

INTESA SANPAOLO BANK IRELAND plc

Directors' report and
financial statements

Year ended 31 December 2012

Registered number 125216

INTESA SANPAOLO BANK IRELAND plc

<i>Contents</i>	<i>Page</i>
Directors and other information	1
Directors' report	2 - 6
Statement of directors' responsibilities	7
Independent auditors' report	8 - 9
Income statement	10
Statement of comprehensive income	11
Statement of financial position	12
Statement of changes in equity	13
Statement of cash flows	14
Notes to the financial statements	15 – 75

INTESA SANPAOLO BANK IRELAND plc

Directors and other information

Directors

Mr. M.A. Bertotti (Chairman, Italian)
Mr. S. Catalano (Deputy Chairman, Italian)
Mr. G. Pizzutto (Managing Director, Italian)
Mr. I. Letchford (British)
Mr. F. Introzzi (Italian)
Mr. L. Ruggerone (Italian)
Mr. R. Barkley (British)

Registered office

3rd Floor
KBC House
4 George's Dock
International Financial Services Centre
Dublin 1

Secretary

Capita International Financial Services (Ireland) Ltd

Independent Auditors

KPMG
Chartered Accountants
1 Harbourmaster Place
International Financial Services Centre
Dublin 1

Principal bankers

INTESA SANPAOLO S.p.A.
Piazza della Scala, 6
Milan
I-20121
Italy

INTESA SANPAOLO – New York Branch
One William Street
New York
NY 10004
USA

Solicitors

McCann FitzGerald
Sir John Rogerson's Quay
Dublin 2

INTESA SANPAOLO BANK IRELAND plc

Directors' report

Financial Statements

The directors have pleasure in submitting their report, together with the audited financial statements for the year ended 31 December 2012.

Principal Activities

INTESA SANPAOLO BANK IRELAND plc (the "Company") was granted a banking licence in October 1998 by the Central Bank of Ireland under section 9 of the Irish Central Bank Act 1971 and is engaged in wholesale banking business.

The Company's activities include intra-group lending, the provision of finance to large corporate clients and financial institutions mainly in Europe both on a bilateral and syndicated basis, and the management of its own portfolio of securities held for liquidity purposes.

Review of Results and Development of the Business

The results and financial position of the Company are set out on pages 10 – 12 of the financial statements. During the year under review, the Company implemented a deleveraging strategy, reducing, in particular, its lending to intra-group counterparties, in light of the prevailing market conditions. Such strategy was in line with group policy with a view to returning to increased lending upon the normalisation of wholesale funding activities for the Company.

General market conditions within the euro zone were eased in 2012 following two decisive measures taken by the European Central Bank. First, in February the injection of over half a trillion euro into the banking system through the 3 year Long Term Refinancing Operation (LTRO) stabilised peripheral banking systems and led to a temporary fall in sovereign bond yields until the Greek elections and turmoil within the Spanish banking sector brought an end to the brief period of respite. The LTRO was followed in July by the announcement of the OMT (Outright Monetary Transactions) backstop mechanism which proved decisive and established a new calm in the financial markets by removing short-term uncertainty and led to the contraction in sovereign yields that have continued to date.

After nine months of contraction in wholesale funding markets for the peripheral banking sector as a whole, the Company experienced improved conditions in the final quarter of 2012, to the extent that issuance of notes under its short and medium term note programmes increased substantially, ending the year with total combined outstandings of €9.55bn, compared with €6.99bn at the end of 2011. In addition to the proceeds of increased debt issuance, the funding profile of the Company expanded through the decision to participate in the 3 year LTRO for an amount of €1.2bn in the first quarter of 2012.

It is accepted by the markets that the ECB measures are temporary in nature and a lasting resolution of the issues within the euro area requires governmental intervention to implement macroeconomic adjustments at national level and overall institutional reform within Europe. During 2012, budgetary reforms continued to be made by national governments, including Ireland and Italy, while steps toward a banking union in Europe may represent the advent of a closer union within the euro zone. However, significant challenges remain, not least those associated with political developments, such as the general election in Italy during the first quarter of 2013, and regional issues within Spain. The challenge for the Company in the year ahead is to set a path for asset growth backed by sustainable wholesale funding, both in the short and medium term.

In the initial days of 2013, the global outlook was boosted by the aversion of the 'fiscal cliff' in the US with the last minute deal between Republicans and Democrats, removing the immediate threat of sharp tax rises and spending cuts. In addition, trade data from China was positive in December with exports and imports rebounding strongly relative to the corresponding month in 2011. As a result, China's overall trade surplus continued to widen with December's figures exceeding market expectations. Together, the news can be viewed as a sign that the recovery in the global economy is gaining traction and has helped to provide a positive start in the New Year for equity markets and is generally supportive of risk appetite.

INTESA SANPAOLO BANK IRELAND plc

Directors' report (*continued*)

The principal risks faced by the Company as a result of the normal course of its activities are:

- Credit Risk and Counterparty Credit Risk
- Interest Rate and Foreign Exchange Risks (Banking Book)
- Liquidity Risk
- Operational Risk

These risks are monitored and managed on an on-going basis by the Company, and the risk management objectives, policies, risk measures and limits of the Company are fully described in Note 2 to the financial statements.

The profit after tax for the financial year was €43.14 million (2011: €89.46 million). The results for the year were below expectations of the management, due mainly to higher than forecast funding costs, the impact of certain unscheduled loan asset prepayments and, most significantly, a change in group valuation methodology implemented at the end of the final quarter which led to a negative differential between the valuations of derivatives in place for economic hedging purposes with group counterparties against derivatives with non-group counterparties (€11.96 million). The directors have proposed a dividend of 8.62 cent per ordinary share, amounting to €34.51 million in respect of the year 2012 (2011: €45 million dividend was paid, equivalent to 11.24 cent per ordinary share).

Future Developments in the Business

The directors intend to continue the development of the Company's lending activities on a selected basis and in line with group policy.

Events since the year end 2012

The short-term Euro Commercial Paper/Certificate of Deposit Programme of the Company was updated on 15 February 2013.

Risk Management and Control

An analysis of the risks to which the Company is exposed and the management of these is set out in Note 2 to the financial statements.

Books of Account

The measures taken by the directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are available at the registered office at 3rd Floor, KBC House, 4 George's Dock, IFSC, in Dublin.

Directors

The directors who held office during the year under review were:

Mr. M. A. Bertotti

Mr. S. Catalano

Mr. G. Pizzutto

Mr. I. Letchford

Mr. F. Introzzi

Mr L. Ruggerone

Mr. R. Barkley

INTESA SANPAOLO BANK IRELAND plc

Directors' report (*continued*)

Parent

Intesa Sanpaolo Bank Ireland plc is a public limited liability company and is incorporated and domiciled in Ireland. The Company is a wholly owned subsidiary of INTESA SANPAOLO S.p.A. which beneficially holds 100% of the ordinary share capital of the Company. INTESA SANPAOLO S.p.A. is a public limited company and is incorporated and domiciled in Italy. The consolidated financial statements for 2012 of INTESA SANPAOLO S.p.A. may be obtained from the group headquarters based at Piazza San Carlo, 156, I-10121 Turin, Italy, or via its website www.group.intesasanpaolo.com.

Articles of Association

In accordance with its memorandum and articles of association, the Company may by ordinary resolution appoint any person to be a director. The powers to appoint directors are subject to the maximum number of directors permitted and eligibility for appointment, both in accordance with the memorandum and articles of association.

The memorandum and articles of association may be amended in line with the Companies Acts, e.g. where a special resolution is required by consent of the holder of at least 75% of the ordinary share capital of the Bank.

Directors

The composition of the Board of Directors and standing Committees at year-end:

Mr. M. A. Bertotti	(Member of Risk Committee)
Mr. S. Catalano	Independent Non - Executive
Mr. I. Letchford	(Member of Audit Committee) - Independent Non - Executive
Mr. F. Introzzi	(Member of Audit Committee and Credit Committee)
Mr. G. Pizzutto	(Member of Credit Committee and Risk Committee)
Mr. L. Ruggerone	(Member of Audit Committee and Risk Committee)
Mr. R. Barkley	(Member of Credit Committee) - Independent Non - Executive

Interests of directors and secretary

The directors and secretary of the Company at 31 December 2012 and their spouses had no interest in the shares or debentures or loan stock of the Company or Group companies other than those set out below. Directors who are key managers of INTESA SANPAOLO S.p.A may participate in a discretionary share incentive scheme under which a portion of their bonus may be converted into shares in INTESA SANPAOLO S.p.A in accordance with Group remuneration policy.

Ordinary Shares in INTESA SANPAOLO S.p.A.

	31 December 2012	31 December 2011
Mr. M. A. Bertotti	1,073	1,073
Mr. F. Introzzi	554	554

INTESA SANPAOLO S.p.A - 4.125% Bond (Maturity 14 April 2020)

	31 December 2012	31 December 2011
Mr. M. A. Bertotti	-	50,000

INTESA SANPAOLO BANK IRELAND plc

Directors' report (continued)

Transactions involving directors

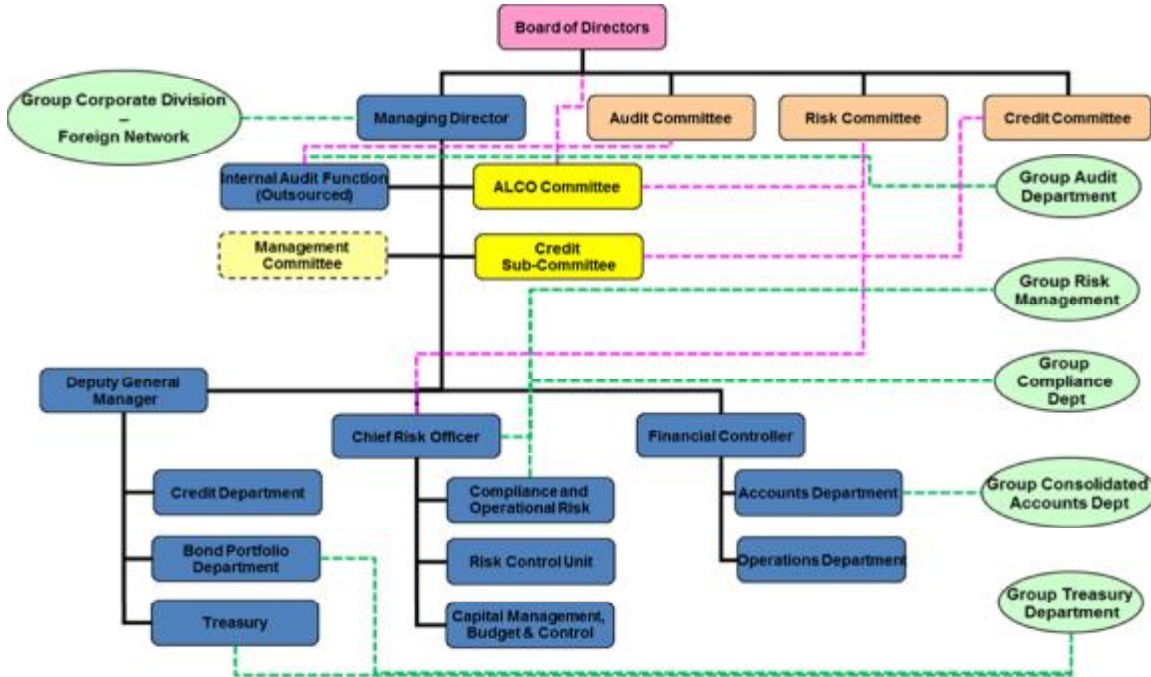
There were no contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in the Companies Act, 1990, at any time during the year ended 31 December 2012.

Directors' responsibilities

The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Structure

The overview of the Board and Executive Management structure in the chart below as at 31 December 2012 identifies key individuals and committees and their inter-relationship with business and control units:



Management responsibilities

Management at departmental level has primary responsibility for the execution of all internal controls implemented by the Directors in collaboration with the Senior Management of the Company. They ensure risks relating to all business processes are identified and mitigated through adequate control levels defined in departmental policies and procedures. The mapping of these processes and the identification of associated risks, as well as control of the adequacy and effectiveness of internal controls, are all performed by the Capital Management, Budget & Control function using an Italian Law 262-2005 compliant methodology.

Risk management framework

The Company has a dedicated Risk Control function responsible for the measurement and monitoring of financial risks. The Risk Control function reports to the Risk Committee of the Company, which is responsible for defining and proposing the risk management framework to the Directors.

INTESA SANPAOLO BANK IRELAND plc

Directors' report (*continued*)

In addition, the control and proactive monitoring of internal processes is performed by the Operational Risk function, which reports to the Audit Committee on a periodical basis. The Risk and Audit standing Committees, established by the Board, assists the Directors in fulfilling their responsibilities in the supervision over the financial reporting process, the auditing process, the existing internal control system, the risk management reporting, and the compliance with laws, regulations, rules and code of conduct of the Company.

The active involvement of the Managing Director of the Company in the Company's management of risks allows the Board to continually monitor risks and to ensure the adherence on an on-going basis to the Company's strict internal control procedures.

In respect of the financial reporting process, the Company has mapped such process, identifying controls that must be complied with. Some of these controls are designed to ensure that:

- Business transactions are properly authorized, approved and executed within the transaction limits identified by the Risk Control department;
- Financial reporting is accurate and complies with the financial reporting framework; and,
- Systems are in place to achieve high standards of compliance with regulatory requirements.

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors in office, whose names and functions are listed on page 4 confirm that, to the best of each person's knowledge and belief:

- The financial statement, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2012 and its profit for the year then ended; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that they face.

COMPLIANCE STATEMENT

Intesa Sanpaolo Bank Ireland plc is subject to the requirements laid out under the Corporate Governance Code for Credit Institutions for "non major institution" and is required under section 25 of the code to submit an Annual Compliance Statement to the Central Bank of Ireland for the period 1 January 2012 to 31 December 2012.

The Directors of Intesa Sanpaolo Bank Ireland plc, confirm that to the best of their knowledge, that Intesa Sanpaolo Bank Ireland has materially complied with all of its obligations and requirements under the Code.

This statement will be communicated in accordance with the Central Bank of Ireland requirements.

On behalf of the board

M. A. Bertotti
Chairman

G. Pizzutto
Managing Director

I. Letchford
Director

R. Barkley
Director

27 February 2013

INTESA SANPAOLO BANK IRELAND plc

Statement of directors' responsibilities

The directors present herewith the audited financial statements for the year ended 31 December 2012.

The directors are responsible for preparing the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2012 applicable to companies reporting under IFRS.

Irish company law requires the directors to prepare financial statements for each financial year which 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 estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS; 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 confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to prepare the financial statements in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2012 applicable to companies reporting under IFRS.

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.

