# Bristol & West plc

# Annual Report for the year ended 31 December 2013

**REGISTERED NUMBER 2124201**

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The Directors present the Strategic Report of Bristol & West plc (the 'Company') for the year ended 31 December 2013.

**Purpose**

The Strategic Report is a new statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and is intended to be fair and balanced and to provide information that enables the Directors to be satisfied that they have complied with Section 172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the Company).

**Principle Activities**

The Company is a wholly owned subsidiary of Bank of Ireland UK Holdings plc (the 'parent'). The ultimate parent of the Company is The Governor and Company of the Bank of Ireland (the 'Bank'). On 1 October 2007, the business of the Company, to provide lending and savings products via various distribution channels, was transferred to other statutory entities within the Bank of Ireland Group (the 'BoI Group').

The Company holds interest-bearing cash deposits with the BoI Group, in order to meet its liabilities, principally the payment of future preference share dividends. These preference shares are listed on the London Stock Exchange.

**Review of Business**

The key performance indicator applied by management regarding the activity of the Company is to ensure that sufficient interest income is generated to meet the cost of the preference share dividends as they fall due.

The key performance measures are outlined below:

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| **Statement of Comprehensive Income:** | | |
| Interest income | 3,939 | 4,011 |
| Preference share dividends | (2,648) | (2,648) |
| | 1,291 | 1,363 |
| **Balance Sheet:** | | |
| Loans and advances to banks | 137,206 | 141,743 |
| Preference shares | (32,593) | (32,593) |
| Borrowed funds | (70,000) | (70,568) |

For the year ended 31 December 2013 the Company made a profit before tax of £1,062,000 (31 December 2012: £368,000) which after a taxation charge of £348,000 (year ended 31 December 2012: £1,716,000) resulted in a profit for the year of £714,000 (year ended 31 December 2012: loss of £1,348,000). The Statement of Comprehensive Income for the year is on page 9.

**Future Developments**

The Directors do not anticipate any significant change in the principal activities of the Company.

**Risk Management**
The Company's activity exposes it to financial risks that include changes in general market conditions, credit risk, liquidity risk and interest rate risk. The Directors monitor and manage these risks in a manner appropriate to the nature of the risk and the potential threat to the Company.

*Credit Risk*
Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Company in respect of loans or other financial transactions. The financial assets of the Company comprise primarily of amounts placed on deposit with the Bank. There are also other amounts due from the parent. There is no significant credit risk exposure outside the BoI Group. The Directors monitor the ability of the BoI Group to meet its obligations.

*Liquidity Risk*
Liquidity risk is the risk that a credit institution will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at substantially above the prevailing market cost of funds. It is the policy of the Company to ensure that resources are available during all reasonably foreseeable circumstances to meet its obligations. The Company lends cash to BoI Group undertakings at fixed interest rates to meet its liabilities as they fall due, including the payment of preference share dividends. The Company is dependent on the ongoing support of the BoI Group to provide interest free funding in order to meets its liabilities in the long term. The Directors monitor the ability of the BoI Group to support the funding requirements of the Company.

*Interest Rate Risk*
Cash flow interest rate risk is the risk that future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is mitigated on the fixed rate preference shares through the placement of fixed rate long term deposits, the interest on which exceeds or matches the dividends payable on the preference shares. Therefore there is no significant interest rate risk.

The Group's Risk Management objectives and policies and principal risk exposures facing the business are set out in note 17.

In addition to the above, the Company is subject to income taxation where the ultimate taxation determination may be uncertain, in particular if taken to litigation, the outcome of which can be unpredictable. The Company recognises provisions for taxation based on estimates of the taxes that are likely to fall due, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. There is a risk that the final taxation outcome could be different from the amounts that are currently recorded.

On behalf of the Board

Desmond E Crowley
Director
10 April 2014

## DIRECTORS REPORT

The Directors present their Report and audited financial statements of the Company for the year ended 31 December 2013. A Statement of Directors' Responsibilities is included on page 6.

**Dividends**
No ordinary share dividend has been proposed or paid during the year ended 31 December 2013 by the Directors (year ended 31 December 2012: £nil).

The preference shares carry a mandatory coupon rate of 8.125% and are classified as financial liabilities. The dividends on these preference shares are recognised in the Statement of Comprehensive Income as interest expense.

**Post Balance Sheet Events**
On 14 February 2014, a court judgment was issued partially in favour of Her Majesty's Revenue and Customs (HMRC) in respect of an appeal that the Company had taken against an adverse court judgment issued in 2013 in relation to a tax dispute involving the Company. Both parties have decided to appeal this decision, having been granted permission to appeal the judgment to the Court of Appeal. Full provision continues to be made in these financial statements for the expected tax and interest arising to the Company pending a final decision.

**Directors' Indemnities**
The Company has put in place Directors' and Officers' liability insurance in respect of legal actions against its Directors: this insurance cover does not extend to fraudulent or dishonest behaviour. A qualifying third party indemnity provision was in force covering all Directors in place during the year ended 31 December 2013 for the Company and other companies within the Bank of Ireland Group and this is still in force as at the date of approval of the financial statements.

