.3% reflects the excess of repayments over new lending.

At 31 December 2012, 82% of the Retail Ireland mortgage portfolio were on a 'principal and interest'[1] repayment basis (31 December 2011: 82%) and 18% were on an 'interest only'[2] repayment basis (31 December 2011: 18%). Of the Owner occupied mortgages of €20.8 billion, 91% are on a 'principal and interest' repayment basis (31 December 2011: 93%). Of the Buy to let mortgages of €6.7 billion, 52% are on a 'principal and interest' repayment basis (31 December 2011: 50%).

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
[2] *'Interest only' mortgages consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' periods on Retail Ireland mortgages typically range between 3 and 5 years.*

## Book composition (continued)

The tables below illustrate that at 31 December 2012, €9.4 billion or 34% of the Retail Ireland mortgage loan book originated before 2006, €13.2 billion or 48% between 2006 and 2008 and €4.9 billion or 18% in the years since.

Total loans that are 'greater than 90 days past due and / or impaired' were €3.6 billion (December 2011: €2.7 billion) or 13% of the Retail Ireland mortgage loan book at 31 December 2012, of which €2.3 billion originated between 2006 and 2008. The increase in 'greater than 90 days past due and / or impaired' primarily reflects the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and sustained high unemployment levels.

At 31 December 2012, impairment provisions on Retail Ireland mortgages were €1.45 billion equating to 40% of the 'greater than 90 days past due and / or impaired' balance on the Retail Ireland mortgage book.

| **TABLE 2** | **Total Retail Ireland mortgage loan book** | | **Loans > 90 days past due and / or impaired** | |
|---|---|---|---|---|
| **31 December 2012 Origination of Retail Ireland mortgage loan book (before impairment provisions)** | **Balance €m** | **Number of accounts[1]** | **Balance €m** | **Number of accounts[1]** |
| 1996 and before | **94** | 5,792 | **9** | 365 |
| 1997 | **53** | 2,113 | **5** | 150 |
| 1998 | **94** | 3,196 | **9** | 207 |
| 1999 | **171** | 4,525 | **18** | 301 |
| 2000 | **312** | 6,195 | **32** | 428 |
| 2001 | **448** | 7,054 | **40** | 503 |
| 2002 | **825** | 10,108 | **90** | 802 |
| 2003 | **1,397** | 14,212 | **181** | 1,266 |
| 2004 | **2,317** | 18,733 | **314** | 1,794 |
| 2005 | **3,638** | 24,018 | **524** | 2,581 |
| 2006 | **5,361** | 29,135 | **999** | 3,996 |
| 2007 | **4,631** | 23,658 | **861** | 3,240 |
| 2008 | **3,185** | 17,333 | **427** | 1,705 |
| 2009 | **1,739** | 11,491 | **85** | 474 |
| 2010 | **1,235** | 7,781 | **13** | 86 |
| 2011 | **1,004** | 6,852 | **3** | 24 |
| 2012 | **981** | 6,115 | **-** | - |
| **Total** | **27,485** | **198,311** | **3,610** | **17,922** |

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

## Book composition (continued)

| 31 December 2011<br>Origination of Retail Ireland mortgage loan book<br>(before impairment provisions) | Total Retail Ireland mortgage loan book<br>Balance<br>€m | <br>Number of<br>accounts[1] | Loans > 90 days past due and / or impaired<br>Balance<br>€m | <br>Number of<br>accounts[1] |
|---|---|---|---|---|
| 1996 and before | 123 | 6,841 | 8 | 356 |
| 1997 | 67 | 2,601 | 5 | 132 |
| 1998 | 112 | 3,475 | 8 | 178 |
| 1999 | 200 | 4,862 | 14 | 239 |
| 2000 | 353 | 6,584 | 25 | 348 |
| 2001 | 492 | 7,417 | 32 | 403 |
| 2002 | 907 | 10,903 | 68 | 599 |
| 2003 | 1,506 | 14,751 | 138 | 965 |
| 2004 | 2,457 | 19,239 | 242 | 1,312 |
| 2005 | 3,814 | 24,510 | 399 | 1,864 |
| 2006 | 5,572 | 29,579 | 771 | 2,933 |
| 2007 | 4,805 | 23,981 | 649 | 2,331 |
| 2008 | 3,315 | 17,577 | 303 | 1,109 |
| 2009 | 1,816 | 11,731 | 44 | 260 |
| 2010 | 1,278 | 7,921 | 3 | 30 |
| 2011 | 1,037 | 6,906 | - | 3 |
| Total | 27,854 | 198,878 | 2,709 | 13,062 |

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

## Book composition (continued)

**TABLE 3a**

| **31 December 2012** **Risk profile of Retail Ireland mortgage loan book (before impairment provisions)** | **Owner occupied** | | **Buy to let** | | **Total** | |
|---|---|---|---|---|---|---|
| | **€m** | **%** | **€m** | **%** | **€m** | **%** |
| Neither past due nor impaired | 18,068 | 87% | 4,812 | 72% | 22,880 | 83% |
| 1-90 days past due but not impaired | 704 | 3% | 291 | 4% | 995 | 4% |
| > 90 days past due and / or impaired | 2,043 | 10% | 1,567 | 24% | 3,610 | 13% |
| **Total** | **20,815** | **100%** | **6,670** | **100%** | **27,485** | **100%** |

| 31 December 2011 Risk profile of Retail Ireland mortgage loan book (before impairment provisions) | Owner occupied | | Buy to let | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Neither past due nor impaired | 18,458 | 89% | 5,398 | 77% | 23,856 | 85% |
| 1-90 days past due but not impaired | 867 | 4% | 422 | 6% | 1,289 | 5% |
| > 90 days past due and / or impaired | 1,538 | 7% | 1,171 | 17% | 2,709 | 10% |
| Total Retail Ireland mortgages | 20,863 | 100% | 6,991 | 100% | 27,854 | 100% |

The tables above illustrate that €22.9 billion or 83% of the total Retail Ireland mortgage loan book at 31 December 2012 was classified as 'neither past due nor impaired' compared to €23.9 billion or 85% at 31 December 2011.

The '1 - 90 days past due but not impaired' category amounted to €1.0 billion or 4% of the total Retail Ireland mortgage loan book at 31 December 2012 compared to €1.3 billion or 5% at 31 December 2011.

The 'greater than 90 days past due and / or impaired' category amounted to €3.6 billion or 13% of the total Retail Ireland mortgage loan book at 31 December 2012 compared to €2.7 billion or 10% at 31 December 2011.

Owner occupied mortgages 'greater than 90 days past due and / or impaired' have increased from €1.5 billion at 31 December 2011 to €2.0 billion at 31 December 2012.

Buy to let mortgages 'greater than 90 days past due and / or impaired' have increased from €1.2 billion at 31 December 2011 to €1.6 billion at 31 December 2012. The volume of 'greater than 90 days past due and / or impaired' in the Buy to let segment has continued to increase primarily reflecting the continued impact on borrowers of rising repayments as 'interest only' periods come to an end and customers move to fully amortising loans. The pace of increase in 'greater than 90 days past due and / or impaired' abated substantially in the second half of 2012. The Retail Ireland Buy to let mortgage loan portfolio reduced by €321 million or 4.6% in 2012 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 50% at 31 December 2011 to 52% at 31 December 2012.

