

**Bank of Ireland (UK) plc**

# **Pillar 3 Disclosures**

For the year ended  
31 December 2013

**Bank of Ireland Group** 

For small steps, for big steps, for life



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# 1. Introduction

## 1.1 Background

This disclosure report is based on the Bank of Ireland (UK) Plc consolidated regulatory Group referred to and described as “The Group” or “BOI (UK)” throughout this document.

The Basel Capital Accord (Basel II) is a capital adequacy framework which aims to improve the way regulatory capital requirements reflect credit institutions’ underlying risks. Basel II has been implemented in the UK by the Prudential Regulation Authority (PRA)<sup>1</sup> and enforced through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Basel II is based around three complementary elements or ‘pillars’.

**Pillar 1** contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

**Pillar 2** is concerned with the supervisory review process. It is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks. The Internal Capital Adequacy Assessment Process (ICAAP) is prepared by the Group on an annual basis in line with Pillar 2 requirements. This is a forward looking document which assesses the Group’s risk appetite, tolerance and strategy. Pillar 2 covers management’s assessment of the additional capital resources required to cover specific risks faced by the institution that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of additional capital requirement is assessed by the Prudential Regulation Authority (PRA) during its Supervisory Review and Evaluation Process (SREP).

**Pillar 3** is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information annually on the scope of application of the Basel II requirements, capital requirements and resources, risk exposures and risk assessment process.

The CRD was implemented into UK law in January 2007. The Group is required to comply with its disclosure requirements at 31 December 2013. For ease of reference, the requirements are referred to as ‘Pillar 3’ in this document. Pillar 3 contains both qualitative and quantitative disclosure requirements.

The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013 implementing Basel III in EU member states. While much of the focus of this document is on the Group’s Basel II capital requirements and resources at 31 December 2013, detailed capital information and other qualitative information on Basel III is also provided.

The references to ‘Basel III’ and ‘CRD IV’ are used interchangeably throughout this document.

The Group’s Pillar 3 document is a technical paper which should be read in conjunction with the Group’s Annual Report for the year ended 31 December 2013 (hereafter referred to as the ‘Group’s Annual Report 2013’). The Group’s Annual Report 2013 is referred to periodically throughout this document.

This document addresses the Group’s Pillar 3 disclosure requirements through the provision of information incremental to the Group’s Annual Report 2013, or by making reference to the appropriate section of the Group’s Annual Report 2013. The Group’s qualitative disclosure requirements are largely met in the

Business Review and Risk Management sections of the Group’s Annual Report 31 December 2013. This document contains the Group’s Pillar 3 quantitative disclosure requirements and the remainder of the qualitative disclosure requirements. This document should therefore be read in conjunction with the Group’s Annual Report 2013.

The Group’s Pillar 3 disclosures have been prepared in accordance with the CRD as implemented into UK law and in accordance with the Group’s Pillar 3 Disclosure Policy. Information which is sourced from the Group’s Annual Report 2013 may be subject to audit by the Group’s external auditors and is subject to internal sign-off procedures. Disclosures which cannot be sourced from the Group’s Annual Report 2013 are subject to several layers of verification. In addition the Pillar 3 document is subject to a robust governance process including final approval by the Board Risk Committee.

<sup>1</sup> The FSA was replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on the 1st April 2013.

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## 1.2 Scope of Application

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The Group has complied with the PRA's prudential capital regulations, including BIPRU 11, throughout the year. This disclosure is presented in respect of the year to 31 December 2013. In accordance with Pillar 3 requirements, the areas covered by the BoI (UK) Pillar 3 disclosures include the Group's capital requirements and resources, credit risk, market risk, operational risk, information on securitisation activity and the Group's remuneration disclosures.

The topics covered are also dealt with in the Group's Annual Report 2013 and cross-referencing to relevant sections is provided throughout this document. In some areas more detail is provided in

these Pillar 3 disclosures. For instance, the section on capital requirements includes additional information on the amount of capital held against various risks and exposure classes, and the section on capital resources provide details on the composition of the Group's own funds as well as a reconciliation of accounting equity to regulatory capital.

It should be noted that while some quantitative information in this document is based on financial data in the Group's Annual Report 31 December 2013, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to a different set of rules. The difference between the

financial statement data and that sourced from the Group's regulatory reporting platform is most evident for credit risk disclosures where Pillar 3 disclosures require the use of Exposure At Default (EAD). EAD is defined as the expected amount of exposure at default. It is reported net of provision and includes consideration of any off balance sheet exposure adjusted by a regulatory credit conversion factor. Pillar 3 quantitative data is thus not always comparable with the quantitative data contained in the Group's Annual Report 31 December 2013.

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## 1.3 Frequency & Location

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BoI (UK)'s Pillar 3 disclosure is published on an annual basis. The Pillar 3 disclosure document is published on the Bank of

Ireland Group website. The frequency of disclosure will be reviewed should there be a material change in any approach

used for the calculation of capital, business structure or regulatory requirements.

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## 1.4 Verification

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These disclosures are not subject to external audit, except where they are equivalent to those prepared under

accounting requirements for inclusion in the Group's audited Annual Report and Accounts dated 31 December 2013.

These disclosures are approved by the Board Risk Committee of BoI (UK).

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## 1.5 Supervision

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The Group is subject to supervision by the Prudential Regulatory Authority (PRA).

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## 1.6 Basel III/CRD IV

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The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU states and CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is

uncertain. The CRD IV legislation will be implemented on a phased basis from 1 January 2014, with full implementation by 2019.

The Basel III / CRD IV transition rules result in a number of new deductions from CET 1 capital. In December 2013, the PRA issued guidance on the transitional implementation of CRD IV which directed UK banks that CET1 capital deductions would be applied at 100% from 1 January 2014.

The pro forma ratios as outlined in the table 1.1 represent estimates reflecting the Group's interpretation of the CRD IV rules as published on 27 June 2013. The actual capital ratios under CRD IV may differ as the rules are assessed in their entirety, related technical standards are finalised and other guidance is issued by the relevant regulatory bodies.

## 1.7 Key Capital Ratios

**Table 1.1**

Basel II					Pro forma Basel III transitional		Pro forma Basel III fully loaded	
31 December 2012		31 December 2013			1 January 2014		31 December 2013	
£m	%	£m	%		£m	%	£m	%
1,005	8.9	1,165	11.0	Core tier 1 / Core equity tier 1 ratio	989	9.7	1,339	13.1
1,219	10.8	1,418	13.4	Total tier 1 ratio	1,229	12.0	1,539	15.1
1,885	16.7	2,157	20.3	Total capital ratio	2,029	19.9	1,971	19.3

The Common equity tier 1 (CET 1) pro forma ratio at 1 January 2014 of 9.7% compares to the Basel II Core tier 1 ratio of 11.0% at 31 December 2013. The decrease primarily relates to 100% deduction from CET1 of Deferred Tax Assets (DTA) relating to future profitability and temporary differences.

The total capital pro forma ratio at 1 January 2014 of 19.9% compares to the Basel II total capital ratio of 20.3% at 31 December 2013 primarily driven by the decline in CET1 capital as outlined above.