**Going concern**
The Company is dependent on the BoI Group for liquidity and the funding of its Balance Sheet and for maintaining sufficient levels of capital. Having considered the key dependencies as outlined on page 13, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

**Corporate Governance**
Bristol & West plc is a statutory entity within the Bank of Ireland Group and is subject to the Group's Corporate Governance framework. The Group's Corporate Governance Statement is available at www.bankofireland.com.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements. The Group is subject to the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings (the Central Bank of Ireland's code is available on www.centralbank.ie ) and the UK Corporate Governance Code (the UK code is available on www.frc.org.uk).

Information concerning the principal risks and uncertainties facing the Company is set out in the Strategic Report and note 17. A description of the Group's risk management framework is contained in the Group Annual Report for the year ended 31 December 2013.

Given the limited activities carried on by the Company, all material transactions are considered by the Board of Directors (or a quorum thereof) and are executed under delegated authority from the Board of Directors. The Directors who served during the year ended 31 December 2013 and up to the date of signing the financial statements, were:

Desmond E Crowley
David McGowan
Andrew G Keating
Mary E King resigned (31 March 2014)
Stephen H Matchett resigned (4 April 2014)

Company Secretary
Hill Wilson Secretarial Limited

**Directors' Statement Pursuant to the Disclosure and Transparency Rules**
Each of the Directors, whose names are listed in the Directors' Report confirm that, to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Desmond E Crowley
Director
10 April 2014

**Statement of Directors' Responsibilities**
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Provision of Information to Auditors**
All the Directors at the time of approving this report confirm the following:

a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

Desmond E Crowley
Director
10 April 2014

## Report on the financial statements

### Our opinion
In our opinion the financial statements, defined below:
- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited
The financial statements, which are prepared by Bristol & West plc, comprise:
- the statement of comprehensive income for the year ended 31 December 2013;
- the balance sheet as at 31 December 2013;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Other matters on which we are required to report by exception**
**Adequacy of accounting records and information and explanations received**
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**Responsibilities for the financial statements and the audit**
**Our responsibilities and those of the Directors**
As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 April 2014

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|---|
| Interest income | 3 | 3,939 | 4,011 |
| Interest expense | 3 | (2,534) | (4,241) |
| **Net interest income** | | 1,405 | (230) |
| Other operating income | 4 | - | 904 |
| **Total operating income** | | 1,405 | 674 |
| Other operating expenses | 5 | (343) | (306) |
| **Profit for the year and total comprehensive income before taxation** | | 1,062 | 368 |
| Taxation | 8 | (348) | (1,716) |
| **Profit / (Loss) for the year and total comprehensive income** | | 714 | (1,348) |

The notes on pages 13 to 36 are an integral part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2013

| | Note | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 9 | 137,206 | 141,743 |
| Other assets | 10 | 865 | 865 |
| **Total Assets** | | 138,071 | 142,608 |
| | | | |
| **Liabilities** | | | |
| Preference shares | 11 | 32,593 | 32,593 |
| Amounts due to banks | 12 | 23,935 | 17,435 |
| Borrowed funds | 13 | 70,000 | 70,568 |
| Other liabilities | 14 | 7,629 | 7,754 |
| Current tax liabilities | | 2,024 | 13,082 |
| **Total Liabilities** | | 136,181 | 141,432 |
| | | | |
| **Equity** | | | |
| Share capital | 15 | 50 | 50 |
| Retained earnings | | 1,840 | 1,126 |
| **Total Equity** | | 1,890 | 1,176 |
| | | | |
| **Total Equity and Liabilities** | | 138,071 | 142,608 |

The notes on pages 13 to 36 are an integral part of these financial statements.

The financial statements and accompanying notes on pages 9 to 36 were approved by the Board of Directors on 10 April 2014 and signed on its behalf by:

Desmond E Crowley
Director
10 April 2014

Company Registered Number 2124201

## STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2013

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| **Share capital** | | |
| Balance at the beginning and at the end of the year | 50 | 50 |
| **Retained earnings** | | |
| Balance at the beginning of the year | 1,126 | 2,474 |
| Profit / (Loss) for the year and total comprehensive income | 714 | (1,348) |
| Balance at the end of the year | 1,840 | 1,126 |
| **Total Equity** | 1,890 | 1,176 |

The notes on pages 13 to 36 are an integral part of these financial statements.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 1,062 | 368 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | 1,062 | 368 |
| Net change in loans and advances to banks | 9 | 3,897 | (329) |
| Net change in other assets | 10 | - | 4,302 |
| Net change in amounts due to banks | 12 | 6,500 | 3,391 |
| Net change in borrowed funds | 13 | (568) | - |
| Net change in other liabilities | 14 | (126) | 1,791 |
| **Net cash generated from operating assets and liabilities** | | 9,703 | 9,155 |
| **Net cash generated from operating activities before taxation** | | 10,765 | 9,523 |
| Taxation paid | | (11,405) | (4,118) |
| **Net cash (used in) / generated from operating activities** | | (640) | 5,405 |
| **Net (decrease) / increase in cash and cash equivalents** | | (640) | 5,405 |
| Opening cash and cash equivalents | | 22,281 | 16,876 |
| **Closing cash and cash equivalents** | 21 | 21,641 | 22,281 |

The notes on pages 13 to 36 are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Basis of presentation

The Company is incorporated and domiciled in England and Wales. The Company is a company limited by shares.