On behalf of the board

M. A. Bertotti
Chairman

G. Pizzutto
Managing Director

I. Letchford
Director

R. Barkley
Director

27 February 2013

Independent auditors' report to the members of INTESA SANPAOLO BANK IRELAND plc

We have audited the financial statements ('financial statements') of Intesa Sanpaolo Bank Ireland plc for the year ended 31 December 2012 which comprise of Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

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

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

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the statement of financial position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would

**Independent auditors' report to the members of INTESA SANPAOLO BANK IRELAND plc
– continued**

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

require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

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

27 February 2013

INTESA SANPAOLO BANK IRELAND plc

Income statement <i>For the year ended 31 December 2012</i>	Note	2012 €000	2011 €000
Interest and similar income	7	521,462	546,463
Interest expense and similar charges	7	(442,097)	(435,147)
Net interest income		79,365	111,316
Fees and commission income	8	5,898	9,179
Fees and commission expense	8	(20,702)	(18,622)
Net fees and commission expense		(14,804)	(9,443)
Net trading expense	9	(10,380)	(3,360)
Foreign exchange profit / (loss)		18	(12)
(Charge) / release of provision for impairment of loans and receivables	20	(499)	6,925
(Charge) / release of provisions for liabilities and commitments	30	(82)	2,205
Net operating income		53,618	107,631
Administrative expenses	11	(4,299)	(5,334)
Depreciation		(32)	(52)
Total operating expenses		(4,331)	(5,386)
Profit before tax	12	49,287	102,245
Income tax expense	13	(6,152)	(12,790)
Profit for the financial year		43,135	89,455
Profit attributable to the equity holders of the parent		43,135	89,455

All of the above profits are in respect of continuing operations.

The notes on pages 15 to 75 are an integral part of these financial statements.

On behalf of the board

M. A. Bertotti
Chairman

G. Pizzutto
Managing Director

I. Letchford
Director

S. Keaveney
*For and on behalf of Capita International Financial Services (Ireland) Ltd
Company Secretary*

INTESA SANPAOLO BANK IRELAND plc

Statement of comprehensive income <i>For the year ended 31 December 2012</i>	2012 €000	2011 €000
Profit for the year	43,135	89,455
Other comprehensive income		
Net unrealised gain / (loss) on available for sale debt securities	43,577	(25,754)
Net realised gain on available for sale debt securities reclassified to the income statement	4,979	631
Income tax relating to components of other comprehensive income	(6,069)	3,140
Other comprehensive income for the year, net of tax	42,487	(21,983)
Total comprehensive income for the year, net of tax	85,622	67,472
Total comprehensive income for the year attributable to equity holders of the parent	85,622	67,472

INTESA SANPAOLO BANK IRELAND plc

Statement of financial position As at 31 December 2012	Note	2012 €000	2011 €000
ASSETS			
Cash and balances with central banks	15	54,653	77,385
Financial assets at fair value through profit or loss	16	62,046	65,289
Available for sale debt securities	17	2,955,932	1,148,962
Loans and advances to banks	18	9,781,329	15,041,088
Loans and advances to customers	19	3,469,782	4,118,547
Derivative financial instruments	21	372,876	330,264
Prepayments and accrued income		478	480
Current Tax		1,980	-
Deferred tax asset	22	1,263	5,591
Other assets	24	7,651	8,208
Property, plant and equipment	25	53	52
Total assets		16,708,043	20,795,866
LIABILITIES			
Deposits from banks	26	2,299,871	10,297,226
Debt securities in issue	27	9,548,866	6,989,181
Repurchase agreements	28	1,208,750	1,001
Due to customers		1,899,353	1,908,470
Derivative financial instruments	21	579,075	469,733
Current tax		-	490
Deferred tax liability	22	2,025	279
Accruals and deferred income		10,770	10,853
Other liabilities	29	2,203	2,206
Provisions for liabilities and commitments	30	171	90
Total liabilities		15,551,084	19,679,529
EQUITY attributable to the equity holders of the parent company			
Share capital	31	400,500	400,500
Share premium	31	1,025	1,025
Available for sale reserves		9,410	(33,077)
Other reserves		506,764	506,764
Retained earnings		239,260	241,125
Total equity		1,156,959	1,116,337
Total liabilities and shareholders' funds		16,708,043	20,795,866

The notes on pages 15 to 75 are an integral part of these financial statements.

On behalf of the board

M. A. Bertotti
Chairman

G. Pizzutto
Managing Director

I. Letchford
Director

S. Keaveney
For and on behalf of Capita International Financial Services (Ireland) Ltd
Company Secretary

INTESA SANPAOLO BANK IRELAND plc

Statement of changes in equity for the year ended 31 December 2012

	Attributable to equity shareholders of the Company					Total €000
	Share capital €000	Share premium €000	Available for sale reserves €000	Other reserves €000	Retained earnings €000	
1 January 2011	400,500	1,025	(11,094)	506,764	218,433	1,115,628
Profit for the financial year	-	-	-	-	89,455	89,455
Other comprehensive income	-	-	(21,983)	-	-	(21,983)
Total comprehensive income for the year	-	-	(21,983)	-	89,455	67,472
Equity dividends	-	-	-	-	(66,763)	(66,763)
31 December 2011	400,500	1,025	(33,077)	506,764	241,125	1,116,337
1 January 2012	400,500	1,025	(33,077)	506,764	241,125	1,116,337
Profit for the financial year	-	-	-	-	43,135	43,135
Other comprehensive income	-	-	42,487	-	-	42,487
Total comprehensive income for the year	-	-	42,487	-	43,135	85,622
Equity dividends	-	-	-	-	(45,000)	(45,000)
31 December 2012	400,500	1,025	9,410	506,764	239,260	1,156,959

Other reserves include a distributable capital contribution of €506,764,365 (2011: €506,764,365).

INTESA SANPAOLO BANK IRELAND plc

Statement of cash flows for the year ended 31 December 2012

	Note	2012 €000	2011 €000
Cash flows from operating activities			
Interest received		520,506	547,363
Fee and commission receipts		5,818	6,525
Fee and commission paid		(19,804)	(19,265)
Net trading and other income / (expense)		14,223	5,621
Interest paid		(425,528)	(416,143)
Cash payments to employees and suppliers		(4,677)	(7,135)
Income taxes paid		(8,621)	(12,651)
		<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities		81,917	104,315
Changes in operating assets and liabilities			
Net (decrease) increase in cash and balances with central bank		49	(197)
Net decrease / (increase) in loans and advances to banks		3,270,977	(1,985,246)
Net decrease in loans and advances to customers		652,043	341,611
Net (increase) /decrease in deposits from banks		(4,468,434)	4,231,360
Net (increase) /decrease in amounts due to customers		(8,757)	47,287
Purchase of / (proceeds from) repurchase agreements		1,199,000	(357,862)
		<hr/>	<hr/>
Cash flows from changes in operating assets and liabilities		644,878	2,276,953
		<hr/>	<hr/>
Net cash from operating activities		726,795	2,381,268
Cash flows used in investing activities			
Purchase of property, plant and equipment		(34)	(34)
Purchases of available for sale debt securities		(2,309,066)	(544,478)
Proceeds of available for sale debt securities		588,790	195,429
Proceeds of assets at fair value though profit or loss		-	433
		<hr/>	<hr/>
Net cash used in investing activities		(1,720,310)	(348,650)
Cash flows used in financing activities			
Proceeds from debt securities in issue		8,061,050	5,622,116
Repayment of debt securities		(5,529,065)	(9,221,953)
Dividends paid		(45,000)	(66,763)
		<hr/>	<hr/>
Net cash used in financing activities		2,486,985	(3,666,600)
		<hr/>	<hr/>
Net increase / (decrease) in cash and cash equivalents		1,493,470	(1,633,982)
Cash and cash equivalents at beginning of year		(1,162,182)	471,800
Cash and cash equivalents at end of year	32	<hr/> 331,288 <hr/>	<hr/> (1,162,182) <hr/>

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

1. Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are material in relation to the Company's financial statements.

1.1. Reporting Entity

INTESA SANPAOLO BANK IRELAND plc is a limited Company incorporated and domiciled in the Republic of Ireland under the Companies Act, 1963 with the registration number 125216 and is regulated by the Central Bank of Ireland.

1.2. Basis of preparation and Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2012 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, except for non-derivative financial assets and financial liabilities held at fair value through profit or loss, available for sale securities and derivative contracts that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1.8 and Note 5, in relation to impairment and fair value, respectively.

Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

1.3. Segment reporting

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker (the Executive Committee) to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of a company.

1.4. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

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 financial 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

1.5. Fee and commission

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Upfront fees for loans are recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Company retains no part of the loan package for itself or retains a part at the same effective interest rate as the other participants.

1.6. Financial assets / financial liabilities

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception or at the time of adoption of IFRS. A portion of the financial assets purchased at fair value and designated at fair value were acquired from Intesa Bank Ireland during the merger in 2007 and the classification within the Group was maintained. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedged.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Available for sale financial assets

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss and available for sale are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not subsequently measured at fair value through profit or loss. 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.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in other comprehensive income (OCI), until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in OCI is recognised in the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

Financial liabilities are measured at amortised cost, except for liabilities designated at fair value, which are measured through profit or loss.

1.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.8. Impairment of financial assets

(a) 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:

- 1.1. significant financial difficulty of the issuer or obligor;
- 1.2. a breach of contract, such as a default or delinquency in interest or principal payments;
- 1.3. the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- 1.4. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- 1.5. the disappearance of an active market for that financial asset because of financial difficulties; or
- 1.6. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

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.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the recoverable amount on the impaired asset to be assessed individually is determined at INTESA SANPAOLO S.p.A. (the "Parent Company") level in conjunction with local management on the basis of the available information collected on debt secondary markets or in the credit default swap markets. In the absence or in the case of unreliability of such information, the consideration of qualitative factors in the overall individual impairment assessment process will determine the evaluation of a recovery rate by the local Senior Management in coordination with the Parent Company.

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 provision for loan impairment in the income statement.

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.

If there is no objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the internal credit rating) for the purpose of a collective evaluation of impairment. For collective assessment, reference should be made to portfolio losses already suffered, even if it is not possible to link them to any specific loans. These losses are also defined as "incurred but not reported losses", and they are determined for each transaction as a function of the risk parameters (probability of default and loss severity) defined at group level. The probability of default relating to a country or an obligor/guarantor is driven by the internal rating assigned according to the group's methodology. The internal rating is therefore a synthetic indicator of the risk attributed to a country defaulting on its cross border obligations (i.e. transfer risk), or a client/issuer becoming insolvent within a specified period of time.

For the purpose of the calculation of the incurred loss on a collective basis for corporate counterparts and countries, the Company uses the assigned internal rating as per the Parent Company's methodology as the driver for the determination of the applicable probability of default. For financial institutions, the Company uses the external rating assigned by an External Credit Assessment Institution which is then mapped onto the main probability of default scale.

The loss severity indicates the percentage of the Company's total exposure to a client or a country that will not be recovered in case of default. In the case of counterpart credit risk, it is determined on the basis of factors such as: financial guarantees/covenants, nature of loan/financial instrument, level of subordination, and legal action undertaken. In the case of

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

country risk, factors such as political environment and macro-economic conditions are considered.

The severity of the loss relating to country risk is conditional on the wealth level of that country as per the World Bank classification.

The severity of the loss relating to an obligor's default is driven by the type of transaction involved, and the geographical or business sector origins of the obligor communicated by the Parent Company.

The collective impairment provisions of the Company are defined as the sum of incurred losses for both counterpart credit risk and country risk, adjusted for the following parameters:

- Loss Confirmation Period (LCP): the Company has opted for a LCP of 1 year given the predominantly corporate structure of the portfolio, and
- Concentration Index: the concentration factor is applied to all counterparties with Large Corporate Regulatory Segmentation and validated rating models developed at Parent level. The Parent Company provides a list of entities for which a concentration index applied is as follows:

Concentration Index	
1.4	for all entities categorised by the Parent using the above mentioned methodology.
1.0	for all other entities

(b) Assets carried at fair value through other comprehensive income

The impairment testing for debt securities classified as available for sale is put into practice if the issuer is delinquent in its debtor obligations or defaults on payments, as demonstrated by any one of the following events:

- default (as defined under international contract law),
- bankruptcy proceedings, and
- delinquency in interest or principal payments (except where the issuer is entitled contractually not to make interest payments without being in breach of contract).

Where the issuer does not default, though the fair value of the bonds is lower than their carrying amount, further checks will need to be conducted. In particular, management assess whether the fair value of the bonds is more than 20% less than their carrying value as per Group accounting policy, whether any other indicators of impairment exist:

- unexpected and substantial downgrade,
- debt restructuring scenarios, and
- sudden disappearance of an active market or prices of CDS with premium up-front.

If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from OCI and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

(c) Provisions for liabilities and commitments

Impairments made on a collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, are determined by applying a calibration factor, driven by the credit quality of the obligor, to the same criteria set out above with respect to loans and receivables.

1.9. Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from valuation techniques such as discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value by the Risk Management Department of the Parent Company with changes in fair value recognised in the income statement. The Company mitigates all risks generated by embedded derivatives which are mitigated with the Parent Company by entering into opposite derivative risk transactions.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument. The Company designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items (efficiency tests). At year end the Company only had fair value hedges.

In the case of a fair value hedge, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the income statement.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the changes in the fair value of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

The Company applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book. The Company has adopted to perform its effectiveness tests using the "Dollar offset method". The method is based on the relationship between the cumulative changes (from the beginning of

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

coverage) in the fair value or cash flow hedged item attributable to the hedged risk and past changes in fair value or cash flows of hedging instrument (delta fair value), net of accrued interest.

In line with the Group rules for testing and measuring the effectiveness of hedges, interest rate risk (IAS 39), the Company applies materiality thresholds and back-testing methodologies in its effectiveness testing processes.

In the case of an effectiveness test showing results within the range 80-125%, but different than 100%, the Mark to Market (MTM) value associated to the differential is recorded into the income statement.

In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately in the income statement. In 2012 the Bank did not have any instances of failures in relation to effectiveness testing.

1.10. Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office equipment	20% straight line
Computer equipment & software	33.3% straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

1.11. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturity of less than three months, including cash, loans and advances to banks and deposits from banks.

1.12. Foreign currency translation

(a) *Functional and presentation currency*

The financial statements are presented in Euro, which is the Company's functional and presentation currency, with amounts being rounded to the nearest thousand, unless otherwise stated.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Non monetary items*

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

1.13. Pension costs

The Company operates a defined contribution scheme. The Company pays contributions to privately administered pension insurance plans on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

1.14. Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable to or disallowed for tax. It is calculated using tax rates that were applicable to the current reporting year-end. Current tax is recognised in the income statement in the period in which the profits or losses arise except to the extent that it relates to items recognised in OCI or directly in equity, in which case the tax is also recognised in OCI or equity respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the year end reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current tax and deferred tax relating to items recognised directly in OCI or equity are also recognised in OCI or in equity respectively and not in the income statement.

1.15. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

1.16. Guarantees

In the ordinary course of business, the Company gives guarantees, consisting of letters of credit, guarantees and acceptances. Guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less, where appropriate, cumulative amortisation recognised in the income statement, and the best estimate of probable expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to guarantees is recorded in the income statement. The premium received is recognised in the income statement in "net fees and commission income" on a straight line basis over the life of the guarantee.