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## Book composition (continued)

| **TABLE 3b Mortgage Arrears > 90 days past due and / or impaired (number of accounts)** | **31 December 2012 %** | 30 September 2012 % | 30 June 2012 % | 31 March 2012 % | 31 December 2011 % |
|---|---|---|---|---|---|
| Retail Ireland Owner occupied mortgages | 7.51% | 7.48% | 7.03% | 6.28% | 5.60% |
| Industry Owner occupied (Number of accounts)[1] | Not available | 11.31%[2] | 10.59%[2] | 9.90%[2] | 9.02%[2] |
| Retail Ireland Buy to let mortgages | 15.80% | 15.03% | 13.99% | 12.35% | 10.76% |
| Industry Buy to let (Number of accounts)[1] | Not available | 17.90%[2] | 16.57%[2] | Not available | Not available |

| **Mortgage Arrears > 90 days past due and / or impaired (value)** | **31 December 2012 %** | 30 September 2012 % | 30 June 2012 % | 31 March 2012 % | 31 December 2011 % |
|---|---|---|---|---|---|
| Retail Ireland Owner Occupied mortgages | 9.88% | 9.75% | 9.22% | 8.42% | 7.40% |
| Industry Owner Occupied (value)[1] | Not available | 15.12%[2] | 14.08%[2] | 13.30%[2] | 12.04%[2] |
| Retail Ireland Buy to let mortgages | 23.36% | 22.20% | 20.77% | 19.10% | 16.81% |
| Industry Buy to let (value)[1] | Not available | 25.55%[2] | 23.87%[2] | Not available | Not available |

[1] *Industry statistics do not include impaired loans < 90 days past due.*
[2] *Source: CBI Mortgage Arrears Statistics Report September 2012.*

Based on the information available, default arrears (greater than 90 days or more past due), for both Owner occupied and Buy to let portfolios of the Retail Ireland mortgage book, remain below the industry average.

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

| **TABLE 3c 31 December 2012 Loan to value (LTV) ratio of total Retail Ireland mortgage loan book** | **Owner occupied** | | **Buy to let** | | **Total** | |
|---|---|---|---|---|---|---|
| | **€m** | **%** | **€m** | **%** | **€m** | **%** |
| Less than 50% | 2,663 | 13% | 409 | 6% | 3,072 | 11% |
| 51% to 70% | 2,461 | 12% | 478 | 7% | 2,939 | 11% |
| 71% to 80% | 1,497 | 7% | 293 | 5% | 1,790 | 7% |
| 81% to 90% | 1,746 | 8% | 493 | 7% | 2,239 | 8% |
| 91% to 100% | 1,796 | 9% | 417 | 6% | 2,213 | 8% |
| **Subtotal** | **10,163** | **49%** | **2,090** | **31%** | **12,253** | **45%** |
| 101% to 120% | 3,484 | 17% | 1,056 | 16% | 4,540 | 16% |
| 121% to 150% | 3,901 | 19% | 1,763 | 26% | 5,664 | 21% |
| 151% to 180% | 2,223 | 10% | 1,109 | 17% | 3,332 | 12% |
| Greater than 181% | 1,044 | 5% | 652 | 10% | 1,696 | 6% |
| **Subtotal** | **10,652** | **51%** | **4,580** | **69%** | **15,232** | **55%** |
| **Total** | **20,815** | **100%** | **6,670** | **100%** | **27,485** | **100%** |

| **Weighted average LTV[1]:** | | | |
|---|---|---|---|
| Stock of Residential mortgages at year end | 102% | 124% | 108% |
| New Residential mortgages during the year | 74% | 57% | 73% |

## Book composition (continued)

| 31 December 2011<br>Loan to value (LTV) ratio of total<br>Retail Ireland mortgage loan book | Owner occupied<br>€m | Owner occupied<br>% | Buy to let<br>€m | Buy to let<br>% | Total<br>€m | Total<br>% |
|---|---|---|---|---|---|---|
| Less than 50% | 2,904 | 14% | 396 | 6% | 3,300 | 12% |
| 51% to 70% | 2,509 | 12% | 506 | 7% | 3,015 | 11% |
| 71% to 80% | 1,456 | 7% | 376 | 5% | 1,832 | 7% |
| 81% to 90% | 1,570 | 8% | 421 | 6% | 1,991 | 7% |
| 91% to 100% | 1,857 | 9% | 475 | 7% | 2,332 | 8% |
| Subtotal | 10,296 | 50% | 2,174 | 31% | 12,470 | 45% |
| 101% to 120% | 3,759 | 18% | 1,276 | 18% | 5,035 | 18% |
| 121% to 150% | 4,012 | 19% | 2,151 | 31% | 6,163 | 22% |
| 151% to 180% | 1,871 | 9% | 1,013 | 15% | 2,884 | 10% |
| Greater than 181% | 925 | 4% | 377 | 5% | 1,302 | 5% |
| Subtotal | 10,567 | 50% | 4,817 | 69% | 15,384 | 55% |
| Total | 20,863 | 100% | 6,991 | 100% | 27,854 | 100% |
| Weighted average LTV[1]: | | | | | | |
| Stock of Residential mortgages at year end | | 100% | | 118% | | 105% |
| New Residential mortgages during the year | | 79% | | 60% | | 79% |

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential property price Index published by the Central Statistics Office (CSO) at 31 December 2012 or 31 December 2011, as appropriate.

The CSO Index for December 2012 reported that national residential prices were 50% below peak (31 December 2011: 47%), with Dublin residential prices and outside of Dublin residential prices 56% and 47% below peak respectively. In 2012 the annual rate of decline in residential property prices slowed to 4.5% as reflected in the CSO Index (2011 annual rate of decline was 16.7%), its lowest rate in over four years, with residential property prices in Dublin (particularly house prices), being the key driver of this improvement.

Table 3c sets out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which was 108% at 31 December 2012, 102% for Owner occupied and 124% for Buy to let mortgages. The weighted average indexed LTV for new residential mortgages written during 2012 was 73%, 74% for Owner occupied mortgages and 57% for Buy to let mortgages.

At 31 December 2012, €12.3 billion or 45% of Retail Ireland mortgages are in positive equity, €10.2 billion or 49% of Owner occupied Retail Ireland mortgages are in positive equity and €2.1 billion or 31% of Buy to let Retail Ireland mortgages are in positive equity.

At 31 December 2012, the total calculated negative equity in the Retail Ireland mortgage loan book was €4.0 billion (31 December 2011 €3.7 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €2.9 billion (73%) of negative equity related to mortgages classified as 'neither past due nor impaired' at 31 December 2012. Of the remaining €1.1 billion of calculated negative equity, €0.2 billion (4%) relates to mortgages classified as '1 - 90 days past due but not impaired' and €0.9 billion (23%) relates to mortgages classified as 'greater than 90 days past due and / or impaired'.

# Book composition (continued)

**TABLE 3d**

| **31 December 2012 Loan to value (LTV) ratio of Retail Ireland mortgages > 90 days past due and / or impaired** | **Owner occupied** | | **Buy to let** | | **Total Residential mortgage portfolio** | |
|---|---|---|---|---|---|---|
| | **€m** | **%** | **€m** | **%** | **€m** | **%** |
| Less than 50% | 112 | 5% | 37 | 2% | 149 | 4% |
| 51% to 70% | 133 | 7% | 42 | 3% | 175 | 5% |
| 71% to 80% | 93 | 5% | 33 | 2% | 126 | 4% |
| 81% to 90% | 108 | 5% | 79 | 5% | 187 | 5% |
| 91% to 100% | 130 | 6% | 62 | 4% | 192 | 5% |
| **Subtotal** | **576** | **28%** | **253** | **16%** | **829** | **23%** |
| 101% to 120% | 293 | 15% | 209 | 14% | 502 | 14% |
| 121% to 150% | 515 | 25% | 456 | 29% | 971 | 27% |
| 151% to 180% | 412 | 20% | 363 | 23% | 775 | 21% |
| Greater than 181% | 247 | 12% | 286 | 18% | 533 | 15% |
| **Subtotal** | **1,467** | **72%** | **1,314** | **84%** | **2,781** | **77%** |
| **Total** | **2,043** | **100%** | **1,567** | **100%** | **3,610** | **100%** |

| 31 December 2011 Loan to value (LTV) ratio of Retail Ireland mortgages > 90 days past due and / or impaired | Owner occupied | | Buy to let | | Total Residential mortgage portfolio | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Less than 50% | 99 | 6% | 35 | 3% | 134 | 5% |
| 51% to 70% | 120 | 8% | 54 | 4% | 174 | 7% |
| 71% to 80% | 73 | 5% | 45 | 4% | 118 | 4% |
| 81% to 90% | 99 | 6% | 46 | 4% | 145 | 5% |
| 91% to 100% | 102 | 7% | 60 | 5% | 162 | 6% |
| Subtotal | 493 | 32% | 240 | 20% | 733 | 27% |
| 101% to 120% | 247 | 16% | 196 | 17% | 443 | 17% |
| 121% to 150% | 395 | 26% | 421 | 36% | 816 | 30% |
| 151% to 180% | 260 | 17% | 234 | 20% | 494 | 18% |
| Greater than 181% | 143 | 9% | 80 | 7% | 223 | 8% |
| Subtotal | 1,045 | 68% | 931 | 80% | 1,976 | 73% |
| Total | 1,538 | 100% | 1,171 | 100% | 2,709 | 100% |

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

Of the Retail Ireland mortgages that were ‘greater than 90 days past due and / or impaired’, €0.8 billion (23%) are in positive equity at 31 December 2012 (31 December 2011: €0.7 billion (27%)), while €2.8 billion (77%) are in negative equity at 31 December 2012 (31 December 2011: €2.0 billion (73%)).