The Group's pro forma CET 1 ratio, is estimated at 13.1% as at 31 December 2013 on a fully loaded basis. The Group's

pro forma ratio excluding the projected capital restructure is estimated, under Basel III rules, to be 9.7% at 31 December 2013. The Group expects to remain above the Basel Committee indicated minimum level leverage ratio of 3% on a transitional basis and on a fully loaded pro forma basis. The leverage ratio is above 3% at 31 December 2013.

## 2. Capital

Bol (UK) adopts the standardised approach for the calculation of its Credit Risk and Operational Risk capital requirements.

The Group does not operate a Trading Book and therefore has no trading risk exposure. It does calculate a small foreign exchange position risk capital requirement.

There is no impediment to the prompt transfer of funds within Bol (UK).

The objectives of the Group's capital management policy are to, at all times, comply with regulatory capital requirements, and to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy. Capital adequacy and its effective management is critical to the Group's ability to operate its businesses, to grow organically and to pursue its strategy. The Group's business and financial condition could be affected if it is not able to manage its capital effectively

or if the amount of capital is insufficient due to a materially worse than expected financial performance (including, for example, reductions in profits and retained earnings as a result of impairment losses or write downs, increases in risk weighted assets and delays in the disposal of certain assets as a result of market conditions).

### 2.1 Capital Requirements

Table 2.1 below shows the minimum amount of capital the Group would be required to set aside to meet the minimum ratio of 8% of RWA set per PRA requirements.

Table 2.1 - Breakdown of the Group's Regulatory Capital Requirement	31 December 2013			31 December 2012		
	Capital Requirement £m	Risk Weighted Assets £m	Exposure at Default £m	Capital Requirement £m	Risk Weighted Assets £m	Exposure at Default £m
Central Government or Central Banks	-	-	5,306	-	-	7,468
Multinational Development Banks	-	-	340	-	-	193
Corporates	231	2,889	2,885	268	3,345	3,347
Retail	77	964	1,304	74	928	1,258
Secured by mortgage on residential property	377	4,713	12,990	367	4,590	12,476
Past due items	89	1,113	1,493	130	1,622	1,795
Short term claims on institutions and corporates	5	64	291	9	113	531
Other items	20	243	439	14	180	407
<b>Credit risk</b>	<b>799</b>	<b>9,986</b>	<b>25,048</b>	<b>862</b>	<b>10,778</b>	<b>27,475</b>
<b>Operational, market and counterparty credit risk</b>	<b>50</b>	<b>632</b>	<b>-</b>	<b>43</b>	<b>536</b>	<b>-</b>
<b>Total</b>	<b>849</b>	<b>10,618</b>	<b>25,048</b>	<b>905</b>	<b>11,314</b>	<b>27,475</b>

The Group has complied with its regulatory capital requirements throughout 2013.

The Credit Risk RWA at 31 December 2013 of £9,986m is £792 million lower than the Credit Risk RWA of £10,778 million at the 31 December 2012. This decrease is mainly due to a reduction in the quantum of loans and advances to

customers and the impact of the ongoing deleverage activity in the Great Britain (GB) Business Banking portfolio.

Operational Risk RWA is broadly neutral reflecting similar levels of average operating income using the three year average approach under the Standardised method.

In December 2013, the PRA issued guidance on the UK implementation of Basel III. The Group is currently assessing the potential requirement to alter the amount and structure of its capital base to ensure ongoing compliance.

## 2.2 Capital Resources

Table below sets out the BoI (UK) Capital position as at 31 December 2013. This table shows the amount and type of regulatory capital the Group held at that date to meet its capital requirements.

**Table 2.2 Composition of regulatory capital**

Basel II / CRD			Pro forma Basel III transitional	Pro forma Basel III fully loaded
31 December 2012 £bn	31 December 2013 £bn		1 January 2014 £bn	31 December 2013 £bn
		<b>Risk-weighted Assets (RWAs)</b>		
10,778	9,986	Credit risk	9,605	9,605
536	632	Operational, Market and Counterparty Credit Risk	614	614
<b>11,314</b>	<b>10,618</b>	<b>RWAs by risk type</b>	<b>10,219</b>	<b>10,219</b>
		<b>Capital Base</b>		
1,005	1,165	Total Equity	1,165	1,515
-	-	Regulatory Deductions	(176)	(176)
<b>1,005</b>	<b>1,165</b>	<b>Core tier 1 / Common equity tier</b>	<b>989</b>	<b>1,339</b>
		<b>Additional Tier 1</b>		
300	300	Preference Shares / Other AT1 compliant instruments	300	200
(86)	(47)	Regulatory Deductions	(60)	-
<b>1,219</b>	<b>1,418</b>	<b>Total tier 1 capital</b>	<b>1,229</b>	<b>1,539</b>
		<b>Tier 2</b>		
658	658	Dated loan capital	658	350
8	81	Regulatory Add ons net of deductions	142	82
<b>666</b>	<b>739</b>	<b>Total tier 2 capital</b>	<b>800</b>	<b>432</b>
<b>1,885</b>	<b>2,157</b>	<b>Total regulatory capital</b>	<b>2,029</b>	<b>1,971</b>

### Capital Resources

31 December 2012		31 December 2013			1 January 2014		31 December 2013	
£m	%	£m	%		£m	%	£m	%
1,005	8.9	1,165	11.0	Core tier 1 / Core equity tier 1 ratio	989	9.7	1,339	13.1
1,219	10.8	1,418	13.4	Total tier 1 ratio	1,229	12.0	1,539	15.1
1,885	16.7	2,157	20.3	Total capital ratio	2,029	19.9	1,971	19.3

The Group is strongly capitalised and at 31 December 2013 had a total capital ratio of 20.3%.

The Group manages its capital resources to ensure that the overall level of resources exceeds the Group's capital requirements in accordance with the Risk Appetite statement. The Group's capital requirements are primarily driven by credit

risk (including credit concentration risk) and operational risk. The Group's capital requirements also incorporate a regulatory capital planning buffer, the size of which is determined by stress testing as part of the ICAAP process.

The Group regularly assesses its existing and future capital adequacy under a range of scenarios, using a combination of

quantitative and qualitative analyses in the ICAAP, which is reviewed by the regulator on a periodic basis. The ICAAP, which acts as a link between the Group's strategy, capital and risk, is approved annually by the Board.



## Capital Resources (continued)

**Table 2.3 Composition of regulatory capital**

	31 December 2013 £m	31 December 2012 £m
<b>Opening core tier 1 capital</b>	<b>1,005</b>	<b>1,022</b>
Ordinary shares issued	35	60
Capital contribution	86	-
Contribution to core tier 1 capital from profit / (loss)	39	(77)
<b>Closing core tier 1 capital</b>	<b>1,165</b>	<b>1,005</b>
 Opening other tier 1 capital	 214	 196
Other, including regulatory adjustments	39	18
<b>Closing other tier 1 capital</b>	<b>253</b>	<b>214</b>
 Opening tier 2 capital	 666	 523
Subordinated debt issued	-	135
Other, including regulatory adjustments	73	8
<b>Closing tier 2 capital</b>	<b>739</b>	<b>666</b>
 <b>Closing total regulatory capital</b>	 <b>2,157</b>	 <b>1,885</b>

During the year, the Group issued £35 million of additional share capital and received £86 million by means of a capital

contribution in respect of historic taxation losses transferred from the Parent. The Group continues to have an active

approach to capital management, the focus of which is to ensure adequate capital to support future business plans.