The financial statements comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and related notes.

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention.

The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

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 in note 2.

### 1.2 Going concern

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

**Context**
The Company is a direct subsidiary of Bank of Ireland UK Holdings plc which is an indirect subsidiary of The Governor and Company of the Bank of Ireland. The Directors have considered the going concern of the Company and to the extent that the Company is dependent on the BoI Group for funding, have considered the going concern assessment of the BoI Group.

**Going concern assessment of the BoI Group**
The Company is reliant on the BoI Group for liquidity and funding.

The BoI Group will continue to require access to the Monetary Authorities for funding during the period of assessment. The BoI Group is satisfied however that, based on announcements from the European Central Bank (ECB), the European Commission (EC), International Monetary Fund (IMF) and the clarity of confirmations received from the Irish State authorities that, in all reasonable circumstances, the required liquidity and funding from the ECB and Central Bank of Ireland will be available during the period of assessment.

On the basis of the above, the Court of Directors of The Governor and Company of the Bank of Ireland has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the BoI Group's ability to continue as a going concern over the period of assessment and that it is appropriate to prepare the financial statements on a going concern basis.

The audit report on the financial statements of the BoI Group for the year ended 31 December 2013 (signed on 28 February 2014) is not qualified and does not contain an emphasis of matter paragraph in respect of going concern. Taking into account the above, the Directors of the Company are satisfied that any risk attaching to the continued ability of the BoI Group to support the Company is satisfactorily addressed.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.2 Going concern (continued)

**Considerations specific to Bristol & West plc**

**Profitability**
For the year ended 31 December 2013 the Company made a profit after tax of £714,000. The Company holds interest-bearing cash deposits in order to meet its liabilities, principally the payment of future preference share dividends. For the year ended 31 December 2013, the Company made a profit before taxation of £1,062,000 generating sufficient income to meet these obligations and to cover its operating expenses. The Directors are satisfied that the Company will be profitable for the period of assessment. Profitability depends on the continued interest free funding provided by the parent company and this is considered below.

**Capital**
At 31 December 2013, the Company has total equity of £1,890,000 comprising share capital of £50,000 and retained earnings of £1,840,000. The Company has an interest free loan of £70,000,000 from the parent, Bank of Ireland UK Holdings plc, which provides funding to ensure that future financial obligations can be met. There are a number of safeguards in place as referred to in the liquidity and funding section below which have been considered by the Directors in assessing the capital position of the Company.

**Liquidity and funding**
The primary, external non-BoI Group liability of the Company is the payment of dividends on its preference shares and the repayment of the preference shares. The Company has an interest free loan of £70,000,000 from its parent, Bank of Ireland UK Holdings plc, and the Directors have obtained representation from the BoI Group that sufficient funds will be made available by the BoI Group to ensure the Company can meet its obligations as they fall due for the foreseeable future.

In the event of the loan being recalled by the parent, the Directors have noted the agreement in place between the Company and The Governor and Company of the Bank of Ireland to meet the financial obligations of the Company, and are satisfied that funding will be available from BoI Group.

The Company has placed the funds from its parent on perpetual deposit with The Governor and Company of the Bank of Ireland, and this deposit earns sufficient interest to meet its liabilities for the period of assessment.

**Conclusion**
On the basis of the above, and given that the BoI Group financial statements for the year ended 31 December 2013 have been prepared on a going concern basis, the Directors consider it appropriate to prepare the financial statements of the Company 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 Company’s ability to continue as a going concern over the period of assessment.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.3 Adoption of new and amended accounting standards

The following standards and amendments to standards have been adopted by the Company during the year ended 31 December 2013:

**IFRS 13 Fair Value Measurement**
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company. The standard also requires some additional disclosure on fair values. The Company provides these disclosures in note 16.

**IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to IAS 1**
This amendment to IAS 1 introduces a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g. exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available for sale financial assets) now have to be presented separately from items that will not be reclassified (e.g. remeasurement of the net defined benefit pension liability and revaluation of property). The amendment had no impact on the Company's financial position or presentation.

**IFRS 7 Financial Instruments: Disclosures – 'Offsetting Financial Assets and Financial Liabilities'**
This amendment requires an entity to disclose information about the rights to offset financial instruments and related arrangements. The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 and for recognised financial instruments that are subject to an enforceable master netting arrangement, irrespective of whether the financial instruments are set off in accordance with IAS 32. The adoption of this amendment had no impact on the financial position of the Company.

**Annual Improvements 2009-2011 (the Annual Improvements)**
The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. These amendments have had no impact on the financial position of the Company.

### 1.4 Comparatives

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

### 1.5 Interest income and expense

Interest income and expense are recognised in the Income Statement for all instruments measured at amortised cost using the effective interest method.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.5 Interest income and expense (continued)

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

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

### 1.6 Financial assets

Financial assets are initially measured at fair value. The Company’s financial assets consist mainly of intercompany balances that are designated as loans and receivables. Management determines the classification of its financial assets at initial recognition.

