

COLSTON NO. 2 PLC

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2012



COLSTON NO. 2 PLC

CONTENTS

	Page
COMPANY INFORMATION	2
DIRECTORS' REPORT	3
STATEMENT OF COMPREHENSIVE INCOME	5
BALANCE SHEET	6
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9

COLSTON NO. 2 PLC

COMPANY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2012

Board of Directors

Capita Trust Corporate Limited
Capita Trust Corporate Services Limited
Sean Martin

Company Secretary

Capita Trust Secretaries Limited
The Registry
32 Beckenham Road
Beckenham
Kent
BR3 4TU

Registered Office

4th Floor
40 Dukes Place
London EC3A 7NH

Registered Number: 6407404

COLSTON NO. 2 PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors present their report and the unaudited financial statements for Colston No 2 plc ("the Company") for the year ended 31 December 2012

Principal activities

The Company was a Special Purpose Entity set up by the Governor and Company of the Bank of Ireland ("Bank of Ireland") to issue Floating Rate Asset Backed Notes (the "Notes") as part of the securitisation of a pool of residential mortgage loans. All Notes issued by the Company were listed on the Official List of the Irish Stock Exchange.

The Company's principal activity was the management of a portfolio of mortgage loans and the collection of payments of principal and interest on them, funded primarily by the issuance of debt securities in the form of floating rate Notes in the international capital markets. Under the terms of an agreement dated 5 June 2008, Bank of Ireland (the Mortgage Originator) administered the mortgage loans on behalf of the Company. All activities relate to residential mortgages in the United Kingdom, where the Company is incorporated and domiciled.

On 10 December 2012 the Colston No 2 securitisation transaction was unwound, to meet the strategic requirements of Bank of Ireland.

Results and dividends

The retained profit of £1k (2011: £1k) will be added to reserves. No dividends were declared or paid by the Company during the year. Following the unwind of the securitisation transaction the Directors now recommend that a final dividend representing the retained profits as at the 31 December 2012 is paid in specie to Colston No 2 Parent Limited.

Principal risks and uncertainties

The principal risks and uncertainties which faced the business are detailed in Note 13 to the financial statements.

Key performance indicators

A defined set of KPIs for the securitisation transaction are set out in the Prospectus and were published as a quarterly Investor Report (available via the website of Bloomberg or on request from the Company). These included the yield on each class of Notes and the excess spread available as the first line of credit enhancement to the Notes, as well as analysis of the characteristics of the underlying mortgages including the rate of repayment, and the levels of arrears and losses. Any potential change in a credit rating assigned to the Notes would have been used as an indicator of the Company's performance.

Going concern

On 10 December 2012 the securitisation transaction was unwound, to meet the strategic requirements of Bank of Ireland. The Company is no longer active and the Directors expect to strike off the Company by 30 June 2013.

Directors and their interests

The Directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

Capita Trust Corporate Limited
Capita Trust Corporate Services Limited
Sean Martin

COLSTON NO. 2 PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

During the year, no Director held any interest in the shares of the Company or any body corporate of any related party (Bank of Ireland and its subsidiary undertakings). There is no requirement for the Directors to disclose their interest in shares in, or debentures of, any body corporate incorporated outside of Great Britain.

During the year, no Director or connected person had any interest in any contract of significance with the Company or any Company or body corporate of any related party.

Creditor payment policy

Creditors are paid under the terms of contractual agreements or as agreed with individual suppliers.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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


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

By order of the Board

Paul Glendenning

For and on behalf of Capita Trust Corporate Services Limited

Director



18 February 2013

COLSTON NO. 2 PLC**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Interest income	2	19,924	27,750
Interest expense	2	(18,579)	(25,428)
Net interest income		1,345	2,322
Operating expenses	3	(1,344)	(2,321)
Operating profit		1	1
Taxation	5	-	-
Profit for the year		1	1
Other comprehensive income		-	-
Total comprehensive income for the year		1	1

All results relate to discontinued operations

On 10 December 2012 the securitisation transaction was unwound, to meet the strategic requirements of Bank of Ireland. The Company is no longer active and the Directors expect to strike it off by 30 June 2013.

The notes on pages 9 to 21 are an integral part of these unaudited financial statements.

