BANK OF IRELAND MORTGAGE BANK ANNUAL REPORT

31 December 2014

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors at 26 February 2015

John Clifford
Stephen Mason
Gavin Kelly
Danny Buckley
Sean Crowe
Paul Flynn
Liam McLoughlin
Brian McConnell
Richard Milliken

Registered Office and number

Bank of Ireland Mortgage Bank
New Century House
Mayor Street Lower
I.F.S.C
Dublin 1
Registered Number 386415

Cover-Assets Monitor

Mazars
Harcourt Centre
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Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1

Secretary

Hill Wilson Secretarial Limited

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the "Bank"), for the year ended 31 December 2014.

REVIEW OF BUSINESS

The Bank's principal activities are the provision of Irish residential mortgages and the issuance of securities in accordance with the Asset Covered Securities Acts, 2001 to 2007 (the "ACS Acts").

The Bank is a wholly owned subsidiary of the Governor & Company of the Bank of Ireland ("Bank of Ireland").

The Bank has had a very positive year with key highlights being:

- a return to profitability and generation of capital;
- the performing[1] loan book levelled at €17.6 billion year on year;
- the Bank's ongoing active management of arrears has resulted in a €0.4 billion reduction in defaulted[2] loans to €2.3 billion;
- within the loan book, the loans with interest linked to the ECB base rate reduced by €1.1 billion to €10.7 billion;
- growth of more than 50% in the Irish mortgage market with the Bank accounting for over 3 out of 10 new mortgages;
- upgrades by Moody's Investor Services of the Bank's asset covered bonds ratings' from Baa2 to A1; and
- the successful issue of 5 year €750 million asset covered bonds at 80bps over mid swaps, and a further 5 year €750 million asset covered bond in January 2015 at 20 bps over mid swaps - both of which were comfortably oversubscribed.

The early signs of Irish economic recovery evident in 2013 have continued in 2014. Unemployment has declined from 13.1% at end 2013 to 11.3% at end 2014 with c. 3,300 jobs being created per month. The property market is in the early stages of recovery, as evidenced by an increase in property transactions of 38% year on year, from a low base. The value of residential property has also continued to recover during 2014, particularly in Dublin, as evidenced by the Residential Property Price Index published by the Central Statistics Office ("CSO"). The CSO index for December 2014 reported that average national residential property prices were 37.6% below the 2007 peak (31 December 2013: 46.4% below peak).

The improving economic and property market conditions have resulted in increased demand for property. New mortgage lending has been tempered by a shortage of housing stock for sale in the Dublin market and the impact of a high proportion of cash purchases. Notwithstanding this, total new mortgage lending for 2014 has increased by more than 50% to €3.86 billion[3]. The Bank accounted for over 3 out of every 10 new mortgages extended in the Republic of Ireland in 2014 (in value).

In relation to funding, the Bank continues to build upon the significant progress made during 2013. The Bank publicly issued a total of €815.7 million in Asset Covered Securities (ACS). This included a €750 million 5 year bond priced at 80 basis points over mid swaps which attracted very strong interest from investors. In addition to the public issuances a further €69 million was issued in private placements. The Bank's ACS were upgraded by Moody's Investor Services on two occasions in 2014, from Baa2 to A3 in March 2014 and from A3 to A1 in November 2014.

In January 2015 the Bank successfully issued a €750 million 5 year fixed ACS priced at 20 basis points over mid swaps. The Central Bank of Ireland (CBI) has issued new regulations introducing limits on higher Loan to Value (LTV) and on higher Loan to Income (LTI) for new mortgage lending. The industry implementation and consumer reaction to these new regulations may have an impact on the Bank's new mortgage growth strategy in the medium term.

Asset Quality:

Loans and advances to customers (before impairment provisions) amounted to €19.9 billion at 31 December 2014 (31 December 2013: €20.3 billion), of which loans past due but not in default are €0.5 billion (31 December 2013: €0.6 billion) and defaulted loans are €2.3 billion (31 December 2013: €2.7 billion). The movement in the book reflects a combination of factors including principal repayments, resolution activity and new mortgage lending.

Impairment provisions decreased to €1,076 million at 31 December 2014 from €1,345 million at 31 December 2013. Total provisions as a percentage of defaulted loan balances amount to 47% (31 December 2013: 49%).

Overall, there has been a significant reduction in default arrears (based on loan volumes greater than 90 days past due and / or impaired) in 2014, continuing the trend seen in the second half of 2013.

Owner occupied default arrears (based on loan volumes greater than 90 days past due and / or impaired) were €1,199 million at 31 December 2014 as compared with €1,452 million at 31 December 2013. This reduction is reflective of the further improvement in economic conditions during the year and the ongoing progress being made by the Bank in effecting its mortgage arrears resolution strategies supported by improving economic conditions. The level of Owner occupied default arrears for the Bank remains at less than half the level of those banks as published on a quarterly basis by CBI[4] (latest industry statistics are as at Q3 2014).

[1]Performing loan book include "Neither past due nor impaired" and "1 – 90 days past due but not impaired"
[2] Defaulted loans are defined as loans greater than 90 days past due and / or impaired.
[3] Q4 2014 IMC new mortgage lending data
[4] Industry source: CBI Mortgage Arrears Statistics Report – adjusted to exclude the Bank.

REVIEW OF BUSINESS (continued)

Asset Quality (continued)

Buy to let default arrears (based on loan volumes greater than 90 days past due and / or impaired) were €1,088 million at 31 December 2014 as compared to €1,267 million at 31 December 2013. The €179 million reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed assets by fixed charged receivers, supported by improved rental market conditions for investors, particularly evident in primary urban areas. The level of Buy to let default arrears for the Bank remains below the level of those banks as published on a quarterly basis by the CBI (latest industry statistics are as at Q3 2014). At 31 December 2014, 74% of the Buy to let mortgage book was on a 'principal and interest' repayment basis (31 December 2013: 69%).

The Bank's progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties has resulted in higher cure rates, and thus has also contributed to the significant reduction in the stock of default arrears and lower impairment charges in 2014. In line with the CBI 'Impairment Provisioning and Disclosures Guidelines', application of a twelve month probation period continues to apply in all cases to be eligible for inclusion in collective provisioning model cure rate calculations.

The Bank continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments in order to arrange, where viable, sustainable repayment solutions as appropriate. Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ("forbearance measure"), for reasons relating to the actual or apparent financial stress or distress of that borrower.

Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place. The Bank has continued to modify formally a significant number of customer loans which are deemed to be sustainable, with accounts representing 10% (15,783 accounts) of total mortgage accounts, now with a formal forbearance measure in place (31 December 2013: 13,312 accounts).

Capital:

During the year no share capital was issued to the Bank's parent company, Bank of Ireland (year ended 31 December 2013: 29,375,000 shares issued at €8 per share).

At 31 December 2014, the Bank's total capital ratio, including 2014 profits, was 13.5% (31 December 2013: 9.1%). During the year a subordinated loan of €162 million matured whilst two further subordinated loans of €80 million and €70 million were redeemed before their final maturity dates. These subordinated loans were no longer efficient from a regulatory capital perspective and were replaced by a new €50 million subordinated loan which fully qualifies as regulatory capital.

RESULTS

The profit before tax for the year ended 31 December 2014 amounted to €217.0 million, as set out in the profit and loss account on page 13, compared to a loss before tax of €265.5 million for the year ended 31 December 2013.

Net Interest Income ("NII") increased to €170.0 million for the year ended 31 December 2014, from €123.3 million for the year ended 31 December 2013. The improvement in NII is due largely to lower funding costs which have decreased by €65.6 million year on year as the funding position of the Bank continues to improve offset in part by lower interest income which has reduced by €18.8 million.

The net impact of these factors (together with the interest income on derivative financial instruments which are reported in net trading income for accounting reasons but are included in the net interest margin calculation) has resulted in an increase in the net interest margin to 0.81% (31 December 2013: 0.69%).

Fee and commission income amounted to €0.5 million for the year ended 31 December 2014, compared to €0.2 million for the year ended 31 December 2013.

Operating expenses remained static at €57.7 million for the year ended 31 December 2014 (31 December 2013: €57.7 million).

The impairment reversal on the Bank's mortgage portfolio of €101.3 million for the year ended 31 December 2014 compares to an impairment charge of €393.9 million in the previous year. The 2013 impairment charge on the loan portfolio reflected the impact of the implementation of the CBI guidelines and consideration of the CBI's 2013 Asset Quality Review ("AQR"). The current year impairment reversal on the Bank's mortgage portfolio reflects a range of considerations including:

- improved performance within the portfolio (lower default rates);
- the improved economic conditions such as lower unemployment and higher property prices; and
- the impact of updated mortgage collective provisioning assumptions.

REVIEW OF BUSINESS (continued)

RESULTS (continued)

Details of updated collective provisioning model factors and assumptions for the loan portfolio, including property valuation assumptions and cure rates, are set out on page 40. The estimated combined impact of the updated collective provisioning models is a €190 million net reduction in collective impairment provisions for the Bank's mortgage portfolio as at 31 December 2014.

The Bank enters into derivative transactions for interest rate hedging purposes only. Net trading income includes fair value movements on derivatives and debt securities in a fair value hedge relationship; fair value movements on derivatives which do not qualify for hedge accounting; interest flows and gains on the repurchase of the Bank's own debt securities. For the year ended 31 December 2014, this amounted to a net trading gain of €2.9 million compared to €62.6 million for the year ended 31 December 2013. The reduction in trading income was largely due to interest flows on a derivative which was de-designated as it no longer qualified for hedge accounting due to ineffectiveness. The derivative matured in 2013 and no derivatives have been de-designated in 2014.