The Company may receive open lines of credit, committed facility or other forms of financial money market credit facility. These facilities are not recognised in the statement of financial position unless the actual drawdown has been made. Related expenses, fees or interest on undrawn amounts are recognised in the income statement.

1.17. Repurchase / LTRO agreements

Securities sold under agreements to repurchase at a specified future date at a pre agreed

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

price or form part of the Long Term Refinancing Operations with the Central Bank of Ireland are not derecognised from the statement of financial position as the Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “Repurchase agreements”, reflecting the transaction’s economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. See Note 28.

1.18. New standards

Adoption of new and amendment of accounting standards

From 1 January 2013 the Company has adopted the following amendments to standards:

- IFRS 7 Financial Instruments – Disclosures (amendment); IFRS 7 requires additional disclosures on the risk exposures relating to transfers of financial assets and the effect they may have on the entity.

Prospective accounting changes

The Company has not applied the following new standards and amendments to standards that have been approved by the International Accounting Standards Board and which are likely to be applicable to the Company with an effective date after the date of these financial statements:

	Effective date
• IAS 1 Presentation of Financial Statements – Presentation of items of other comprehensive income	1 July 2012
• IFRS 7 – Offsetting financial assets and financial liabilities	1 January 2013
• IAS 32 – Offsetting financial assets and financial liabilities	1 January 2014
• IFRS 13 Fair Value Measurement	1 January 2013
• IFRS 9 Financial Instruments	1 January 2015

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

2. Qualitative risk disclosures and Basel 2

Capital Management

The definition of a capital plan for the Company is based on the management of capital adequacy at Group level, consisting of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements. The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources which are allocated to the Business Units such as INTESA SANPAOLO BANK IRELAND plc on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders.

At Group and local levels, the regulatory capital at risk and the overall economic capital at risk differ by definition and in terms of the coverage of the risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Bank and the consequent measurement in relation to the exposure assumed.

Capital Management essentially involves the control of capital soundness through the careful monitoring of both the regulatory constraints and current and prospective operational constraints (overall economic capital) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.

The process of assessment of capital adequacy at the Company follows this “twin track” approach established by the Group: regulatory capital at risk against the total own funds of the bank for solvency purposes, and overall economic capital at risk for the purposes of the ICAAP (International Capital Adequacy Assessment Process) process against the Company’s available financial resources as defined by the Group.

Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Company’s budget.

Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.

Regulatory Capital

The Company is included in the Core Perimeter of the Group’s Basel II Project with a defined road map for the roll-out to the Irish subsidiary in line with methodological approaches used by the Parent Company. Following notification to the Central Bank of Ireland, an AIRB approach for the risk exposures related to corporate obligors (excluding non-bank financial institutions) was introduced starting 31 March 2012 for regulatory purposes, while the Basel II Standardised Approach is used to calculate capital requirements for Credit and Counterparty Risk related to other obligors. With regard to Operational Risk, the Company adopted a Standardised Approach from January 2010.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

The table below discloses the regulatory capital requirements of the Company and the associated solvency ratios for 2012 and 2011 year-ends and underlines its prudential capital management objective:

Regulatory Capital Information 2012 and 2011

	Eligible Own Funds 2012 €000	Capital Requirement 2012 €000	Eligible Own Funds 2011 €000	Capital Requirement 2011 €000
Equity	1,104,410		1,026,883	
Prudential filters and regulatory adjustments	(85,881)		(87,781)	
Core Tier 1	1,018,529	593,047	939,102	788,445
Total Tier 1	1,018,529	593,047	939,102	788,445
Collective provisions	834		497	
Prudential filters and regulatory adjustments	(834)		(497)	
Tier 2	-		-	
Total Capital	1,018,529	593,047	939,102	788,445
Risk Weighted Assets	6,856,945		9,199,775	
Tier 1 Capital Ratio	13.74%		9.53%	
Total Capital Ratio	13.74%		9.53%	

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

3. Quantitative risk disclosures

The Company has streamlined its risk management disclosures in order to be in line with industry practice.

3.1. Credit Risk and Counterparty Credit Risk

Financial assets, including loans and advances, debt securities and off-balance sheet commitments such as guarantees, undrawn committed credit lines and derivatives generate credit risk. Credit risk is characterised, for a specific counterparty, by the existence of a potential loss linked to the possible default of that counterparty, regarding the commitments to which it has subscribed to.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to also industry segments. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Limits on the level of credit risk by borrower are assessed on the basis of a credit risk management model developed by the Parent Group, including an internal rating system applied to all corporate clients, and are approved on an on-going basis by the Board of Directors. Limits on the level of credit risk by industry sector are also approved by the Company's Board of Directors, in compliance with local regulatory requirements.

Credit Risk Exposures related to Loans and Receivables:

With regard to loans, the total exposure of the Company derived from loans to banks and customers amounted to €13.251 billion at the end of 2012 (€19.16 billion in 2011):

	2012	2011
	€000	€000
Loans and advances to banks		
<i>(as per Statement of Financial Position)</i>	9,781,329	15,041,088
Loans and advances to customers		
<i>(as per Statement of Financial Position)</i>	3,469,782	4,118,547
	13,251,111	19,159,635

The breakdown of the Company's credit risk exposures relating to Loans and Receivables at year-ends 2012 and 2011 by activity sector for non-group exposures is provided in the table below (physical non-cash collateral is assigned to the relevant activity sector while cash collateral is shown separately).

Sector of Risk	2012		2011	
	€000	%	€000	%
Central Government	429,982	42.02	163,227	17.60
Credit Institutions	219,122	21.42	83,971	9.05
Electricity, Gas and Water Supply	3,557	0.35	36,425	3.93
Financial Intermediaries (Excl. Credit Institutions / Central Bank)	290,232	28.37	528,401	56.97
Manufacturing	9,942	0.97	41,562	4.48
Mining and Quarrying	9	0.00	110	0.01
Transport, Storage and Communications	70,335	6.87	73,756	7.95
Total Non-Group	1,023,179	100.00	927,453	100.00

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Total Group	12,054,023	18,019,019
Cash collateral	173,909	213,163
Grand Total, including cash collateral	13,251,111	19,159,635

The breakdown of the Company's credit risk exposures relating to Loans and Receivables at year-ends 2012 and 2011 by internal credit rating is provided in the table below (all eligible collateral – cash and non cash were reported separately):

Counterparty Internal Rating	2012		2011	
	€000	%	€000	%
DEFAULT	17,104	1.67	17,104	1.87
I.1.A	200,687	19.61	163,227	17.82
I.1.C	-	0.00	232,115	25.34
I.1.D	-	0.00	347	0.04
I.1.E	9,480	0.93	16,706	1.82
I.1.F	10,020	0.98	97,620	10.66
I2	229,296	22.41	-	0.00
I3	59,388	5.80	35,831	3.91
I4	135,054	13.20	-	0.00
I5	234	0.02	299,379	32.69
I6	243,977	23.85	38,392	4.19
M1	106,716	10.43	-	0.00
M2	879	0.09	798	0.09
M3	10,161	0.99	14,146	1.54
M4	9	0.00	-	0.00
R1	-	0.00	2	0.00
R5	174	0.02	198	0.02
Total Non-Group	1,023,179	100.00	915,866	100.00
Group I.1.D	-	0.00	62,688	0.35
Group I.1.F	275,221	2.28	17,757,392	98.55
Group I2	-	0.00	198,940	1.10
Group I4	11,778,802	97.72	-	0.00
Group Total, excluding collateral	12,054,023	100.00	18,019,019	100.00
Collateral (inc. cash) Non-Group	46,993		71,564	
Collateral (inc. cash) Group	126,916		153,186	
Total of Collateral (inc. cash)	173,909		224,750	
Grand Total	13,251,111		19,159,635	

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

In the case of financial institutions and governments, the external credit ratings assigned by an ECAI has been mapped onto the group internal rating scale using the worse external rating when two are available, or the second worse when three are available using the following mapping table:

S&P's Rating equivalent	Counterparty Internal Rating
AAA	I.1.A
AA+	I.1.B
AA	I.1.C
AA-	I.1.D
A+	I.1.E
A	I.1.F
A-	I2
BBB+	I3 I4
BBB	I5
BBB-	I6
BB+	M1 M2
BB	M3
BB-	M4
B+	R1 R2
B	R3
B-	R4
CCC	R5

The following tables provide a breakdown of loans and advances to banks and customers by loan quality

	2012		2011		Change net exposure €000
	Net exposure €000	% break-down	Net exposure €000	% break-down	
Doubtful Loans	17,104	0.13	17,104	0.1	-
Substandard Loans	46,530	0.35	-	-	46,530
Past Due Loans	-	-	46,655	0.2	(46,655)
Non Performing Loans	63,634	0.48	63,759	0.3	(125)
Performing Loans	13,187,477	99.52	19,095,876	99.7	(5,908,399)
Loans and Advances to Banks and Customers	13,251,111	100.00	19,159,635	100.0	(5,908,524)

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

	Gross exposure €000	2012 Impairment provisions €000	Net exposure €000	Gross exposure €000	2011 Impairment provisions €000	Net exposure €000
Doubtful Loans	78,175	(61,071)	17,104	78,190	(61,086)	17,104
Substandard Loans	46,579	(49)	46,530	-	-	-
Past Due Loans	-	-	-	46,680	(25)	46,655
Non Performing Loans	124,754	(61,120)	63,634	124,870	(61,111)	63,759
Performing Loans	13,188,599	(1,122)	13,187,477	19,096,531	(655)	19,095,876
Loans and Advances to Banks and Customers	13,313,353	(62,242)	13,251,111	19,221,401	(61,766)	19,159,635

Non-performing loans decreased last year both on a gross and net exposure basis, with a net exposure representing 0.5% of the total loans and advances to banks and customers in December 2012 (0.3% in December 2011).

Gross exposure relating to doubtful loans remained stable during 2012 amounting to €78.17 million at year-end. Individual impairment losses on these exposures covered 78.12% of the gross exposure at year-end 2012 (78.13% in December 2011) and is considered in line with market-driven recovery expectations. Net exposure to doubtful loans remained unchanged representing 0.13% of total loans and advances to banks and customers in December 2012 (0.09% in December 2011).

There is currently no exposure to past due loans in December 2012 (2011: €46.68 million) due to the deterioration in the credit quality resulting in the reclassification of exposures to substandard loans.

Gross exposure to substandard loans increased during 2012 with a year-end balance of €46.58 million (2011: Nil). Net exposure to substandard loans represented 0.35% of total loans and advances to banks and customers in December 2012 (Nil in December 2011). Gross exposure to substandard loans after credit mitigation is €0.22 million in December 2012 (2011: Nil). Net exposure to substandard loans after credit mitigation is €0.17 million in December 2012 (2011: Nil).

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

A breakdown of the Company's credit risk exposures relating to Loans and Receivables at year-ends 2012 and 2011 by country risk is shown in the following table (all collaterals including cash are assigned to the country of the location of the collateral; exposures to branches of the Parent Company are reported as Italian exposures):

Group Exposures	2012		2011	
Country of Risk	€000	%	€000	%
Albania	3,839	0.03	-	0.00
Croatia	60,036	0.49	60,058	0.33
Hungary	275,221	2.26	878,077	4.83
Italy	11,463,033	94.11	13,507,098	74.33
Luxembourg	-	0.00	3,309,673	18.21
Romania	59,810	0.49	65,172	0.36
Slovak Republic	156,945	1.29	158,396	0.87
Slovenia	35,138	0.29	40,544	0.22
United Kingdom	126,916	1.04	153,186	0.84
Total Group	12,180,939	100.00	18,172,205	100.00

Non-Group Exposures	2012		2011	
Country of Risk	€000	%	€000	%
Cyprus	174	0.02	198	0.02
Germany	210,167	19.64	172,896	17.51
Iceland	17,104	1.60	17,104	1.73
Ireland	379,026	35.42	236,070	23.91
Italy	343,257	32.07	338,156	34.25
Poland	16,514	1.54	24,671	2.50
Portugal	49,746	4.65	49,869	5.05
Qatar	-	0.00	23,910	2.42
Russia	601	0.06	20,141	2.04
Switzerland	-	0.00	40,543	4.11
United Kingdom	37,789	3.53	49,075	4.97
United States	15,794	1.48	14,797	1.50
Total Non-Group	1,070,172	100.00	987,430	100.00

Grand Total	13,251,111		19,159,635	
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INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Credit Risk Exposures related to Contingent Liabilities and Commitment Outstanding:

A breakdown of the Company's contingent credit risk exposures at year-ends 2012 and 2011 by activity sectors is shown in the table below:

Sector of Risk	2012		2011	
	€000	%	€000	%
Central Government	123,158	42.22	62,617	16.04
Electricity, Gas and Water Supply	56,505	19.37	24,144	6.19
Financial Intermediaries (Excl. Credit Institutions / Central Bank)	-	0.00	118,753	30.42
Manufacturing	72,981	25.02	102,794	26.33
Transport, Storage and Communications	39,084	13.40	82,039	21.02
Total Non-Group	291,728	100.00	390,347	100.00
Group	482,985		552,174	
Grand Total	774,713		942,522	

A breakdown of the Company's contingent credit risk exposures at year-ends 2012 and 2011 by internal credit rating is shown in the table below:

Rating	2012		2011	
	€000	%	€000	%
I.1.A	38,297	13.13	62,617	16.04
I.1.C	-	0.00	56,925	14.58
I.1.E	57,981	19.87	59,124	15.15
I.1.F	15,000	5.14	15,000	3.84
I2	84,861	29.09	111,829	28.65
I3	39,084	13.40	77,201	19.78
I5	-	0.00	7,653	1.96
I6	56,505	19.37	-	0.00
Total Non-Group	291,728	100.00	390,347	100.00
Group I.1.F	-	0.00	122,174	22.13
Group I.2	-	0.00	430,000	77.87
Group I.4	482,985	100.00	-	0.00
Group Total	482,985	100.00	552,174	100.00
Grand Total	774,713		942,522	

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

A breakdown of the Company's contingent credit risk exposures at year-ends 2012 and 2011 by country risk is shown in the table below:

Non-Group Exposures	2012		2011	
Country of Risk	€000	%	€000	%
Germany	111,278	38.14	136,740	35.03
Ireland	56,505	19.37	24,144	6.19
Italy	84,861	29.09	56,925	14.58
Netherlands	-	0.00	61,829	15.84
Poland	39,084	13.40	53,057	13.59
Sweden	-	0.00	50,000	12.81
Switzerland	-	0.00	7,653	1.96
Total	291,728	100.00	390,347	100.00

Group Exposures	2012		2011	
Country of Risk	€000	%	€000	%
Italy	112,985	23.39	122,174	22.13
Slovenia	370,000	76.61	430,000	77.87
Total	482,985	100.00	552,174	100.00

Grand Total	774,713	942,522
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Credit Risk Exposures related to the Securities Portfolio

The Company has in place a Notional Limit of €3 billion equivalent for the purchase of Bonds. Within the Company's approved Financial Portfolio the investment in permissible bonds is subject to sub category limits as described therein.

The total exposure of the Company derived from Available for Sale and Carried at Fair Value through profit or loss bonds after adjustments shown in the following table, amounted up to €3,018 million at the end of 2012 (€1,214 million in 2011).