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

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

### 1.7 Financial liabilities

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

Preference shares, which carry a mandatory coupon, are classified as financial liabilities. The dividends on these preference shares are recognised in the Statement of Comprehensive Income as interest expense using the effective interest method.

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

### 1.8 Valuation of financial instruments

Financial assets and financial liabilities are initially measured at fair value.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Company establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Company uses estimates based on the best information available.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.8 Valuation of financial instruments (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Company recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the Income Statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to the amount. Subsequent changes in fair value are recognised immediately in the Income Statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

The fair values of the Company's financial assets and liabilities are disclosed within note 16, together with a description of the valuation technique used for each asset or liability category.

### 1.9 Impairment of financial assets

**Assets carried at amortised cost**

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

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

(i) delinquency in contractual payments of principal or interest;
(ii) cash flow difficulties;
(iii) breach of loan covenants or conditions;
(iv) granting a concession to a borrower for econonmic or legal reasons relating to the borrower's financial difficulty that would otherwise not be considered;
(v) deterioration of the borrower's competitive position;
(vi) deterioration in the value of collateral;
(vii) external rating downgrade below an acceptable level; and
(viii) initiation of bankruptcy proceedings.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.9 Impairment of financial assets (continued)

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement.

### 1.10 Current tax

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

Management periodically evaluates the positions taken in tax returns where tax regulation is subject to interpretation. The Company establishes provisions on the basis of amounts expected to be paid to the tax authorities only where it is considered more likely than not that an amount will be paid. The Company applies this test to each individual uncertain position. The Company measures uncertain positions based on the most likely outcome.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.11 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise loans and advances to banks with an original maturity of less than three months.

### 1.12 Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which a written resolution has been passed.

### 1.13 Operating Segments

The Company operates in one business segment; as such a business segments note is not presented. All of the Company's business is in the UK.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**1.14 Impact of new accounting standards**

The following standards, interpretations and amendments to standards will be relevant to the Company but were not effective at 31 December 2013 and have not been applied in preparing these financial statements. The Company's initial view of the impact of these accounting changes is outlined below.

| Pronouncement | Nature of Change | Effective Date | Impact |
|---|---|---|---|
| **Amendments to IAS 32 'Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'** | This amendment provides additional application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement. | Financial periods starting on or after 1 January 2014. | Not significant. |
| **IFRS 10, 'Consolidated Financial Statements'** | IFRS 10 replaces IAS 27, 'Consolidated and Separate Financial Statements' and SIC-12, 'Consolidation – Special Purpose Entities', and establishes a single control model that applies to all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed, or has rights to variable returns from the investee, and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances and the conclusion is reassessed if there is an indication that there are changes in facts and circumstances. | Financial periods starting on or after 1 January 2014. | Not significant. |
| **IFRS 11, 'Joint arrangements'** | IFRS 11 supersedes IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities – Non-monetary Contributions by Venturers'. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. IFRS 11 requires the use of the equity method of accounting for joint arrangements by eliminating the option to use the proportionate consolidation method, which was not applied by the Group. | Financial periods starting on or after 1 January 2014. | Not significant. |
| **IFRS 12, 'Disclosures of Interests in Other Entities'** | IFRS 12 establishes the provision of information on the nature, associated risks, and financial effects of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities, as disclosure objectives. IFRS 12 requires more comprehensive disclosure, and specifies minimum disclosures that an entity must provide to meet the disclosure objectives. | Financial periods starting on or after 1 January 2014. | No financial impact.<br><br>Additional disclosure will be presented at 31 December 2014 in line with requirements. |
| **IAS 27 (revised), 'Separate Financial Statements'** | IAS 27 (revised) contains the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. | Financial periods starting on or after 1 January 2014. | Not significant. |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.14 Impact of new accounting standards (continued)

| | | | |
|---|---|---|---|
| **Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' on impaired assets disclosures** | These narrow-scope amendments to IAS 36, 'Impairment of Assets' require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The scope of these disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.<br><br>The revised standard was endorsed by the EU on 19 December 2013. | Financial periods beginning on or after 1 January 2014. | Not significant. |
| **Amendment to IAS 39 'Novation of derivatives and continuation of hedge accounting'** | This narrow scope amendment to IAS 39 allows hedge accounting to continue where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. A novation in this context indicates that parties to a contract agree to replace their original counterparty with a new one.<br><br>The revised standard was endorsed by the EU on 19 December 2013. | Financial periods beginning on or after 1 January 2014. | Not significant. |
| **IFRIC Interpretation 21: Levies** | This interpretation deals with accounting for levies imposed by governments, principally when an entity should recognise a liability to pay a levy. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.<br><br>The new interpretation is still subject to EU endorsement. | Financial periods beginning on or after 1 January 2014. | Not significant. |
| **Amendments to IAS 19 'Defined benefit plans employee contributions'** | The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.<br><br>The revised standard is still subject to EU endorsement. | Financial periods beginning on or after 1 July 2014. | Not significant. |
| **Annual improvements 2010 - 2012** | The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are subject to EU endorsement. Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs. | Financial periods beginning on or after 1 July 2014. | Not significant. |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.14 Impact of new accounting standards (continued)