For the ‘greater than 90 days past due and / or impaired’ category, 28% of the Owner occupied Retail Ireland mortgages (31 December 2011: 32%) and 16% of the Buy to let Retail Ireland mortgages (31 December 2011: 20%) are in positive equity at 31 December 2012.

## Asset quality

**TABLE 4**

| 31 December 2012<br>Retail Ireland mortgages<br>Composition and impairment | Retail Ireland mortgages €m | Loans > 90 days past due and / or impaired loans €m | Loans > 90 days past due and / or impaired loans as % of advances % | Impairment provisions €m | Impairment provisions as % of loans > 90 days past due and / or impaired loans % |
|---|---|---|---|---|---|
| Owner occupied mortgages | 20,815 | 2,043 | 9.8% | 711 | 35% |
| Buy to let mortgages | 6,670 | 1,567 | 23.5% | 741 | 47% |
| **Total Retail Ireland mortgages** | **27,485** | **3,610** | **13.1%** | **1,452** | **40%** |

| 31 December 2011<br>Retail Ireland mortgages<br>Composition and impairment | Retail Ireland mortgages €m | Loans > 90 days past due and / or impaired loans €m | Loans > 90 days past due and / or impaired loans as % of advances % | Impairment provisions €m | Impairment provisions as % of loans > 90 days past due and / or impaired loans % |
|---|---|---|---|---|---|
| Owner occupied mortgages | 20,863 | 1,538 | 7.4% | 489 | 32% |
| Buy to let mortgages | 6,991 | 1,171 | 16.8% | 537 | 46% |
| Total Retail Ireland mortgages | 27,854 | 2,709 | 9.7% | 1,026 | 38% |

Retail Ireland mortgages that were 'greater than 90 days past due and / or impaired' at 31 December 2012 were €3.6 billion (13.1%) as compared to €2.7 billion (9.7%) at 31 December 2011, primarily reflecting the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and elevated unemployment levels. In such circumstances, the Group has a range of suitable product options and resolution strategies available to deliver outcomes that maximise recoveries for the Group while being supportive of our customers.

**Mortgage forbearance**

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ('forbearance treatment'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance treatment' is a 'forborne mortgage'.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance treatments for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

A range of forbearance strategies are used by the Group for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate. The forbearance strategies adopted by the Group seek to maximise recoveries, and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances.

## Asset quality (continued)

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] that have current active forbearance treatments that were put in place during or prior to 2012 and remain in place at 31 December 2012.

The main types of formal forbearance treatments for Retail Ireland mortgages (before impairment provisions) are analysed below:

| TABLE 5<br>31 December 2012<br>Formal forbearance treatments - Retail Ireland mortgages (before impairment provisions) | Current and / or loans not in default | | Loans > 90 days past due arrears and / or impaired | | All loans | |
|---|---|---|---|---|---|---|
| | Balance €m | Number of accounts[2] | Balance €m | Number of accounts[2] | Balance €m | Number of accounts[2] |
| **Owner occupied** | | | | | | |
| Full interest | **450** | 3,062 | **392** | 2,628 | **842** | 5,690 |
| Reduced payment (greater than full interest) | **307** | 1,589 | **94** | 402 | **401** | 1,991 |
| Term extension (including interest servicing) | **233** | 2,657 | **26** | 276 | **259** | 2,933 |
| Capitalisation of arrears | **76** | 592 | **6** | 21 | **82** | 613 |
| Other | **95** | 674 | **28** | 194 | **123** | 868 |
| **Total** | **1,161** | **8,574** | **546** | **3,521** | **1,707** | **12,095** |
| **Buy to let** | | | | | | |
| Full interest | **182** | 914 | **110** | 584 | **292** | 1,498 |
| Reduced payment (greater than full interest) | **215** | 860 | **56** | 187 | **271** | 1,047 |
| Term extension (including interest servicing) | **81** | 609 | **16** | 73 | **97** | 682 |
| Capitalisation of arrears | **13** | 72 | **10** | 29 | **23** | 101 |
| Other | **40** | 172 | **8** | 37 | **48** | 209 |
| **Total** | **531** | **2,627** | **200** | **910** | **731** | **3,537** |
| **Total** | | | | | | |
| Full interest | **632** | 3,976 | **502** | 3,212 | **1,134** | 7,188 |
| Reduced payment (greater than full interest) | **522** | 2,449 | **150** | 589 | **672** | 3,038 |
| Term extension (including interest servicing) | **314** | 3,266 | **42** | 349 | **356** | 3,615 |
| Capitalisation of arrears | **89** | 664 | **16** | 50 | **105** | 714 |
| Other | **135** | 846 | **36** | 231 | **171** | 1,077 |
| **Total** | **1,692** | **11,201** | **746** | **4,431** | **2,438** | **15,632** |

[1] *Comprises the current stock position of forbearance treatments (agreed since November 2008), for example, where a mortgage loan is granted a full interest forbearance treatment for a defined period of time, and this treatment has expired prior to 31 December 2012, this mortgage loan is not included in the stock of current active forbearance treatments.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

## Asset quality (continued)

| 31 December 2011<br>Formal forbearance treatments - Retail Ireland mortgages<br>(before impairment provisions) | Current and / or loans not in default<br>Balance €m | Number of accounts[1] | Loans > 90 days past due arrears and / or impaired<br>Balance €m | Number of accounts[1] | All loans<br>Balance €m | Number of accounts[1] |
|---|---|---|---|---|---|---|
| Owner occupied | | | | | | |
| Full interest | 519 | 3,415 | 200 | 1,230 | 719 | 4,645 |
| Reduced payment (greater than full interest)[2] | 248 | 1,133 | 26 | 91 | 274 | 1,224 |
| Term extension (including interest servicing) | 188 | 2,138 | 12 | 110 | 200 | 2,248 |
| Capitalisation of arrears[3] | 3 | 24 | 3 | 6 | 6 | 30 |
| Other | 41 | 271 | 8 | 59 | 49 | 330 |
| Total | 999 | 6,981 | 249 | 1,496 | 1,248 | 8,477 |
| Buy to let | | | | | | |
| Full interest | 209 | 1,030 | 65 | 310 | 274 | 1,340 |
| Reduced payment (greater than full interest)[2] | 177 | 751 | 19 | 41 | 196 | 792 |
| Term extension (including interest servicing) | 75 | 511 | 6 | 29 | 81 | 540 |
| Capitalisation of arrears[3] | - | 6 | 7 | 20 | 7 | 26 |
| Other | 9 | 51 | 4 | 7 | 13 | 58 |
| Total | 470 | 2,349 | 101 | 407 | 571 | 2,756 |
| Total | | | | | | |
| Full interest | 728 | 4,445 | 265 | 1,540 | 993 | 5,985 |
| Reduced payment (greater than full interest)[2] | 425 | 1,884 | 45 | 132 | 470 | 2,016 |
| Term extension (including interest servicing) | 263 | 2,649 | 18 | 139 | 281 | 2,788 |
| Capitalisation of arrears[3] | 3 | 30 | 10 | 26 | 13 | 56 |
| Other | 50 | 322 | 12 | 66 | 62 | 388 |
| Total | 1,469 | 9,330 | 350 | 1,903 | 1,819 | 11,233 |

*[1] The number of accounts does not equate to either the number of customers or the number of properties.*
*[2] Hybrids are reported at 31 December 2011 with 'Reduced payment (greater than full interest)' and are now reported in 'Other'.*
*[3] Capitalisation of arrears were reported at 31 December 2011 within Term Extension (including interest servicing) and are now reported separately.*

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

## Asset quality (continued)

The above table shows the volume of Retail Ireland mortgage accounts in formal forbearance treatments. These have increased from €1.8 billion or 11,233 accounts at 31 December 2011 to €2.4 billion or 15,632 accounts at 31 December 2012. Owner occupied mortgage forbearance treatments have increased from €1.2 billion or 8,477 accounts to €1.7 billion or 12,095 accounts at 31 December 2012. Buy to let forbearance treatments have increased from €0.6 billion or 2,756 accounts to €0.7 billion or 3,537 accounts. This movement is in line with the Group's strategy to maximise the level of sustainable forbearance treatments in place for borrowers in financial difficulty.