	2012	2011
	€000	€000
Securities Carried at Fair Value Through Profit or Loss <i>(as per Statement of Financial Position)</i>	62,046	65,289
Securities Available for Sale <i>(as per Statement of Financial Position)</i>	2,955,932	1,148,962
	3,017,978	1,214,251

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

A breakdown of the Company's credit risk exposures related to bonds at year-ends 2012 and 2011 by activity sectors is shown in the table below:

	2012	2011
Sector of Risk	€000	€000
Central Government (EU)	2,600,784	654,792
Credit Institutions	221,734	335,718
Extra-Territorial Organisations and Bodies	79,279	76,768
Financial Intermediaries (Excl. Credit Institutions / Central Bank)	92,811	126,106
Transport, Storage and Communications	23,370	20,867
Total	3,017,978	1,214,251

A breakdown of the Company's credit risk exposures related to bonds at year-ends 2012 and 2011 by internal credit rating (refer to page 29 for the mapping of the internal rating with the external credit rating) is shown in the table below:

	2012	2011
Internal Rating	€000	€000
I.1.A	260,933	134,739
I.1.B	23,370	-
I.1.C	9,988	9,705
I.1.D	-	52,554
I.1.E	-	140,841
I.1.F	46,409	762,986
I2	8,065	51,816
I3	36,226	-
I4	-	22,120
I5	2,623,005	31,013
I6	9,982	-
M1	-	8,475
Total	3,017,978	1,214,251

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

A breakdown of the Company's credit risk exposures related to bonds at year-ends 2012 and 2011 by country risk is shown in the following table:

	2012	2011
Country of Risk	€000	€000
Austria	23,370	20,867
Finland	12,645	12,176
France	106,575	106,608
Germany	-	18,917
Italy	2,705,284	781,048
Luxembourg	79,279	76,768
Netherlands	22,225	21,316
Norway	24,634	24,047
Portugal	-	8,475
Spain	-	43,204
United Kingdom	43,966	72,480
United States	-	28,346
Total	3,017,978	1,214,251

The bond portfolio's fair value is subject to the volatility of credit spreads associated with each issuer and representative of both their specific credit worthiness as well as systematic credit market conditions. The impact of the sensitivity of the portfolio to credit spread volatility will actually vary in accordance with the accounting classification of each bond and the relevant accounting principles in application. The table below provides estimates of the material potential impact of a parallel upward shift of 25 basis points of individual credit spread curves on the revaluation of bonds classified at fair value through profit or loss ("CFV Securities") or OCI and equity ("AFS Securities") of the Company in 2012.

Price Sensitivity Analysis as at 31 December 2012 of CFV and AFS Securities to Credit Spread Volatility

	Profit & Loss	Other Comprehensive Income and Equity
	€000	€000
AFS Securities	-	(10,906)
Economically hedged CFV Securities	(439)	-
Total	(439)	(10,906)

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Price Sensitivity Analysis as at 31 December 2011 of CFV and AFS Securities to Credit Spread Volatility

	Profit & Loss	Other Comprehensive income and Equity
	€000	€000
AFS Securities	-	(5,315)
Economically hedged CFV Securities	(587)	-
Total	(587)	(5,315)

Use of Credit Risk Mitigants:

At year-end 2012, of the total amount of loans and advances (excluding intra-Group transactions) of €1.754 billion (2011: €1.87 billion), €1.22 billion (2011: €1.48 billion) (representing 69.56% (2011 : 79%)) had a credit risk mitigation (including but not limited to risk participations and export credit guarantees) attached.

Collateral Management:

An amount of €419.80 million of risk exposures were partially or fully covered by collateral at year-end 2012 (2011: €511.72 million), with an adjusted fair value of such collateral estimated at €333.72 million at 31 December 2012 (2011: €603.63 million). The collateral related to derivative exposure of €245.90 million and loan and advances of €173.91 million.

The Company did not take possession of any new pledged collateral, excluding cash and securities, during the course of the financial year.

In case of the default of an obligor (as defined in the terms and conditions of the contractual agreement linking the obligor to the Company), the Company will call the guarantee first, if applicable, and then assign the pledged collateral to the same guarantor. If no such guarantee exists, the Company will proceed with the disposal of the collateral using professional support depending on the type of collateral involved.

Credit Concentrations Monitoring:

It is the policy of the Company to monitor and control concentrations of credit so that they do not exceed specified limits. It is sound banking practice to avoid concentration of lending to specific industries and specific clients or group of clients. On the contrary, it is preferable to spread exposure over an extensive cross section of industries and geographic locations.

In addition to the monitoring of concentration limits at the counterparty and sectors of activity levels, the Board has adopted the prudent view of calibrating the collective impairment provisions of the Company to take into consideration the materiality of the credit concentration risk factor associated with the Company's activity of lending principally to large corporations (as described above). The Concentration Index, utilised for the computation of collective impairment provisions, is reviewed by the Risk Control Unit periodically and the result is communicated to the Board.

One key concentration limit of the Company concerns the concentration to any singular or group of

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

connected clients calculated as a portion of owns funds whereby any final exposure (uncovered by any credit risk mitigation) to a client or group of connected clients shall be considered a Large Exposure if its value is equal to or exceeds 10 per cent of the Company's Own Funds base.

The Company has set the following limits:

- Large Exposures to a client or group of connected clients not to exceed 25% of the Own Funds base. Intra-Group credit or financial institutions, Central Governments and Central Banks exposures are exempt from this requirement.
- The sum of Large Exposures in total not to exceed 800 per cent of Own Funds base.
- Loans to Directors are not permitted.

Another concentration limit concerns sector economic activity whereby the aggregate amount of risk-weighted loans and undrawn commitments concentrated in one sector of business or economic activity, excluding credit institutions, government, extra-territorial organisations and central bank, must not exceed 200% of the Own Funds base. Where a common risk could be considered to apply to two or more separate sectors (for example, property development and building sectors), then not more than 250% of the Own Funds base shall be employed in such sectors on an aggregate basis.

Credit Risk Exposures related to derivatives

The Company had entered into stand-alone derivative transactions for a total notional of €9.80 billion at the end of 2012 (2011: €4.52 billion), of which €4.21 billion were classified as hedging derivatives with application of hedge accounting rules (2011: €3.08 billion). The rest of the stand-alone derivatives are used as macro-hedges in order to mitigate the interest rate risk derived from assets and liabilities maturity mismatches and foreign exchange risk generated by mismatches between the respective currencies of assets and liabilities.

At the end of 2012, 95.8% of the derivatives involving the Company were dealt with another entity of the Group (2011: 91%). Collateralised derivatives amounted to €245.90 million. The Company computes a credit risk adjustment for all derivatives with non-Group counterparties based on the risk of default of the counterparty (unless a collateral agreement exists between the counterparty and the Company), which is added to the valuation of the derivatives recorded by the Company.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

3.2. Liquidity Risk

Liquidity is the ability of a credit institution to meet its on and off-balance sheet obligations in a timely manner as they fall due, without incurring significant cost, while continuing to fund its assets and growth therein.

Funding liquidity risk arises from the inability to meet payment obligations due to the lack of liquid funds and related difficulties in selling assets or raising funds in the market, and focuses on the short-term (below two years), as in the event of a liquidity crisis, the ability to meet payments in the first few days is a critical determinant of the subsequent evolution of the crisis.

As per the Company's Liquidity Risk Policy approved by the Board of Directors in line with the Financial Regulator requirements, the Company's liquidity analysis aims at:

- Defining the liquidity risk on the basis of mismatches between maturing or readily realisable assets and maturing liabilities for each time band (liquidity gap), amounts are deemed to include accrued interest.
- Defining "target liquidity ratios" for the on-demand to 8 days and the 9 days – 1 month periods. Furthermore "attention thresholds" are defined on the liquidity gap for the 1-3 month, 3-6 month, 6-12 month, 1-2 years and more than 2 years periods. The target liquidity ratios and the attention thresholds are defined as the ratio of inflows to outflows in a given time period. The value of the first target liquidity ratio must remain above one, while the value of the second target liquidity ratio, computed on a cumulative basis (including net inflows or outflows from the previous time band), must remain above 0.9. Attention thresholds are monitored for information purposes.
- Defining rules for maintaining a minimum of liquid assets to cover very short-term liquidity risk, to be refinanced through borrowings.

Historical statistics on liquidity ratios (standard case) for 2012 and 2011

	2012		2011	
	0-8 days %	9d – 1m %	0-8 days %	9d – 1m %
Minimum	100.1	91.4	100.5	90.2
Maximum	402.7	326.9	270.7	131.8
Average	136.0	109.1	142.5	97.0

Further to CEBS' Guidelines on Liquidity Buffers & Survival Periods the Company has implemented a committed money market line dedicated to cover potential liquidity shortfalls experienced by the Bank under stressed conditions.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

The following tables show the liquidity risk exposures of the Company for the year ended 2012 and 2011 using the IFRS 7 application guidance and assuming that all undrawn loan commitments are included in the time band containing the earliest date they can be drawn (0-8 days).

OUTSTANDING DRAWN €000	31-Dec-2012	Sight to 8 days	Over 8 days to 1 month	Over 1 mth to 3 mths	Over 3 mth to 6 mths	Over 6 mth to 1 year	1 year to 2 years	Over 2 years
INFLOWS								
Readily Marketable Assets/Liquid Assets	2,685,489	-	-	-	-	-	-	-
Cash	901	-	-	-	-	-	-	-
Lending to MFI's	958,759	-	-	-	-	-	-	-
Securities other than shares issued by MFI's	103,425	-	-	-	-	-	-	-
Central Government Securities	1,570,375	-	-	-	-	-	-	-
Securities other than shares issued by non MFI's	-	-	-	-	-	-	-	-
Accrued Interest	1,972	-	-	-	-	-	-	-
Minimum Reserve Balance	53,725	-	-	-	-	-	-	-
Less Deposit Protection Account	3,668	-	-	-	-	-	-	-
Monetary Financial Institutions	1,039	182,869	453,974	480,937	1,692,976	1,513,474	8,573,882	
- Affiliates	1,039	98,731	223,139	475,493	1,563,419	1,503,825	8,460,605	
- Other Credit Institutions - Non Irish	-	34,089	1,403	5,444	129,557	9,649	113,276	
- All other Monetary Financial Institutions	-	50,049	-	-	-	-	-	
- Sale of Securities or Investments in MFI's	-	-	229,432	-	-	1	-	
Central Government	43,373	-	926,042	-	-	-	-	
- from investments	43,373	-	926,042	-	-	-	-	
Other General Government Credit	-	-	38,910	-	-	-	-	
- from investments	-	-	38,910	-	-	-	-	
Non Government Credit	21,202	270,022	250,528	58,972	482,864	197,584	833,464	
- Term Loans	21,202	270,022	250,528	58,972	482,864	197,584	833,464	
Fee Income	-	-	-	-	-	-	-	
Derivative and OBS Activity	1,750,879	6,129	23,119	21,916	55,470	47,766	438,518	
- Swap	1,750,879	6,129	23,119	21,916	55,470	47,766	438,518	
Total Inflows	4,501,981	459,019	1,692,573	561,824	2,231,310	1,758,824	9,845,863	
OUTFLOWS								
Monetary Financial Institutions	9,652	69,135	2,291,250	29,920	28,649	124,033	2,539,748	
- Affiliates	7,900	60,073	2,180,770	-	500	1,034	3,527	
- Other Credit Institutions - non Irish	-	-	-	5,321	585	5,801	12,342	
- All other Monetary Financial Institutions	1,752	9,062	110,480	24,599	27,564	117,198	2,523,880	
Debt Securities Issued	106,573	1,736,460	2,075,374	2,936,377	1,597,834	201,494	1,144,053	
Non Government Deposits	1,190	-	-	-	-	-	-	
- Current Accounts	1,190	-	-	-	-	-	-	
Sale and Repurchase Agreements	-	-	1,210,225¹	-	-	-	-	
- Affiliated Credit Institutions	-	-	1,210,225	-	-	-	-	
Fees Payable	221	725	1,859	2,867	5,797	11,500	-	
Other Costs	109	359	921	1,421	2,873	5,700	-	
Undrawn Committed Facilities Granted	749,569	-	-	-	-	-	-	
Derivative and OBS Activity	1,752,823	9,128	34,484	41,512	73,507	122,874	502,540	
- Swap	1,752,823	9,128	34,484	41,512	73,507	122,874	502,540	
Total Outflows	2,620,137	1,815,807	5,614,114	3,012,097	1,708,661	465,600	4,186,342	
Net Position in the Period	1,881,844	-1,356,787	-3,921,541	-2,450,273	522,649	1,293,224	5,659,522	
Net Cumulative Inflow/Outflow	1,881,844	525,057	-3,396,484	-5,846,757	-5,324,108	-4,030,884	1,628,637	
Liquidity Ratio (%)	171.8	128.9	39.5	8.8	29.5	30.4	119.8	

¹ Includes €1.2 billion LTRO extendable at our option to 2015.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

OUTSTANDING DRAWN €000	31-Dec-2011						
Time band	Sight to 8 days	Over 8 days to 1 month	Over 1 mth to 3 mths	Over 3 mth to 6 mths	Over 6 mth to 1 year	1 year to 2 years	Over 2 years
INFLOWS							
Readily Marketable Assets/Liquid Assets	3,121,107	-	-	-	-	-	-
Cash	4,512	-	-	-	-	-	-
Lending to MFI's	1,939,763	-	-	-	-	-	-
Securities other than shares issued by MFI's	438,355	-	-	-	-	-	-
Central Government Securities	575,785	-	-	-	-	-	-
Securities other than shares issued by non MFI's	73,489	-	-	-	-	-	-
Accrued Interest	17,005	-	-	-	-	-	-
Minimum Reserve Balance	75,667	-	-	-	-	-	-
Less Deposit Protection Account	3,470	-	-	-	-	-	-
Monetary Financial Institutions	42,000	540,345	4,440,138	680,479	1,522,787	2,235,707	10,442,908
- Affiliates	-	520,610	4,412,763	676,924	1,471,308	2,087,316	10,347,541
- Other Credit Institutions - Non Irish	-	812	27,376	3,555	50,342	147,207	78,691
- All other Monetary Financial Institutions	-	18,923	-	-	1,138	1,184	16,676
- Sale of Securities or Investments in MFI's	42,000	-	-	-	-	-	-
Central Government	43,742	-	998	-	-	-	-
- from investments	43,742	-	998	-	-	-	-
- from lending operations	-	-	-	-	-	-	-
Non Government Credit	35,133	440,883	513,514	139,524	182,396	212,912	1,016,535
- Term Loans	35,133	440,883	513,514	139,524	182,396	212,912	1,016,535
Fee Income	-	-	-	-	-	-	-
Derivative and OBS Activity	4,044,349	45,632	23,592	24,077	40,841	62,806	521,616
- Swap	4,044,349	45,632	23,592	24,077	40,841	62,806	521,616
Total Inflows	7,286,330	1,026,860	4,978,242	844,080	1,746,025	2,511,425	11,981,058
OUTFLOWS							
Monetary Financial Institutions	1,359,278	1,815,871	5,092,311	2,657,893	1,445,741	89,267	2,713,196
- Affiliates	1,274,821	1,808,955	5,059,546	2,629,799	1,413,593	2,274	21,847
- Other Credit Institutions - non Irish	-	-	-	3,325	3,571	11,801	21,061
- All other Monetary Financial Institutions	84,457	6,916	32,765	24,768	28,577	75,192	2,670,289
Debt Securities Issued	330,866	721,943	3,322,039	649,543	682,077	387,886	1,226,267
Non Government Deposits	162	-	-	-	-	-	-
- Current Accounts	162	-	-	-	-	-	-
Sale and Repurchase Agreements	-	-	1,003	-	-	-	-
- Affiliated Credit Institutions	-	-	1,003	-	-	-	-
Fees Payable	221	725	1,890	2,899	5,766	11,500	-
Other Costs	109	359	937	1,437	2,858	5,700	-
Undrawn Committed Facilities Granted	930,566	-	-	-	-	-	-
Derivative and OBS Activity	4,051,289	49,536	29,094	29,221	64,782	104,050	588,933
- Swap	4,051,289	49,536	29,094	29,221	64,782	104,050	588,933
Total Outflows	6,672,490	2,588,434	8,447,275	3,340,993	2,201,224	598,403	4,528,397
Net Position in the Period	613,840	-1,561,574	-3,469,033	-2,496,912	-455,199	1,913,022	7,452,661
Net Cumulative Inflow/Outflow	613,840	-947,734	-4,416,768	-6,913,680	-7,368,879	-5,455,856	1,996,805
Liquidity Ratio (%)	109.2	63.4	53.0	10.9	19.2	31.5	120.0

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

3.3. Interest Rate and Foreign Exchange Risks in the Banking Book

With regard to interest rate risk in the banking book, the Company distinguishes between cash flow interest rate risk, which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and fair value interest rate risk, which is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company takes on limited exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Company mitigates both risks mainly using interest rate swaps in order to convert all fixed rate assets and liabilities with a maturity exceeding one year into floating rate, and to re-align the interest rate profile of its assets with that of the corresponding funding.