## 2.3 Capital Instruments

The following table provides information on the regulatory values of the Group's debt structure.

<b>Table 2.4 Capital Instruments</b>	<b>31 December 2013 £m</b>	<b>31 December 2012 £m</b>
Ordinary Shares	851	816
Preference Shares	300	300
<b>Tier 1 debt</b>	<b>1,151</b>	<b>1,116</b>
 Subordinated Liabilities		
£523 million subordinated floating rate loans 2020	523	523
£90 million subordinated floating rate loans 2022	90	90
£45 million subordinated floating rate loans 2022	45	45
<b>Tier 2 dated debt</b>	<b>658</b>	<b>658</b>

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## 3. Risk Management

### 3.1 Risk Management Approach

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The Group has established a Risk Management Framework and Governance structure to effectively ensure that all risks are identified, monitored and managed across its operations including those activities that are outsourced to its Parent and third party suppliers.

The Group's Risk Management Framework, which is approved by the

Board of Directors, describes the Group's formal governance process around risk and the approach to risk identification, assessment, analysis and reporting. Risk Appetite defines the level of risk that the Bank is prepared to accept in pursuit of its objectives, and guides the Bank in its business activities, risk taking and risk management.

The Group's risk strategy and risk appetite is set by the Board of Directors and reviewed on an on-going basis by the Board Risk Committee and the Board.

### 3.2 Risk Identity, Strategy and Appetite

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#### 3.2.1 Risk Identity

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The Group's risk identity sets out that the Group, as a UK retail-focused bank, is committed to long term relationships with its customers and strategic partners. The customer is at the centre of the Group's business; understanding the customers'

needs enables development of successful products, services and channel strategies and allows the Group to ensure that it treats customers fairly. The franchise is focused on generating a return on equity in excess of the cost of capital and a key

objective is to achieve balanced growth in customer lending and customer deposits, with a stable funding profile which is appropriate for the asset mix. The Group operates within prudent Board-approved risk parameters.

#### 3.2.2 Risk Strategy

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The objectives of the Group's risk strategy are to:

- have clear risk targets and limits, which are aligned to the strategic direction of the Group;

- identify, measure and adequately control all material risks;
- allocate clear roles, responsibilities and accountabilities for the control of risk within the Group; and

- raise awareness of and commitment to the principles of sound risk management throughout the Group.

#### 3.2.3 Risk Appetite

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Risk Appetite defines the level of risk that the Group is prepared to accept to achieve its short and medium term strategic objectives. It is defined in qualitative terms, as well as quantitatively, through a series of limits, covering credit risk, market risk, liquidity and funding risk, capital risk and operational risk, including conduct risk. These limits are cascaded into more granular limits and targets across portfolios and business units.

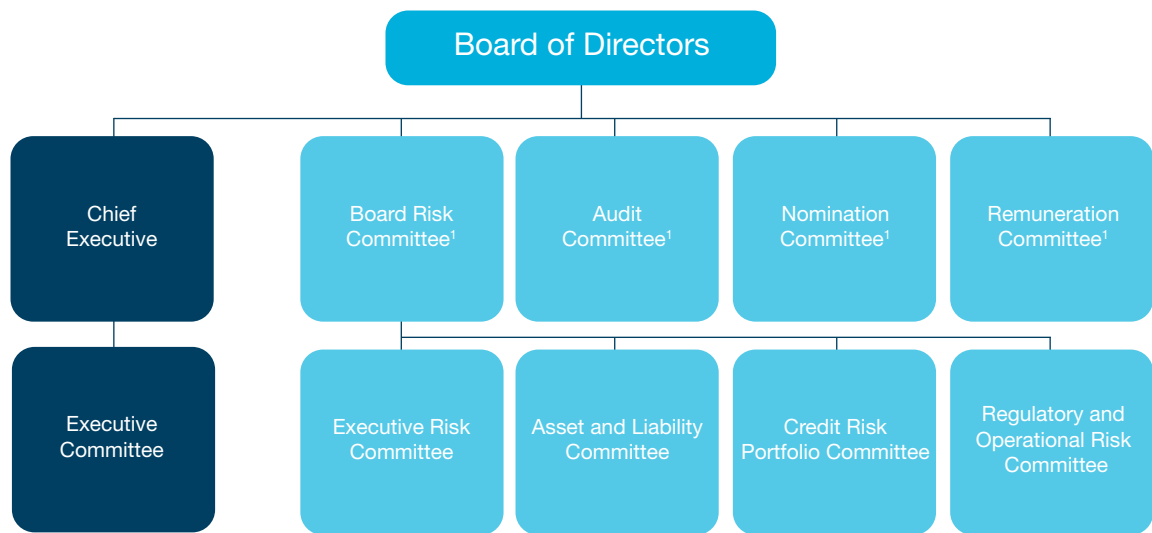
Risk appetite guides the Group in its risk taking and related business activities, having regard to the maintenance of

financial stability, solvency and the protection of the Group's core franchises and growth platforms. The Group aims to achieve an appropriate balance between risk and returns and to minimise potential adverse effects to its financial performance. The Group has defined measures to track its risk profile against the most significant risks that it assumes. The Group tracks actual and forecasted results against these limits and these are monitored and reported regularly to Senior Management as well as the appropriate Committee(s).

The Group strives to ensure it operates within its risk appetite and therefore its risk appetite and risk profile must be aligned.

Where the Group has a risk profile that is in excess of its risk appetite, it will take action to realign the risk profile through increased risk mitigation activities and risk reduction.

### 3.3 Risk Governance



<sup>1</sup> Membership comprises only non-executive Directors.

<p>Governance arrangements have remained consistent with the prior year with the Executive Risk Committee, the Asset and Liability Committee (ALCO), the Credit Risk Portfolio Committee (CRPC) and the Regulatory and Operational Risk</p>	<p>Committee (RORC) continuing to report to the Board Risk Committee (BRC).</p> <p>While not a formal committee of the Board of Directors (the Board), the Executive Committee supports the Chief Executive</p>	<p>Officer (CEO) with his responsibility for the day to day management of the business.</p>
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#### 3.3.1 The Board of Directors

<p>The Board is the key governance body and is responsible for the overall strategic direction and the nature and scale of risk that the Group is prepared to assume in order to achieve its corporate objectives. The Board ensures that an appropriate system of internal controls is maintained</p>	<p>and reviews its on-going effectiveness. The Board meets at least seven times a year. It comprises three executives from the Group, four independent nonexecutive Directors and two non-executive Directors from the Parent company.</p>	<p>A number of Board functions are delegated to key Board Committees; including BRC, the Audit Committee, the Remuneration Committee and the Nomination Committee.</p>
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#### 3.3.2 Board Risk Committee

<p>BRC's core responsibilities are ensuring that strategy is informed by and aligned with the Group's Risk Appetite and reviewing and reporting to the Board on the Group's Risk Management Framework. This includes the monitoring</p>	<p>of risk governance and ensuring risks are properly identified, assessed, reported and controlled.</p> <p>BRC meets, at a minimum, four times a year and more frequently as required and</p>	<p>its membership is made up of three independent non-executive Directors of the Group. The Chairman of the Board, was an additional member of the Committee until 31 December 2013.</p>
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### 3.3.3 Audit Committee

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The Audit Committee's responsibilities include ensuring the effectiveness of the Group's internal controls incorporating financial controls and risk management systems. Other key responsibilities include monitoring the integrity of the

financial statements and ensuring an effective relationship with internal and external auditors is maintained. The Head of Internal Audit for the Group reports to the Chair of the Audit Committee.