In addition to the 15,632 Retail Ireland mortgage accounts in formal forbearance treatments at 31 December 2012, there were a further 1,988 arrears accounts at 31 December 2012 for which the borrower is meeting their contractual payments and an informal arrangement is in place to pay down their arrears.

At 31 December 2012, €1.1 billion or 7,188 Retail Ireland mortgage accounts were subject to full interest forbearance treatments, compared to €1.0 billion or 5,985 accounts at 31 December 2011. 5,398 of these accounts with full interest forbearance were new forbearance treatments put in place during the year. In addition, 3,190 accounts exited forbearance moving to either performing or 'past due and / or impaired' during the year and 1,005 accounts changed their forbearance treatment type during the year. In addition, the increase is also partly due to the introduction of a new long term full interest forbearance treatment during the second half of 2012 with 536 accounts on this treatment as at 31 December 2012.

In addition, reduced payment (greater than full interest) also increased from €470 million or 2,016 accounts at 31 December 2011 to €672 million or 3,038 accounts at 31 December 2012. 2,367 of these accounts with reduced payment (greater than full interest) were new forbearance treatments put in place during the year. In addition, a further 943 exited forbearance moving to either performing or 'past due and / or impaired' and a further 402 accounts changed their forbearance treatment type during the year. In addition, the increase is also partly due to the introduction of a new long term full interest plus forbearance treatment during the second half of 2012 with 358 accounts on this treatment as at 31 December 2012.

During 2012, term extensions increased to €356 million or 3,615 accounts at 31 December 2012 from €281 million or 2,788 accounts at 31 December 2011. Other forbearance treatments increased to €171 million or 1,077 accounts at 31 December 2012 from €62 million or 388 accounts at 31 December 2011. These primarily comprise a combination of forbearance treatments. Account balances in relation to Residential mortgages on which arrears were capitalised increased to €105 million or 714 accounts at 31 December 2012 from €13 million or 56 accounts at 31 December 2011.

Of the €2.4 billion of Retail Ireland mortgages (before impairment provisions) subject to forbearance at 31 December 2012 (December 2011, €1.8 billion), 99% of these are for repayments of full interest or greater on their balances (December 2011: 98%).

The nature and type of forbearance treatments include:

- full interest: the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment (greater than full interest): a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future;
- term extension (including servicing interest): the original term of the mortgage is extended and all the interest is fully serviced;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the contracted term; and
- other: comprising primarily a combination of forbearance treatments, short term / temporary payment suspensions and payment restructures.

## Asset quality (continued)

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

The Group has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA)[1] which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process (MARP) for defined owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers.

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

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

In addition to the MARP established by the Group, a clearly defined Mortgage Arrears Resolution Strategy incorporating both Owner occupied and Buy to let mortgages is in place. To implement this strategy the Group has established a programme which seeks to maximise recoveries arising from non-repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process. In addition, the Group has set out a clearly defined Mortgage Arrears Resolution Strategy incorporating both Owner occupied and Buy to let mortgages.

**Personal Insolvency Act 2012**
The Personal Insolvency Act 2012, enacted December 2012, provides for three debt resolution options for consumers deemed to have unsustainable indebtedness levels. These options are an alternative to bankruptcy and the Act also amends existing bankruptcy provisions. The three debt resolution options are:
- debt relief notice;
- debt settlement arrangement; and
- personal insolvency arrangement.

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

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

## Repossessions

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

**TABLE 6**

| **Repossessions Retail Ireland mortgages** | **31 December 2012** Number of repossessions at balance sheet date | **31 December 2012** Balance outstanding before impairment provisions €m | 31 December 2011 Number of repossessions at balance sheet date | 31 December 2011 Balance outstanding before impairment provisions €m |
|---|---|---|---|---|
| Owner occupied | 96 | 25 | 99 | 29 |
| Buy to let | 84 | 30 | 67 | 20 |
| **Total residential repossessions** | **180** | **55** | **166** | **49** |

**TABLE 7**

| **31 December 2012 Disposals of repossessions Retail Ireland mortgages** | **Number of disposals during the period[1]** | **Balance outstanding after provisions €m** |
|---|---|---|
| Owner occupied | 88 | 10 |
| Buy to let | 53 | 4 |
| **Total residential repossessions** | **141** | **14** |

| 31 December 2011 Disposals of repossessions Retail Ireland mortgages | Number of disposals during the period | Balance outstanding after provisions €m |
|---|---|---|
| Owner occupied | 56 | 8 |
| Buy to let | 19 | 3 |
| Total residential repossessions | 75 | 11 |

For the year ended 31 December 2012 the Group disposed of 141 repossessed properties[1] (31 December 2011: 75 repossessed properties were disposed). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the year ended 31 December 2012, the proceeds from disposals of Owner occupied repossessed properties was €10 million (year ended 31 December 2011: €8 million).

For the year ended 31 December 2012, the proceeds from disposals of Buy to let repossessed properties was €4 million (year ended 31 December 2011: €4 million).

[1] *The number of properties disposed of includes those which were subject to an unconditional contract for sale at the reporting date.*

## Supplementary section - Retail UK mortgages

The following disclosures refer to the Retail UK mortgage loan book. These provide additional detail and breakdowns on the composition and quality of this loan book.

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a fully documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Retail UK mortgage origination lending policy and guidelines are subject to regular review. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the borrower, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2012, lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration;
- repayment types (amortising repayment or interest only); and
- loan specific terms and conditions.

## Book composition

**TABLE 1**

| **Retail UK mortgages - Volumes (before impairment provisions)** | **31 December 2012 £m** | 31 December 2011[1] £m |
|---|---|---|
| Standard mortgages | 10,026 | 10,905 |
| Buy to let mortgages | 8,812 | 9,826 |
| Self certified mortgages | 3,640 | 4,024 |
| **Total Retail UK mortgages** | **22,478** | **24,755** |

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

Retail UK mortgages were £22.5 billion at 31 December 2012 compared to £24.8 billion at 31 December 2011. The decrease of £2.3 billion or 9.2% reflects muted demand for new mortgages, an active deleveraging programme for existing customers and the sale of £0.5 billion of the Buy to let mortgage portfolio to a third party. In January 2009 the Group announced its withdrawal from the intermediary sourced mortgage market in the UK, which has resulted in a significant reduction in the volume of new mortgages issued.

New mortgage business is now sourced through the Group's relationship with the UK Post Office and through the branch network in Northern Ireland.

Of the Standard mortgages of £10.0 billion, 54% are on a 'principal and interest'[1] repayment basis (31 December 2011: 53%). Of the Self certified mortgages of £3.6 billion, 23% are on a 'principal and interest' repayment basis (31 December 2011: 24%). Of the Buy to let mortgages of £8.8 billion, 10% are on a 'principal and interest' repayment basis (31 December 2011: 11%). In addition 68% of the Retail UK mortgage portfolio, at 31 December 2012, are on an 'interest only'[2] repayment basis.