| Pronouncement | Nature of Change | Effective Date | Impact |
|---|---|---|---|
| **Annual improvements 2011 - 2013** | The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are subject to EU endorsement. Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle. | Financial periods beginning on or after 1 July 2014. | Not significant. |
| **IFRS 9, 'Financial instruments'** | IFRS 9 is the standard due to replace IAS 39: 'Financial instruments: recognition and measurement'. The first stage of IFRS 9 dealt with the classification and measurement of financial assets and was issued in November 2009. An addition to IFRS 9 dealing with financial liabilities was issued in October 2010. The main changes from IAS 39 are summarised as follows:<br><br>• The multiple classification model in IAS 39 is replaced with a single model that has only two classification categories: amortised cost and fair value;<br>• Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets;<br>• The requirement to separate embedded derivatives from financial asset hosts is removed;<br>• The cost exemption for unquoted equities is removed;<br>• Most of IAS 39's requirements for financial liabilities are retained, including amortised cost accounting for most financial liabilities;<br>• Guidance on separation of embedded derivatives will continue to apply to host contracts that are financial liabilities;<br>• Fair value changes attributable to changes in own credit risk for financial liabilities designated under the fair value option, other than loan commitments and financial guarantee contracts, are required to be presented in the statement of other comprehensive income unless the treatment would create or enlarge an accounting mismatch in profit or loss. These amounts are not subsequently reclassified to the income statement but may be transferred within equity.<br>• In November 2012, the IASB issued an exposure draft to propose the introduction of a fair value through other comprehensive income (FVOCI) measurement category for debt instruments that would be based on an entity's business model.<br><br>The new standard is still subject to EU endorsement. | Financial periods beginning on or after 1 January 2018. | The Company is assessing the impacts of adopting IFRS 9. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's financial instruments project. |

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### 2.1 Income Taxation

The Company is subject to income taxation and significant judgement can be required in determining the provision for taxation. The ultimate taxation determination may be uncertain, in particular if taken to litigation, the outcome of which can be unpredictable. The Company recognises provisions for taxation based on estimates of the taxes that are likely to become due. There is a risk that the final taxation outcome could be significantly different from the amounts that are currently recorded and any such differences will impact the current income taxation in the period in which such outcome is determined.

## 3. INTEREST INCOME AND INTEREST EXPENSE

| | **Year ended 31 December 2013 £'000** | **Year ended 31 December 2012 £'000** |
|---|---|---|
| **Interest Income** | | |
| Amounts due from parent and fellow Bank of Ireland Group companies | 3,939 | 4,011 |
| **Interest Expense** | | |
| Preference share dividends | 2,648 | 2,648 |
| Unclaimed preference share dividends | (114) | (98) |
| Other | - | 1,691 |
| | 2,534 | 4,241 |

Interest expense - Other related to non trading interest payable to a third party creditor.

## 4. OTHER OPERATING INCOME

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Other income | - | 904 |
| | - | 904 |

Other income relates to fees paid which were refunded.

## 5. OTHER OPERATING EXPENSES

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Legal and professional fees | 404 | 306 |
| Other | (61) | - |
| | 343 | 306 |

Other relates to fees reimbursed to the Company.

For the year ended 31 December 2013, audit fees of £8,370 (31 December 2012: £9,000) in respect of the audit of the Company financial statements were borne by the Bank. No other fees were paid to the auditors in respect of services provided to the Company.

## 6. DIRECTORS' EMOLUMENTS

None of the Directors received any emoluments in respect of their services to the Company (31 December 2012: £nil). The emoluments of the Directors of the Company are paid by the Bank. A copy of the Bank of Ireland Group financial statements may be obtained from Bank of Ireland, 40 Mespil Road, Dublin 4 or www.bankofireland.com.

## 7. STAFF COSTS

The Company had no employees during the current or preceding financial year.

## 8. TAXATION

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| **Current tax:** | | |
| Corporation tax at 23.25% (2012: 24.5%) | 836 | - |
| Adjustments in respect of prior years | (488) | 1,716 |
| | 348 | 1,716 |

The reconciliation of tax on the profit before taxation at the standard UK corporation tax rate to the Company's actual tax charge for the years ended 31 December 2013 and 31 December 2012 is as follows:

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Profit before tax | 1,062 | 368 |
| Tax calculated at a rate of 23.25% (2012: 24.5%) | 247 | 90 |
| Preference share dividends not deductible | 589 | 625 |
| Group relief at no cost – current year | - | (715) |
| Group relief at no cost – prior year | - | (21,481) |
| Adjustments in respect of prior year | (488) | 23,197 |
| Taxation charge | 348 | 1,716 |

The adjustments in respect of prior year relate to revisions to the expected outcome of certain historic transactions (note 22).

The UK Government announced that the main rate of corporation tax would reduce to 23% from 1 April 2013 to be followed by further reductions to 20% for the year beginning 1 April 2015. This resulted in a composite rate of 23.25% for the year ended 31 December 2013.