At 31 December 2014, the Bank had a deferred tax asset of €73.9 million (31 December 2013: €109.9 million), a decrease of €36.0 million relating to a combination of current year profits, timing adjustments and adjustments required under tax legislation.

FUNDING

The Bank has an approved funding policy that includes funding directly through the use of asset backed securities, mortgage backed promissory note programmes and borrowings from Bank of Ireland. The Bank also has the ability to access secured funding through the tendering operations of the ECB.

Covered bonds are a key element of the Bank's long term funding strategy. During the year ended 31 December 2014, the Bank successfully issued €815.7 million in asset covered securities including a €750m 5 year fixed note in March 2014. In addition, the Bank continued to issue notes through private placements of €69 million. This progress has continued with the successful issuance of a €750m 5 year bond in January 2015.

During 2014 there were €1.7 billion of maturities and €250 million of debt was repurchased.

The Bank obtains a rating for the covered bonds from Moody's Investor Services and Dominion Bond Rating Service, Inc. ("DBRS").

	31 December 2014	31 December 2013
Rating Agency		
Moody's Investor Services	A1	Baa2
DBRS	A(low)	A(low)

At 31 December 2014, the Bank had a €18.8 billion customer loan portfolio (net of impairment provisions) funded through debt securities in issue €9.9 billion (53%), Capital and subordinated debt €1.0 billion (5%) and net Bank of Ireland Group (the "Group") borrowings €7.9 billion (42%). Of the €9.9 billion debt securities in issue, €2.9 billion is held by Bank of Ireland. The remaining €7.0 billion is issued to external bondholders with a range of maturities out to 2048.

Full details of debt securities in issue are contained in note 16 to the accounts.

As at 31 December 2014, the Bank had €140.4 million (including accrued interest €0.4 million) in subordinated loan borrowings from its parent company (31 December 2013: €402.6 million). A subordinated loan of €162 million matured on 4 July 2014 and two further subordinated loans of €80 million and €70 million were redeemed on 29 August 2014 as they were no longer capital efficient under Basel III / CRD IV. These subordinated loans were replaced with a new Tier 2 subordinated loan of €50 million.

BOOKS OF ACCOUNT

The measures taken by the Directors to ensure compliance with obligations to keep proper books of account comprise the use of appropriate systems, the implementation of robust controls and the employment of competent individuals with relevant experience. The books of account are kept at the Bank's registered office.

DIRECTORS AND SECRETARY

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2014 and up to the date of the approval of the financial statements are set out below. Except where indicated, they served as directors for the entire period.

Directors

J Clifford	Non-Executive Chairman	
S Mason	Managing Director	
G Kelly	Executive Director	
K O'Sullivan	Executive Director	Resigned 22nd August 2014
D Buckley	Executive Director	Appointed 14th August 2014
S Crowe	Group Non-Executive Director	
P Flynn	Group Non-Executive Director	
L McLoughlin	Group Non-Executive Director	
B McConnell	Independent Non-Executive Director	
R Milliken	Independent Non-Executive Director	

Secretary

Hill Wilson Secretarial Limited

DIRECTORS' AND SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office at 31 December 2014, and of their spouses and minor children, in the shares of Bank of Ireland and related Group entities, are disclosed in note 23 of the financial statements.

POLITICAL DONATIONS

Political donations are required to be disclosed under the Electoral Acts 1992 - 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2014 (December 2013: €nil).

AUDIT COMMITTEE

The Bank's Audit Committee, which comprises only independent non-executive Directors, assists the Board in fulfilling its responsibilities relating to:

- the integrity of the financial statements;
- the relationship between the Bank and its external auditors;
- the Bank's internal controls, internal audit and IT systems; and
- Compliance functions.

CORPORATE GOVERNANCE

The statement on Corporate Governance as outlined in the Corporate Governance section on page 10, forms part of the Report of the Directors.

GOING CONCERN

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2014 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered the Bank's business, profitability projections, funding and capital plans together with a range of other factors such as the outlook for the Irish economy, taking due account of the impact of fiscal realignment measures and the availability of collateral to access the Eurosystem together with the likely evolution and developments in the Eurozone. The matters of primary consideration by the Directors are set out below:

- In 2014, the Bank returned to profitability and is generating capital. Furthermore, the Bank successfully accessed funding through both asset covered securities and private placement issuances. The Bank is dependent on Bank of Ireland ("the Parent") for short term funding and any future capital needs.

GOING CONCERN (continued)

- The Bank has received a letter of support from its Parent covering any required capital and liquidity for the period of assessment. During 2014, the Parent returned to profitability, is generating capital and passed (in baseline and adverse scenarios) the ECB's comprehensive assessment. The Directors of the Parent believe that liquidity risk is satisfactorily addressed given the stable funding base of the Group, the proven ongoing access to debt markets and the ongoing access to the euro system for monetary authority funding. On the basis of above, the Directors of the Parent have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern.

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

POST BALANCE SHEET EVENTS

In January 2015 the Bank successfully issued a €750 million 5 year fixed ACS priced at 20 basis points over mid swaps.

There are no other significant post balance sheet events identified requiring disclosure prior to the approval of these financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

John Clifford **Chairman**	**Stephen Mason** **Managing Director**	**Danny Buckley** **Director**	**Hill Wilson Secretarial Limited**

26 February 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with Irish law.

Irish law requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs at the end of the financial year and of its profit or loss for the financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Generally Accepted Accounting Practices in Ireland (accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland).

In preparing the 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;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements are prepared in accordance with the accounting standards generally accepted in Ireland and with Irish statute comprising the Companies Acts 1963 to 2013 and the Asset Covered Securities Acts 2001 to 2007 (the "ACS Acts"). They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Bank, as published on the Bank of Ireland website.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that they have considered, and believe they have satisfied, the above requirements in preparing the financial statements.

On behalf of the board

John Clifford	**Stephen Mason**	**Danny Buckley**
Chairman	**Managing Director**	**Director**

26 February 2015

CORPORATE GOVERNANCE STATEMENT

Introduction

A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements. The Bank is subject to the Central Bank of Ireland Corporate Governance Code for Credit Institutions and Insurance Undertakings (which is available on www.centralbank.ie). The Directors confirm that the Bank has taken the relevant steps to ensure compliance with the Code. The Bank is not required to comply with the additional requirements of the Code for major institutions.

In 2014, the Board completed a review of the ongoing fitness and probity of persons in ‘pre-approval controlled functions’ whereby Directors were asked to confirm any changes in circumstances in respect of their compliance with the Fitness and Probity Standards issued by the Central Bank of Ireland (“the Standards”). All changes in circumstance disclosed were assessed and their materiality determined. Time commitments of Directors were considered as part of this review process and Directors confirmed that they continue to have sufficient time to perform their role. The Board concluded that each of the Directors of the Board has the requisite standard of fitness, probity and financial soundness to perform their functions with reference to the Standards and provided the required confirmation to that effect to the Central Bank of Ireland.

Financial reporting process

The Board of Directors (‘the Board’), supported by the Audit Committee, is responsible for establishing and maintaining adequate internal control and risk management systems of the Bank in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Bank’s financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. The Bank’s overall control system around the financial reporting process includes:

- clearly defined organisation structure and authority levels with reporting mechanisms to the Board;
- a comprehensive set of policies and procedures, in line with Bank of Ireland, relating to the controls around financial reporting and the process of preparing the financial statements;
- ensuring the integrity of the financial statements and the accounting policies therein.

The Board evaluates and discusses significant accounting and reporting issues as the need arises.

Risk assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Bank’s financial statements.

Control activities

The Board is responsible for establishing and maintaining the design and implementation of control structures to manage the risks which they judge to be significant for internal control over financial reporting. Appropriate reconciliations support the prompt production of management accounts and board reports, plus Group consolidation returns that are required to be submitted within defined timetables. These control structures include appropriate division of responsibilities and specific control activities, with the objective of detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Bank’s annual report.

The Audit Committee monitors the effectiveness and adequacy of the Bank’s internal control, Internal Audit and IT systems, and reviews the effectiveness and adequacy of the Bank’s risk assurance compliance plan with the objective of maintaining an effective system of internal control. The composition and responsibilities of the Audit Committee are also outlined in the Report of the Directors.

Monitoring

The Board ensures that appropriate measures are taken to consider and address any shortcomings identified and measures recommended by the independent auditors.

Bank of Ireland Group Internal Audit function performs a review of controls and procedures employed by the Bank. This enables the Board to perform effective monitoring and oversight of the internal control and risk management systems of the Bank in relation to the financial reporting process. The Board ensures that appropriate measures are taken to consider and address any shortcomings identified and measures recommended by these internal audits.

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Bank of Ireland Mortgage Bank for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes to the financial statements on pages 17 to 55 and the information described as being an integral part of the audited financial statements as set out in the Basis of Preparation on page 18. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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 Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland of the state of the Bank's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- we have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- in our opinion proper books of account have been kept by the Bank.
- the financial statements are in agreement with the books of account.
- in our opinion the information given in the Directors' Report is consistent with the financial statements.
- the net assets of the Bank, as stated in the Balance Sheet, 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 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Bank.