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
[2] *'Interest only' mortgages consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' on mortgage products offered in the UK may extend for the full period of the mortgage.*

## Book composition (continued)

**TABLE 2**

| **31 December 2012**<br>**Origination profile of Retail UK mortgage loan book (before impairment provisions)** | **Total Residential mortgages loan book**<br>**Balance £m** | <br>**Number of accounts[1]** | **Loans > 90 days past due and / or impaired**<br>**Balance £m** | <br>**Number of accounts[1]** |
|---|---|---|---|---|
| 1996 and before | **306** | 8,759 | **8** | 175 |
| 1997 | **58** | 1,383 | **1** | 15 |
| 1998 | **96** | 2,137 | **1** | 17 |
| 1999 | **106** | 2,408 | **1** | 19 |
| 2000 | **133** | 2,642 | **2** | 22 |
| 2001 | **271** | 3,926 | **4** | 31 |
| 2002 | **341** | 4,563 | **7** | 67 |
| 2003 | **775** | 8,816 | **20** | 151 |
| 2004 | **831** | 8,892 | **23** | 177 |
| 2005 | **1,976** | 17,806 | **55** | 386 |
| 2006 | **2,904** | 25,254 | **69** | 472 |
| 2007 | **4,842** | 39,368 | **128** | 851 |
| 2008 | **6,055** | 48,586 | **194** | 1,229 |
| 2009 | **1,126** | 8,727 | **10** | 85 |
| 2010 | **1,031** | 6,979 | **2** | 14 |
| 2011 | **791** | 5,149 | **1** | 6 |
| 2012 | **836** | 4,772 | **-** | 1 |
| **Total** | **22,478** | **200,167** | **526** | **3,718** |

| 31 December 2011<br>Origination profile of Retail UK mortgage loan book (before impairment provisions)[2] | Total Residential mortgages loan book<br>Balance £m | <br>Number of accounts[1] | Loans > 90 days past due and / or impaired<br>Balance £m | <br>Number of accounts[1] |
|---|---|---|---|---|
| 1996 and before | 386 | 10,861 | 6 | 188 |
| 1997 | 74 | 1,742 | 1 | 18 |
| 1998 | 120 | 2,510 | 1 | 19 |
| 1999 | 132 | 2,811 | 1 | 27 |
| 2000 | 159 | 3,033 | 2 | 27 |
| 2001 | 342 | 4,686 | 4 | 37 |
| 2002 | 438 | 5,759 | 9 | 79 |
| 2003 | 961 | 10,758 | 23 | 161 |
| 2004 | 995 | 10,468 | 22 | 165 |
| 2005 | 2,289 | 20,430 | 66 | 441 |
| 2006 | 3,296 | 28,337 | 75 | 474 |
| 2007 | 5,462 | 43,672 | 141 | 908 |
| 2008 | 6,756 | 53,687 | 247 | 1,545 |
| 2009 | 1,321 | 9,964 | 10 | 94 |
| 2010 | 1,175 | 7,677 | 1 | 5 |
| 2011 | 849 | 5,381 | - | 1 |
| Total | 24,755 | 221,776 | 609 | 4,189 |

[1] *The number of accounts does not equate to either to the number of customers or the number of properties.*
[2] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

The tables above illustrate that at 31 December 2012, £4.9 billion (22%) of the Retail UK mortgage loan book originated before 2006, £13.8 billion (61%) between 2006 and 2008 and £3.8 billion (17%) in the years since.

The fall off in originations since the end of 2008 is primarily due to the Group's withdrawal from the intermediary sourced mortgage market in the UK.

Retail UK mortgages 'greater than 90 days past due and / or impaired' were £0.5 billion (December 2011: £0.6 billion) or 2% of the Retail UK mortgage loan book at 31 December 2012, of which £0.4 billion or 1.7% were originated between 2006 and 2008.

## Book composition (continued)

**TABLE 3a**

| **31 December 2012 Risk profile of Retail UK mortgage loan book (before impairment provisions)** | **Standard £m** | **Standard %** | **Buy to let £m** | **Buy to let %** | **Self certified £m** | **Self certified %** | **Total £m** | **Total %** |
|---|---|---|---|---|---|---|---|---|
| Neither past due nor impaired | 9,503 | 95% | 8,315 | 95% | 3,057 | 84% | 20,875 | 93% |
| 1-90 days past due but not impaired | 383 | 4% | 287 | 3% | 407 | 11% | 1,077 | 5% |
| > 90 days past due and / or impaired | 140 | 1% | 210 | 2% | 176 | 5% | 526 | 2% |
| **Total Retail UK mortgages** | **10,026** | **100%** | **8,812** | **100%** | **3,640** | **100%** | **22,478** | **100%** |

| 31 December 2011 Risk profile of Retail UK mortgage loan book (before impairment provisions)[1] | Standard £m | Standard % | Buy to let £m | Buy to let % | Self certified £m | Self certified % | Total £m | Total % |
|---|---|---|---|---|---|---|---|---|
| Neither past due nor impaired | 10,407 | 95% | 9,232 | 94% | 3,449 | 86% | 23,088 | 93% |
| 1-90 days past due but not impaired | 342 | 3% | 334 | 3% | 382 | 9% | 1,058 | 4% |
| > 90 days past due and / or impaired | 156 | 2% | 260 | 3% | 193 | 5% | 609 | 3% |
| Total Retail UK mortgages | 10,905 | 100% | 9,826 | 100% | 4,024 | 100% | 24,755 | 100% |

| **TABLE 3b Mortgage Arrears > 90 days past due and / or impaired (number of accounts)** | **31 December 2012 %** | 31 December 2011 % |
|---|---|---|
| Standard mortgages | 1.27% | 1.20% |
| Buy to let mortgages | 1.97% | 2.06% |
| Self certified mortgages | 3.71% | 3.71% |

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

The tables above illustrate that £20.9 billion or 93% of the total Retail UK mortgage loan book at 31 December 2012 was classified as 'neither past due nor impaired' compared to £23.1 billion or 93% at 31 December 2011.

The '1 – 90 days past due but not impaired' category amounted to £1.1 billion or 5% of the total Retail UK mortgage loan book at 31 December 2012 compared to £1.1 billion or 4% at 31 December 2011.

The 'greater than 90 days past due and/or impaired' category amounted to £0.5 billion or 2% of the total Retail UK mortgage loan book at 31 December 2012 compared to £0.6 billion or 3% at 31 December 2011.

## Book composition (continued)

**TABLE 3c**

| **31 December 2012 Loan to value (LTV) ratio of Retail UK mortgages** | **Standard** | | **Buy to let** | | **Self certified** | | **Total residential mortgage portfolio** | |
|---|---|---|---|---|---|---|---|---|
| | **£m** | **%** | **£m** | **%** | **£m** | **%** | **£m** | **%** |
| Less than 50% | 1,849 | 18% | 776 | 9% | 314 | 9% | 2,939 | 13% |
| 51% to 70% | 1,498 | 15% | 2,183 | 24% | 678 | 19% | 4,359 | 19% |
| 71% to 80% | 1,557 | 16% | 1,986 | 23% | 746 | 20% | 4,289 | 19% |
| 81% to 90% | 2,033 | 20% | 1,918 | 22% | 902 | 24% | 4,853 | 22% |
| 91% to 100% | 1,571 | 16% | 1,248 | 14% | 724 | 20% | 3,543 | 16% |
| **Subtotal** | **8,508** | **85%** | **8,111** | **92%** | **3,364** | **92%** | **19,983** | **89%** |
| 101% to 120% | 1,340 | 13% | 628 | 7% | 258 | 7% | 2,226 | 10% |
| 121% to 150% | 126 | 1% | 54 | 1% | 13 | 1% | 193 | 1% |
| Greater than 150% | 52 | 1% | 19 | - | 5 | - | 76 | - |
| **Subtotal** | **1,518** | **15%** | **701** | **8%** | **276** | **8%** | **2,495** | **11%** |
| **Total** | **10,026** | **100%** | **8,812** | **100%** | **3,640** | **100%** | **22,478** | **100%** |
| **Weighted average LTV:** | | | | | | | | |
| Stock of Retail UK mortgages at year end[1] | | 76% | | 76% | | 78% | | 76% |
| New Retail UK mortgages during the year[1] | | 77% | | 71% | | N/A | | 76% |