COLSTON NO. 2 PLC

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	31 December 2012 £000	31 December 2011 £000
Assets			
Cash and cash equivalents	6	63	194,452
Loan to related company	7	-	1,478,042
Other assets	7	-	219
Called up share capital not paid	7	37	37
Total assets		100	1,672,750
Equity and liabilities			
Debt securities in issue (Notes)	8,9	-	1,665,085
Borrowing from related company	8	31	500
Other liabilities	8	-	7,097
Total liabilities		-	1,672,682
Called up share capital	11	50	50
Retained earnings		19	18
Total equity		69	68
Total equity and liabilities		100	1,672,750

The Company had no other recognised gains or losses during either year

(a) For the year ended 31 December 2012 the Company was entitled to exemption under section 480 of the Companies Act 2006, relating to dormant companies

(b) The Directors have not required the Company to obtain an audit in accordance with section 476 of the Companies Act 2006

(c) The Directors acknowledge their responsibility for ensuring the Company keeps accounting records which comply with section 386, and preparing accounts which give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of its profit or loss for the financial year, in accordance with the requirements of section 393, and which otherwise comply with the requirements of the Companies Act relating to accounts, so far as applicable to the Company

On 10 December 2012 the Colston 2 plc securitisation transaction was unwound, to meet the strategic requirements of Bank of Ireland. This Company is no longer active and the Directors expect to strike it off by 30 June 2013

The notes on pages 9 to 21 are an integral part of these unaudited financial statements

These financial statements were approved by the Board of Directors on the 18 February 2013 and signed on its behalf by

Paul Glendenning

For and on behalf of Capita Trust Corporate Services Limited

Director


18 February 2013

COLSTON NO. 2 PLC**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2012**

	31 December 2012 £000	31 December 2011 £000
Called up share capital		
Balance at the beginning of the year	50	50
Balance at the end of the year	50	50
Retained earnings		
Balance at the beginning of the year	18	17
Profit for the year	1	1
Balance at the end of the year	19	18
Total shareholders' equity	69	68

Attributable to equity holders of the Company

On 10 December 2012 the securitisation transaction was unwound, to meet the strategic requirements of Bank of Ireland. The Company is no longer active and the Directors expect to strike it off by 30 June 2013.

The notes on pages 9 to 21 are an integral part of these unaudited financial statements

COLSTON NO. 2 PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

		Year to 31 December 2012 £000	Year to 31 December 2011 £000
Cash flows from operating activities			
Operating profit		1	1
<i>Adjustments for:</i>			
Interest expense	2	18,579	25,428
Interest income	2	(19,924)	(27,751)
Net profit before working capital changes		(1,344)	(2,322)
Net change in other assets		(255)	255
Net change in other creditors		(2,125)	2,125
Cash generated from operating activities		(2,380)	2,380
Net cash from operating activities		(3,724)	59
Cash flows from investing activities			
Principal receipts from securitised assets		166,218	268,642
Receipts from Originator relating to the sale of mortgages		1,306,858	-
Interest received		19,924	24,817
Net cash flows from investing activities		1,493,000	293,459
Cash flows from financing activities			
Interest paid		(18,579)	(25,297)
Principal repayment to Noteholders	9	(258,667)	(226,431)
Payment to Note holders relating to the repurchase of Notes	9	(1,406,419)	-
Swap collateral (repaid)/received	8	-	(89,500)
Net cash from financing activities		(1,683,665)	(341,228)
Net change in cash and cash equivalents	6	(194,389)	(47,710)
Cash and cash equivalents at beginning of the year		194,452	242,162
Cash and cash equivalents at end of the year	6	63	194,452

The notes on pages 9 to 21 are an integral part of these unaudited financial statements

1. Summary of significant accounting policies

1.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention but not on a going concern basis as on 10 December 2012 the securitisation transaction was unwound, to meet the strategic requirements of Bank of Ireland. The Company is no longer active and the Directors expect to strike it off by 30 June 2013.

The principal accounting policies applied in the preparation of these financial statements are set out below.

1.2 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Directors to exercise its judgement in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- (a) The Notes were floating rate instruments, which were not traded in an active market, and were AAA rated by Fitch at initial recognition and at the balance sheet date. The Notes were measured at amortised cost using the effective interest method for accounting purposes.
- (b) Under IFRS as adopted by the European Union, if a transferor retained substantially all the risks and rewards associated with the transferred assets, the transaction was accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors have concluded that Bank of Ireland (mortgage originator) had retained substantially all the risks and rewards of the pool of mortgage loans. Consequently, the Company did not recognise the mortgage loans on its balance sheet but rather a loan due from Bank of Ireland, where recourse to Bank of Ireland is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by Bank of Ireland.