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 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Emma Scott
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
26 February 2015

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PROFIT AND LOSS ACCOUNT

	Notes	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Interest income	2	523,261	542,082
Interest expense	3	(353,263)	(418,826)
NET INTEREST INCOME		169,998	123,256
Fee and commission income	4	515	229
TOTAL OPERATING INCOME		170,513	123,485
Operating expenses	5	(57,747)	(57,666)
Impairment reversal / (charge)	11	101,347	(393,939)
Net trading income	7	2,852	62,630
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		216,965	(265,490)
Taxation (charge) / credit	8	(26,245)	29,900
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		190,720	(235,590)

The notes on pages 17 to 55 form part of the financial statements.

Other than the fair value movements on financial instruments arising under FRS 26 as outlined in note 7, there is no material difference between the results on an unmodified historical cost basis and those included in the profit and loss account above.

John Clifford	**Stephen Mason**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Chairman	**Managing Director**	**Director**	

26 February 2015

BANK OF IRELAND MORTGAGE BANK

BALANCE SHEET AS AT 31 DECEMBER 2014

	Notes	31 December 2014 €'000	31 December 2013 €'000
ASSETS			
Loans and advances to banks	9	2,464,686	2,623,402
Loans and advances to customers	10	18,841,513	18,978,863
Derivative financial instruments	14	225,907	231,701
Deferred tax asset	13	73,948	109,894
Other assets	12	458	609
		21,606,512	21,944,469
LIABILITIES			
Deposits from banks	15	10,705,501	10,089,083
Debt securities in issue	16	9,854,585	10,795,311
Derivative financial instruments	14	19,623	23,678
Other liabilities	17	16,085	20,412
Subordinated liabilities	18	140,439	402,557
		20,736,233	21,331,041
SHAREHOLDERS' FUNDS			
Called up share capital	19	738,375	738,375
Share premium	19	660,625	660,625
Reserves	21	(528,721)	(785,572)
		870,279	613,428
		21,606,512	21,944,469

The notes on pages 17 to 55 form part of the financial statements.

John Clifford	**Stephen Mason**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Chairman	**Managing Director**	**Director**	

26 February 2015

BANK OF IRELAND MORTGAGE BANK
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Profit / (Loss) for the year		190,720	(235,590)
Gain on cash flow hedge reserves	21	66,131	20,891
Total gain / (loss) recognised in year		**256,851**	**(214,699)**

John Clifford	**Stephen Mason**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Chairman	**Managing Director**	**Director**	

26 February 2015

CASHFLOW STATEMENT

Cash flows from operating activities	**Notes**	**For the year ended 31 December 2014 €'000**	**For the year ended 31 December 2013 €'000**
Profit/(Loss) on ordinary activities before taxation		216,965	(265,490)
Amortisation of commissions and mortgage discounts, bond fees and discounts		24,026	23,381
Interest paid on subordinated liabilities		12,798	12,709
Impairment (reversal) / charge		(117,790)	385,694
Fair value adjustments		3,205	(33,816)
Other non-cash items		8,369	7,503
		147,573	129,981
Net decrease in loans and advances to banks		177,696	339,989
Net decrease in loans and advances to customers		240,236	380,715
Net decrease in other assets		143	5,902
Net increase in deposits by banks		618,420	596,784
Net decrease in debt securities in issue		(887,897)	(1,683,068)
Net increase in other liabilities		566	6,709
Net cash flow from operating activities		296,737	(222,988)
Financing activities			
Net decrease in subordinated liabilities		(262,000)	-
Interest paid on subordinated liabilities		(12,916)	(12,698)
Issue of ordinary share capital		-	235,000
Net (decrease)/increase in cash flow from financing activities		(274,916)	222,302
Net increase / (decrease) in cash in the period	20	**21,821**	**(686)**

John Clifford	**Stephen Mason**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Chairman	**Managing Director**	**Director**	

26 February 2015

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS **PAGE**

1 ACCOUNTING POLICIES

The significant accounting policies adopted by the Bank of Ireland Mortgage Bank (the "Bank") are as follows:

1.1 Basis of preparation

The financial statements of the Bank on pages 13 to 16 have been prepared under the historical cost convention, modified by the revaluation of certain financial instruments, in accordance with the Companies Acts, 1963 to 2013, the Asset Covered Securities Acts 2001 to 2007 (the "ACS Acts") and with accounting standards generally accepted in Ireland.

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2013. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland.

The financial statements comprise the profit and loss account, balance sheet, statement of total recognised gains and losses, cash flow statement and the notes to the financial statements set out on pages 17 to 55. The financial statements also include the information set out in the tables within the supplementary disclosures described as being an integral part of the audited financial statements.

1.2 Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2014 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered the Bank's business, profitability projections, funding and capital plans together with a range of other factors such as the outlook for the Irish economy, taking due account of the impact of fiscal realignment measures and the availability of collateral to access the Eurosystem together with the likely evolution and developments in the Eurozone. The matters of primary consideration by the Directors are set out below:

- In 2014, the Bank returned to profitability and is generating capital. Furthermore, the Bank successfully accessed funding through both asset covered securities and private placement issuances. The Bank is dependent on Bank of Ireland ("the Parent") for short term funding and any future capital needs.

- The Bank has received a letter of support from its Parent covering any required capital and liquidity for the period of assessment. During 2014, the Parent returned to profitability, is generating capital and passed (in baseline and adverse scenarios) the ECB's comprehensive assessment. The Directors of the Parent believe that liquidity risk is satisfactorily addressed given the stable funding base of the Group, the proven ongoing access to debt markets and the ongoing access to the euro system for monetary authority funding. On the basis of above, the Directors of the Parent have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern.

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

1.3 Interest income and expense

Interest income and expense are recognised in the profit and loss account for all instruments measured at amortised cost using the effective interest method. Interest income / expense from derivative financial instruments qualifying for hedge accounting are accounted for in net interest income, in line with the underlying hedged asset / liability. Interest in relation to derivatives not qualifying for hedge accounting is included in trading income.

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

1 ACCOUNTING POLICIES (continued)

1.3 Interest income and expense (continued)

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

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

1.4 Fee and commission income / expense

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised when the service has been provided.

1.5 Income Taxes

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

b) Deferred Income Tax
Deferred taxation is recognised on all timing differences where the transaction or event that gives rise to an obligation to pay more tax in the future or a right to pay less tax in the future, has occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is recognised to the extent that it is more likely than not that future taxable profits will be available against which deductible timing differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

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

The most significant judgement relates to the assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish tax legislation there is no time restriction on the utilisation of these losses. Based on the projection of future taxable income, the Directors have concluded that it is more likely than not that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

Deferred tax on items taken to reserves is also recognised in reserves and is subsequently reclassified to the profit and loss account together with the deferred gain or loss.

1.6 Financial assets

Classification, Recognition and Measurement
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The Bank determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception. A financial asset may be designated at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date: the date on which the Bank commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the profit and loss account.

1 ACCOUNTING POLICIES (continued)

1.6 Financial assets (continued)

Financial assets may not be transferred out of this category, except for non-derivative financial assets held for trading, which may be transferred out of this category where:

(i) in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the short term; or
(ii) they are no longer held for trading, they meet the definition of loans and receivables at the date of reclassification and the Bank has the intention and ability to hold the assets for the foreseeable future or until maturity.

(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. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

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

1.7 Financial liabilities

The Bank has two categories of financial liabilities:
- those that are carried at amortised cost; and
- those that are carried at fair value through profit or loss.

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

A liability may be designated as at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivative(s) that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

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

1.8 Impairment of financial assets carried at amortised cost

The Bank 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 Bank about the following loss events:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- deterioration of the borrower’s competitive position;
- deterioration in the value of collateral;
- initiation of bankruptcy proceedings; and
- granting a concession to a borrower, for economic or legal reasons relating to the borrower’s financial difficulty that would otherwise not be considered.

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

1 ACCOUNTING POLICIES (continued)

1.8 Impairment of financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account. When a loan is deemed uncollectible, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the profit and loss account.

Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent agreed change ('forbearance measure') to the contractual terms of a mortgage loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance, the Bank performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the mortgage loan. If the Bank determines that no objective evidence of impairment exists for an individually assessed forborne 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.

Where the forborne loan is considered to be impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms.

Assets to which forbearance has been applied continue to be reported as forborne until the forbearance measure expires or the asset is repaid.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition are recognised in the profit and loss account. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

Where an agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance.

1 ACCOUNTING POLICIES (continued)

1.9 Valuation of financial instruments

The Bank recognises certain financial assets and financial liabilities (including derivative financial instruments) at fair value on the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

If an active market does not exist, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. These disclosures are provided in note 27.

1.10 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as 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. Fair value gains or losses on derivatives are normally recognised in the profit and loss account in net trading income. However, where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Bank designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Bank 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 Bank 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 or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the Statement of Total Recognised Gains and Losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in reserves are reclassified to the profit and loss account in the periods in which the hedged item affects profit or loss.

1 ACCOUNTING POLICIES (continued)

1.10 Derivative financial instruments and hedge accounting (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in reserves and is recognised in the profit and loss account when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Statement of Total Recognised Gains and Losses is immediately reclassified to the profit and loss account.

Where a hedging instrument is novated to a clearing counterparty, the Bank does not discontinue hedge accounting where the following criteria are met:

- the novation arises due to laws or regulations, or the introduction of laws or regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

1.11 Debt securities in issue

Issued debt securities, which comprise Mortgage Covered Securities, are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Issued debt securities are subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is recognised in the profit and loss account using the effective interest method.