Interest rate exposure is measured separately for each currency by analysing assets and liabilities in terms of the dates they re-price. Interest rate risk exposure is assessed by measuring daily the potential financial impact (or sensitivity) on assets and liabilities and derivatives of the Company of a parallel upward shift of 100 basis points of index reference yield curves (i.e. EURIBOR, LIBOR), assuming that all such assets and liabilities are re valued at fair value, and the exposure is reviewed daily by management against the set limit.

The same methodology is applied to all interest bearing and discounted assets and liabilities. Given the absence of significant optional risk in the Company, the sensitivity of all assets and liabilities and derivatives of the Company for a parallel downward shift of 100 basis points of index reference yield curves is approximately similar and opposite to the measure monitored daily by Management.

As at 31 December 2012, the Company's interest rate sensitivity on all balance sheet financial non-derivative assets, liabilities and derivatives of the Company amounted up to €14.998 million (2011: €9.401 million) ,within the limit approved on 3 March 2011 by the Board of Directors of +/- €16 million.

Historical Interest Rate Sensitivity Review 01/01/2012 to 31/12/2012

	2012 (€000)
Average	(11,399)
High	1,916
Low	(15,990)

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Historical Interest Rate Sensitivity Review 01/01/2011 to 03/03/2011²

	2011 (€000)
Average	(2,514)
High	(1,804)
Low	(3,048)

Historical Interest Rate Sensitivity Review 04/03/2011 to 31/12/2011

	2011 (€000)
Average	(10,978)
High	(4,752)
Low	(15,647)

Whereas the above sensitivity measure on the recognised non-derivative financial assets and liabilities and derivatives of the Company provides information as to the potential future impact which a parallel upward shift of 100 basis of index reference yield curves would have on the interest margin of the Company, the financial impact of the sensitivity to interest rate risk of instruments will actually vary in accordance with their accounting classification and the relevant accounting principles in application. The following tables provide estimates of the material potential impact of a parallel upward shift of 100 basis points of index reference yield curves on the revaluation of instruments classified at fair value through profit or loss or other comprehensive income of the Company in 2012 and in 2011.

Interest Rate Sensitivity Analysis as at 31 December 2012 Instruments classified at Fair Value through Profit or Loss or Equity

€000	Profit & Loss	Other Comprehensive Income and Equity
AFS Securities	-	(12,704)
Economically hedged CFV Securities	(128)	-
Hedged Assets and Liabilities	(9,791)	-
Trading Derivatives	12,817	-
Total	2,898	(12,704)

² 25bps up to 03rd March 2011

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Interest Rate Sensitivity Analysis as at 31 December 2011 Instruments classified at Fair Value through Profit or Loss or Equity

€000	Profit & Loss	Other Comprehensive Income and Equity
AFS Securities	-	(2,528)
Economically hedged CFV Securities	(148)	-
Hedged Assets and Liabilities	(9,380)	-
Trading Derivatives	-	-
Total	(9,528)	(2,528)

The management of the Company monitors daily the concentration of interest rate risk in the banking book on a time bucket and currency basis only. The interest rate risk sensitivity of the Company at year-ends 2012 and 2011, by currency, is shown in the following tables:

Sensitivity as at 31 December 2012 (using 100 basis points)

	2012 €000	2011 €000
Currency	Total	Total
GBP	-	32
EUR	(13,492)	(7,524)
CHF	-	(59)
USD	(1,491)	(1,841)
Other	(5)	(9)
Total	(14,988)	(9,401)

With regard to foreign exchange risk in the banking book, such risk results from the mismatching of the currency of denomination between assets and liabilities. The Company mitigates this risk mainly using foreign exchange swaps in order to re-align the currency of denomination of its assets with that of the corresponding funding.

The Board has set a limit on the total overnight open position (measured as the maximum of the sums of all long and short open positions), which is monitored daily.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

	2012	2011
Total	€000	€000
Long foreign currency:	2,405	707
Short foreign currency:	14	132

Average position during the year		
Average long foreign currency:	1,652	1,541
Average short foreign currency:	55	111

As a consequence of the limited exposure of the Company to foreign exchange risk in the banking book (on the notional limit of €3 million) and the revaluation performed on a daily basis through the income statement of all on and off recognised assets and liabilities as well as its cumulative yearly profit and loss, the Company does not compute any measure of sensitivity to foreign exchange risk in the banking book.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

3.4. Operational Risk

As per the Guidelines for Group Operational Risk Management adopted by the Board of Directors of the Company, Operational Risk is defined in the Group as “the risk of losses resulting from the unsuitability or failure of procedures, human resources and internal systems, or from external events. Operational Risk also includes legal risk while strategic and reputation risks are not included” in line with the definition outlined in the New Basel Capital Accord.

Operational Risk Management (“ORM”) is a structured framework of processes, functions and resources to support the identification, evaluation and control of operational risk, aimed at ensuring the effective prevention and reduction of these risks, in line with the Group risk appetite.

The objectives of ORM are as follows:

- Asset protection:
 - To contribute to the preservation of the Group’s assets, in all its material components (capital) and non-material components (brand image, reputation), in order to optimise the economic value for the shareholders, by avoiding exposures inconsistent with the risk appetite, also expressed in terms of capital allocation;
 - To estimate the Regulatory Capital Requirement using the internal model;
 - To help guarantee the safeguard of the values, professional and intellectual assets, production of services as well as of the ethical behaviour;
 - To contribute to optimising the capital allocation process by means of risk adjusted return analysis and the adoption of a performance evaluation system consistent with such measures.
- Control and proactive monitoring of processes;
- Observance and compliance of processes with internal rules;
- Management of risks and responsibilities.

The Board of Directors of the Company also approved the classification of Operational Risk among the list of the material risk factors the Company is exposed to as part of its ICAAP submission to the Irish Financial Regulator. Although the Board has not set any quantitative limits to the amount of operational risk the Company can be exposed to, its risk appetite is best described by the high internal control quality it has delegated Senior Management to implement through the Company, as well as through the approval of an organisational structure compatible with the overall objective of operational risk-minimisation.

The operational risk-minimisation objective of the Board involves the following activities:

- Identification and implementation of mitigation actions and risk transfer, in accordance with the qualitative risk appetite defined by the Board;
- Rationalisation and optimisation, in means of costs/benefits of insurance recovery system and other forms of risk transfer adopted by the Group.

The main operational risk-minimisation options therefore can be:

- The conscious acceptance of the operational risk inseparably linked to the business activities of the Company;
- The mitigation of the operational risk through action taken on relevant risk factors;
- The risk transfer by means of insurance policies or other specific financial instruments.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

In particular, the main mitigants used by the Company to reduce operational risk are:

- The monitoring of the effectiveness of internal controls using Italian Law 262-2005 compliant methodology. This monitoring involves the on-going:
 - Review of processes affecting significant accounts of the Company with a documentation of the same processes, of the attached risks, and of the controls in place;
 - Identification of key controls with operative details (frequency, manual/automated, etc.);
 - Tests of key controls compliance and execution.
- The existence of a local Disaster Recovery and Business Continuity framework including:
 - A local UPS at the main office;
 - A building with an independent generator at the main office;
 - An alternative site located more than 10 km away from the main office consisting of a room in a protected area with a network of work stations configured with the critical systems of the Company and tested semi-annually.
- The critical IT systems of the Company are centralised Group systems with local access. These centralised systems are replicated daily in London or at Moncalieri in Italy as well as at the disaster recovery sites in both places.
- The purchase of insurances with third parties including:
 - Property damage insurance;
 - Liability insurance (employer's liability and public liability);
 - Internal fraud insurance (i.e. internal theft, falsification of documents, internal system fraud, etc.).

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

4. Statement of financial position by accounting class

The table below summarizes the analyses of the various classes of financial assets and liabilities by IAS39 measurement category for 2012.

	Loans and receivables/ Amortised cost liabilities	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	*Other	Total
As at 31 December 2012	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	54,653	-	-	-	-	-	54,653
Financial instruments at fair value	-	-	62,046	-	-	-	62,046
Available for sale debt securities	-	-	-	-	2,955,932	-	2,955,932
Loans and advances to banks	9,781,329	-	-	-	-	-	9,781,329
Loans and advances to customers	3,469,782	-	-	-	-	-	3,469,782
Derivative financial instruments	-	364,857	-	8,019	-	-	372,876
Prepayment and accrued income	478	-	-	-	-	-	478
Current tax	-	-	-	-	-	1,980	1,980
Deferred tax asset	-	-	-	-	-	1,263	1,263
Other assets	7,651	-	-	-	-	-	7,651
Property, plant and equipment	-	-	-	-	-	53	53
Total assets	13,313,893	364,857	62,046	8,019	2,955,932	3,296	16,708,043
Liabilities							
Deposits from banks	2,299,871	-	-	-	-	-	2,299,871
Debt securities in issue	9,548,866	-	-	-	-	-	9,548,866
Repurchase agreements	1,208,750	-	-	-	-	-	1,208,750
Due to customers	1,899,353	-	-	-	-	-	1,899,353
Derivative financial instruments	-	406,691	-	172,384	-	-	579,075
Current tax	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	2,025	2,025
Accruals and deferred income	10,770	-	-	-	-	-	10,770
Other liabilities	2,203	-	-	-	-	-	2,203
Provisions for liabilities and commitments	171	-	-	-	-	-	171
Equity							
Share capital	-	-	-	-	-	400,500	400,500
Share premium	-	-	-	-	-	1,025	1,025
Available for sale reserves	-	-	-	-	-	9,410	9,410
Other reserves	-	-	-	-	-	506,764	506,764
Retained earnings	-	-	-	-	-	239,260	239,260
Total liabilities and shareholders' funds	14,969,984	406,691	-	172,384	-	1,158,984	16,708,043

*Other includes non financial items and equity instruments

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

The table below summarizes the analyses of various classes of financial assets and liabilities by IAS 39 measurement category for 2011.

	Loans and receivables/ Amortised cost liabilities	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	*Other	Total
As at 31 December 2011	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	77,385	-	-	-	-	-	77,385
Financial instruments at fair value	-	-	65,289	-	-	-	65,289
Available for sale debt securities	-	-	-	-	1,148,962	-	1,148,962
Loans and advances to banks	15,041,088	-	-	-	-	-	15,041,088
Loans and advances to customers	4,118,547	-	-	-	-	-	4,118,547
Derivative financial instruments	-	329,974	-	290	-	-	330,264
Prepayment and accrued income	480	-	-	-	-	-	480
Deferred tax asset	-	-	-	-	-	5,591	5,591
Other assets	8,208	-	-	-	-	-	8,208
Property, plant and equipment	-	-	-	-	-	52	52
Total assets	19,245,708	329,974	65,289	290	1,148,962	5,643	20,795,866
Liabilities							
Deposits from banks	10,297,226	-	-	-	-	-	10,297,226
Debt securities in issue	6,989,181	-	-	-	-	-	6,989,181
Repurchase agreements	1,001	-	-	-	-	-	1,001
Due to customers	1,908,470	-	-	-	-	-	1,908,470
Derivative financial instruments	-	363,453	-	106,280	-	-	469,733
Current tax	-	-	-	-	-	490	490
Deferred tax liability	-	-	-	-	-	279	279
Accruals and deferred income	10,853	-	-	-	-	-	10,853
Other liabilities	2,206	-	-	-	-	-	2,206
Provisions for liabilities and commitments	90	-	-	-	-	-	90
Equity							
Share capital	-	-	-	-	-	400,500	400,500
Share premium	-	-	-	-	-	1,025	1,025
Available for sale reserves	-	-	-	-	-	(33,077)	(33,077)
Other reserves	-	-	-	-	-	506,764	506,764
Retained earnings	-	-	-	-	-	241,125	241,125
Total liabilities and shareholders' funds	19,209,027	363,453	-	106,280	-	1,117,106	20,795,866

*Other includes non financial items and equity instruments

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

5. Fair values of financial instruments

a. Determination of fair value of financial instruments recorded at fair value

In order to ensure the harmonisation of valuations among the different branches and subsidiaries of Intesa Sanpaolo Group, the Risk Management Department of the Parent Company has the responsibility to produce the valuation of the securities and structured derivatives for all the entities of the Group. These valuations are therefore used by the Company for the relevant instruments.

With regard to securities holdings, the existence of official prices in an active market represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the measurement of financial assets and liabilities. If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date. Such techniques include:

- Reference to market values indirectly connected to the instrument to be valued and derived from products with the same risk profile (comparable approach).
- Valuations performed using – even partly - inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (mark-to-model).

In the case of comparable approach valuation technique (Level 2), the valuation is not based on the price of the same identical financial instrument to be measured, but on prices or quoted credit spreads on instruments which are similar in terms of risk factors, using a given calculation methodology. In particular,

- If third party quotes are not available to measure a specific instrument, this approach requires the search for similar transactions on active markets which are comparable in terms of risk factors with the instrument to be measured;
- Calculation methodologies used in the comparable approach reproduce prices of financial instruments quoted on active markets and do not contain discretionary parameters – parameters for which values may not be presumed from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets- which significantly influence the final valuation.