The initial amount of the loan due from Bank of Ireland corresponds to the consideration paid by the Company for the mortgage loans less the subordinated loan granted by Bank of Ireland. The Company recognised principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to Bank of Ireland are not recognised by the Company. The carrying value of the loan was dependent on the carrying value of the mortgage loans. Additionally, the Directors consider that the subordinated loan did not meet the definition of a separately recognisable liability as the Company repaid the subordinated loan to Bank of Ireland only if it first received an equivalent amount from Bank of Ireland.

The Company assesses at each balance sheet date whether there is objective evidence that the deemed loan to Bank of Ireland is impaired.

1. Summary of significant accounting policies (continued)

The fixed-to-floating interest rate swaps entered into by the Company and Bank of Ireland were not recognised separately as financial derivative instruments, as the amounts payable under the swaps reflect interest flows from the mortgage loans which were not recognised by the Company for accounting purposes. Instead, the deemed loan to Bank of Ireland was recognised with an effective interest rate which reflected the amount receivable under the swap receiving leg.

The equity shares of the Company are held by a trustee for charitable purposes. The Directors nevertheless consider that the financial and operating policies of the Company are largely predetermined to facilitate a securitisation transaction by Bank of Ireland and that, for accounting purposes, the Company is a subsidiary of Bank of Ireland.

Notes issued by the Company were subject to certain call options that allow the Company to repurchase the notes at any interest payment date after giving 7 days' notice, and which would result in an effective repayment of the deemed loan to Bank of Ireland. Such repurchase options are considered to be closely related to the economic characteristics and risks of the notes themselves, as a result, the options have not been separately fair valued.

1.3 Accounting policies

Loans and receivables

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

The Directors have concluded that the sale of the pool of mortgage loans failed the derecognition criteria in IAS 39 and, therefore, the Company did not recognise the mortgage loans as assets. Instead, the Company recognised a limited recourse loan to Bank of Ireland which was secured on, and only has recourse to, the cash flows arising from the mortgage loans.

The limited recourse loan was recognised initially at the amount corresponding to the consideration paid by the Company for the pool of mortgage loans less the subordinated loan from Bank of Ireland. The limited recourse loan has subsequently been adjusted for principal receipts from the underlying mortgage loans which have been retained by the Company and which represent repayments of the limited recourse loan.

Purchases and sales of financial assets were not recognised on trade date – the date when the Company commits to purchase or sell the asset. Non-derivative financial assets were classified as loans and receivables carried at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or 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 throughout 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 but does not consider future credit losses. The calculation included all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

1. Summary of significant accounting policies (continued)

Derivative financial instruments

The principal derivatives used by the Company were interest rate contracts

These contracts had the legal form of derivative but were not recognised separately as financial derivative instruments, as the amounts payable under the swaps reflected interest flows from the mortgage loans which were not recognised by the Company for accounting purposes. They were therefore included in the financial statements within the deemed loan to Bank of Ireland.

The principal amount of the contract did not represent the Company's real exposure to credit risk which is effectively nil as the notes and the deemed loan were with the same counterparty, Bank of Ireland.

Further information on the derivatives is provided in Note 10.

Subordinated loan agreement

Bank of Ireland advanced funds to the Company under a subordinated loan agreement. The subordinated loan did not meet the definition of a liability as it will be repaid by the Company only to the extent that Available Revenue Funds were sufficient to do so. It was included in the financial statements within the deemed loan to Bank of Ireland. Therefore, interest payable on this subordinated loan was not recognised separately as interest expense, but was netted off against interest earned on the deemed loan.

Income recognition and funding costs

Interest income and expense are accounted for using the effective interest method.

Foreign currency translation

Foreign currency transactions are translated into sterling at 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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Impairment of financial assets

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

Delinquencies and defaults on the securitised assets do not result in an impairment loss if the cash flows from the asset pool are still expected to be sufficient to meet obligations under the limited recourse loan. Losses incurred on the securitised assets do not trigger an impairment of the deemed loan to Bank of Ireland as long as they do not exceed the credit enhancement granted by Bank of Ireland (reserve fund and deferred consideration).

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of significant accounting policies (continued)

Notes and issue costs

Issue costs associated with the Note issue were written off at the outset of the transaction. The Notes were subsequently recognised at amortised cost at current exchange rates.