If the Bank repurchases its own debt it is removed from the balance sheet and the difference between the carrying value and consideration paid, net of any costs or fees incurred, is included in net trading income.

1.12 Pensions

The Bank is a minority participating employer in the ICS Building Society Pension Plan ("the Plan"). The scheme is a Defined Benefit Scheme based on final pensionable pay and operated for eligible employees of Bank of Ireland and the Bank.

Whilst the Plan is a defined benefit scheme, the company does not identify its share of the underlying assets and liabilities of the scheme as, despite encompassing several employers (all of whom are members of Bank of Ireland Group), the Plan is essentially run as one scheme rather than independent, separately identifiable units. The manner in which the Plan is run assists in the mobility of staff across Bank of Ireland Group and therefore no sub-unitisation of the scheme takes place either in terms of differential contribution levels or sharing of underlying assets and liabilities. Consequently, the Plan has been accounted for as a defined contribution scheme. Contributions are charged to the profit and loss account in the period in which they became payable as shown in note 25.

1.13 Accrued interest

Accrued interest is presented on the balance sheet with the relevant financial asset / liability.

1.14 Comparatives

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

1.15 Cash

Cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand.

1.16 Share capital and reserves

(a) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's Board of Directors.

(b) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. These are transferred to the profit and loss account when the hedged transactions impact the Bank's profit or loss.

1 ACCOUNTING POLICIES (continued)

1.17 Collateral

The Bank enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

In certain circumstances, the Bank pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

1.18 Critical accounting estimates and judgements

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

(a) Impairment charges on financial assets

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

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

At 31 December 2014, the mortgage portfolio before impairment provisions amounted to €19.9 billion (31 December 2013: €20.3 billion), against which were held provisions for impairment of €1.1 billion (31 December 2013: €1.3 billion) which comprised collective provisions and IBNR of €0.6 billion and individually assessed provisions of €0.5 billion. A key assumption used in the calculation of the impairment charge for mortgages is the value of the underlying properties securing the loans. Previously the Bank assumed an average decline in the value of all properties equal to 55% from their peak in 2007. At 31 December 2014, the assumption adopted by the Bank in respect of the value of properties for collective provisioning (i.e. collective specific and incurred but not reported (IBNR) provisioning) reflected the indexed value (using the CSO Residential Property Price Index as at 30 September 2014) discounted (i.e. adjusted downwards) by 10% for both Dublin and Non-Dublin properties. Previously, the Bank assumed an average decline in the value of all properties equal to 55% from their peak in 2007. The assumptions relating to the value of underlying properties securing the loans, together with all other key impairment provisioning model factors, continue to be reviewed as part of the Bank's financial reporting cycle. A 1% decrease in the assumed index value would give rise to additional collective impairment provisions of c. €11 million to €15 million.

Collective impairment charges, in addition to containing judgements in relation to the assumed value of properties, also contain key assumptions relating to 'Forced sale discount', 'Time to sale', 'Loss emergence periods' and 'Weighted average cure rates'. The collective impairment charges can be sensitive to movements in these assumptions as set out below.

'Forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the assumed value of the underlying residential properties securing the loans (as set out above) and the expected sales price, as informed by the Bank's recent property sales experience. A 1% increase in the segmented 'Forced sale discount' assumptions would give rise to additional collective impairment provisions of c. €6 million to €8 million.

'Time to sale' assumption estimates the period of time taken from the recognition of the impairment charge to the sale of that collateral. An increase of three months in this assumption for the Bank's mortgage properties would give rise to additional collective impairment provisions of c. €3 million to €5 million.

'Loss emergence periods' refer to the period of time between the occurrence and reporting of a loss event. An increase of one month in this assumed loss emergence period would give rise to additional collective impairment provisions of c. €4 million to €5 million.

1 ACCOUNTING POLICIES (continued)

1.18 Critical accounting estimates and judgements (continued)

(a) Impairment charges on financial assets (continued)

'Weighted average cure rate' assumptions refer to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period. A 1% increase in this factor would give rise to a release of collective impairment provisions of c. €4 million to €5 million.

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the credit risk methodologies section on pages 39 to 41 of Note 26.

(b) Taxation

At 31 December 2014 the Bank had a deferred tax asset of €73.9 million (31 December 2013: €109.9 million) relating to a combination of prior years' trading losses, timing adjustments and adjustments required under tax legislation.

A deferred tax asset is recognised to the extent that it is more likely than not that future taxable profits will be available against which deductible timing differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable timing differences.

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

The most significant judgement relates to the Bank's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current legislation there is no time limit on the utilisation of these losses. Based on its projection of future taxable income, the Bank has concluded that it is more likely than not sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

(c) Effective interest method

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

In determining the effective interest rate, management exercise judgement on such matters as the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life. As part of this review, economic factors such as unemployment levels, consumer confidence and economic and fiscal stability were considered, along with mortgage market specific factors such as house price levels, switcher activity and consumer demand.

2 INTEREST INCOME

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Loans and advances to banks	11,093	11,648
Loans and advances to customers	512,168	530,434
	523,261	542,082
Of which receivable from Bank of Ireland	36,481	16,928

Included within interest income recognised on loans and advances to customers for the year ended 31 December 2014 is:

- €22.5 million (year ended 31 December 2013: €24.8 million) of interest arising on impaired loans and advances to customers on which a specific impairment provision has been recognised. €10.7 million of this amount (year ended 31 December 2013: €10.7 million) relates to loans on which specific provisions have been individually assessed and €11.8 million (year ended 31 December 2013: €14.1 million) relates to loans on which specific provisions have been collectively assessed;
- €10.3 million (year ended 31 December 2013: €17.7 million) of interest arising on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €39.0 million (year ended 31 December 2013: €33.4 million) of interest arising on loans and advances to customers classified as forborne and which are neither classified as greater than 90 days past due nor have a specific impairment provision at the year end.
- Interest arising on total forborne loans and advances to customers was €48.0 million (31 December 2013 €44.8 million).

Interest income received on loans and advances to customers for the year ended 31 December 2014 includes:

- €21.4 million (31 December 2013: €23.9 million) of interest income received arising on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €8.5 million (year ended 31 December 2013: €14.6 million) of interest income received arising on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the period end; and
- €38.7 million (year ended 31 December 2013: €32.9 million) of interest income received arising on loans and advances to customers classified as forborne and which are neither classified as greater than 90 days past due nor have a specific impairment provision at the period end.
- Interest income received on total forborne loans and advances to customers was €49.0 million (31 December 2013 €44.6 million).

3 INTEREST EXPENSE

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Debt securities in issue	162,204	175,420
Other interest payable	178,261	230,697
Interest on subordinated liabilities	12,798	12,709
	353,263	418,826
Of which payable to Bank of Ireland	131,541	176,828

4 FEE AND COMMISSION INCOME

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Other income	515	229
	515	229

5 OPERATING EXPENSES

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Staff costs:		
- wages and salaries	93	170
- social security costs	11	18
- pension costs	32	39
	136	227
Other operating expenses	57,611	57,439
Total operating expenses	57,747	57,666

Operating expenses include recharges from Bank of Ireland for support service costs. In addition, the Bank has continued to invest in the management of mortgage arrears. The Bank's day-to-day operations are almost fully outsourced to Bank of Ireland Group.

Employee Information

For the year ended 31 December 2014, the average number of employees was 2 (31 December 2013: 3 employees).

6 AUDITORS' REMUNERATION

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Auditors' remuneration (excluding VAT)		
Statutory audit	58	65
Other assurance services	40	79
Taxation services	-	-
Other non-audit services	-	-
Total	98	144

7 NET TRADING INCOME

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Gains arising on the repurchase of the Bank's own debt securities	-	313
Interest rate contracts	571	62,805
	571	63,118
Fair value hedges		
Fair value loss on derivative contracts in fair value hedge relationships	(63,113)	(98,062)
Fair value gain on liabilities in fair value hedge relationships	65,394	97,574
	2,281	(488)
	2,852	62,630

For the year ended 31 December 2014, there was a net trading gain of €2.9 million compared to €62.6 million for the year ended 31 December 2013. The reduction in trading income was largely due to interest flows on a derivative which was de-designated as it no longer qualified for hedge accounting due to ineffectiveness. The derivative matured in 2013 and no derivatives have been de-designated in 2014.

Interest rate contracts includes interest and fair value movements on derivative contracts that do not qualify for hedge accounting, including those that were originally in a fair value hedge relationship which no longer qualify for hedge accounting.

8 TAXATION

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Current Tax		
Reallocation (from) / to deferred tax	(177)	12,154
Amounts receivable in respect of Group relief	-	(386)
Prior year adjustment	(77)	-
	(254)	11,768
Deferred Tax		
Trading losses / (gains)	27,069	(34,933)
Reallocation to / (from) current tax	177	(12,154)
Prior year adjustment	(747)	5,419
	26,499	(41,668)
Taxation charge / (credit)	26,245	(29,900)

The current tax charge / credit for the period is lower than the charge that would result from applying the standard rate of Irish corporation tax (12.5%) to profit / (loss) on ordinary activities. The difference is explained below.