| 31 December 2011 Loan to value (LTV) ratio of Retail UK mortgages[2] | Standard | | Buy to let | | Self certified | | Total residential mortgage portfolio | |
|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % |
| Less than 50% | 2,236 | 21% | 966 | 10% | 344 | 10% | 3,546 | 15% |
| 51% to 70% | 1,653 | 15% | 2,675 | 27% | 735 | 18% | 5,063 | 20% |
| 71% to 80% | 1,495 | 14% | 2,282 | 23% | 857 | 21% | 4,634 | 19% |
| 81% to 90% | 2,103 | 19% | 2,136 | 22% | 1,022 | 25% | 5,261 | 21% |
| 91% to 100% | 1,846 | 17% | 1,293 | 13% | 821 | 20% | 3,960 | 16% |
| Subtotal | 9,333 | 86% | 9,352 | 95% | 3,779 | 94% | 22,464 | 91% |
| 101% to 120% | 1,452 | 13% | 412 | 5% | 224 | 6% | 2,088 | 8% |
| 121% to 150% | 72 | 1% | 45 | - | 12 | - | 129 | 1% |
| Greater than 150% | 48 | - | 17 | - | 9 | - | 74 | - |
| Subtotal | 1,572 | 14% | 474 | 5% | 245 | 6% | 2,291 | 9% |
| Total | 10,905 | 100% | 9,826 | 100% | 4,024 | 100% | 24,755 | 100% |
| Weighted average LTV: | | | | | | | | |
| Stock of Retail UK mortgages at year end[1] | | 74% | | 74% | | 78% | | 75% |
| New Retail UK mortgages during the year[1] | | 81% | | 70% | | N/A | | 80% |

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*
[2] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

Property values are determined by reference to the original or latest property valuations held, indexed to the 'Nationwide UK House Price Index' published by the UK's Nationwide Building Society. In tables 3c and 3d the December 2012 or December 2011 'Nationwide UK House Price Index' as appropriate, is the index applied to the relevant valuations.

The table above illustrates that at 31 December 2012 the weighted average indexed LTV of the total book was 76%, with new business written during the year ended 31 December 2012 having a weighted average indexed LTV of 76%.

At 31 December 2012, £20.0 billion (89%) of the Retail UK mortgage loan book was not in negative equity, comprising £8.5 billion (85%) of Standard mortgages, £8.1 billion (92%) of Buy to let mortgages and £3.4 billion (92%) of Self certified mortgages. This reflects the marginal nature of house price movements during the year, with house prices falling 1% on average across the UK.

## Book composition (continued)

At 31 December 2012, the total calculated negative equity in the Retail UK mortgage loan book was £212 million, which comprised £184 million (87%) related to mortgages classified as 'neither past due nor impaired', £11 million (6%) related to mortgages classified as '1 – 90 days past due but not impaired' and £17 million (8%) related to mortgages that were 'greater than 90 days past due and / or impaired'.

**TABLE 3d**

| **31 December 2012**<br>**Loan to value ratio of Retail UK mortgages > 90 days past due and / or impaired** | **Standard** | | **Buy to let** | | **Self certified** | | **Total Residential mortgage portfolio** | |
|---|---|---|---|---|---|---|---|---|
| | **£m** | **%** | **£m** | **%** | **£m** | **%** | **£m** | **%** |
| Less than 50% | 16 | 11% | 5 | 2% | 4 | 2% | 25 | 5% |
| 51% to 70% | 20 | 14% | 21 | 10% | 16 | 9% | 57 | 11% |
| 71% to 80% | 19 | 14% | 30 | 14% | 27 | 15% | 76 | 14% |
| 81% to 90% | 21 | 15% | 46 | 22% | 42 | 24% | 109 | 21% |
| 91% to 100% | 21 | 15% | 46 | 22% | 50 | 28% | 117 | 22% |
| **Subtotal** | **97** | **69%** | **148** | **70%** | **139** | **78%** | **384** | **73%** |
| 101% to 120% | 34 | 25% | 47 | 23% | 31 | 19% | 112 | 21% |
| 121% to 150% | 7 | 5% | 11 | 5% | 2 | 1% | 20 | 4% |
| Greater than 150% | 2 | 1% | 4 | 2% | 4 | 2% | 10 | 2% |
| **Subtotal** | **43** | **31%** | **62** | **30%** | **37** | **22%** | **142** | **27%** |
| **Total** | **140** | **100%** | **210** | **100%** | **176** | **100%** | **526** | **100%** |

| 31 December 2011<br>Loan to value ratio of Retail UK mortgages > 90 days past due and / or impaired[1] | Standard | | Buy to let | | Self certified | | Total residential mortgage portfolio | |
|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % |
| Less than 50% | 20 | 13% | 5 | 2% | 4 | 2% | 29 | 5% |
| 51% to 70% | 22 | 14% | 26 | 10% | 18 | 9% | 66 | 11% |
| 71% to 80% | 18 | 12% | 41 | 16% | 27 | 14% | 86 | 14% |
| 81% to 90% | 19 | 12% | 56 | 22% | 48 | 25% | 123 | 20% |
| 91% to 100% | 21 | 13% | 58 | 22% | 59 | 31% | 138 | 23% |
| Subtotal | 100 | 64% | 186 | 72% | 156 | 81% | 442 | 73% |
| 101% to 120% | 33 | 21% | 49 | 19% | 32 | 16% | 114 | 18% |
| 121% to 150% | 4 | 3% | 9 | 3% | 3 | 2% | 16 | 3% |
| Greater than 150% | 19 | 12% | 16 | 6% | 2 | 1% | 37 | 6% |
| Subtotal | 56 | 36% | 74 | 28% | 37 | 19% | 167 | 27% |
| Total | 156 | 100% | 260 | 100% | 193 | 100% | 609 | 100% |

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

## Asset quality

**TABLE 4**

| **31 December 2012 Retail UK mortgages Composition and impairment** | **Retail UK mortgages £m** | **Loans > 90 days past due and / or impaired loans £m** | **Loans > 90 days past due and / or impaired loans as % of advances %** | **Impairment provisions £m** | **Impairment provisions as % of loans > 90 days past due and / or impaired loans %** |
|---|---|---|---|---|---|
| Standard mortgages | 10,026 | 140 | 1.4% | 34 | 24% |
| Buy to let mortgages | 8,812 | 210 | 2.4% | 55 | 26% |
| Self certified mortgages | 3,640 | 176 | 4.8% | 27 | 15% |
| **Total Retail UK mortgages** | **22,478** | **526** | **2.3%** | **116** | **22%** |

| 31 December 2011 Retail UK mortgages Composition and impairment[1] | Retail UK mortgages £m | Loans > 90 days past due and / or impaired loans £m | Loans > 90 days past due and / or impaired loans as % of advances % | Impairment provisions £m | Impairment provisions as % of loans > 90 days past due and / or impaired loans % |
|---|---|---|---|---|---|
| Standard mortgages | 10,905 | 156 | 1.4% | 16 | 10% |
| Buy to let mortgages | 9,826 | 260 | 2.6% | 67 | 26% |
| Self certified mortgages | 4,024 | 193 | 4.8% | 28 | 15% |
| Total Retail UK mortgages | 24,755 | 609 | 2.5% | 111 | 18% |

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

At 31 December 2012 total Retail UK mortgages had decreased by £2.3 billion or 9.2% to £22.5 billion (31 December 2011: £24.8 billion). £0.5 billion of this decrease is attributable to the sale of a Buy to let portfolio to a third party during 2012.

Retail UK mortgages 'greater than 90 days past due and / or impaired' were £526 million at 31 December 2012 compared to £609 million at 31 December 2011 attributable to a decrease in Standard mortgages of £16 million, Buy to let mortgages of £50 million and Self certified mortgages of £17 million.