Where a valuation technique is used to determine fair values, it is validated and periodically reviewed by qualified personnel independent of the area that created it. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

With regard to derivatives, the Company values non-structured derivatives using market standard cash flows models. The interest rate curves used for the discounting of cash flows are communicated by the Risk Management Department of the Parent Company on the basis of market quotes and are inserted in the valuation systems centrally before being applied to all entities of the Group (Level 2 approach).

A credit risk adjustment is added to the valuation of some derivatives in compliance with IAS 39, whereby final valuations must take into account the component related to counterparty credit risk. The credit risk adjustment is computed on the basis of the risk of default of the counterparties (represented by the level of the credit default swap spread) and the residual life of the derivative contract. The adjustment is applied to all derivatives of the Company with a positive mark-to-market and to all counterparties (excluding Group entities), unless a collateral agreement has been entered by the Company with the relevant counterparty to mitigate the counterparty credit risk.

Structured derivatives are re-valued by the Group Risk Management Department also using a

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

comparable approach valuation technique.

	2012						
	Level 1		Level 2		Level 3		Total
	€000	%	€000	%	€000	%	
Financial Assets designated at Fair Value through Profit or Loss							
- Debt instruments	30,687	49.50	31,359	50.50	-	-	62,046
Available for Sale financial Assets							
- Debt instruments	2,936,213	99.3	19,719	0.7	-	-	2,955,932
Total Financial Assets	2,966,900		51,078		-	-	3,017,978

	2011						
	Level 1		Level 2		Level 3		Total
	€000	%	€000	%	€000	%	
Financial Assets designated at Fair Value through Profit or Loss							
- Debt instruments	-	-	65,289	100.0	-	-	65,289
Available for Sale financial Assets							
- Debt instruments	1,140,384	99.3	8,578	0.7	-	-	1,148,962
Total Financial Assets	1,140,384		73,867		-	-	1,214,251

2012

Debt instruments of €30.687 million classified as financial assets designated at fair value though profit or loss were transferred from level 2 to level 1 as they had readily available market pricing. The level 2 assets were not actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs.

	2012						
	Level 1		Level 2		Level 3		Total
	€000	%	€000	%	€000	%	
Derivatives Assets							
-Trading	-	-	364,857	97.8	-	-	364,857
-Hedging	-	-	8,019	2.2	-	-	8,019
Total	-	-	372,876	100.0	-	-	372,876
Derivatives Liabilities							
-Trading	-	-	406,691	70.2	-	-	406,691
-Hedging	-	-	172,384	29.8	-	-	172,384
Total	-	-	579,074	100.0	-	-	579,074

	2011						
	Level 1		Level 2		Level 3		Total
	€000	%	€000	%	€000	%	
Derivatives Assets							
-Trading	-	-	329,974	99.9	-	-	329,974
-Hedging	-	-	290	0.1	-	-	290
Total	-	-	330,264	100.0	-	-	330,264
Derivatives Liabilities							
-Trading	-	-	363,453	77.4	-	-	363,453
-Hedging	-	-	106,280	22.6	-	-	106,280
Total	-	-	469,733	100.0	-	-	469,733

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

2011:

The above debt instruments classified as financial assets designated at fair value though profit or loss were transferred from level 1 to level 2 as they ceased to be actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs

b. Fair value of financial instruments other than those carried at fair value through profit or loss or Other Comprehensive Income.

Set out below is a comparison of carrying values and fair values of the financial assets and financial liabilities (excluding short term receivables, payables and items present in the Company's statement of financial position at their fair value) held as at 31 December 2012 and at 31 December 2011.

	31-Dec-12	31-Dec-12	31-Dec-11	31-Dec-11
	Carrying value	Fair value	Carrying value	Fair value
	€000	€000	€000	€000
Assets				
Cash and balances at central banks	54,653	54,653	77,385	77,385
Loans and advances to banks	9,781,329	10,209,332	15,041,088	14,301,177
Loans and advances to customers	3,469,782	3,406,216	4,118,547	4,058,953
Liabilities				
Deposits by banks	2,299,871	2,301,227	10,297,226	10,295,977
Due to customers	1,899,353	1,910,419	1,908,470	1,576,683
Repurchase agreements	1,208,750	1,208,750	1,001	1,001
Debt securities in issue	9,548,866	9,454,900	6,989,181	6,732,913

The Company utilises the valuation methodologies developed by the Parent Company for financial assets and financial liabilities (excluding short term receivables, payables and items present in the Company's statement of financial position at their fair value).

With regard to assets, the methodology used is based on a discount of future cash flows using the observable interest rate curve on reporting date plus a credit spread estimated with an internally-developed model. The model involves the construction of a matrix of credit spreads by levels of probability of default, loss given default, and weighted average residual duration. For cash, money market transactions and balances at the Central Bank and intra Group assets, the book value is considered to be the fair value. In the case of intra-Group assets matching with identified liabilities of the Company, the fair value of these assets has been matched with those of the associated liabilities.

With regard to liabilities, the methodology used is based on a discount of future cash flows using the observable credit curve of the Intesa Sanpaolo Group at reporting date. For intra-Group liabilities and liabilities with an original duration of less than 12 months, the book value is considered to be the fair value.

6. Segmental Analysis

The Bank has one reporting segment, the provision of banking products and services carried out from Ireland. Geographic concentrations are reported in Note 36. There are no non group customers with revenue exceeding 10% of the total revenue of the Company.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

7. Net interest income

	2012	2011
	€000	€000
Interest and similar income		
Cash and short term funds	30,540	35,196
Available for sale debt securities	58,940	27,899
Financial assets at fair value through profit or loss	2,599	2,662
Loans and advances *	429,383	477,767
Net swap interest income	-	2,939
	<u>521,462</u>	<u>546,463</u>

* Interest income includes €1,390 (2011: €Nil) accrued on impaired loans.

	2012	2011
	€000	€000
Interest expense and similar charges		
Banks and customers	226,729	205,895
Debt securities in issue	160,355	182,443
Repurchase agreements	8,911	5,052
Net swap interest expense	43,767	39,303
Net expense on fair value option trading derivatives	2,335	2,454
	<u>442,097</u>	<u>435,147</u>

8. Fees and commission income and expense

	2012	2011
	€000	€000
Fee and commission income		
Credit related fees and commissions	5,819	9,082
Other fees	79	97
	<u>5,898</u>	<u>9,179</u>
Fee and commission expense		
Credit related fees and commissions	20,648	18,556
Brokerage fees paid	2	1
Other fees paid	52	65
	<u>20,702</u>	<u>18,622</u>

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

9. Net trading expense

	2012	2011
	€000	€000
Mark-to-market gains / (losses):		
- Derivatives	(10,740)	2,357
- Net result hedge accounting ***	(4,868)	2,480
- Financial instruments designated at Fair Value through profit or loss	4,612	(9,132)
Net realised gain on available for sale debt securities	1,086	2,732
Net realised gain / (loss) on loans	70	(1,659)
Net realised loss on deposits	(493)	-
Net realised loss on debt securities	(47)	(138)
	<u>(10,380)</u>	<u>(3,360)</u>

*** An analysis of the net result of hedge accounting is provided below

Interest rate derivatives designated as fair value hedges are entered into, to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily fixed rate loans to banks and customers and available for sale debt securities.

2012 - Net results of hedge accounting

	Loans and Receivables	Available for Sale	Debt Securities in Issue	Total
	€000	€000	€000	€000
Net gains /(losses) on Hedged asset / liability	12,595	34,258	(371)	46,482
Net gains / (losses) on Fair value of hedging Derivatives	(16,507)	(35,385)	542	(51,350)
	<u>(3,912)</u>	<u>(1,127)</u>	171	<u>(4,868)</u>

2011 - Net results of hedge accounting

	Loans and Receivables	Available for Sale	Debt Securities in Issue	Total
	€000	€000	€000	€000
Net gains / (losses) on Hedged asset / liability	18,379	12,978	(187)	31,170
Net gains / (losses) on Fair value of hedging Derivatives	(16,365)	(12,512)	187	(28,690)
	<u>2,014</u>	<u>466</u>	-	<u>2,480</u>

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

10. Employee numbers

The average number of persons employed by the Company (including Executive Directors) during the year was as follows:

	Number of employees	
	2012	2011
Administration	<u>27</u>	<u>28</u>

11. Administrative expenses

	2012	2011
	€000	€000
Staff costs		
- wages and salaries	1,874	2,748
- social welfare costs	171	189
- pension costs	343	502
- other personnel expenses	5	6
	<u>2,393</u>	<u>3,445</u>
Other administrative expenses	1,906	1,889
	<u>4,299</u>	<u>5,334</u>

12. Profit before taxation

	2012	2011
	€000	€000
Profit before tax is stated after charging:		
Depreciation – property, plant and equipment	32	52
Auditors' remuneration (including VAT):		
Audit services		
Statutory audit	76	70
Other services	12	12
Subtotal	<u>88</u>	<u>82</u>
Non-audit services		
Taxation services	37	22
Other consultancy	34	-
Subtotal	<u>71</u>	<u>22</u>
	159	104
Directors' remuneration:		
Executive	344	420
Non-executive	75	100
	<u>419</u>	<u>520</u>

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

The following tables detail the total remuneration of the directors.

2012	Salary €000	Directors Fees €000	Taxable/ Other Benefits €000	Pension Contribution €000	Total €000
Executive Director					
G. Pizzutto	250	0	47	47	344
Total	250	0	47	47	344
Non – Executive Directors					
Ian Letchford	0	30	0	0	30
Salvatore Catalano	0	20	0	0	20
Richard Barkley	0	25	0	0	25
Total	0	75	0	0	75

2011	Salary €000	Directors Fees €000	Taxable/ Other Benefits €000	Pension Contribution €000	Total €000
Executive Director					
G. Pizzutto	254	0	49	117	420
Total	254	0	49	117	420
Non – Executive Directors					
Ian Letchford	0	30	0	0	30
Nathaniel Healy **	0	22	15	0	37
Salvatore Catalano	0	20	0	0	20
Richard Barkley	0	13	0	0	13
Total	0	85	15	0	100

** Includes termination of service payment amounting to €15,000

13. Income tax expense

	2012 €000	2011 €000
Corporation tax charge 12.5% (2011: 12.5%) on the profit for the year on ordinary activities	6,161	12,783
Current tax charge for the year (Over) / Under provision in prior year	6,161 (9)	12,783 7
Total current Tax	6,152	12,790
	6,152	12,790

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

The current tax charge for the year is higher (2011: higher) than the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The difference is explained below:

	2012	2011
	€000	€000
Profit on ordinary activities before tax	49,287	102,245
Profit on ordinary activities multiplied by the average rate of Irish corporation tax for year of 12.5% (2011: 12.5%)	6,161	12,781
Effects of:		
Adjustments to tax charge in respect of previous periods	(9)	7
Other adjustments	-	2
Current tax charge for the year	6,152	12,790

14. Dividends paid and proposed

	2012	2011
	€000	€000
Declared and paid during the year		
Declared on ordinary shares:		
Final dividend for 2011: 11.24 cent per share (2010:16.67 cent per share)	45,000	66,763
Proposed for approval at Annual General Meeting (not recognised as a liability as at 31 December)		
Dividend on ordinary shares:		
Final dividend for 2012: 8.62 cent per share (2011: 11.24 cent per share)	34,508	45,000

15. Cash and balances with central banks

	2012	2011
	€000	€000
Mandatory reserve deposits with central bank	53,746	75,703
Other cash balances	909	1,683
Less allowances for losses	(1)	(1)
	54,654	77,385

Mandatory reserve deposits are available for use in the Company's day to day operations. The balances earn interest based on average Main Refinancing Operations (MRO) interest rate issued by the European Central Bank.

Included in cash and cash equivalents (Note 32) €51,014,681 (2011: €73,682,896).

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

16. Financial assets at fair value through profit or loss

	2012 €000	2011 €000
Debt securities at fair value		
Issued by public bodies		
- government securities	59,187	62,543
Issued by other issuers		
- banks	2,859	2,746
	<u>62,046</u>	<u>65,289</u>
Of which:		
- listed on a recognised exchange	33,546	2,746
- unlisted	28,500	62,543
	<u>62,046</u>	<u>65,289</u>

17. Available for sale debt securities

	2012 €000	2011 €000
Issued by public bodies		
- government securities	2,582,534	632,467
- other public sector securities	38,342	36,549
Issued by other issuers		
- banks	311,686	459,079
- other debt securities	23,370	20,867
	<u>2,955,932</u>	<u>1,148,962</u>
Of which:		
- listed on a recognised exchange	2,955,932	1,148,962
- unlisted	-	-
	<u>2,955,932</u>	<u>1,148,962</u>

18. Loans and advances to banks

	2012 €000	2011 €000
Placement with other banks	9,684,829	14,943,060
Unlisted securities	156,945	158,396
	<u>9,841,774</u>	<u>15,101,456</u>
Gross loans and advances	9,841,774	15,101,456
Less allowances for losses	(60,445)	(60,368)
	<u>9,781,329</u>	<u>15,041,088</u>

Of which included in cash and cash equivalents (Note 32) €540,273,490 (2011: €2,525,523,710).

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

19. Loans and advances to customers

	2012 €000	2011 €000
Loans to corporate entities - Syndicated and bilateral loans	3,471,578	4,119,944
Gross loans and advances	3,471,578	4,119,944
Less allowances for losses	(1,796)	(1,397)
	<u>3,469,782</u>	<u>4,118,547</u>

20. Movement in the allowance for impairment / provisions for bad and doubtful debts

	2012 €000	2011 €000
Balance at beginning of year	61,766	68,655
Disposed loans	-	-
Charge to income statement	631	127
Released to income statement	(132)	(7,052)
Translation adjustment	(23)	36
Balance at end of year	<u>62,242</u>	<u>61,766</u>

Amounts include:

	2012 €000	2011 €000
Cash and balances with central bank (Note 15)	1	1
Loans and advances to banks (Note 18)	60,445	60,368
Loans and advances to customers (Note 19)	1,796	1,397
Balance at end of year	<u>62,242</u>	<u>61,766</u>

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios at the statement of financial position date.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

The following is a reconciliation of the individual and collective allowances for impairment / provision of bad and doubtful debts.

	2012	2012	2012
	Individual	Collective	Total
	€000	€000	€000
Balance at beginning of year	61,086	680	61,766
Charge to income statement	49	582	631
Released to income statement	-	(132)	(132)
Translation adjustment	(14)	(9)	(23)
Balance at end of year	<u>61,121</u>	<u>1,121</u>	<u>62,242</u>

	2011	2011	2011
	Individual	Collective	Total
	€000	€000	€000
Balance at beginning of year	60,936	7,719	68,655
Charge to income statement	127	-	127
Released to income statement	-	(7,052)	(7,052)
Translation adjustment	23	13	36
Balance at end of year	<u>61,086</u>	<u>680</u>	<u>61,766</u>

Impaired loans: Amounts include:

	2012	2011
	€000	€000
Loans and advances to banks	60,348	60,347
Loans and advances to customers	773	739
Balance at end of year	<u>61,121</u>	<u>61,086</u>

Impaired loans mainly relate to the Company's exposure to Icelandic banks totalling €77.45 million (2011: €77.45 million) with an individual impairment amounting to €60.35 million (2011: €60.35 million).