## 9. LOANS AND ADVANCES TO BANKS

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|
| Due from parent and fellow Bank of Ireland Group companies and included in cash equivalents (note 21) | 21,641 | 22,281 |
| Due from parent and fellow Bank of Ireland Group companies | 115,565 | 119,462 |
| | 137,206 | 141,743 |
| Split out as follows: | | |
| Perpetual deposit with interest rate of 5.5% | 66,936 | 66,936 |
| Rolling deposit with interest rate of 0.5% rolling quarterly | 48,629 | 52,526 |
| | 115,565 | 119,462 |

Loans and advances to banks with a contractual maturity date of less than twelve months from the balance sheet date total £70,270,000 (31 December 2012: £74,807,000).

All amounts are unsecured.

## 10. OTHER ASSETS

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|
| Amounts due from parent and fellow Bank of Ireland Group companies | 391 | 391 |
| Accrued interest receivable | 474 | 474 |
| | 865 | 865 |

All balances are due within one year at the balance sheet date.

## 11. PREFERENCE SHARES

| | Rate % | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|---|
| 32,593,000 (2012: 32,593,000) units of preference shares of £1 each | 8.125 | 32,593 | 32,593 |

The preference shares, which are non-redeemable, non-equity shares, rank equally amongst themselves with regard to participation in profits and in priority to the ordinary shares of the Company.

### 11. PREFERENCE SHARES (continued)

Holders of the preference shares are entitled to receive, in priority to the holders of the ordinary shares in the Company, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. The preference dividend will only be payable to the extent that payment can be made out of profits available for distribution in accordance with the provisions of the Companies Act 2006.

In the event of the winding up of the Company, holders of preference shares will be entitled to receive, out of the surplus assets remaining after payment of the Company's liabilities, an amount equal to the amount paid up or credited as paid up on the preference shares, together with the preference dividend (whether or not declared or earned) which would be payable and is not otherwise paid in cash on a dividend payment date which falls on or after the date of commencement of the winding up but which is payable in respect of a dividend period ending on or before such date; and the proportion (whether or not declared or earned) of the preference dividend that would otherwise be payable and is not otherwise paid in cash in respect of any period that begins before, but ends after, the date of commencement of the winding up and which is attributable to the part of the period that ends on such date.

With respect to the amounts payable or repayable in the event of a winding up of the Company, preference shares will rank equally amongst themselves as regards participation in surplus assets and otherwise in priority to the ordinary shares of the Company. Holders of the preference shares will not otherwise be entitled to any further or other right of participation in the assets of the Company upon a winding up.

Holders of the preference shares will be entitled to receive notice of and to attend any general meeting of the Company if a resolution is proposed varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the preference shares or for, or in relation to, the winding up of the Company.

In addition, if the preference dividend has not been paid in full on the dividend payment date immediately preceding the date of notice of any general meeting of the Company, holders of the preference shares will be entitled to receive notice of and attend that general meeting, and to speak and vote on all resolutions proposed at that general meeting.

### 12. AMOUNTS DUE TO BANKS

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|
| Amounts due to parent and fellow Bank of Ireland Group companies | 23,935 | 17,435 |

All amounts are non interest bearing, unsecured and with no fixed repayment date.

### 13. BORROWED FUNDS

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|
| Amounts due to parent and fellow Bank of Ireland Group companies | 70,000 | 70,568 |

This amount includes an intercompany loan of £70,000,000 from the parent company, Bank of Ireland UK Holdings plc. This interest free loan does not have a fixed term and is repayable on demand.

## 14. OTHER LIABILITIES

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|
| Accrued interest payable | 7,130 | 7,142 |
| Unclaimed preference share dividends | 465 | 579 |
| Other | 34 | 33 |
| | 7,629 | 7,754 |

Included in accrued interest payable is an amount of £6,799,000 relating to non trading interest payable to a third party creditor (31 December 2012: £6,811,000).

The movement in unclaimed preference share dividends above represents the amount which can no longer be claimed and was recognised in the Statement of Comprehensive Income in the current year.

All balances are payable within one year at 31 December 2013 and at 31 December 2012.

## 15. SHARE CAPITAL

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---|---|
| **Allotted and fully paid** | | |
| 100,000 (2012: 100,000) units of ordinary shares of £0.50 each | 50 | 50 |

All units of ordinary shares in issue carry the same voting rights.

## 16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

Where possible, the Company calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include discounted cash flow models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Company or at recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

**Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
**Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
**Level 3** inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

**(a) Financial assets and financial liabilities recognised and subsequently measured at fair value**
All financial instruments are initially recognised at fair value. The Company does not have Level 1, Level 2 or Level 3 financial assets and liabilities subsequently measured at fair value at 31 December 2013.

**(b) Financial assets and financial liabilities not subsequently measured at fair value**
For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Company discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

**Loans and advances to banks**
The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows, using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

**Liabilities to banks**
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand (level 2 inputs).

**Other borrowed funds**
The estimated fair value of borrowed funds which is an interest free loan, with no fixed term, is the amount repayable on demand to the Bank of Ireland Group (level 3 inputs).

**Preference shares**
The fair values of these instruments are calculated based on broker quoted prices (level 2 inputs).