Financial Liability – swap collateral

The swap collateral met the definition of a Financial Liability as per IAS 39 as the Company had no discretion over the manner of its repayment and the only event which could cause repayment is outside the control of both Bank of Ireland and the Company. The only event which could cause non-repayment would have been if there were insufficient cash flows from the securitised assets to meet financial obligations arising from the Notes in issue.

Income taxes

The charge for current taxation is based on the amount retained by the Company under the documents governing the securitisation as adjusted for any shortfalls in cashflow in current or prior years using taxation rates that are applicable to taxable income.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise balances with banks, please see note 6 for more information.

Segmental reporting

The whole of the Company's operations are carried out in the United Kingdom, as such, no separate segmental reporting is considered necessary.

2. Net interest income

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Interest income		
Loans to related company	19,210	26,995
Interest on cash at bank	714	755
	<u>19,924</u>	<u>27,750</u>
	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Interest expense		
Notes (Debt securities in issue)	18,579	25,297
Issue expenses amortised	-	131
	<u>18,579</u>	<u>25,428</u>

3. Operating expenses

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Servicing fees	1,332	2,283
Other fees and expenses	12	31
Auditors' remuneration in respect of audit services	-	7
	<u>1,344</u>	<u>2,321</u>

COLSTON NO. 2 PLC**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2012****4. Directors and employees**

The Directors received no remuneration and there were no employees during the year or previous year. Fees were paid to Capita Trust Secretaries Limited for directorship and corporate services 2012 £17k, (2011 £16k)

5. Taxation

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
UK Corporation Tax on profits for the year	-	-
Profit on ordinary activities before tax	1	1
Profit on ordinary activities multiplied by the small companies' tax rate in the UK (20%) (2011 20%/ 21%)	-	-
Tax charge for the current year	-	-

6. Cash and cash equivalents

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
- Transaction bank account held with Natwest Bank plc	63	24
- GIC bank account held with Citibank N A		
Cash deposit with instant access	-	111,321
Cash deposit - Reserve fund	-	83,107
Total cash and cash equivalents	63	194,452

COLSTON NO. 2 PLC**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2012****7. Receivables**

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Non current assets:		
Loan to related company	-	1,294,471
Called up share capital not paid	37	37
	<hr/> 37	<hr/> 1,294,508
Current assets:		
Loan to related company	-	183,571
Prepayments and accrued income (other assets)	-	219
	<hr/> -	<hr/> 183,790
Total receivables	<hr/> 37	<hr/> 1,478,298

The loan to related company represented amounts due from Bank of Ireland (the Mortgage Originator) and, along with cash balances, was collateral for the Notes. It included the accruals for the interest rate swaps and subordinated loan (see below)

The subordinated loan was netted against the loan to the related company at inception therefore the value of total receivables reflected this

Subordinated loan agreement

On set up, Bank of Ireland made available to the Company a loan of £26,968k to finance certain issue related expenses (£11,500k) and loan losses through a Reserve Fund (£15,468k). On 1 November 2010, Bank of Ireland advanced an additional £67,639k to Company, before the transaction was unwound, the subordinated loan was £94,607k

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

8. Liabilities

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Non current:		
Notes	-	1,391,643
Borrowing from related company	-	500
	-	1,392,143
Current:		
Borrowing from related company	31	-
Notes	-	273,442
Other liabilities	-	7,097
	-	280,539
	31	1,672,682

9. Debt securities in issue (Notes)

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Notes in issue	-	1,665,085

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Opening balance - Notes in issue	1,665,085	1,891,385
Redemption of Notes	(258,667)	(226,431)
Re-purchase of Notes	(1,406,418)	-
Issue costs amortised	-	131
Closing balance – Notes in issue	-	1,665,085

Floating rate Notes

On 5 June 2008, the Company raised €5,726,100,000 (£4,549,398,000) by the issuance of 3 classes of Notes listed on the Irish Stock Exchange

Class	Currency	Nominal in currency €000	Nominal in £ £000
A1	Euro	1,908,700	1,516,466
A2	Euro	1,908,700	1,516,466
A3	Euro	1,908,700	1,516,466
		5,726,100	4,549,398

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

9. Debt securities in issue (Notes) (continued)

Interest on the Notes was payable quarterly in arrears at an annual rate of 3 month EURIBOR plus premiums of 0.80%, 0.83%, and 0.85% respectively. The amount raised from the Notes was converted to the Sterling values shown by a currency swap.