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

21. Derivative financial instruments

The Company uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency.

Embedded derivatives refer to financial instruments with embedded options, which have been split out from their host contracts. The options relate to the calculation of cash coupons and redemption amounts, which are based on standard indices.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation as well as an add-on calculated as a proportion of the notional amount and representing the potential volatility in the replacement cost. This risk is monitored on a daily basis. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

At 31 December 2012	Contract / notional amount €000	Fair values including accruals	
		Assets €000	Liabilities €000
1) Derivatives held for trading			
<i>a) Foreign exchange derivatives</i>			
Currency swaps	1,184,280	44	(842)
Total OTC derivatives		44	(842)
<i>b) Interest rate derivatives</i>			
Interest rate swaps	5,552,582	286,137	(298,431)
Cross-currency interest rate swaps	37,452	-	(28,742)
Total OTC derivatives		286,137	(327,173)
<i>c) Embedded derivatives</i>			
Embedded derivatives purchased	212,400	78,676	-
Embedded derivatives sold	212,400	-	(78,676)
Total OTC derivatives		78,676	(78,676)
Total derivative assets/(liabilities) held for trading		364,857	(406,691)

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

2) Derivatives held for risk management

Derivatives designated as fair value hedges

Interest rate swaps	4,208,779	8,019	(172,384)
Total OTC derivatives		8,019	(172,384)

Total derivative assets/(liabilities) held for risk management

8,019 (172,384)

Total derivative financial instruments

372,876 (579,075)

At 31 December 2011

Fair values including accruals

	Contract / notional amount €000	Assets €000	Liabilities €000
1) Derivatives held for trading			
<i>a) Foreign exchange derivatives</i>			
Currency swaps	1,708,795	3,762	(739)
Total OTC derivatives		3,762	(739)
<i>b) Interest rate derivatives</i>			
Interest rate swaps	1,402,582	246,969	(245,896)
Cross-currency interest rate swaps	38,190	-	(37,575)
Total OTC derivatives		246,969	(283,471)
<i>c) Embedded derivatives</i>			
Embedded derivatives purchased	239,500	79,243	-
Embedded derivatives sold	239,500	-	(79,243)
Total OTC derivatives		79,243	(79,243)
Total derivative assets/(liabilities) held for trading		329,974	(363,453)
2) Derivatives held for risk management			
<i>a) Derivatives designated as fair value hedges</i>			
Interest rate swaps	3,079,657	290	(106,280)
Total OTC derivatives		290	(106,280)
Total derivative assets/(liabilities) held for risk management		290	(106,280)
Total derivative financial instruments		330,264	(469,733)

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

22. Deferred Taxation

	2012	2011
	€000	€000
Deferred Tax assets:		
Provision for impairment of loans and receivables	588	580
Available for sale debt securities	680	5,003
Exchange translation adjustment	(5)	8
Total deferred tax assets	<u>1,263</u>	<u>5,591</u>
Deferred Tax liabilities:		
Available for sale debt securities	<u>2,025</u>	279
Total deferred tax liabilities	<u>2,025</u>	<u>279</u>
Net Deferred Tax (liability) / assets	<u>(762)</u>	<u>5,312</u>
	2012	2011
	€000	€000
Analysis of movement in deferred taxation		
At 1 January	5,312	2,164
Exchange translation adjustment	(5)	8
Deferred tax through other comprehensive income	<u>(6,069)</u>	<u>3,140</u>
At 31 December	<u>(762)</u>	<u>5,312</u>

23. Investments in Group undertakings

In 2011 the Company held an investment of Nil ordinary shares in Tobuk Limited. Tobuk Limited was voluntarily liquidated on 25 February 2011.

24. Other assets

	2012	2011
	€000	€000
Deferred expenses *	7,618	8,134
Stamp duty	-	34
Sundry debtors	<u>33</u>	<u>40</u>
	<u>7,651</u>	<u>8,208</u>

* the majority include fees paid in advance in relation to debt securities in issue.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

25. Property, plant and equipment

	Office equipment	Computer equipment and software	Total
	€000	€000	€000
Cost			
At beginning of year	250	274	524
Additions in year	16	18	34
Disposals in year	(29)	(18)	(47)
At end of year	237	274	511
Depreciation			
At beginning of year	239	233	472
Charge for year	7	25	32
Disposals in year	(28)	(18)	(46)
At end of year	218	240	458
Net book value			
At 31 December 2012	19	34	53
At 31 December 2011	11	41	52
	Office equipment	Computer equipment and software	Total
	€000	€000	€000
Cost			
At beginning of year	273	657	930
Additions in year	3	30	33
Disposals in year	(26)	(413)	(439)
At end of year	250	274	524
Depreciation			
At beginning of year	241	618	859
Charge for year	24	28	52
Disposals in year	(26)	(413)	(439)
At end of year	239	233	472
Net book value			
At 31 December 2011	11	41	52
At 31 December 2010	32	39	71

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

26. Deposits from banks

	2012 €000	2011 €000
Deposits from other banks	<u>2,299,871</u>	<u>10,297,226</u>
	<u>2,299,871</u>	<u>10,297,226</u>

Included in cash and cash equivalents (Note 32) €260,000,004 (2011: €3,761,388,615).

27. Debt securities in issue

At 31 December 2012					
Currency	Type	Maturity	Interest Rates %	Average Rate %	€000
European Medium Term Notes (EMTN) – Listed					
CHF	Floating Rate Note	30/11/2013	0.1600%		1,657
				0.1600%	
CZK	Floating Rate Note	21/01/2013	1.1800%		6,376
				1.1800%	
EUR	Floating Rate Note	18/01/2013	2.708%		29,871
EUR	Floating Rate Note	04/02/2013	2.147%		6,020
EUR	Floating Rate Note	08/02/2013	1.6460%		87,213
EUR	Floating Rate Note	21/02/2013	1.5910%		10,018
EUR	Floating Rate Note	01/03/2013	1.5900%		10,012
EUR	Floating Rate Note	12/04/2013	1.4110%		150,466
EUR	Floating Rate Note	22/04/2013	1.4050%		40,108
EUR	Floating Rate Note	18/06/2013	1.0840%		91,017
EUR	Floating Rate Note	21/06/2013	1.1330%		100,023
EUR	Floating Rate Note	27/09/2013	0.8980%		4,711
EUR	Fixed Note	12/10/2013	2.9540%		10,063
EUR	Floating Rate Note	17/10/2013	1.2090%		1,222,631
EUR	Floating Rate Note	25/10/2013	0.5530%		360,274
EUR	Floating Rate Note	06/11/2013	0.4970%		240,145
EUR	Floating Rate Note	12/11/2013	0.4940%		50,026
EUR	Floating Rate Note	10/12/2013	0.7400%		250,090
EUR	Floating Rate Note	12/12/2013	0.3330%		359,999
EUR	Floating Rate Note	13/12/2013	0.3310%		214,017
EUR	Floating Rate Note	17/01/2014	0.9300%		49,564
EUR	Floating Rate Note	03/02/2014	1.6970%		49,635
EUR	Floating Rate Note	07/02/2014	1.8460%		40,108
EUR	Floating Rate Note	10/02/2014	1.6440%		23,050
EUR	Floating Rate Note	10/05/2015	1.0000%		15,021

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

EUR	Floating Rate Note	27/07/2015	1.2010%		46,599
EUR	Fixed Note	27/09/2015	5.7376%		55,685
EUR	Fixed Note	31/10/2015	5.8581%		52,873
EUR	Fixed Note	27/12/2015	5.7733%		71,273
EUR	Fixed Note	18/02/2016	5.8061%		144,081
EUR	Floating Rate Note	15/03/2016	1.4930%		27,320
EUR	Floating Rate Note	21/03/2016	4.1500%		7,742
EUR	Floating Rate Note	28/03/2016	0.75600%		80,257
EUR	Floating Rate Note	09/05/2016	1.0360%		26,490
EUR	Floating Rate Note	17/05/2016	2.1500%		5,067
EUR	Floating Rate Note	23/06/2016	1.0230%		23,105
EUR	Floating Rate Note	01/09/2016	0.9500%		52,290
EUR	Floating Rate Note	18/05/2017	4.2000%		5,117
EUR	Floating Rate Note	04/10/2017	1.4773%		5,018
EUR	Floating Rate Note	01/01/2018	5.0700%		9,246
EUR	Floating Rate Note	06/04/2021	1.5000%		20,221
EUR	Floating Rate Note	01/08/2022	2.6572%		50,255
EUR	Floating Rate Note	06/03/2023	7.8719%		20,292
EUR	Floating Rate Note	01/10/2024	7.0000%		50,875
EUR	Floating Rate Note	15/12/2024	7.0000%		40,124
EUR	Floating Rate Note	20/04/2025	4.2270%		14,847
EUR	Floating Rate Note	20/06/2035	5.0000%		20,531
EUR	Floating Rate Note	25/01/2036	5.0000%		5,233
EUR	Floating Rate Note	01/01/2038	5.4975%		24,370
				1.5864%	
HKD	Fixed Note	30/07/2013	4.4050%		12,452
				4.4050%	
USD	Floating Rate Note	10/06/2013	0.4430%		26,534
USD	Floating Rate Note	15/04/2014	2.4000%		3,809
				0.6887%	
Total EMTN - Listed					4,323,702

At 31 December 2012

Currency	Type	Maturity	Interest Rates %	Average Rate %	€000
European Medium Term Notes (EMTN) – Unlisted					
EUR	Fixed Note	28/01/2013	3.8000%		34,188
EUR	Fixed Note	21/02/2013	4.0000%		10,360
EUR	Fixed Note	08/08/2013	4.0000%		1,522,906
EUR	Floating Rate Note	25/10/2017	6.0000%		15,168
EUR	Fixed Note	30/06/2021	0.0000%		20,000
EUR	Fixed Note	30/06/2026	0.0000%		20,000
				3.9159%	

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

HKD	Fixed Note	14/08/2018	4.4800%		39,346
				4.4800%	
JPY	Fixed Note	22/06/2015	0.8090%		8,803
JPY	Fixed Note	25/06/2014	1.8200%		44,424
				1.6528%	
Total EMTN - unlisted					1,715,195
Total EMTN					6,038,898
Certificates of Deposits (ECD)					
EUR				0.408%	1,171,636
Total ECD					1,171,636
European Commercial Paper (ECP)					
CHF				1.300%	3,300
EUR				0.814%	2,325,579
USD				1.109%	9,454
Total ECP					2,338,333
Total Debt Securities Issued					9,548,309

Debt securities in issue at 31 December 2011

Currency	Type	Maturity	Interest Rates %	Average Rate %	€'000
European medium Term Notes (EMTN) - Listed					
CZK	Floating Rate Note	21/01/2013	1.640%		6,225
				1.640%	
EUR	Floating Rate Note	26/01/2012	2.388%		12,059
EUR	Floating Rate Note	10/02/2012	2.074%		125,368
EUR	Floating Rate Note	10/02/2012	2.074%		125,368
EUR	Floating Rate Note	17/02/2012	2.357%		1,504,419
EUR	Floating Rate Note	05/03/2012	2.319%		98,162
EUR	Floating Rate Note	16/03/2012	2.323%		100,103
EUR	Floating Rate Note	30/03/2012	0.000%		6,158
EUR	Floating Rate Note	18/04/2012	2.824%		113,162
EUR	Floating Rate Note	04/05/2012	1.924%		25,077
EUR	Floating Rate Note	20/06/2012	1.497%		7,504
EUR	Floating Rate Note	23/06/2012	2.413%		10,531
EUR	Floating Rate Note	07/07/2012	3.069%		5,277
EUR	Floating Rate Note	09/07/2012	1.756%		51,193
EUR	Floating Rate Note	15/07/2012	1.972%		50,197
EUR	Floating Rate Note	23/07/2012	2.182%		100,399
EUR	Floating Rate Note	22/12/2012	3.238%		560,504
EUR	Floating Rate Note	18/01/2013	2.074%		79,963

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

EUR	Floating Rate Note	04/02/2013	2.185%		6,020
EUR	Floating Rate Note	21/02/2013	2.060%		20,043
EUR	Floating Rate Note	01/03/2013	2.077%		50,075
EUR	Floating Rate Note	12/04/2013	1.967%		150,616
EUR	Floating Rate Note	22/04/2013	1.979%		40,148
EUR	Floating Rate Note	21/06/2013	1.718%		100,016
EUR	Floating Rate Note	27/09/2013	2.185%		4,727
EUR	Floating Rate Note	10/05/2015	1.000%		15,021
EUR	Floating Rate Note	27/07/2015	2.588%		46,714
EUR	Fixed Note	27/09/2015	5.738%		53,225
EUR	Fixed Note	31/10/2015	5.858%		50,490
EUR	Fixed Note	27/12/2015	5.773%		68,074
EUR	Fixed Note	18/02/2016	5.806%		137,543
EUR	Floating Rate Note	15/03/2016	2.724%		27,418
EUR	Floating Rate Note	21/03/2016	4.100%		7,739
EUR	Floating Rate Note	28/03/2016	1.974%		80,268
EUR	Floating Rate Note	09/05/2016	2.316%		26,540
EUR	Floating Rate Note	17/05/2016	2.150%		5,067
EUR	Floating Rate Note	23/06/2016	2.256%		23,111
EUR	Floating Rate Note	01/09/2016	2.237%		52,351
EUR	Floating Rate Note	18/05/2017	4.200%		5,113
EUR	Floating Rate Note	01/01/2018	5.535%		9,287
EUR	Floating Rate Note	06/04/2021	1.500%		20,221
EUR	Floating Rate Note	01/08/2022	3.936%		50,333
EUR	Floating Rate Note	06/03/2023	7.872%		20,288
EUR	Floating Rate Note	01/10/2024	7.000%		50,875
EUR	Floating Rate Note	15/12/2024	6.749%		40,120
EUR	Floating Rate Note	20/04/2025	5.646%		14,381
EUR	Floating Rate Note	20/06/2035	5.000%		20,531
EUR	Floating Rate Note	25/01/2036	5.000%		5,233
EUR	Floating Rate Note	01/01/2038	5.960%		24,477
				2.846%	
HKD	Fixed Note	18/09/2012	3.640%		10,052
HKD	Fixed Note	30/07/2013	4.405%		12,671
				4.067%	
CHF	Floating Rate Note	30/11/2013	0.180%		1,646
				0.180%	
USD	Floating Rate Note	17/05/2012	0.616%		193,363
USD	Floating Rate Note	10/06/2013	0.673%		27,062
USD	Floating Rate Note	15/04/2014	2.400%		3,884
				0.653%	
JPY	Fixed Note	20/09/2012	0.120%		86,376
				0.120%	
Total EMTN - Listed					4,542,789

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Currency	Type	Maturity	Interest Rates %	Average Rate %	€000
European Medium Term Notes (EMTN) - Unlisted					
EUR	Fixed Note	03/01/2012	3.121%		6,011
EUR	Fixed Note	28/01/2013	3.800%		33,452
EUR	Fixed Note	21/02/2013	4.000%		10,143
EUR	Floating Rate Note	25/10/2017	6.000%		15,167
EUR	Fixed Note	30/06/2021	0.000%		20,000
EUR	Fixed Note	30/06/2026	0.000%		20,000
				2.648%	
GBP	Floating Rate Note	20/02/2012	1.471%		59,958
				1.471%	
HKD	Fixed Note	14/08/2018	4.480%		40,031
				4.480%	
JPY	Fixed Note	25/06/2014	1.820%		50,369
JPY	Fixed Note	22/06/2015	0.822%		9,982
				1.655%	
Total EMTN - unlisted					<u>265,114</u>
Total EMTN					<u>4,807,904</u>
Certificates of Deposits (ECD)					
EUR				1.080%	261,648
GBP				1.844%	42,016
Total ECD					<u>303,664</u>
European Commercial Paper (ECP)					
CHF				0.580%	3,290
EUR				2.279%	1,870,467
USD				1.130%	3,856
Total ECP					<u>1,877,613</u>
Total Debt Securities Issued					<u>6,989,181</u>

The Company is one of the three issuers in the €70 billion Euro Medium Term Note Programme established by Intesa Sanpaolo S.p.A., which is also the guarantor of the notes issued by the Company under the Programme.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

28. Repurchase agreements

	2012	2011
	€000	€000
Due to central bank	<u>1,208,750</u>	<u>1,001</u>
	<u>1,208,750</u>	<u>1,001</u>

Collateral given: The carrying amount of securities sold under agreements to repurchase at 31 December 2012 was €1,246,659,498 (2011:€1,011,225) of which securities with a fair value of €1,246,659,498 (2011: €1,011,225) are classified as available for sale (Note 17 / Note 1.17).