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Profit / (Loss) on ordinary activities before tax	216,965	(265,490)
Profit / (Loss) @12.5%	27,121	(33,186)
Effects of:		
Trading losses utilised in current year / incurred in prior year	(27,069)	34,933
Reallocation (from)/to deferred tax	(177)	12,154
Transfer pricing adjustment	(52)	(2,133)
Prior year adjustment	(77)	-
Current tax (credit) / charge for the year	(254)	11,768

9 LOANS AND ADVANCES TO BANKS

	31 December 2014 €'000	31 December 2013 €'000
Funds placed with Bank of Ireland	2,464,636	2,623,352
Funds placed with Central Bank of Ireland	50	50
Total loans and advances to banks	2,464,686	2,623,402
Loans and advances to banks by remaining maturity		
Repayable on demand	48,127	26,306
3 months or less	2,008,186	2,102,755
1 year or less but over 3 months	598	171,050
5 years or less but over 1 year	143,075	233,291
Over 5 years	264,700	90,000
	2,464,686	2,623,402

The Bank is required to maintain balances with the Central Bank.

10 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2014 €'000	31 December 2013 €'000
Loan and advances to customers	19,898,539	20,306,415
Accrued interest receivable	18,850	17,591
Less impairment provisions (note 11)	(1,075,876)	(1,345,143)
Total loan and advances to customers	18,841,513	18,978,863
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	291,272	526,875
1 year or less but over 3 months	698,674	668,532
5 years or less but over 1 year	3,737,410	3,620,526
Over 5 years	15,190,033	15,508,073
Less impairment provisions (note 11)	(1,075,876)	(1,345,143)
	18,841,513	18,978,863

The Bank's exposure to credit risk on loans and advances to customers is from its mortgage lending activities on residential property in Ireland.

11 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	31 December 2014 €'000	31 December 2013 €'000
Opening balance	1,345,143	1,023,494
(Reversal) / Charge to profit and loss account	(101,347)	393,939
Provisions utilised	(173,952)	(85,132)
Other movements	6,032	12,842
Closing balance	1,075,876	1,345,143

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not alter a borrower's obligations nor does it impact on the Bank's rights to take relevant enforcement action.

12 OTHER ASSETS

	31 December 2014 €'000	31 December 2013 €'000
Amounts receivable from Bank of Ireland Group companies	-	38
Other	458	571
	458	609

13 DEFERRED TAX ASSET

	31 December 2014 €'000	31 December 2013 €'000
Opening balance	109,894	71,210
Cash flow hedge	(9,447)	(2,984)
Profit and loss (charge) / credit	(26,499)	41,668
Closing balance	73,948	109,894

The deferred tax asset of €73.9 million (31 December 2013: €109.9 million) includes an amount of €86.3 million (31 December 2013: €112.8 million) in respect of tax losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it will be recovered, as the Directors are satisfied that it is more likely than not that there will be sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already been reversed. Under current Irish tax legislation there is no time restriction on the utilisation of these losses.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments 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 Bank's exposure to credit risk. Derivatives are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow models which typically incorporate observable market data, principally interest rates. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relating to their terms. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives held for trading are derivatives entered into with economic hedging intent but do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 26.

The fair values and notional amounts of derivative instruments held are set out in the following tables:

31 December 2014	Contract/ notional amount €'000	Fair Values Assets €'000	Fair Values Liabilities €'000
Derivatives held for trading			
Interest rate swaps	30,530,428	23,123	(19,623)
Derivatives held as fair value hedges			
Interest rate swaps	2,028,000	88,116	-
Derivatives held as cash flow hedges			
Interest rate swaps	3,770,000	114,668	-
Total derivative assets / liabilities		**225,907**	**(19,623)**

31 December 2013	Contract/ notional amount €'000	Fair Values Assets €'000	Fair Values Liabilities €'000
Derivatives held for trading			
Interest rate swaps	33,672,124	32,983	(23,577)
Derivatives held as fair value hedges			
Interest rate swaps	3,446,100	168,539	-
Derivatives held as cash flow hedges			
Interest rate swaps	3,010,000	30,179	(101)
Total derivative assets / liabilities		**231,701**	**(23,678)**

15 DEPOSITS FROM BANKS

	31 December 2014 €'000	31 December 2013 €'000
Deposits from banks	10,705,501	10,089,083
Deposits by remaining maturity		
3 months or less	8,722,418	8,239,387
1 year or less but over 3 months	658,837	406,030
5 years or less but over 1 year	1,189,545	1,353,676
Greater than 5 years	134,701	89,990
Due to Bank of Ireland	10,705,501	10,089,083

16 DEBT SECURITIES IN ISSUE

	31 December 2014 €'000	31 December 2013 €'000
Debt securities in issue	9,854,585	10,795,311
Bonds and medium term notes by remaining maturity		
3 months or less	799,885	212,563
1 year or less but over 3 months	4,409,692	1,551,543
5 years or less but over 1 year	3,919,788	8,398,561
Greater than 5 years	725,220	632,644
	9,854,585	10,795,311
Of which is due to Bank of Ireland	2,946,771	3,397,844

Asset Covered Securities (ACS)

The Bank, as a registered designated mortgage credit institution under the Asset Covered Securities Act, 2001, established its asset covered securities programme (the "Programme") in 2004. Pursuant to the Programme, the Bank may from time to time issue asset covered securities denominated in any currency in accordance with the provisions of the ACS Acts. The Bank's ACS may be listed on the Main Market or the Alternative Securities Market of the Irish Stock Exchange Limited. ACS are secured by a statutory preference over a pool of prescribed assets known as a cover assets pool (the "Pool"). The ACS Acts restrict and regulate the activities in which ACS issuers may engage. The Programme's most recent annual update was completed on 3 June 2014. In accordance with the ACS Acts, see the required disclosures set out in note 16(a) – 16(g) below.

During the year ended 31 December 2014, the Bank issued €815.7 million of securities in public transactions (31 December 2013: €2.0 billion) and a further €69 million in private transactions (31 December 2013: €nil).

During the year ended 31 December 2014, €250 million of debt securities were repurchased (31 December 2013: €20 million), generating net trading gains of €nil (31 December 2013: €0.3 million), and €1.7 billion of debt securities matured (31 December 2013: €3.7 billion). This brought the total nominal value of mortgage covered securities in issue as at 31 December 2014 to €9 billion (31 December 2013: €10 billion).

Mortgage Backed € Promissory Notes

The Bank participated in the ECB three year long term re-financing operation entering into a framework agreement on 28 February 2012 with the Central Bank of Ireland under which the Bank may issue mortgage backed € promissory notes to the Central Bank. An amendment agreement dated 15 May 2014 was entered into between the Central Bank of Ireland and the Bank and is supplemental to this framework agreement making certain amendments to its terms. These obligations under the mortgage backed € promissory notes are secured by way of a first floating charge over all the Bank's right, title, interest and benefit, present and future, in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security.

16 DEBT SECURITIES IN ISSUE (continued)

Mortgage Backed Promissory Notes (continued)

The deed of floating charge ("Deed of Charge") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the Central Bank, the Bank shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

To date the Bank has raised €615 million in long term and €150 million in short term mortgage backed € promissory notes funding.

The Bank entered into a framework agreement on 5 July 2004 with the Central Bank under which the Bank may issue short-term mortgage backed promissory notes to the Central Bank. These obligations are secured by way of a first floating charge over all the Bank's right, title, interest and benefit, present and future, in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security. This deed of floating charge ("Deed of Charge 2004") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge 2004, otherwise than with the prior written consent of the Central Bank, the Bank shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge 2004 or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge 2004 or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

For the years ended 31 December 2014 and 31 December 2013, the Bank has not utilised this short-term facility.

16(a) Mortgage accounts & principal outstanding in the mortgage covered pool

Range		31 December 2014		31 December 2013	
From €'000	To €'000	Number of Accounts	Total Balances of Accounts €'000	Number of Accounts	Total Balances of Accounts €'000
0	100	47,797	2,063,357	48,660	2,129,924
100	200	30,239	4,431,059	31,409	4,617,324
200	500	17,792	4,867,663	19,803	5,442,693
Over 500		1,193	929,599	1,407	1,096,974
		97,021	12,291,678	101,279	13,286,915

There could be one or more accounts per mortgaged property giving rise to different figures for the number of accounts and the number of properties in the Pool at any point in time. There were 83,547 properties in the pool At 31 December 2014 (31 December 2013: 86,944). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool as at 31 December 2014 and 31 December 2013 respectively.

16(b) Geographic location and details for the pool

	31 December 2014		31 December 2013	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	22%	78%	22%	78%
Number of accounts	21,683	75,338	22,600	78,679
Number of properties	18,793	64,754	19,227	67,717

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2014 and 31 December 2013 respectively. There could be one or more accounts per mortgaged property giving rise to different figures for the number of accounts and the number of properties in the Pool at 31 December 2014 and 31 December 2013.

16 DEBT SECURITIES IN ISSUE (continued)

16(c) Pool accounts in default at year end

	31 December 2014	31 December 2013
Number of accounts in default	30	42
	€'000	€'000
Cumulative current balance on above accounts	5,425	8,291
of which arrears represent	101	204

For the purposes of this disclosure default is defined as mortgage accounts that are 3 months or more in arrears, in line with ACS legislation.

16(d) Pool accounts in default with arrears of more than €1,000

Number of accounts in the ACS pool during 2014 which were three months or more in arrears with an arrears balance greater than €1,000	For the year ended 31 December 2014	For the year ended 31 December 2013
Number of accounts in default with arrears of more than €1,000	754	1,722

Number of accounts in the ACS pool at 31st December 2014 previously three months or more in arrears with an arrears balance greater than €1,000 during 2014	31 December 2014	31 December 2013
Number of accounts in default with arrears in excess of €1,000	72	309

16(e and f) Replacement of non performing assets in the pool

For the purpose of this disclosure the term 'non performing assets' is as defined in the ACS acts as 'relating to mortgage accounts that are in arrears for a period of 3 months or more'. During the year ended 31 December 2014, 1,102 accounts (31 December 2013: 1,741 accounts) were non-performing and were replaced with other mortgage credit assets. The total amount in arrears for 3 months or more in respect of mortgage assets at 31 December 2014 was €100,932 (31 December 2013: €203,769).