On 21 January 2009 the Notes of the Company were redenominated to sterling at their original nominal exchange rate. On this date the underlying cross currency swap was also terminated. The nominal amounts at the date of re-denomination (21 January 2009) are shown below.

Class	Currency	Nominal in currency €000	Nominal in £ £000
A1	Euro	1,471,264	1,168,900
A2	Euro	1,908,700	1,516,450
A3	Euro	1,908,700	1,516,450
		<u>5,288,664</u>	<u>4,201,800</u>

Interest on the Notes following redenomination is payable quarterly in arrears at annual rates of 3 month LIBOR plus premiums of 0.81%, 0.84%, and 0.86% respectively.

On 1 November 2010, the Company re-purchased £1,591,348k of Notes as follows:

Class	Nominal in £	Re-purchase of Notes nominal in £	Re-purchase of Notes (book value) in £
A1	1,168,900,000	(1,168,900,000)	(449,963,619)
A2	1,516,450,000	(1,141,384,000)	(1,141,384,000)
A3	1,516,450,000	-	-
	<u>4,201,800,000</u>	<u>(2,310,284,000)</u>	<u>(1,591,347,619)</u>

Interest on the Notes following the re-purchase is payable quarterly in arrears at annual rates of 3 month LIBOR plus premiums of 0.56%, 0.59%, and 0.61% respectively.

The Notes were secured by a first fixed equitable sub-mortgage over the Company's interest in mortgage loans and charges over life policies. The par value of the Notes is reduced quarterly through the utilisation of funds arising from redemptions of mortgage loans. The Company has an option to redeem all, but not part, of the Notes at their principal amount outstanding on any interest payment date up to the final maturity date of April 2050.

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

10. Derivatives

The principal derivatives used by the Company were interest rate swaps. These swaps were used to exchange interest flows on the underlying pool of mortgages to LIBOR based flows.

The principal amount of the swaps did not represent the Company's real exposure to credit risk which is effectively nil as the Notes, the loan to related company and the interest rate swap were with the same counterparty, Bank of Ireland.

Cross currency swaps were used by the company prior to the redenomination of the Notes to sterling on 21 January 2009. These swaps were used to exchange actual currency principal amounts and associated indices related interest flows.

The interest rate swaps had the legal form of derivatives but were not recognised separately as financial derivative instruments, as the amounts payable under the swaps reflect interest flows from the mortgage loans which were not recognised by the Company for accounting purposes. They were therefore included in the financial statements within the loan to related company as disclosed in note 12.

11. Share capital

	Year to 31 December 2012 £	Year to 31 December 2011 £
Authorised		
Equity shares		
50,000 Ordinary shares of £1 each	50,000	50,000
Allotted		
Equity shares		
2 allotted, called up and fully paid ordinary shares @ £1 each	2	2
49,998 allotted, called up and partly paid ordinary shares @ £1 each	49,998	49,998

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

11. Share capital (continued)

On 23 October 2007, 2 £1 ordinary shares were issued for the consideration of £2 and were fully paid up. In addition to this, 49,998 £1 ordinary shares were also issued on that date, for which £12,500 has been received.

12. Related parties

The Directors consider that the Company is related to its immediate parent undertaking, Colston No 2 Parent Limited, to its ultimate parent undertaking Capita Trust Nominees No 1 Limited, and to Bank of Ireland and its subsidiary undertakings. At the balance sheet date the sum of £37,498 (2011 £37,498) was owed to the Company by Colston No 2 Parent Limited, in settlement of the remaining balance due on the acquisition of the Company's share capital. At the balance sheet date there were no sums due to or owed by Capita Trust Nominees No 1 Limited.

The Company has entered into loan agreements with Bank of Ireland. Interest receivable on loans and advances to Bank of Ireland is disclosed in note 2. In addition Bank of Ireland carried out certain administrative work on behalf of the Company for a fee which amounted to £1,332k during the year (2011 £2,283k).

The Notes issued by the Company were purchased by Bank of Ireland.