29. Other liabilities

	2012	2011
	€000	€000
Other payable and accrued expenses	2,197	2,198
VAT payable	<u>6</u>	<u>8</u>
	<u>2,203</u>	<u>2,206</u>

30. Movement in the provisions for liabilities and commitments

	2012	2011
	€000	€000
Balance at beginning of year	90	2,291
Charge to income statement	95	-
Released to income statement	(13)	(2,205)
Translation adjustment	(1)	4
Balance at end of year	<u>171</u>	<u>90</u>

Please refer to Note 1.8 (c) for the accounting policy and Note 33 for the outstanding undrawn commitments.

31. Share capital

	Number of shares	Ordinary shares	Share Premium	Total
	€000	€000	€000	€000
At 1 January 2011	400,500	400,500	1,025	401,525
At 31 December 2011 / 1 January 2012	<u>400,500</u>	<u>400,500</u>	<u>1,025</u>	<u>401,525</u>
At 31 December 2012	<u>400,500</u>	<u>400,500</u>	<u>1,025</u>	<u>401,525</u>

The total authorised number of ordinary shares at year end was 500,000,000 (2011: 500,000,000) with a par value of €1 per share (2011: €1 per share). All issued shares are fully paid.

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

At 31 December 2012, the capital and reserves of the Company amounted to €1,113.82 million (2011: €1,026.88 million), €1,156.96 million including YTD profits after Tax (2011: €1,116.34 million including YTD profits after Tax).

32. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	2012	2011
	€000	€000
Cash and balances with central bank (Note 15)	51,015	73,683
Loans and advances to banks (Note 18)	540,273	2,525,524
Deposits from banks (Note 26)	(260,000)	(3,761,389)
	<u>331,288</u>	<u>(1,162,182)</u>

33. Contingent liabilities and commitments

At 31 December 2012 the contracted amounts of contingent liabilities and financial commitments were:

	2012	2011
	€000	€000
Guarantees and irrevocable Letters of Credit	6,077	7,127
Undrawn formal standby facilities, credit lines and other commitments to lend with a maturity of:		
- less than one year or		
Unconditionally		
cancellable at any time	515,877	564,926
- one year and over	252,759	370,469
	<u>774,713</u>	<u>942,522</u>

34. Pension scheme

The Company operates a defined contribution pension scheme. The scheme is trustee administered and the assets are kept separate from those of the Company. Contributions to the scheme are charged to the income statement as incurred. The pension charge for the year was €343,256 (2011: €502,160). At the 31 December 2012, the pension accrual amounted to €18,252 (2011: €122,967).

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

35. Related party transactions

The ultimate parent company is Intesa Sanpaolo S.p.A., incorporated in Italy. A number of banking transactions are entered into with related parties in the normal course of business. The volumes of related party transactions outstanding balances at the year end and related income and expenses for the year are as follows:

31 December 2012

	PARENT	FELLOW SUBSIDIARIES	TOTAL
	€000	€000	€000
ASSETS			
Cash and balances with central banks	629	-	629
Loans and advances to banks	4,681,635	4,705,110	9,386,745
Loans and advances to customers	-	2,104,151	2,104,151
Derivative financial instruments	85,622	999	86,621
LIABILITIES			
Deposits from banks	2,279,387	-	2,279,387
Derivative financial instruments	54,692	439,075	493,767
Due to customers	-	91,373	91,373
INCOME STATEMENT			
Interest and similar income	200,075	215,859	415,934
Interest expense and similar charges	(158,290)	(36,164)	(194,454)
Fees and commission income	141	2,360	2,501
Fees and commission expense	(18,266)	(47)	(18,313)
Net trading income / (expense)	(431)	(6,433)	(6,864)
FINANCIAL COMMITMENTS			
Commitments — financial issued	33,863	370,000	403,863
Commitments — financial received	1,800,000	0	1,800,000
DERIVATIVES			
Derivatives (notional)	7,082,520	3,681,214	10,763,734

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

This following table represents the highest month end balances during the year.

31 December 2012

	PARENT	FELLOW SUBSIDIARIES	TOTAL
	€000	€000	€000
ASSETS			
Cash and balances with central banks	28,898	-	28,898
Loans and advances to banks	7,012,534	10,003,755	17,016,289
Loans and advances to customers	-	2,510,415	2,510,415
Derivative financial instruments	86,830	4,182	91,012
LIABILITIES			
Deposits from banks	11,876,325	100,002	11,976,327
Derivative financial instruments	62,133	439,075	501,208
Due to customers	-	95,092	95,092
INCOME STATEMENT			
Interest and similar income	200,075	215,859	415,934
Interest expense and similar charges	(158,290)	(36,164)	(194,454)
Fees and commission income	141	2,360	2,501
Fees and commission expense	(18,266)	(47)	(18,313)
Net trading income / (expense)	(431)	(6,433)	(6,864)
FINANCIAL COMMITMENTS			
Commitments — financial issued	138,263	430,000	568,263
Commitments — financial received	3,000,000	-	3,000,000
DERIVATIVES			
Derivatives (notional)	9,155,217	3,731,737	12,886,954

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

31 December 2011

	PARENT	FELLOW SUBSIDIARIES	TOTAL
	€000	€000	€000
ASSETS			
Cash and balances with central banks	1,215	-	1,215
Loans and advances to banks	5,939,592	8,812,002	14,751,594
Loans and advances to customers	-	2,533,197	2,533,197
Derivative financial instruments	85,121	168	85,289
LIABILITIES			
Deposits from banks	10,276,743	-	10,276,743
Derivative financial instruments	56,807	325,740	382,547
Due to customers	-	164,906	164,906
INCOME STATEMENT			
Interest and similar income	197,444	266,194	463,638
Interest expense and similar charges	(136,896)	(34,802)	(171,698)
Fees and commission income	528	1,078	1,606
Fees and commission expense	(15,411)	(93)	(15,504)
Net trading income / (expense)	1,231	(4,184)	(2,953)
FINANCIAL COMMITMENTS			
Commitments – financial issued	7,516	430,000	437,516
Commitments - financial received	3,000,000	-	3,000,000
DERIVATIVES			
Derivatives (notional)	3,067,207	2,976,482	6,043,689

Number of transactions performed with connected parties in 2012

	PARENT	FELLOW SUBSIDIARIES	TOTAL
Loans and advances to banks	493	153	646
Loans and advances to clients	-	-	-
Derivative financial instruments	456	15	471
Deposits from banks	762	65	827
Repos	33	-	33
Total	1,744	233	1,977

Number of transactions performed with connected parties in 2011

	PARENT	FELLOW SUBSIDIARIES	TOTAL
Loans and advances to banks	727	162	889
Loans and advances to clients	-	18	18
Derivative financial instruments	462	22	484
Deposits from banks	797	10	889
Repos	48	-	48
Total	2,034	212	2,328

The cumulative total value of loans and advances to banks issued to Parent and other group

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

companies during the year has not been disclosed as the maturity profile for the majority ranged from overnight up to 5 years. The cumulative total value of deposits from banks received from the Parent and other Group companies during the year has not been disclosed as the maturity profile for the majority ranged from overnight up to 5 years.

Transactions with other related parties

Significant shareholder of INTESA SANPAOLO S.p.A

	2012 €000	2011 €000
ASSETS		
Available for sale debt securities	-	24,593
INCOME STATEMENT		
Interest and similar income	253	451
Number of transactions	1	1

36. Geographic concentrations

Geographic concentrations of assets, liabilities and off balance sheet items	Total assets €000	Total Liabilities & Equity €000	Credit commitments €000	Operating Income €000
31 December 2012				
Ireland	668,354	2,561,349	56,505	5,612
E.U. (excl. Ireland)	14,912,534	14,031,077	518,302	19,793
U.S.A.	126,739	67,634	-	2,366
Rest of the World	1,000,416	47,983	199,906	25,847
Total	16,708,043	16,708,043	774,713	53,618

Geographic concentrations of assets, liabilities and off balance sheet items	Total assets €000	Total Liabilities & Equity €000	Credit commitments €000	Operating Income €000
31 December 2011				
Ireland	580,753	1,292,454	24,144	13,528
E.U. (excl. Ireland)	18,853,080	19,373,039	689,950	49,210
U.S.A.	191,884	76,696	-	5,195
Rest of the World	1,170,149	53,677	228,428	39,698
Total	20,795,866	20,795,866	942,522	107,631

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

Geographic sector risk concentrations within the portfolio of loans and advances to corporate clients were as follows:

	2012 €000	2012 %	2011 €000	2011 %
Ireland	476,236	14	499,357	12
E.U. (excl. Ireland)	2,204,203	63	2,644,951	64
U.S.A.	126,409	4	162,905	4
Rest of the World	<u>662,934</u>	<u>19</u>	<u>811,334</u>	<u>20</u>
Total	<u>3,469,782</u>	<u>100</u>	<u>4,436,018</u>	<u>100</u>

Geographic sector risk concentrations within the portfolio of loans and advances to banks (excluding Central Bank) were as follows:

	2012 €000	2012 %	2011 €000	2011 %
Ireland	135,054	1	-	-
E.U. (excl. Ireland)	9,333,622	96	14,707,246	98
Rest of the World	<u>312,653</u>	<u>3</u>	<u>333,842</u>	<u>2</u>
Total	<u>9,781,329</u>	<u>100</u>	<u>15,041,088</u>	<u>100</u>

Geographic sector risk concentrations within the portfolio of financial instruments at fair value through profit or loss were as follows:

	2012 €000	2012 %	2011 €000	2011 %
E.U. (excl. Ireland)	<u>62,046</u>	<u>100</u>	<u>65,289</u>	<u>100</u>
Total	<u>62,046</u>	<u>100</u>	<u>65,289</u>	<u>100</u>

Geographic sector risk concentrations within the portfolio of available for debt securities were as follows:

	2012 €000	2012 %	2011 €000	2011 %
E.U. (excl. Ireland)	2,931,298	99	1,096,569	95
U.S.A.	-	-	28,346	3
Rest of the World	<u>24,634</u>	<u>1</u>	<u>24,047</u>	<u>2</u>
Total	<u>2,955,932</u>	<u>100</u>	<u>1,148,962</u>	<u>100</u>

INTESA SANPAOLO BANK IRELAND plc

Notes to the Financial Statements for the year ended 31 December 2012

37. Financial Assets and Financial Liabilities by contractual residual maturity

€000	31-Dec-2012						
Time band	On demand	up to 1 month	up to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS							
Cash and balances with CB (1)	907	50,127	-	3,619	-	-	54,653
Financial assets CFV	-	-	3,606	737	57,703	-	62,046
Available for sale securities	-	26,639	42,197	391,214	2,472,854	23,028	2,955,932
Loans and advances to banks (1)	1,884	607,004	21,930	1,514,505	4,291,732	3,344,274	9,781,329
Loans and advances to customers (1)	73,448	304,914	405,521	516,999	1,471,007	697,893	3,469,782
Derivative financial instruments	-	800	243	7,027	9,114	355,692	372,876
Total	76,239	989,484	473,497	2,434,101	8,302,410	4,420,887	16,696,618
LIABILITIES							
Debt securities in issue	-	1,841,841	1,266,217	5,338,094	777,698	325,016	9,548,866
Deposits from banks	-	60,060	2,178,518	5,484	10,246	45,563	2,299,871
Repurchase agreements	-	-	1,208,750	-	-	-	1,208,750
Due to customers	1,190	10,642	107,907	26,359	108,059	1,645,196	1,899,353
Derivative financial instruments	-	2,674	4,967	17,504	170,508	383,422	579,075
Total	1,190	1,915,217	4,766,359	5,387,441	1,066,511	2,399,197	15,535,915

(1) Collective impairment provision allocated to time band "up to 1 month"

€000	31-Dec-2011						
Time band	On demand	up to 1 month	up to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS							
Cash and balances with CB (1)	1,683	72,035	-	3,667	-	-	77,385
Financial assets CFV	-	-	1,102	836	34,589	28,762	65,289
Available for sale securities	-	2,411	13,796	471,436	640,792	20,527	1,148,962
Loans and advances to Banks (1)	1,589	540,602	4,250,634	1,694,644	3,305,932	5,247,687	15,041,088
Loans and advances to customers (1)	1,690	369,613	167,491	539,128	2,273,905	766,720	4,118,547
Derivative financial instruments	-	4,542	1,993	718	4,705	318,306	330,264
Total	4,962	989,203	4,435,016	2,710,429	6,259,923	6,382,002	20,781,535
LIABILITIES							
Debt securities in issue	-	843,237	3,153,972	1,507,679	1,138,614	345,679	6,989,181
Deposits from Banks	-	2,842,240	4,292,556	3,088,187	10,000	64,243	10,297,226
Repurchase Agreements	-	-	1,001	-	-	-	1,001
Due to customers	112	88,173	30,189	26,298	92,900	1,670,798	1,908,470
Derivative financial instruments	-	2,345	3,794	7,823	104,770	351,001	469,733
Total	112	3,775,995	7,481,512	4,629,987	1,346,284	2,431,721	19,665,611

(1) Collective impairment provision allocated to time band "up to 1 month"

38. Subsequent events

The directors have proposed a dividend of 8.62 cent per ordinary share, amounting to €34.51 million in respect of the year 2012. Final dividends are not accounted for until they have been ratified by the Shareholders at the Annual General Meeting.

39. Date of approval

The financial statements were approved and authorised by the directors on 27 February 2013.