The Audit Committee meets, at a minimum, four times a year and more frequently as required and its membership is made up of three independent non-executive Directors of the Group.

### 3.3.4 Nomination Committee

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The Nomination Committee is responsible for reviewing the structure, size and composition of the Board. The Committee is also responsible for succession planning into the Board and the senior management team including FCA Approved Person's appointments. Other responsibilities include agreeing the

Corporate Responsibility Policy and overseeing its implementation, monitoring developments in corporate governance and other regulatory developments that are relevant to the assessment of suitability and financial soundness of the holders of key roles within the Group.

The Nomination Committee meets, at a minimum, twice a year or more frequently if required and is made up of three non-executive Directors.

### 3.3.5 The Remuneration Committee

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The key responsibility of the Remuneration Committee is to determine and agree with the Board, the broad policy for remuneration and for compliance with the regulations of various regulatory and government bodies including:

- UK Combined Code on Corporate Governance and Schedule A of that Code;
- relevant laws, regulations, published

guidelines and recommendations by the European Banking Authority (EBA) and the Financial Conduct Authority (FCA) / Prudential Regulation Authority (PRA); and

- Transaction Agreement and the associated letter from the Irish Minister for Finance.

In its deliberations, the Remuneration Committee takes account of relevant

market comparisons and practice and where appropriate, is informed by a reasonable assessment of the risk profile, financial situation and future prospects based on input from BRC.

The Remuneration Committee, meets at a minimum, twice a year or more frequently if required, and is made up of three non-executive Directors.

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## 3.4 Risk Management Organisation

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The Group's approach to the organisation of risk management is based on the three lines of defence model:

**First line of defence** has primary responsibility and accountability for risk management and lies with line management in individual businesses or product providers. This applies irrespective of whether or not activities are outsourced to the Parent or to external third parties including strategic partners such as Post Office Limited. Every business unit or product provider is responsible for the identification and management of risk at business unit level, including the implementation of appropriate controls and reporting in respect of all major risk events. Business units are the owners of the risks arising in their businesses and are the first line of defence in managing them.

**Second line of defence** is the Group's risk management function which is responsible for establishing a risk control framework, formulating risk policy and strategy, providing independent oversight

and analysis and centralised reporting of key risks.

**Third line of defence** is internal audit, which is responsible for providing control assurance to the Board, Audit Committee, senior management and other interested parties, such as regulators and external auditors. This includes the Parent's Group Credit Review (GCR), which is responsible for the review of the quality and management of credit risk assets across the wider organisation, including the Parent.

Independence is assured through direct access by internal audit to the Chair of the Group's Audit Committee.

The organisational structure for risk management is designed to facilitate reporting and escalation of risk concerns from business units and risk functions upwards to BRC and to the Board, and the conveying of approved risk management policies and decisions from the Board and BRC to business units.

Where services are provided by the Parent under outsourcing arrangements, the above approach to risk management is embedded in the Master Services Agreement between the Group and the Parent and managed through a series of key service schedules.

In addition, the Group's treasury function is responsible for capital planning and management, liquidity planning and management, transfer pricing, balance sheet management and contingent liquidity programmes. The UK Treasurer reports directly to the Chief Financial Officer (CFO).

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## 4. Credit Risk

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. Credit risk includes default risk, recovery risk, counterparty risk, cross border (or transfer) risk, country risk, credit concentration risk and settlement risk. The nature of the Group's exposure to credit risk, the manner in which it arises, policies and processes for managing credit risk, and the methods used to measure and monitor credit risk are set out in the Group's Annual Report 2013 beginning on page 29.

Credit risk arises from loans and advances to customers. It also arises, in the form of counterparty credit risk, from the financial transactions the Group enters into with financial institutions, sovereigns and state

institutions. The main types of financial transactions the Group enters into, and which give rise to credit risk, are loans and advances to customers and its investments in liquid assets. Credit risk on loans and advances to customers arises as a result of the amounts it has actually lent and the amounts which it has committed to lend.

The core values and principles governing the provision of credit are contained in the Statement of Credit Policy, which is approved by BRC. Individual sector/portfolio-level credit policies define in greater detail the credit approach appropriate to those sectors or portfolios.

Through its on-going credit review processes, the Group seeks early identification of deteriorating loans, with a

view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working out loans.

BoI (UK) uses the standardised approach for the calculation of credit risk capital requirements. The standardised approach involves the application of prescribed regulatory formulae to credit exposures to calculate capital requirements.

The credit risk information disclosed in this document includes a breakdown of the Group's exposures by Basel exposure class, by location, sector, maturity and asset quality. Information on past due and impaired financial assets and provisions is also provided.

### 4.1 Credit Risk Mitigation for Risk Management Purposes

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An assessment of the borrower's ability to service and repay the proposed level of debt is undertaken for credit requests and is the primary component of the Group's approach to mitigating risk.

In addition, the Group mitigates credit risk through both the adoption of preventative measures, (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the

impact of particular risks, should these materialise (e.g. securitisation and collateralisation).

### 4.2 Credit Risk Mitigation for Capital Requirements Calculation

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For the purposes of calculating the capital requirements for Retail Mortgages, as per the guidelines of BIPRU 3.4, the Risk Weight of Retail Mortgages may be

reduced (to a minimum of 35% for fully performing, fully secured mortgages) based on the LTV of the property.

## 4.3 Credit Risk: Disclosures

### 4.3.1 Maximum Exposure to Credit Risk

Table 4.1 shows the EAD by standardised asset class as at end December 2013 and December 2012.

Table 4.1 - Exposure to Credit Risk	31 December 2013		31 December 2012	
	Total exposure (EAD) £000	Average exposures over the year (EAD) £000	Total exposure (EAD) £000	Average exposures over the year (EAD) £000
Exposure Class				
Central Governments or Central Banks	5,306,100	5,639,324	7,468,169	7,796,866
Multinational Development Banks	340,251	307,711	194,323	139,804
Corporates	2,877,790	3,038,521	3,347,280	3,575,782
Retail	1,288,496	1,266,660	1,236,986	1,208,156
Secured by mortgages on residential property	12,987,983	12,978,556	12,476,861	10,475,928
Past due items	879,823	1,069,878	1,245,755	1,267,702
Short term claims on institutions and corporates	291,412	351,737	531,341	339,281
Other items	439,754	315,153	407,093	798,843
<b>Total</b>	<b>24,411,599</b>	<b>24,967,540</b>	<b>26,907,809</b>	<b>25,606,389</b>

Total EAD has reduced in the period by £2.5 billion. This reduction is most significantly attributable to:

- decreases in commercial lending primarily reflecting business banking deleverage activity in the GB portfolio;
- reduction in exposure to Bank of England due to the acquisition of high quality mortgage assets from the Parent; and
- level of redemption ahead of new asset origination rates in the marketplace.