## 16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

**As at 31 December 2013**

| | Quoted prices in active market | Valuation techniques observable Inputs | Valuation techniques unobservable Inputs | Total |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | £'000 | £'000 | £'000 | £'000 |
| **Fair value of financial assets held at amortised cost** | | | | |
| Loans and advances to banks | - | 133,461 | - | 133,461 |
| Total | - | 133,461 | - | 133,461 |
| **Fair value of financial liabilities held at amortised cost** | | | | |
| Preference shares | - | 35,527 | - | 35,527 |
| Amounts due to banks | - | 23,935 | - | 23,935 |
| Borrowed Funds | - | - | 70,000 | 70,000 |
| | - | 59,462 | 70,000 | 129,462 |

There were no transfers between level 1 and level 2 or between level 2 and level 3.

**Measurement basis of financial assets and liabilities**
All financial assets are categorised as loans and receivables and are measured at amortised cost. All financial liabilities are measured at amortised cost.

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | Loans and Receivables | Total | Loans and Receivables | Total |
| | £'000 | £'000 | £'000 | £'000 |
| **Fair value of financial assets held at amortised cost** | | | | |
| Loans and advances to banks | 137,206 | 137,206 | 141,743 | 141,743 |
| Total | 137,206 | 137,206 | 141,743 | 141,743 |
| **Fair value of financial liabilities held at amortised cost** | | | | |
| Preference shares | 32,593 | 32,593 | 35,527 | 35,527 |
| Amounts due to banks | 23,935 | 23,935 | 23,935 | 23,935 |
| Borrowed Funds | 70,000 | 70,000 | 70,000 | 70,000 |
| | 126,528 | 126,528 | 120,596 | 120,596 |

## 16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

**Fair values of financial assets and liabilities**

The carrying amount and the fair value of the Company's financial assets and liabilities as at 31 December 2013 and 31 December 2012 are set out in the table below.

| | | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|---|
| | | Carrying value £'000 | Fair value £'000 | Carrying value £'000 | Fair value £'000 |
| **Financial assets** | | | | | |
| Loans and advances to banks | (1) | 137,206 | 133,461 | 141,743 | 130,667 |
| Total | | 137,206 | 133,461 | 141,743 | 130,667 |
| **Financial liabilities** | | | | | |
| Preference shares | (3) | 32,593 | 35,527 | 32,593 | 32,822 |
| Amounts due to banks | (2) | 23,935 | 23,935 | 17,435 | 17,435 |
| Borrowed Funds | (2) | 70,000 | 70,000 | 70,568 | 70,568 |
| Total | | 126,528 | 129,462 | 120,596 | 120,825 |

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

1. Loans and advances to banks
   This comprises inter-bank placements. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates.

2. The fair value of these financial instruments is equal to the carrying value. These instruments are non interest bearing and are repayable on demand.

3. Preference shares
   The fair value of these instruments is calculated based on quoted broker prices where available.

## 17. FINANCIAL RISK MANAGEMENT

**Market Risk**

Market risk is the risk of loss in the Company's income or net worth arising from adverse change in interest rates, foreign exchange rates, or other market prices and arising from the structure of the Balance Sheet.

Interest rate risk on the fixed rate preference shares is managed with the use of fixed rate term loans. There is therefore negligible exposure to market interest rates.

All assets and liabilities held by the Company at 31 December 2013 and 31 December 2012 were denominated in sterling.

17. **FINANCIAL RISK MANAGEMENT (continued)**

**Credit Risk**

Credit Risk is defined as the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Company in respect of loans or other financial transactions.

International Accounting Standard (IAS 39) requires that an incurred loss approach be taken to impairment provisioning.

All credit exposures are regularly reviewed for objective evidence of impairment; where such evidence of impairment exists, the exposure is measured for an impairment provision.

The table below summarises the Company's financial assets over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are based on the gross amount, before provisions for impairment.

| | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| **Loans and Receivables** | | |
| Neither past due nor impaired | 138,071 | 142,608 |
| Past due but not impaired | - | - |
| Impaired | - | - |
| Total | 138,071 | 142,608 |

All loans and receivables neither past due nor impaired are of high quality. The Company's primary market is the UK and all exposures are originated and managed in the UK.

## 17. FINANCIAL RISK MANAGEMENT (continued)

**Industry Analysis**

| **Loans and Receivables** | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| Financial Institutions | 137,680 | 142,217 |
| Other | 391 | 391 |
| Total | 138,071 | 142,608 |

**Liquidity risk**

Liquidity risk is the risk that the Company will experience difficulty in financing its assets and/or meeting its contractual payment obligations as they fall due or will only be able to do so at substantially above the prevailing market cost of funds.

Liquidity distress is almost invariably associated with a severe deterioration in financial performance or from unexpected adverse events or systemic difficulties.

It is Company policy to ensure that resources are available during all reasonably foreseeable circumstances to meet its obligations. The Company holds interest-bearing cash deposits to meet its liabilities as they fall due, including the payment of preference share dividends.