16(g) Total mortgage principal and interest repayments on pooled accounts by customers

Total Mortgage Principal and Interest Repayments on Pooled Accounts	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Interest paid in respect of mortgage credit assets	314,840	365,349
Capital repaid in respect of mortgage credit assets	921,899	882,466

17 OTHER LIABILITIES

	31 December 2014 €'000	31 December 2013 €'000
Amounts due to Bank of Ireland	13,728	20,150
Other sundry liabilities	2,357	262
	16,085	20,412

18 SUBORDINATED LIABILITIES

On 2 July 2004, the Bank availed of a €162 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan was subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The interest rate on the loan was based on the three-month EURIBOR rate plus a margin of 35 basis points and it repriced quarterly. The loan matured on 4 July 2014.

On 30 June 2005, the Bank availed of a further €80 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan was subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The interest rate on the loan was based on the three-month EURIBOR rate plus a margin of 30 basis points and it repriced quarterly. The loan was due to mature on 2 July 2015. It was repaid ahead of schedule on 29 August 2014.

On 11 February 2008, the Bank availed of a further €70 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan was subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The interest rate on the loan was based on the three-month EURIBOR rate plus a margin of 75 basis points and it repriced quarterly. The loan was due to mature on 13 February 2018. It was repaid ahead of schedule on 29 August 2014.

On 23 December 2011, the Bank availed of a further €90 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is based on the three-month EURIBOR rate plus a margin of 11.5%. The loan matures on 30 December 2021.

On 29 August 2014, the Bank availed of a further €50 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is based on the three-month EURIBOR rate plus a margin of 4.3%. The loan matures on 31 August 2024.

As at 31 December 2014, total subordinated loans and accrued interest is €140.4 million (31 December 2013: €402.6 million).

19 SHARE CAPITAL AND PREMIUM

	31 December 2014 '000 Units	31 December 2013 '000 Units
Authorised		
Units of €1 of Ordinary Shares	1,000,000	1,000,000
	€'000	**€'000**
Allotted and fully paid		
Equity		
Units of €1 of Ordinary Shares	738,375	738,375

Share premium	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Balance at the beginning of the year	660,625	455,000
Premium in issue of ordinary shares	-	205,625
Balance at the end of the year	660,625	660,625

There was no share capital issued during the year ended 31 December 2014.

Share capital issued during the year ended 31 December 2013 was as follows:

Date of issuance	Issue price per share	Number of issued ordinary shares in 000's	Ordinary share value €'000	Premium €'000	Total €'000
24 December 2013	€8.00	23,125	23,125	161,875	185,000
28 August 2013	€8.00	6,250	6,250	43,750	50,000
Total		29,375	29,375	205,625	235,000

The shares were issued to the Bank's parent company, Bank of Ireland. The issuance assisted in maintaining an adequate capital position. All units of Ordinary Shares in issue carry the same voting rights.

20 NOTE TO THE CASH FLOW STATEMENT

	Cash	Loans and advances to / from Banks on demand	Total
31 December 2014			
	€'000	**€'000**	**€'000**
Net change in cash	-	21,821	21,821
Opening cash	-	26,356	26,356
Closing cash	**-**	**48,177**	**48,177**
31 December 2013			
	€'000	**€'000**	**€'000**
Net change in cash	-	(686)	(686)
Opening cash	-	27,042	27,042
Closing cash	**-**	**26,356**	**26,356**

21 MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Reconciliation of retained earnings		
Opening balance	(805,864)	(570,274)
Profit / (Loss) for the year	190,720	(235,590)
Closing balance	**(615,144)**	**(805,864)**
Reconciliation of cash flow hedge reserve		
Opening balance	20,292	(599)
Gain on movement on cash flow hedge reserves	75,578	23,875
Deferred tax on reserve movement	(9,447)	(2,984)
Closing balance	**86,423**	**20,292**
Total reserves	**(528,721)**	**(785,572)**
Share Capital	738,375	738,375
Share Premium	660,625	660,625
Closing reserves and shareholders' funds	**870,279**	**613,428**

22 DIVIDEND

No dividends were paid during the year ended 31 December 2014 (31 December 2013: €nil).

23 DIRECTORS' AND SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office as at 31 December 2014, in the shares of Bank of Ireland or Bank of Ireland Group undertakings are, as disclosed to the Company under Section 53 and extended by Section 64 of the Companies Act 1990, set out in the tables below:

Shares in Bank of Ireland

	As at 31 December 2014	As at 31 December 2013 or at date of appointment if applicable
Directors	**Shares**	**Shares**
J Clifford	344,820	344,820
S Mason	39,164	39,164
G Kelly	17,500	17,500
D Buckley	-	-
S Crowe	34,572	34,572
P Flynn	110,473	110,473
L McLoughlin	82,933	82,933
B McConnell	7,829	7,829
R Milliken	-	-
Secretary		
Hill Wilson Secretarial Limited	-	-

Stock options held by Directors and Secretary in Bank of Ireland in Executive Stock Option Scheme ("ESOS")

Directors	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price €	As at 31 December 2014 Number of shares	As at 31 December 2013 or at date of appointment if applicable Number of shares
S Mason	26 Jul 2004	26 Jul 2007	26 Jul 2014	Lapsed	-	11,500
	21 Jun 2005	21 Jun 2008	21 Jun 2015	12.85	9,000	9,000

No stock options were held by the following Directors in Bank of Ireland: J Clifford, G Kelly, D Buckley, S Crowe, P Flynn, L McLoughlin, B McConnell and R Milliken.

Directors' and Secretary's interests in Bank of Ireland Long Term Incentive Plan ("LTIP")

Under the LTIP, conditional awards had previously been made to the Executive Directors. The plan has now lapsed. There are no outstanding grants to Executive Directors awaiting vesting under this scheme.

For further details on the above schemes please refer to note 43 Capital Stock in the annual report of the Bank's parent company, Bank of Ireland Group.

Directors' and Secretary's interests in savings shares in ICS Building Society (in Members' Voluntary Liquidation)[1]

Following amendments made to Part III of the Central Bank Act, 1971 (as amended), ICS has, as part of the implementation of the EU Measures, transferred by way of a statutory scheme, its business, including all its mortgage accounts and deposit / savings accounts to The Governor and Company of the Bank of Ireland on 1 September 2014 (the "Transfer").

Following the Transfer, in accordance with the Rules of ICS which require the Directors to hold a share qualification (Rule 23 (1)), the Directors acquired investment shares prior to the Transfer date.

Directors' and Secretarys' interests in investment shares in ICS are as follows:

	Investment shares As at 31 December 2014 or at date of appointment if applicable	Savings shares As at 31 December 2013 or at date of appointment if applicable
Directors	**€'000**	**€'000**
J Clifford	1	104
S Mason	1	1
G Kelly	1	1

No interests in shares in ICS Building Society were held by the following Directors: D Buckley, S Crowe, P Flynn, L McLoughlin, B McConnell and R Milliken.

[1] *ICS Building Society was placed in Members' Voluntary Liquidation on 15 December 2014*

24 SEGMENTAL INFORMATION

The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

25 PENSION COSTS

The Plan is a defined benefit scheme based on final pensionable pay and operated for eligible employees of Bank of Ireland and the Bank.

An independent actuary, on the basis of triennial actuarial reviews, determines the Bank's contributions to the Plan. The most recent full actuarial valuation was performed at 1 January 2013. In line with this valuation, the Bank is contributing to the Plan at a rate of 24.8% of pensionable salaries with a reduction for member contributions of 2.5%. In addition, €1.5m is paid by the participating employers each year in order to amortise the Funding Standard deficit over an agreed period. The net deficit on the scheme as at 31 December 2014 amounted to €34.6 million (31 December 2013: €17.4 million).

Whilst the Plan is a defined benefit scheme, it has not identified separately its share of the underlying assets and liabilities of the scheme and hence it is treated as a defined contribution scheme in the financial statements of the Bank.

Employers' contributions in respect of the Bank's employees amounted to €nil for the year ended 31 December 2014 (31 December 2013: €22,463). The Principal Employer met the employer's contributions due for the Bank in 2014. As at 31 December 2014, the Bank had no outstanding amounts to be paid to the scheme (31 December 2013: €nil).

26 RISK MANAGEMENT AND CONTROL

Risk management

The Board of Directors approves policies and limits with respect to credit risk, market risk, liquidity risk and operational risk. The Bank has entered into a range of service level agreements with Bank of Ireland to support its overall risk management and control processes. The Head of Credit has responsibility for credit policy implementation and the Head of Finance has responsibility for financial risk policy implementation. The Bank of Ireland Group Treasury Unit has responsibility for day-to-day monitoring of market and liquidity risks. The Group Regulatory Compliance and Operational Risk Unit has responsibility for operational risk policy and controls. The Bank's risk management and control policies comply with Bank of Ireland Group risk management policies, which include reviews on a regular basis. In addition, Bank of Ireland control functions (e.g. Credit, Group Internal Audit, etc.) independently review compliance with Bank of Ireland policies as part of their ongoing work in the Bank. The general scheme of risk management, financial and operational controls is designed to safeguard the Bank's assets.