The overall impairment provision coverage ratio on Retail UK mortgages 'greater than 90 days past due and / or impaired' has increased from 18% at 31 December 2011 to 22% at 31 December 2012.

## Asset quality (continued)

**Mortgage forbearance**

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

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance treatments for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

A range of forbearance strategies are used by the Group for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate. The forbearance strategies adopted by the Group seek to maximise recoveries, and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances.

The nature and type of forbearance treatments include:

- full interest: the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment (greater than full interest): a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future;
- term extension (including servicing interest): the original term of the mortgage is extended and all the interest is fully serviced;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term; and
- other: comprising primarily a combination of forbearance treatments, short term / temporary payment suspensions and payment restructures.

## Asset quality (continued)

The table below sets out Retail UK mortgages (before impairment provisions) forborne loan stock[1] that have current active formal forbearance treatments that were put in place during or prior to 2012 and remain in place at 31 December 2012. The main types of formal forbearance treatments for Retail UK mortgages (before impairment provisions) are analysed below:

| TABLE 5<br>31 December 2012<br>Forbearance treatments - Retail UK mortgages (before impairment provisions) | Current and / or loans not in default | | Loans > 90 days past due arrears and / or impaired | | All loans | |
|---|---|---|---|---|---|---|
| | Balance £m | Number of accounts | Balance £m | Number of accounts | Balance £m | Number of accounts[2] |
| **Standard mortgages** | | | | | | |
| Full interest | 88 | 785 | 12 | 111 | 100 | 896 |
| Term extension | 20 | 288 | - | 8 | 20 | 296 |
| Capitalisation of arrears | 6 | 34 | - | 1 | 6 | 35 |
| Other | 2 | 16 | 1 | 6 | 3 | 22 |
| **Total** | 116 | 1,123 | 13 | 126 | 129 | 1,249 |
| **Buy to let** | | | | | | |
| Full interest | 24 | 256 | 4 | 27 | 28 | 283 |
| Term extension | 7 | 56 | - | 3 | 7 | 59 |
| Capitalisation of arrears | 14 | 104 | 1 | 9 | 15 | 113 |
| Other | 1 | 8 | - | - | 1 | 8 |
| **Total** | 46 | 424 | 5 | 39 | 51 | 463 |
| **Self certified** | | | | | | |
| Full interest | 51 | 381 | 10 | 61 | 61 | 442 |
| Term extension | 3 | 24 | - | - | 3 | 24 |
| Capitalisation of arrears | 15 | 63 | 2 | 10 | 17 | 73 |
| Other | 2 | 11 | - | 4 | 2 | 15 |
| **Total** | 71 | 479 | 12 | 75 | 83 | 554 |
| **All** | | | | | | |
| Full interest | 163 | 1,422 | 26 | 199 | 189 | 1,621 |
| Term extension | 30 | 368 | - | 11 | 30 | 379 |
| Capitalisation of arrears | 35 | 201 | 3 | 20 | 38 | 221 |
| Other | 5 | 35 | 1 | 10 | 6 | 45 |
| **Total** | 233 | 2,026 | 30 | 240 | 263 | 2,266 |

*1 Comprises the current stock position of forbearance arrangements (agreed since January 2010).*
*2 The number of accounts does not equate to either the number of customers or the number of properties.*

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## Repossessions

At 31 December 2012, the Group had possession of collateral held as security as follows:

**TABLE 6**

| **Repossessions Retail UK mortgages** | **31 December 2012** Number of repossessions at balance sheet date | **31 December 2012** Balance outstanding before impairment provisions £m | 31 December 2011 Number of repossessions as at balance sheet date | 31 December 2011 Balance outstanding before impairment provisions £m |
|---|---|---|---|---|
| Standard mortgages | 70 | 10 | 71 | 9 |
| Buy to let mortgages | 139 | 19 | 147 | 19 |
| Self certified mortgages | 45 | 9 | 55 | 11 |
| **Total residential repossessions** | **254** | **38** | **273** | **39** |

**TABLE 6a**

| **31 December 2012 Disposal of repossessions Retail UK mortgages** | **Number of disposals[1] during the year** | **Balance outstanding after impairment provisions £m** |
|---|---|---|
| Standard mortgages | 194 | 18 |
| Buy to let mortgages | 358 | 30 |
| Self certified mortgages | 141 | 20 |
| **Total residential repossessions** | **693** | **68** |

| 31 December 2011 Disposal of repossessions Retail UK mortgages | Number of disposals[1] during the year | Balance outstanding after impairment provisions £m |
|---|---|---|
| Standard mortgages | 224 | 22 |
| Buy to let mortgages | 370 | 31 |
| Self certified mortgages | 186 | 24 |
| Total residential repossessions | 780 | 77 |

For the year ended 31 December 2012 the Group disposed of 693 repossessed properties[1] (31 December 2011: 780 repossessed properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the year ended 31 December 2012, the proceeds from disposals of repossessed properties from Standard mortgages was £21 million (year ended 31 December 2011: £24 million).

For the year ended 31 December 2012, the proceeds from disposals of repossessed properties from Buy to let mortgages was £31 million (year ended 31 December 2011: £35 million).

For the year ended 31 December 2012, the proceeds from disposals of repossessed properties from Self certified mortgages was £23 million (year ended 31 December 2011: £26 million).

[1] *The number of properties disposed of includes those which were subject to an unconditional contract for sale at the reporting date.*

## Forbearance arrangements - loans and advances to customers (excluding Residential mortgages)

The Group continues to extend significant support to customers who are experiencing current difficulties in repaying their debt servicing commitments to restructure loans on a sustainable basis using a range of short term and longer term forbearance solutions. Forbearance strategies are deployed as appropriate and are subject to individual case assessment.

The range of forbearance strategies employed by the Group vary depending on the individual circumstances of the customer, and may result in an amendment to the timing of the contractual cash flows and / or an amendment to the terms of the loan.

Typically, a breach or expected breach of loan covenant(s) is the first early indication of a borrower's actual or potential difficulty with servicing debt commitments. Therefore adjustment, non-enforcement or waiver of covenant(s) is frequently an important constituent part of a resolution strategy agreed with a customer, particularly in loan portfolios where covenants are a standard feature of facility agreements. These 'covenant forbearance' arrangements (for example, a waiver of a loan-to-value covenant breach) are unlikely, of themselves, to result in an impact to the timing of contractual cash flows. Other forbearance arrangements are more likely to have a direct impact on the timing of cash flows.

Forbearance alone is not necessarily an indicator of impairment but will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred and if a specific provision is required will always take place prior to any decision to grant a concession to the customer. Where a loan is subject to forbearance and no specific provision is required, the loan is reported as forborne. However, where a specific provision is required the loan is reported as impaired.

At 31 December 2012, the stock of forborne loans and advances to customers[1] (excluding Residential mortgages), analysed by forbearance type is as follows:

| | Property & Construction | | | Non-property SME and corporate | | | | Consumer | Total forborne loans and advances customers |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2012 Formal forbearance arrangements** | **Land & Development €m** | **Investment €m** | **Total €m** | **ROI SME €m** | **UK SME €m** | **Corporate €m** | **Total €m** | **Total €m** | **€m** |
| Term extension | 172 | 2,053 | **2,225** | 594 | 182 | 538 | **1,314** | **212** | **3,751** |
| Adjustment or non-enforcement of covenants | 13 | 1,198 | **1,211** | 64 | 52 | 704 | **820** | **-** | **2,031** |
| Facilities in breach of terms placed on demand | 53 | 909 | **962** | 22 | 49 | - | **71** | **-** | **1,033** |
| Reduced payment (full interest) | 39 | 216 | **255** | 331 | 54 | 9 | **394** | **-** | **649** |
| Reduced payment (greater than full interest) | 14 | 268 | **282** | 242 | 64 | 1 | **307** | **1** | **590** |
| Capitalisation of arrears | 1 | 78 | **79** | 9 | 2 | 17 | **28** | **-** | **107** |
| Other | 19 | 79 | **98** | 140 | 46 | 79 | **265** | **-** | **363** |
| **Total forborne loans & advances to customers** | **311** | **4,801** | **5,112** | **1,402** | **449** | **1,348** | **3,199** | **213** | **8,524** |

A description of the type and nature of forbearance measures are outlined on page 151.