As at 31 December 2012, the net amount owed by the Company to Bank of Ireland was £31k, (2011 £194,509k). This amount was comprised as follows:

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Loans to related company (note 7)	-	1,478,042
Borrowings from related company (note 8)	(31)	(500)
Deposits (note 6)	-	-
Notes (note 9) *	-	(1,664,954)
Accrued interest on Notes	-	(6,408)
Accrued interest deposits	-	-
Accrued fees	-	(689)
	(31)	(194,509)

Profit and loss transactions in the year ended 31 December 2012 with Bank of Ireland were comprised as follows:

	Year to 31 December 2012 £000	Year to 31 December 2011 £000
Interest receivable	19,210	27,112
Interest payable	(18,579)	(25,428)
Servicing fees	(1,332)	(2,283)

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

13. Financial instruments

The Company's financial instruments comprised a loan from the Company to Bank of Ireland (see note 7), a subordinated loan from Bank of Ireland (see note 7), cash at bank (see note 6), Notes (see note 9) and interest rate swaps (see note 10). Methods used by the Company to manage the risks associated with these instruments are summarised below. These have been agreed by the Directors and applied throughout the year.

Credit risk

Credit risk is the exposure to loss if another party fails to meet its financial obligations to the Company, including failing to perform them in a timely manner.

The primary credit risk of the Company related to default on the loan with Bank of Ireland, which in turn depended on the credit risk associated with the mortgages originated within the Bank of Ireland Group. The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default were related to a number of factors and may have varied according to characteristics and product type. Significant changes in the economy, or in the economic health of a particular geographical zone that represents a concentration in the securitised assets, could also have affected the cash flows from the mortgage pool. All risk factors were assessed in detail at inception and are outlined in the Prospectus. The Company assessed its counterparties for credit risk before contracting with them.

The Company had a concentration of risk in the originator (Bank of Ireland). The underlying mortgage assets of the securitisation were all in the UK market. The nature of the residential mortgage portfolio meant there was no significant counterparty credit risk.

The Company is insulated from credit risk as it was only obliged to pay out to investors, to the extent that cash flows had been received from the mortgage pool.

Credit enhancements

Credit enhancement was provided to the securitisation structure in a number of ways. The mortgage pool assets were significantly greater than the Notes which were issued to Bank of Ireland. This over collateralisation as well as the reserve fund was available to make good any reductions in the principal balance of the mortgage pool as a result of defaults by customers. In addition, Bank of Ireland provided a subordinated loan to create a reserve fund which can be utilised by the Company in certain circumstances.

The credit enhancements can be summarised as follows:

	31 December 2012 £000	31 December 2011 £000
Mortgages	-	1,801,180
Notes	-	(1,665,085)
Over collateralisation	-	136,095
Reserve fund	-	83,107
Swap collateral (Borrowings from related company)	-	500
Total Credit Enhancements	-	219,702

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

13. Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities

Interest receivable on the loan to related company included further economic hedging arrangements to align the rates receivable with LIBOR rather than the rates on the underlying mortgages, which may be based on fixed rates, Base rate or SVR rates, therefore no quantitative analysis of interest rate risk is presented

Capital management

The Company's capital comprises the Company's equity stockholders' funds and a subordinated loan from Bank of Ireland (now repaid) The principal amount of the subordinated loan was repayable following the redemption of the Notes in full, or in whole or in part at any earlier time in accordance with the Interest Priority of Payments detailed within the prospectus

The following table sets out the Company's capital resources

	31 December 2012	31 December 2011
	£000	£000
Share capital	50	50
Subordinated loan	-	94,607
Retained earnings	19	18
	69	94,674

Derivatives

See note 10

Fair value of financial assets

In the opinion of the Directors, the fair values of the financial assets and liabilities are not significantly different from the carrying values The fair value of the deemed loan to related party has been reviewed and the directors do not consider it to be significantly different from the carrying amount in the Balance Sheet

14. Classification of financial assets and liabilities

All financial assets are classified as "loans and receivables" All financial liabilities are classified as "liabilities at amortised cost"

15. Ultimate parent and controlling entity

The Company's immediate parent undertaking is Colston No 2 Parent Limited The Company's ultimate parent undertaking is Capita Trust Nominees No 1 Limited, a company incorporated in the United Kingdom, that holds its shares in Colston No 2 Parent Limited on a discretionary trust basis for certain charitable purposes

COLSTON NO. 2 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

16. Ultimate parent and controlling entity (continued)

For accounting purposes, the Company's ultimate parent and controlling party is Bank of Ireland. Following the securitisation transaction on 5 June 2008, effective control of the Company passed to Bank of Ireland.

Under International Financial Reporting Standards, the results of the Company are included in the consolidated financial statements of Bank of Ireland. These can be obtained from Bank of Ireland's Head Office in Mespil Road, Dublin 4 or from the website www.bankofireland.com/investor

Registered Office:

Colston No 2 plc,
4th Floor
40 Dukes Place
London EC3A 7NH