### 4.3.2 Geographic Analysis of Exposures

BoI (UK) has two primary markets, Great Britain and Northern Ireland. Table 4.2 is based on EAD and shows the location of the exposures

Table 4.2 Geographic analysis of expenses

31 December 2013	31 December 2013				31 December 2012			
	Northern Ireland £000	Great Britain £000	Other £000	Total £000	Northern Ireland £000	Great Britain £000	Other £000	Total £000
Central Governments or Central Banks	162,563	5,107,533	36,004	5,306,101	91,120	7,311,889	45,160	7,468,169
Multinational Development Banks	-	-	340,252	340,252	-	-	194,323	194,323
Corporates	1,417,340	1,460,438	-	2,877,779	1,709,554	1,637,726	-	3,347,280
Retail	420,565	867,931	-	1,288,496	352,883	884,104	-	1,236,986
Secured by mortgages on residential property	532,507	12,455,476	-	12,987,983	490,004	11,986,857	-	12,476,861
Past due items	554,141	352,683	-	879,823	668,656	577,098	-	1,245,755
Short term claims on institutions and corporates	9,225	2,595	279,592	291,412	470	285,339	245,532	531,341
Other items	439,754	-	-	439,754	-	407,093	-	407,093
<b>Total</b>	<b>3,095,510</b>	<b>20,660,241</b>	<b>655,848</b>	<b>24,411,599</b>	<b>3,312,688</b>	<b>23,110,106</b>	<b>485,015</b>	<b>26,907,809</b>

### 4.3.3 Industry Analysis of Exposures

Tables 4.3 and 4.4, the industry classification, is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in the Group's Annual Report 2013 have been used. The values will differ to the annual report as these tables are based on EAD. The distribution will differ as information on an accounting basis is used in the Group's Annual Report 2013 and exposures are thus classified using a different methodology.

31 December 2013

Table 4.3 - Industry Analysis of Exposure

Exposure Class	Central and local Government £m	Mortgages £m	Personal £m	Manufacturing £m	Agriculture £m	Services £m	Property & construction £m	Distribution £m	Energy £m	Other £m	Total £m
Central Governments	5,306,101	-	-	-	-	-	-	-	-	-	5,306,101
MDB	-	-	-	-	-	340,252	-	-	-	-	340,252
Corporates	-	565	120,629	225,581	35,311	799,514	1,513,733	94,783	420	87,243	2,877,779
Retail	-	34	997,613	17,254	106,500	131,444	21,781	13,313	558	-	1,288,496
Secured by mortgages on residential property	-	12,987,919	-	-	4	60	-	-	-	-	12,987,983
Past due items	-	173,954	26,379	15,801	1,440	101,620	595,525	7,625	1	-	879,823
Short-term cl. Institutions/Corporates	-	-	-	4,603	3,175	2,603	1,450	12	-	279,568	291,412
Other	-	-	-	-	-	-	-	-	-	439,754	439,754
<b>Total</b>	<b>5,306,101</b>	<b>13,162,261</b>	<b>1,141,050</b>	<b>263,239</b>	<b>146,431</b>	<b>1,375,492</b>	<b>2,089,967</b>	<b>115,733</b>	<b>979</b>	<b>810,347</b>	<b>24,411,599</b>



### 4.3.3 Industry Analysis of Exposures (continued)

31 December 2012											
Table 4.4 - Industry Analysis of Exposure											
Exposure Class	Central and local Government £m	Mortgages £m	Personal £m	Manufacturing £m	Agriculture £m	Services £m	Property & construction £m	Distribution £m	Energy £m	Other £m	Total £m
Central Governments	7,468,169	-	-	-	-	-	-	-	-	-	7,468,169
MDB	-	-	-	-	-	194,323	-	-	-	-	194,323
Corporates	-	1,347	153,287	239,754	30,393	991,610	1,758,810	116,298	39	55,742	3,347,280
Retail	-	990,586	14,227	89,282	100,371	19,775	22,226	521	-	1,236,986	990,586
Secured by mortgages on residential property	-	12,476,781	-	-	20	60	-	-	-	-	12,476,861
Past due items	-	195,229	41,271	16,714	2,173	160,264	818,909	10,315	195	685	1,245,755
Short-term cl. Institutions/Corporates	-	-	-	2,096	4,798	524,024	411	11	-	-	531,341
Other	101,533	-	-	-	-	235,111	-	-	-	70,448	407,093
Total	7,569,702	12,673,357	1,185,144	272,791	126,666	2,205,763	2,597,905	148,850	755	126,875	26,907,809

### 4.3.4 Maturity Analysis of Exposures

The maturity analysis below discloses the BoI (UK) credit exposure by residual contractual maturity date. Tables are based on EAD.

**Table 4.5 - Maturity analysis of exposure**

31 December 2013	31 December 2013				31 December 2012			
	<1 Year £000	<1-5 Years £000	>5 Years £000	Total £000	<1 Year £000	<1-5 Years £000	>5 Years £000	Total £000
Central Governments								
or Central Banks	5,160,105	145,996	-	5,306,101	7,321,993	146,176	-	7,468,169
Multinational Development Banks	71,162	269,089	-	340,252	19,849	174,475	-	194,323
Corporates	864,940	982,340	1,030,499	2,877,779	935,168	1,206,453	1,205,659	3,347,280
Retail	133,515	751,093	8,082	1,288,496	451,669	778,176	7,141	1,236,986
Secured by mortgages on								
residential property	421,426	858,988	12,103,375	12,987,983	104,506	499,271	11,873,084	12,476,861
Past due items	574,971	60,104	244,748	879,823	799,229	129,316	317,209	1,245,755
Short term claims on institutions								
and corporates	291,412	-	-	291,412	531,341	-	-	531,341
Other items	313,676	126,078	-	439,754	407,093	-	-	407,093
<b>Total</b>	<b>7,831,208</b>	<b>3,193,687</b>	<b>13,386,704</b>	<b>24,411,599</b>	<b>10,570,847</b>	<b>2,933,868</b>	<b>13,403,094</b>	<b>26,907,809</b>

### 4.3.5 Asset Quality

Under the standardised approach, credit risk is measured by applying risk weights outlined in BIPRU based on the exposure class to which the exposure is allocated. Where a counterparty is rated by External Credit Assessment Institutions ('ECAIs') or Export Credit Agencies ('ECAs'), the Standardised approach permits banks to use these ratings to determine the risk

weighting applicable to exposures to that counterparty. This is done by firstly mapping the rating to a Pillar 1 credit quality step, which in turn is then mapped to a risk weight.