[1] *Comprises the current stock position of forbearance arrangements since January 2010.*

## Forbearance arrangements - loans and advances to customers (excluding Residential mortgages) (continued)

The Group's loans and advances to customers (excluding Residential mortgages) at 31 December 2012 were €45.1 billion before impairment provisions, of which €8.5 billion or 19% were classified and reported as forborne loans at 31 December 2012. Property and construction exposures represent 60% of all forborne loans (excluding Residential mortgages) at 31 December 2012, 38% relate to non-property SME and Corporate lending, with Consumer lending being the lowest at only 2%.

Total loans and advances to customers in the **non-property SME and corporate** portfolio at 31 December 2012 were €23.0 billion before impairment provisions, of which €3.2 billion or 14% was classified and reported as forborne. Customers in the non-property SME and corporate sector have a number of options typically available to deal with adverse trading conditions, particularly in times of depressed economic conditions in their primary markets, such as reducing operating overheads, sourcing new markets, asset sales and renegotiating terms with suppliers, before their ability to continue to meet their debt servicing commitments is at risk.

Within the non-property SME and corporate portfolio, the total **Republic of Ireland SME** loans and advances to customers before impairment provisions at 31 December 2012 is €10.7 billion, of which €1.4 billion or 13% is classified and reported as forborne. Within the Irish SME portfolio, term extensions account for 42% of forborne loans at 31 December 2012, reduced payments (full interest) 24% and reduced payments (greater than full interest) 17%. Forbearance resolution strategies for the Group's Irish SME lending are assessed on a case-by-case basis taking account of the individual customer's circumstances and risk profile. Short term resolution arrangements are typically implemented in cases where a customer's cash flow difficulties are considered to be only short term in nature and are expected to improve in the near term due to a change in the customer's operating circumstances. Where cash flow difficulties are considered more long term, and where all other available options of dealing with adverse trading conditions have been considered, longer term forbearance solutions, such as term extensions, are implemented. The longer term strategies look to potential cash flows over a longer time horizon and as economic conditions are expected to normalise.

The total **UK SME** loans and advances to customers before impairment provisions at 31 December 2012 is €3.5 billion, of which €0.4 billion or 13% is classified and reported as forborne. Within the UK SME portfolio, term extension is the primary forbearance measure, accounting for 41% of forborne loans at 31 December 2012.

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2012 is €8.7 billion, of which €1.3 billion or 15% is classified and reported as forborne. Within the corporate portfolio, loan covenant amendments / waivers account for 52% of forborne loans with term extensions representing a further 40%.

Covenants are a standard feature of most facilities originated within the corporate lending portfolio given the larger, structured nature of the facilities. Typically, breach of covenants is the first early indication of actual or potential financial difficulties of a borrower, and as such, a waiver or re-setting of covenant levels is frequently an important element of any resolution strategy agreed with a borrower to address its new operating circumstances. Where a waiver or re-setting of covenants of itself is not sufficient to address a borrower's financial difficulties, and given the relatively shorter-term maturity profile of the portfolio, extension of the loan term represents the alternative solution to assist customers that are experiencing financial difficulties.

Total loans and advances to customers in the **Property and construction** portfolio at 31 December 2012 were €19.2 billion before impairment provisions, of which €5.1 billion or 27% of the portfolio reported as forborne.

In the **Investment property** portfolio, total loans and advances to customers at 31 December 2012 is €15.6 billion before impairment provisions, of which €4.8 billion or 31% is reported as forborne. The levels of forbearance in this portfolio is reflective of the challenging conditions of the commercial property market, both in RoI and UK, which has seen significant falls in asset values, increased incidence of tenant default, particularly in the Retail sector, allied with continued illiquidity in the market, all of which has impacted underlying loan book and borrower performance. Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 43% of total forborne loans at 31 December 2012, covenant amendments / waivers 25% with a further 19% of facilities placed on a demand basis. Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility, amending or adjusting the covenant and / or placing the facility on a demand basis, are the most common longer term arrangements utilised, and in particular, in times of reduced market liquidity where refinancing options are limited and short term forced collateral sales unattractive.

The level of the Group's **Land and development** portfolio classified and reported as forborne, €0.3 billion or 9% at 31 December 2012, is reflective of the challenged nature of this sector which has seen significant declines in land values resulting in the majority of the portfolio being already specifically provisioned.

## Forbearance arrangements - loans and advances to customers (excluding Residential mortgages) (continued)

Total loans and advances to customers in the **Consumer** portfolio at 31 December 2012 were €3.0 billion before impairment provisions, of which €0.2 billion or 7% of the portfolio is classified and reported as forborne. The €0.2 billion of forborne balances at 31 December 2012 relate to personal loans that have had their term extended as part of a consolidated debt restructure.

The nature and type of forbearance measures include:

- **Adjustment or non-enforcement of covenants:** an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjusts the covenant(s) to reflect the changed circumstances of the borrower.
- **Facilities in breach of terms placed on demand:** an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution.
- **Reduced payments (full interest):** an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement.
- **Reduced payment (greater than full interest) incorporating some principal repayments:** a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future.
- **Capitalisation of arrears:** an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance.
- **Term extension:** an arrangement where the original term of the loan is extended and all interest is fully serviced.
- **Other:** Additional, less frequently applied, forbearance arrangements include short term / temporary payment suspensions.

# Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the year ended 31 December 2012 and the year ended 31 December 2011. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 10.

## Average Balance Sheet

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Average Balance €m** | **Interest[1] €m** | **Rate %** | Average Balance €m | Interest €m | Rate % |
| **Assets** | | | | | | |
| Loans and advances to banks | 17,514 | 104 | 0.6 | 9,810 | 64 | 0.7 |
| Loans and advances to customers | 98,629 | 3,332 | 3.4 | 113,582 | 4,089 | 3.6 |
| Available for sale financial assets and NAMA senior bonds | 16,123 | 570 | 3.5 | 18,999 | 465 | 2.4 |
| Other financial assets at fair value through profit or loss | 29 | - | - | 70 | - | - |
| **Total interest earning assets** | **132,295** | **4,006** | **3.0** | **142,461[3]** | **4,618** | **3.2** |
| | | | | | | |
| Non interest earning assets | 20,463 | - | - | 16,177 | - | - |
| **Total Assets** | **152,758** | **4,006** | **2.6** | **158,638** | **4,618** | **2.9** |
| | | | | | | |
| **Liabilities and stockholders' equity** | | | | | | |
| Deposits from banks | 29,609 | 374 [1] | 1.3 | 38,518 | 675[1] | 1.8 |
| Customer accounts | 59,121 | 1,381 [1] | 2.3 | 53,529 | 1,300[1] | 2.4 |
| Debt securities in issue | 17,134 | 346 [1] | 2.0 | 21,414 | 489[1] | 2.2 |
| Subordinated liabilities | 1,388 | 159 [2] | 11.5 | 2,141 | 171 | 8.0 |
| **Total interest bearing liabilities** | **107,252** | **2,260** | **2.2** | **115,602** | **2,635** | **2.3** |
| | | | | | | |
| Current accounts | 13,585 | - | - | 12,862 | - | - |
| **Non interest bearing liabilities** | 22,809 | - | - | 21,153 | - | |
| **Stockholders' Equity** | 9,112 | - | - | 9,021 | - | - |
| **Total liabilities and Stockholders' Equity** | **152,758** | **2,260** | **1.5** | **158,638** | **2,635** | **1.7** |

1 *Excludes the cost of the ELG scheme of €388 million (31 December 2011: €449 million) which is included within interest expense.*
2 *Excludes the gain on the Contingent Capital Note of €79 million. Please refer to note 3 for further details.*
3 *For the year ended 31 December 2011, average interest earning assets of €142 billion include loans and advances to customers before specific impairment provisions of €4.6 billion.*

The balance sheet of the life assurance business has been consolidated and is reflected under 'non-interest earning assets' and 'other non-interest bearing liabilities'.

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