Credit risk

Credit risk is the risk of loss resulting from a counterparty failing to meet its contractual obligations to the Bank. Credit risk is one of the main types of risk to which the Bank's business is exposed. Apart from exposures to entities within Bank of Ireland Group, credit exposures arise principally from lending to customers to purchase residential property. The Bank's exposure to credit risk is governed by credit policy which is approved by the Board of Directors, and Bank of Ireland Group Risk Policy Committee ("GRPC").

Credit risk management

The Bank has an established credit risk governance framework by which it executes its accountabilities and responsibilities in relation to credit risk management.

The credit risk function of Bank of Ireland is a key function responsible for proposing credit policy to the Board and the management and safety of lending in accordance with approved policies. Underwriting and Credit Management / Collections' activities are centralised within Bank of Ireland.

Lending officers are allocated lending limits according to credit competence, proven judgement, experience and the nature and scale of lending particular to the Bank. Existing credit risk is reviewed periodically and exposures which demonstrate adverse trends are subject to closer supervision and management.

In the Bank, the application of risk ratings is automatic through the use of risk rating models appropriate to the facilities at the time of application and monthly thereafter based on the account performance. Performance monitoring and management of all risk rating models is undertaken.

In addition, an independent control unit within Bank of Ireland, Credit and Market Risk Division, undertakes periodic reviews of the appropriateness of the risk rating models that are used within the business and evaluates whether the models are 'compliant with regulatory requirements.

Bank of Ireland Credit Review undertakes periodic reviews of the quality and management of credit risk assets across Bank of Ireland Group, including the Bank. Its reviews incorporate an examination of adherence to credit policies and procedures within the portfolio.

26 RISK MANAGEMENT AND CONTROL (continued)

Credit risk management (continued)

The Bank manages limits, and controls concentrations of credit risk and structures the levels of credit risk it undertakes by placing limits on the amounts of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored appropriately.

Credit risk measurement

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Bank.

In measuring the credit risk of loans and advances to customers, the Bank considers three components:

- the "probability of default" ("PD") by the client;
- current exposure and its likely future development, from which the "exposure at default" ("EaD") is derived; and
- the likely loss ratio on the defaulted obligations – the "loss given default" ("LGD").

These credit risk measurements which reflect expected loss (the "expected loss model") are employed in the Bank's day to day management of credit.

The Bank assesses the probability of default of borrowers using internal rating tools. The use of credit risk rating models, which measure the degree of risk inherent in lending to specific counterparties, complemented by expert judgement, is central to credit risk management within the Bank.

The risk rating system is continuously refined and validated to ensure that the level of risk incurred is acceptable to the Bank.

The results arising from the risk rating system are used in regulatory capital calculations, guiding economic capital allocation and strategic portfolio management.

Accounts are managed on the basis of performance with those past due measured by the amount and number of instalments in arrears.

Loan loss provisioning or impairment allowances required under FRS 26 are based on losses that have been incurred at the balance sheet date and requires that there is objective evidence of impairment and that the loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

Credit risk mitigation and collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank's mortgage loan book property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the CSO. This index provides the relevant index to be applied to original market values in the period after January 2005. For mortgages originated prior to January 2005, the Permanent TSB / ESRI House price index is utilised. Equity / negative equity values are determined using the Residential Property Price Index published by the CSO for the year ended 31 December 2014. The weighted average indexed LTV for the total loan book was 82% at 31 December 2014 (31 December 2013: 97%).

Security for each account in the Bank's mortgage portfolio consists of a first legal charge over residential real estate with supporting life and fire cover as appropriate. A dedicated team is responsible for the receipt and maintenance of security.

The Bank's requirements around completion, valuation and management requirements for collateral / security are set out in appropriate policies and procedures. The Bank's credit risk processes are designed to ensure that mortgage charges are enforceable at the time the credit agreement is concluded and that mortgage charges are filed on a timely basis. The objective of this approach is to enable the Bank to realise the value of the protection within a reasonable timeframe, should that become necessary.

Credit reporting / monitoring

It is the Bank's policy to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Credit risk information is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book, and loan impairment provisions. The Bank allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

26 RISK MANAGEMENT AND CONTROL (continued)

Credit risk methodologies

The use of internal credit rating models, which measure the degree of risk inherent in lending to customers, is central to the credit risk assessment and ongoing management processes within the Bank.

An independent unit annually validates internal credit risk models from a performance and compliance perspective.

Impairment provisions are recognised only with respect to losses that have been incurred at the balance sheet date, based on objective evidence of impairment, details of which are provided in the tables to this note.

The impairment provision shown on the balance sheet at the year end is driven by internal rating grades. In addition, individually significant accounts in default (90 days past due and / or impaired) are assessed for impairment and provisioning by evaluating the incurred loss at the balance sheet date. The assessment takes account of collateral held and anticipated future repayments for each such account.

At 31 December 2014, each of the following events required the completion of an impairment assessment to determine whether a loss event had occurred at the balance sheet date that may lead to recognition of impairment losses:

- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- notification of, or intended application for, bankruptcy proceedings, debt settlement or personal insolvency arrangement or similar; or
- offer of voluntary sale at possible shortfall or voluntary surrender of property security.

Where objective evidence of impairment exists as a result of one or more past events, the Bank is required to estimate the recoverable amount of the exposure or group of exposures. For financial reporting purposes, loans on the balance sheet that become impaired are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge in the profit and loss account.

Loans with a specific impairment provision attaching to them are included as impaired loans.

The Bank's impairment provisioning methodologies are compliant with Generally Accepted Accounting Practice in Ireland. Financial Reporting Standard (FRS) 26 requires 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. Losses expected as a result of future events, no matter how likely, are not recognised.

Methodology for individually assessing impairment

An individual impairment assessment is performed for any exposure for which there is objective evidence of impairment and where the exposure is above an agreed threshold. For Residential mortgages a de-minimus total customer exposure level of €1 million applies for the mandatory completion of a discounted cash flow analysis for the assessment of impairment. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) is calculated using a discounted cashflow analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows include forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

An element of the Bank's credit exposures is assessed for impairment on an individual basis. An analysis of the Bank's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 42.

Methodology for collectively assessing impairment

Where exposures fall below the threshold for individual assessment of impairment by way of discounted cash flow analysis, such exposures are automatically included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics are pooled together and a provision is calculated by estimating the future cash flows of a group of exposures. In pooling exposures based on similar credit risk characteristics, consideration is given to features including: asset type; geographical location; collateral type; past due status and forbearance status. The provision estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which are based on historical experience (i.e. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

26 RISK MANAGEMENT AND CONTROL (continued)

Methodology for collectively assessing impairment (continued)

The Bank's mortgage customers with exposures less than €1 million are provisioned for impairment on a collective basis. These mortgage exposures are pooled based on similar credit risk characteristics such as: asset type; geographical location; origination channel; and forbearance status. The Bank's collective specific provisioning model parameters and assumptions have been updated in the current year, informed by the Bank's recent observed experience (incorporating increased, more comprehensive and more granular residential property sales data) and property price movements in the period.

The updated assumptions included:
- refined assumptions for residential property valuations;
- enhanced and more granular assumptions regarding forced sale discounts; and
- updated cure rate and time to sale assumptions informed by the Bank's observed experience;

Some of the key factors used in the calculation of the portfolio specific provision for the Bank's mortgage portfolio include assumptions in relation to: residential property valuation (31 December 2014: 10% discount to indexed value[1] for both Dublin and Non-Dublin properties); weighted average cure rate (31 December 2014: c.8.0% over two and a half years) forced sale discount (31 December 2014: c.10% to c.25%); work-out costs (31 December 2014: (c.6%), and time to sale (31 December 2014: two and a half year rolling average from the reporting date). The provisioning model assumptions and parameters use historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflect the definition of cure per the Central Bank of Ireland Impairment Provisioning and Disclosure Guidelines (May 2013) which requires satisfactory completion of a twelve month probation period, while being less than 30 days past due. All provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, if appropriate, based on recent observed experience.

The more material changes to the model factors and assumptions compared to the 31 December 2013 model relate to refined assumptions for residential property valuations combined with the enhanced, more granular assumptions regarding forced sale discounts. As outlined above, the assumption adopted by the Bank in respect of the value of Irish residential properties reflected the indexed value discounted by 10% for both Dublin and Non-Dublin properties. Previously the Bank assumed an average decline in the value of all Irish residential properties equal to 55% from their peak in 2007. This change was prompted by continued residential property price increase observed throughout 2014. The forced sale discount applied at 31 December 2014 are informed by the Bank's recent property sales experience and are more granular segmented by region (i.e. Dublin and Non-Dublin) and market segment (i.e. Owner occupied and Buy to let), with forced sale discounts ranging from c.10%-c.25%. At 31 December 2013 the collective specific provisioning model applied a 10% forced sale discount assumption to all properties.

The Bank's critical accounting estimates and judgements on pages 24 to 25, includes sensitivity analysis disclosure on some of the key judgmental areas in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision ('collective specific') in line with individually assessed loans. An analysis of the Bank's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 42.