BoI (UK) use Fitch Ratings, Moody's Investors Service, Standard & Poor's and DBRS as its nominated ECAIs for its

Sovereign and Multilateral Development Bank exposures and applies the mapping tables published by the PRA to map these ECAI ratings to credit quality steps and subsequent risk weights.

Table 4.6 is based on EAD displayed by risk weight band.

**Table 4.6 - Risk Weight Band analysis of exposure**

31 December 2013	Central Government	MDB	Corporates	Retail	Secured on real estate property	due item	Past inst/corp	Short-term claims on Other	Total
0 %	5,306,101	340,252	-	-	-	-	-	54,483	5,700,836
1% - 20 %	-	-	9,860	-	-	-	282,168	182,393	474,421
21% - 50%	-	-	8,068	-	12,953,084	303	-	-	12,961,237
51% - 75%	-	-	-	1,288,496	34,899	-	-	-	1,323,613
76% - 100%	-	-	2,859,850	-	-	363,495	9,245	-	3,435,466
101% - 150%	-	-	-	-	-	516,026	-	-	516,026
<b>Total</b>	<b>5,306,101</b>	<b>340,252</b>	<b>2,877,779</b>	<b>1,288,496</b>	<b>12,987,983</b>	<b>879,823</b>	<b>291,412</b>	<b>439,754</b>	<b>24,411,599</b>

31 December 2012	Central Government	MDB	Corporates	Retail	Secured on real estate property	due item	Past inst/corp	Short-term claims on Other	Total
0 %	7,468,169	194,323	-	-	-	-	-	72,653	7,735,145
1% - 20 %	-	-	-	-	-	-	523,687	192,824	716,512
21% - 50%	-	-	-	-	12,453,096	6,165	-	-	12,459,261
51% - 75%	-	-	-	1,236,986	23,765	100	-	-	1,260,852
76% - 100%	-	-	3,347,280	-	-	380,518	7,654	141,616	3,877,068
101% - 150%	-	-	-	-	-	858,971	-	-	858,971
<b>Total</b>	<b>7,468,169</b>	<b>194,323</b>	<b>3,347,280</b>	<b>1,236,986</b>	<b>12,476,861</b>	<b>1,245,755</b>	<b>531,341</b>	<b>407,093</b>	<b>26,907,809</b>

## 4.3.6 Past Due and Impaired Exposures

Past due but not impaired loans are defined as follows:

- loans excluding residential mortgages where repayment of interest and / or principal are overdue by at least one day but are not impaired; and
- residential mortgages may be past due but not impaired in cases where the loan to value (LTV) ratio on the mortgage indicates no loss in the case

of default by the borrower to the Group.

Impaired loans are defined as follows:

- loans with a specific impairment provision attaching to them
- loans (excluding residential mortgages) which are more than 90 days in arrears;

- all assets in grades 12 and 13 on the thirteen point grade scale and grades 6 and 7 on the seven point grade scale are impaired; and
- residential mortgages are only classified as impaired when there is a specific provision against them.

### 4.3.6.1 Past Due and Impaired Exposures by Industry

Tables 4.7 is based on financial statement information and discloses past due but not impaired and impaired balances by industry.

Table 4.7 - Past due and Impaired Exposure by Industry	31 December 2013			31 December 2012		
	Past due exposures £m	Impaired exposures £m	Total £m	Past due exposures £m	Impaired exposures £m	Total £m
Residential Mortgages	504	77	581	375	66	441
Non Property SME & Corporate	18	294	312	31	250	281
Property & Construction	109	1,061	1,170	113	1,187	1,300
Consumer	24	34	58	29	36	65
<b>Total</b>	<b>655</b>	<b>1,466</b>	<b>2,121</b>	<b>548</b>	<b>1,539</b>	<b>2,087</b>

### 4.3.6.2 Past Due and Impaired Exposures by Geography

Table 4.8 is based on financial statement information and discloses past due but not impaired and impaired balances by geography.

Table 4.8 - Past due and Impaired Exposure by Geography	31 December 2013			31 December 2012		
	Past due exposures £m	Impaired exposures £m	Total £m	Past due exposures £m	Impaired exposures £m	Total £m
Northern Ireland	71	979	1,050	84	993	1,077
Great Britain	584	487	1,071	464	546	1,010
<b>Total</b>	<b>655</b>	<b>1,466</b>	<b>2,121</b>	<b>548</b>	<b>1,539</b>	<b>2,087</b>

## 4.3.7 Provisioning

The loan loss provisioning methodology is set out on page 46 of the Group's Annual Report 2013.

### 4.3.7.1 Provisions by Industry and Geography

Table 4.9 show the balance sheet specific provisions, specific provision charges and amounts written off on specific provisions by industry classification. It is based on financial statement information.

Table 4.9 - Provisions by Industry	31 December 2013			31 December 2012		
	Total specific provisions £m	Specific provision charges £m	Provisions utilised £m	Total specific provisions £m	Specific provision charges £m	Provisions utilised £m
Industry Class						
Residential Mortgages	12	5	7	14	10	8
Non Property SME & Corporate	110	34	28	84	27	20
Property & Construction	485	69	69	486	131	66
Consumer	27	14	23	29	19	29
<b>Total</b>	<b>635</b>	<b>122</b>	<b>127</b>	<b>613</b>	<b>187</b>	<b>123</b>

Table 4.10 shows the specific provision breakdown on a geographic basis. It is based on financial statement information.

Table 4.10 - Provisions by Geography	31 December 2013		31 December 2012	
	Total specific provisions £m	Specific provision charges £m	Total specific provisions £m	Specific provision charges £m
Industry Class				
Northern Ireland	465	75	483	122
Great Britain	170	47	180	57
<b>Total</b>	<b>635</b>	<b>122</b>	<b>613</b>	<b>187</b>

### 4.3.7.2 Provisions by Provision Type

Table 4.11 show the provisions split between Specific and IBNR Provisions. It is based on financial statement information.

Table 4.11 - Provision Type	31 December 2013		31 December 2012	
	Total balance sheet provisions €m	Provisions charges €m	Total balance sheet provisions €m	Provisions charges €m
Total Specific Provisions	635	122	613	185
Total IBNR Provisions	84	3	82	(2)
<b>Total</b>	<b>719</b>	<b>125</b>	<b>695</b>	<b>187</b>

### 4.3.7.3 Provisions Charges during the Period

Table 4.12 shows the movement in the provisions during the 12 month period ended 31 December 2013. It is based on financial statement information.

	31 December 2013 Provisioning charges during the year £m	31 December 2012 Provisioning charges during the year £m
<b>Table 4.12 - Provision Charges</b>		
Opening balance	695	594
Provision transfer from NIIB January	n/a	15
Amount charged during the year	125	187
Provisions utilised, reversed, and other movements	(108)	(107)
- Of which recoveries recorded directly to income statement	6	6
<b>Closing Balance</b>	<b>719</b>	<b>695</b>

## 5. Securitisation

At 31 December 2013, loans and advances to customers include £5,481 million (31 December 2012: £6,197 million) of residential mortgage balances that have been securitised but not derecognised.