The table below summarises the maturity profile of the Company's financial instrument liabilities at 31 December 2013 and 31 December 2012 based on the contractual undiscounted repayment obligations. The Company does not manage liquidity risk on the basis of contractual maturity. Instead, the Company manages liquidity risk based on expected cash flows. The balances will not agree directly to the balances in the balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

**At 31 December 2013**

| **Liabilities** | **Demand £'000** | **Up to 3 months but not demand £'000** | **3-12 months £'000** | **1- 5 years £'000** | **Over 5 years £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Preference shares[1] | - | - | 2,648 | 10,592 | 32,593 | 45,833 |
| Amounts due to banks | 23,935 | - | - | - | - | 23,935 |
| Borrowed funds | 70,000 | - | - | - | - | 70,000 |
| Other liabilities | 7,298 | - | 331 | - | - | 7,629 |
| Total | 101,233 | - | 2,979 | 10,592 | 32,593 | 147,397 |

**At 31 December 2012**

| **Liabilities** | **Demand £'000** | **Up to 3 months but not demand £'000** | **3-12 months £'000** | **1- 5 years £'000** | **Over 5 years £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Preference shares[1] | - | - | 2,648 | 10,592 | 32,593 | 45,833 |
| Amounts due to banks | 17,435 | - | - | - | - | 17,435 |
| Borrowed funds | 70,568 | - | - | - | - | 70,568 |
| Other liabilities | 7,423 | - | 331 | - | - | 7,754 |
| Total | 95,426 | - | 2,979 | 10,592 | 32,593 | 141,590 |

[1] Interest cash flows included for 5 years.

## 18. CAPITAL MANAGEMENT

Capital management for the Company is carried out in the context of the BoI Group's capital management policy.

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

The Company does not have its own regulatory capital requirements.

The following table sets out the Company's capital resources:

| | 31 December 2013 £'000 | 31 December 2012 £'000 |
|---|---:|---:|
| Equity | 1,890 | 1,176 |
| Preference shares (note 11) | 32,593 | 32,593 |
| Total capital resources | 34,483 | 33,769 |

## 19. EQUITY DIVIDENDS

No equity dividend has been proposed by the Directors in respect of the year ended 31 December 2013 (year ended 31 December 2012: £nil).

## 20. RELATED-PARTY TRANSACTIONS

The tables below detail balances outstanding at the end of the year with related parties, and movements in these balances during the year.

Assets comprise loans and advances to banks (note 9) and other assets (note 10). Liabilities comprise amounts due to banks (note 12) and borrowed funds (note 13).

| | **Ultimate Parent** | | **Parent** | | **Fellow BoI Group Undertakings** | |
|---|---|---|---|---|---|---|
| | **31 December 2013 £'000** | **31 December 2012 £'000** | **31 December 2013 £'000** | **31 December 2012 £'000** | **31 December 2013 £'000** | **31 December 2012 £'000** |
| **Assets** | | | | | | |
| At the beginning of the year | 142,217 | 136,484 | 391 | 287 | - | 3,805 |
| Net amount advanced/(repaid) | (4,537) | 5,733 | 0 | 104 | - | (3,805) |
| At the end of the year | 137,680 | 142,217 | 391 | 391 | - | - |
| Interest income | 3,939 | 4,011 | - | - | - | - |
| **Liabilities** | | | | | | |
| At the beginning of the year | 17,435 | 14,044 | 70,000 | 70,000 | 568 | 568 |
| Net amount advanced/(repaid) | 6,500 | 3,391 | - | - | (568) | - |
| At the end of the year | 23,935 | 17,435 | 70,000 | 70,000 | - | 568 |

There are no provisions in respect of any failure, or anticipated failure, to repay any of the above loans or interest thereon.

**Taxation**
Group relief was surrendered for no payment as per note 8 during the year ended 31 December 2012.

## 21. CASH AND CASH EQUIVALENTS

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise loans and advances to banks with original maturity of less than 3 months.

| | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| Loans and advances to banks (note 9) | 21,641 | 22,281 |

Loans and advances to banks have been made by the Company to ensure that it is in a position to meet its liabilities as they fall due, including future dividends to preference shareholders.

### 22. POST BALANCE SHEET EVENTS

On 14 February 2014, a court judgment was issued partially in favour of HMRC in respect of an appeal that the Company had taken against an adverse court judgment issued in 2013 in relation to a tax dispute involving the Company. Both parties have decided to appeal this decision, having been granted permission to appeal the judgment to the Court of Appeal. Full provision continues to be made in these financial statements for the expected tax and interest arising to the Company pending a final decision.

### 23. ULTIMATE PARENT COMPANY

The Company is a wholly owned subsidiary of Bank of Ireland UK Holdings plc. The Company's ultimate parent Company and controlling party is The Governor and Company of the Bank of Ireland. The Bank is a corporation established in Ireland in 1783 under Royal Charter with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

These financial statements are included in the consolidated financial statements of The Governor and Company of the Bank of Ireland (the ultimate parent of the Bank of Ireland Group) and Bank of Ireland UK Holdings plc (the Company's parent).

A copy of the Group financial statements for The Governor and Company of the Bank of Ireland may be obtained from Bank of Ireland, 40 Mespil Road, Dublin 4 or www.bankofireland.com.

Bristol & West plc http://www.bristol-west.co.uk/bwplc

Registered in England: Company number 2124201

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