The assets, or interest in the assets were transferred to a Special Purpose Entity (SPE), namely Bowbell no 1 Plc, which issued securities to the Group. These are capable of being pledged to monetary

authorities, or used as security to secure external funding. None of these securities were pledged or used to secure funding at 31 December 2013 or 31 December 2012.

## 6. Liquidity and Funding Risk

Liquidity and Funding Risk is the risk that the Group 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 which will affect its franchise and long term viability. Liquidity risk can increase due to the unexpected lengthening of maturities, non-repayment of assets or a sudden withdrawal of deposits. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.

The Group has established a liquidity and funding risk management framework, that articulates a risk appetite and risk targets,

and which is aligned with its overall strategy to be a self-funded business with no sustained funding dependency on either the Parent or wholesale market funding.

The Liquidity and Funding Risk Appetite statement is set by the Board and is reviewed on an annual basis. It sets out the level of liquidity and funding risk that the Board has deemed as acceptable and the key liquidity and funding metrics that the Group has determined best define its liquidity and funding risk appetite.

The Group's liquidity and funding risk management framework is designed to ensure that the Group manages and monitors its liquidity and funding position

in accordance with the defined liquidity and funding risk appetite statement. The Group's exposure to liquidity and funding risk is governed by policy approved by the Board Risk Committee and the Board. The operational oversight of this policy is delegated to the Asset and Liability Committee, an Executive subcommittee of the Risk Committee.

Further detail on Liquidity and Funding risk can be found on pages 49-53 of the Group's Annual Report 2013.

## 7. Counterparty Credit Risk

The continued weak international financial environment means that the Group continues to be exposed to increased counterparty risk. The Group has implemented a number of measures to mitigate this increased risk. These include:

- use of a Credit Support Annex with the Parent in relation to derivatives executed for Market Risk hedging purposes with cash collateral posted / received; and
- strict credit risk management procedures within the Group's Treasury Credit Risk Policy.

BOI (UK) apply the Mark to Market approach to calculating capital requirements for Counterparty Credit Risk as set out in BIPRU 13.4.

The Group's net exposure to the Parent (disclosed gross within loans and advances to banks, deposits from banks, derivative assets and derivative liabilities) is in relation, primarily, to the Group's market risk management. The gross risk is managed through a contractual master netting agreement with the Parent whereby, in the event of a default by either party, all amounts due or payable will be settled immediately on a net basis. Furthermore, derivatives executed with the Parent are subject to an ISDA and CSA and therefore collateral requirements are calculated daily and posted as required. The net exposure to the Parent is measured and monitored on a daily basis and is maintained within the Group's large exposure limits. BRC is responsible

for establishing an appropriate policy framework for the prudential management of treasury credit risk, including net exposure to the Parent.

Bol (UK) Plc Treasury Credit Policy sets out the Group's approach for securing collateral and establishing credit reserves with respect to counterparty credit risk.

Credit counterparties are subject to ongoing credit review and exposures are monitored on a daily basis.

### 7.1 Large Exposures

The Group's risk appetite statement, credit policy and regulatory guidelines set out the maximum exposure limits to a customer, or a Group of connected

customers. The policy and regulatory guidelines cover both exposures to the Parent and other counterparties. Regulatory guidelines limit risk

concentration in individual exposures. No single exposure exceeded regulatory guidelines during the year, including net exposures to the Parent.

### 7.2 Wrong Way Risk

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Specific wrong way credit risk can occur where transactions are collateralised by related

party securities. General wrong way credit risk can arise where the credit quality of the counterparty may be correlated with a macroeconomic factor which affects the value of derivative transactions, such as the impact of interest rate movements on

derivatives or on securities held as collateral. The Group does not consider that it has any specific exposures and collateral posted under a derivative CSA is in the form of cash and regularly re-margined.

## 8. Market Risk

Market risk arises on the asset side of the balance sheet, mainly through fixed rate lending, and on the liability side, through fixed rate deposit products. Market risk can also arise where variable rate assets and liabilities re-price at different frequencies (monthly, quarterly, semi-annually), or where lending re-prices with changes in Bank of England rates, but is funded at short dated market rates. Changes in the differential or basis between different floating rates (such as assets re-pricing at the base rate and liabilities re-pricing at LIBOR) can have an impact on the Group's net interest margin.

Structural interest rate risk arises from the existence of non-interest bearing liabilities (principally equity and non-interest bearing current accounts less fixed assets) on the balance sheet. If these net liabilities were used to fund variable rate assets, the Group's earnings would be exposed to variation in interest rates.

The Group has no risk appetite for the holding of proprietary market risk positions or the running of open banking book market risk exposures. The Group, therefore, has no proprietary trading book. The Group does have customer derivative foreign exchange (FX) forward contracts, which are considered held for trading, as

hedge accounting is not applied. These transactions are hedged with the Parent.

The Group manages its interest rate risk position through arrangements with the Parent. Prior to December 2013 the hedging approach performed was on a cash basis, whereby all monies received from customer deposits were placed onward with the Parent for an equivalent term and re-pricing frequency, and customer lending was funded via amounts borrowed from the Parent on an equivalent term and re-pricing frequency basis.

In December 2013 the Group amended the market risk hedging approach to incorporate the use of derivative contracts as an appropriate hedging instrument. The overall market risk hedging approach from December 2013 is prioritised as follows;

- (i) seek to naturally hedge within the Balance Sheet,
- (ii) execute derivative hedging contracts with the Parent or
- (iii) execute gross cash hedges.

Over time the cash hedging deals with the Parent will be replaced by derivative contracts.

Hedging derivatives will be executed with the Parent only and are subject to an ISDA and CSA. Collateral requirements are calculated daily and posted as required. The Group uses derivatives for hedging purposes only and seeks to apply hedge accounting where possible. The Group continues to maintain a de-minimis limit for interest rate risk to reflect operational requirements only. This limit is reviewed and approved by BRC.

The Group's lending and deposits are almost wholly (>95%) denominated in sterling. Any foreign currency transactions are hedged to acceptable levels with the Parent. It is the Group's policy to manage structural interest rate risk, by investing its net non-interest bearing liabilities in a portfolio of fixed rate assets, with an average life of 3.5 years and a maximum life of 7 years.

### 8.1 Market Risk Measurement and Sensitivity

The Group's interest rate risk position is measured and reported, daily. The daily interest rate risk position is calculated by establishing the contractual re-pricing behaviour of assets, liabilities and off-balance sheet items on the Group's balance sheet, before modelling these cash flows and discounting them at

current yield curve rates. Certain behavioural assumptions to reflect expected asset prepayment are overlaid for interest rate sensitive assets and liabilities. These behavioural assumptions are back-tested on a monthly basis and updated as necessary.

The impact on the Group's net margin for one year, ahead of an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the Banking book at 31 December 2013, is as follows:

(Audited)	31 December 2013	31 December 2012
	£m	£m
+ 50 basis points	0.33	0.06
- 50 basis points	(0.33)	(0.06)

The above sensitivity is indicative of the magnitude and direction of exposures but requires qualification, in that the results are based on an immediate and sustained shift of the same magnitude across the yield curve.

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## 9. Operational Risk

BOI (UK) Plc adopts the Standardised approach to calculating Operational Risk capital.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from external events, but excluding reputation and strategic risks.

Operational risks are present in the Group's business, through inadequate or failed internal processes (including financial reporting and risk monitoring processes), information technology (IT) or equipment failures, or the failure of external systems and controls, including those of the Group's suppliers or counterparties (supplier and counterparty systems, controls and processes), being

entirely outside the control of the Group or from people-related, or external events, including the risk of fraud and other criminal acts carried out against the Group. In the case of legal and contractual risk, this includes the risk of loss due to litigation arising from errors, omissions, and acts, by the Group in the conduct of its business.

### 9.1 Management of Operational Risk

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The Group has established a formal approach to the management of operational risk in the form of the "Operational Risk Management Framework" to identify, assess, monitor, and manage operational risks, which may impact the achievement of the Group's business objectives. It consists of:

- formulation and dissemination of the operational risk policy;
- establishment of organisational structures for the oversight, monitoring, and management of operational risk throughout the Group and its outsourced service providers;
- embedding the operational risk management process in business and

support units throughout the Group;

- maintenance of awareness and training of relevant staff in the operational risk management process.

The Group's exposure to operational risk is governed by policy formulated by the RORC (Regulatory and Operational Risk Committee), and approved by the Board Risk Committee. Policies for management of specific aspects of operational risk are approved and monitored by RORC.

The Group's Regulatory and Operational Risk Management function monitors policy compliance through review of management reports provided by

business areas and outsourced service providers through periodic visits to inspect practices and compliance with policies; and through monitoring of the nature, scale, frequency and root cause of loss events.

The Group has outsourcing arrangements with the Parent for a range of IT, and transaction processing services, which are managed under a Master Services Agreement, with specific Service Level Agreements (SLAs) covering each service provided. These SLAs are subject to detailed, ongoing review and management by the Group.



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# Appendix I: Remuneration at Bank of Ireland (UK) plc

This section summarises remuneration for Code Staff in respect of 2013 and provides brief information on the decision-making policies for remuneration and the links between pay and performance. These disclosures reflect the requirements set out in the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) (formerly Financial Services Authority) Remuneration Code.

## **Decision-making process for remuneration policy**

The Bank of Ireland (UK) Plc (hereafter referred to as “The Company”) Remuneration Committee holds delegated responsibility from the Board of Directors for the oversight of The Company’s Remuneration Policy.

## **Code staff**

There is a rigorous and continuous process in operation to determine which roles are coded within the Company. Over the course of 2013, an aggregate of 22 employees were identified as Code Staff on the basis that their professional activities were deemed to have a material impact on the Company’s risk profile. As at 31 December 2013 there were 20 Code Staff in Bank of Ireland (UK) Plc.

## **Remuneration restrictions**

The Company, as part of the overall Bank of Ireland Group is currently operating under a number of remuneration restrictions which cover all Directors, Senior Executives, Employees and Service Providers across the Group. Restrictions were contained within the ‘Subscription Agreement’ with the Irish Government (March 2009) and subsequently in the Minister’s Letter, under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister’s Letter was a condition of the Transaction Agreement with the Irish Government which was part of the 2011 Recapitalisation of the Bank of Ireland Group.

The Company is in compliance with the remuneration restrictions contained within both of these documents.

## **Attraction, motivation and retention**

The Company’s success depends in part on the availability of skilled management and the continued services of key members of its management team, both at its head office and at each of its business units.

If the Company fails to attract and appropriately train, motivate and retain highly skilled and qualified people, its businesses may be negatively impacted. Restrictions imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Company’s control in relation to the retention and recruitment of key executives and highly skilled and qualified people may adversely impact the Company’s ability to attract and retain such staff.

## **Link between pay and performance**

Individual performance measures and targets are agreed for each employee using a Balanced Scorecard approach through the Company performance management process. One of the Key Result Areas as captured in the balanced scorecard covers all aspects of credit, regulatory, operational and other risks as well as compliance with internal procedures.

## **Bank of Ireland (UK) Plc Remuneration Strategy**

The Company remuneration policy aims to support the Company’s objectives of long term sustainability and success, sound and responsible risk management and good corporate governance.

In addition the remuneration policy seeks to ensure that;

- our efforts are aligned with and contribute to the long term sustainability, value creation and success of the Company
- we have the necessary platform to attract, retain and motivate high calibre employees
- we offer a competitive remuneration package across all markets, in a cost effective manner
- remuneration practices are simple, transparent, easy to understand and implement
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures
- remuneration is applied in consideration of and in alignment with the Company’s Risk Appetite Statement and overall risk governance framework
- risk adjusted financial performance is an important measure when evaluating performance
- business and individual performance measures and targets are aligned with Company objectives at either a Company or local business level, ensuring alignment with Company strategy, risk measures and priorities and is based on a balanced scorecard approach

- all remuneration practices are subject to appropriate governance by the Remuneration Committee
- we are compliant with all applicable regulatory remuneration requirements as they relate to the Company
- remuneration policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial and customer interests.

These design features support all remuneration practices across the Company, being applied proportionately depending on the nature, scale and complexity of the particular business area.

### Remuneration expenditure

The following tables show the remuneration awards made by the Company to Code Staff in 2013

**Table 1**

Aggregate 2013 Remuneration Expenditure by Business Area	No. of Coded Roles as at 31 December 2013	No. of Employees who held a coded role in 2013	2013 Remuneration Expenditure £m
NEDs	6	7	0.46
Retail UK Front Line	6	6	1.40
Retail UK Support Functions	8	9	1.59
<b>Grand Total</b>	<b>20</b>	<b>22</b>	<b>3.45</b>

<sup>1</sup> Includes Fees, Salaries and variable payments (including any deferred elements) made in 2013 and other cash benefits payable e.g. car allowance.

**Table 2**

Analysis of 2013 Remuneration between and Variable Amounts (actually paid in 2013)	Other	No. of Coded Roles Control functions	No. of Employees who held a coded Senior manager	2013 Remuneration Expenditure Total
Number of Code Staff	6	8	6	20
Number of Employees who held a Coded Role in 2013	7	9	6	22
Fixed (cash based)	Fixed payments 2013 include fees, salaries, car allowances and other payments			
Fixed (cash based) £m	1.40	1.59	0.46	3.45
Total Fixed £m	1.40	1.59	0.46	3.45
Variable	Variable payments 2013 encompasses guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commission payments.			
Non-Deferred Cash £m	-	-	-	0.00
Deferred Cash £m	-	-	-	0.00
Total Variable £m	-	-	-	0.00
Variable Recipients	-	-	-	0.00
Fixed & Variable £m	1.40	1.59	0.46	3.45

### 2013 New sign-on and severance payments

- No new hire (Code Staff) received a sign-on payment during the relevant year, 2013, relating to their commencement of employment.

No severance payments were made during the relevant year, 2013, to this population.