Methodology for establishing incurred but not reported (IBNR) provisions

Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio / group of exposures at the date of assessment. These are described as incurred but not reported provisions. Statistical models are used to determine the appropriate level of IBNR provisions for a portfolio/group of exposures with similar credit risk characteristics (e.g. asset type, geographical location, forbearance status etc.). These models estimate latent losses taking into account three observed and / or estimated factors:
- loss emergence rates (based on historic grade migration experience or probability of default, offset by cure expectations where appropriate);
- the emergence period (historic experience, adjusted to reflect the current conditions and the credit management model); and
- loss given default rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

A key assumption used in the calculation of the IBNR impairment provisions for defaulted (but not impaired) mortgages is the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions have been reviewed during the year informed by the Bank's recent observed experience (incorporating increased, more comprehensive and more granular residential property sales data) and property price movements in the period. The resulting changes, particularly in relation to the residential property value assumptions, the forced sale discounts and work-out costs used in the IBNR provisioning model, are the same as those outlined above in respect of the collective specific provisioning methodology. The default (but not impaired) model cure assumptions are segmented by a number of factors, including forbearance classification, and LTV (for relevant cohorts), and have been updated for recent observed experience. At 31 December 2014 the cure assumptions reflect a weighted average cure rate of c.12.9% over a two and a half year period. At 31 December 2013 the assumptions reflected a weighted average cure rate of 7.4% over a two year period.

[1] Indexed value with reference to the quarter ending December 2014 CSO Residential Property Price Index for Dublin – all residential properties and National.excluding Dublin – all residential properties (hereafter "Non-Dublin"). At that date, the Dublin index was 39.6% lower than its peak and the non-Dublin index was 44.0% lower than its peak. The end September CSO index was published on 22 October 2014 and was used in updating the mortgage collective provisioning parameters and assumptions which were approved in December 2014.

26 RISK MANAGEMENT AND CONTROL (continued)

Methodology for establishing incurred but not reported (IBNR) provisions (continued)

Emergence period refers to the period of time between the occurrence and reporting of a loss event. For example, at 31 December 2014, emergence periods for mortgages are in the following ranges: forborne 9-11 months and non-forborne 6-8 months. Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling. Given the economic environment over recent years, emergence periods reflect the more intensive credit management model in place. Emergence periods are reviewed and back tested half-yearly and updated as appropriate.

The LGD is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of any changes in the property sector, discounted collateral values and repayment prospects, etc.).

While loss emergence rates have been assessed in light of the Bank's recent grade migration experience and current probability of default grades, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2013, with the exception of the changes outlined above. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, if appropriate, based on recent observed experience. Increasing the emergence period or LGD factors in the IBNR model would give rise to an increase in the level of IBNR provisions for a portfolio.

The Bank's critical accounting estimates and judgements on pages 24 to 25 include sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

Methodology for loan loss provisioning & forbearance

Forbearance will always be a trigger event for the Bank to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed and, where impairment is deemed to have occurred, will result in a specific provision.

Individually Assessing Impairment & Forbearance
The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis). The underlying credit risk rating of the exposure, and ultimately the individual impairment assessment, takes into account the specific credit risk characteristics of the exposure.

Collectively assessing impairment and forbearance
Forborne exposures are pooled together for collective impairment provisioning, including IBNR provision calculations, as detailed above. Assumptions and parameters used to create the portfolio provision(s) take into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period etc.), adjusted where appropriate to reflect current conditions, and require the satisfactory completion of a twelve month probation period, while being less than 30 days past due. Management adjustments are also applied, as appropriate, where historical observable data on forborne assets may be limited. Impairment provisioning methodologies and provisioning model factors and assumptions applied to forborne loan pools are reviewed regularly, and revised if necessary, to ensure that they remain reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This includes a comparison of actual experience to expected outcome.

Provisioning and forbearance
Mortgages which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision cover (total provision expressed as a percentage of total loans) which is subject to forbearance is higher (typically c.2-3 times higher) than that of the similar portfolio of exposures which are not subject to forbearance. The higher provision cover is reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and/or re-default.

Further detail on the loans and advances that are subject to forbearance measures, including associated impairment provisions, at 31 December 2014 is set out in the Supplementary asset quality and forbearance disclosures commencing on page 57.

Impaired loans review

It is Bank policy to review impaired loans above agreed thresholds half yearly, with the review including a reassessment of the recovery strategy and the adequacy of the impairment provision.

An impaired loan is restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible. Typically, a loan is deemed to be fully collectible based on an updated assessment by the Bank of the borrower's financial circumstances. The assessment includes a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may be agreed with the Bank as part of a sustainable forbearance arrangement.

26 RISK MANAGEMENT AND CONTROL (continued)

Impairment (reversal) / charge on loans and advances to customers

Impairment (reversal) / charge by nature of impairment provision	**For the year ended 31 December 2014**	**For the year ended 31 December 2013**
	€'000	**€'000**
Specific provisions - individually assessed	128,586	171,968
Specific provisions - collectively assessed	(97,664)	59,938
Incurred but not reported	(132,269)	162,033
	(101,347)	**393,939**

Impairment provision by nature of impairment provision	**31 December 2014**	**31 December 2013**
	€'000	**€'000**
Specific provisions - individually assessed	492,563	489,552
Specific provisions - collectively assessed	345,264	485,272
Incurred but not reported	238,049	370,319
	1,075,876	**1,345,143**

The impairment reversal for the year ended 31 December 2014 includes a credit of €45.3 million on forborne loans and the impairment provision at 31 December 2014 includes €292 million for forborne loans as set out in the tables on page 57 of the supplementary asset quality disclosures. These reflect the increase in the stock of 'impaired' forborne mortgage loans.

Asset quality

Loans and advances to banks (note 9), Loans and advances to customers (note 10) and Derivative financial instruments (note 14) are the main classes of financial assets to which the Bank is exposed from a credit risk perspective.

Loans and advances to banks

For both the year ended 31 December 2014 and year ended 31 December 2013, all loans and advances to banks were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland.

Derivative financial instruments

Derivative contracts are only entered into with counterparties who are considered reputable and have been approved by the Board of Directors in conjunction with recommendations by Bank of Ireland Group Risk Policy Committee. There are no amounts past due or impaired as at 31 December 2014 (31 December 2013: €nil).

Loans and advances to customers

The tables following provide further details in relation to total loans and advances to customers. For an analysis of loans and advances to customers between forborne and non-forborne see pages 57 to 58 of the Supplementary asset quality and forbearance disclosures.

The Bank classifies loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired loans' in line with the requirements of FRS 26.

'Neither past due nor impaired' ratings are summarised as set out below:

- high quality ratings apply to loans to customers with whom the Bank has excellent repayment experience, and which are not in active forbearance. High quality ratings are derived from grades 1 and 2 on the seven point grade scale;
- satisfactory quality ratings apply to good quality loans that are performing as expected. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grade 3 on the seven point grade scale. Satisfactory quality ratings can also apply to certain temporary and permanent mortgage forbearance arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings are derived from grade 4 on the seven point grade scale. In addition, acceptable quality ratings can also apply to certain temporary mortgage forbearance arrangements that are neither past due nor impaired; and
- the lower quality but neither past due nor impaired rating applies to those loans that are neither in arrears nor impaired but where the Bank is required to work closely with the borrower regarding restructure and / or resolution. For both forborne and non-forborne loans, lower quality ratings are derived from grade 5 on the seven point grade scale. In addition, the lower quality but neither past due nor impaired rating can apply to certain temporary mortgage forbearance arrangements that are neither past due nor impaired and mortgages which are forborne, were previously in default and have had their terms and conditions modified and which are subject to a twelve month probation period under revised contractual arrangement.

26 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Loans and advances to customers (continued)

'Past due but not impaired' loans, whether forborne or not, are defined as follows:
- loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

'Impaired' loans are defined as follows:
- loans with a specific impairment provision attaching to them. Forborne mortgage loans with a specific provision attaching to them are reported as both forborne and impaired.

'Defaulted' loans are defined as follows:
- impaired loans together with loans which are greater than 90 days in arrears. Defaulted loans are derived from grades 5 and 6 on the seven point grade scale.

Risk profile of loans and advances to customers (before impairment provisions)

The table below summarises the total loans and advances to customers over the categories described.

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Total loans and advances		
High quality	15,680,564	15,913,603
Satisfactory quality	679,258	441,135
Acceptable quality	535,992	475,709
Lower quality but neither past due nor impaired	242,892	166,510
Neither past due nor impaired	**17,138,706**	**16,996,957**
Past due up to 30 days	286,453	295,089
Past due 31 - 60 days	105,944	178,035
Past due 61- 90 days	80,790	117,483
1 - 90 days past due but not impaired	**473,187**	**590,607**
Past due more than 90 days but not impaired	461,299	731,203
Impaired	1,825,347	1,987,648
Defaulted	**2,286,646**	**2,718,851**
Total loans and advances to customers	**19,898,539**	**20,306,415**

Loans and advances to customers (before impairment provisions) reduced from €20.3 billion at 31 December 2013 to €19.9 billion at 31 December 2014 as a result of the reduction in defaulted loans of €0.4 billion. 'Neither past due not impaired' and '1 - 90 days past due but not impaired' remained flat year on year at €17.6 billion as principal repayments were matched by new lending.

26 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Composition and impairment

The table below summarises the composition, defaulted loans and impairment provisions of the Bank's loans and advances to customers.

31 December 2014	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of defaulted loans %
Owner occupied mortgages	15,819	1,199	7.6%	480	40%
Buy to let mortgages	4,080	1,088	26.7%	596	55%
Total residential mortgages	**19,899**	**2,287**	**11.5%**	**1,076**	**47%**

31 December 2013	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of defaulted loans %
Owner occupied mortgages	15,770	1,452	9.2%	611	42%
Buy to let mortgages	4,536	1,267	27.9%	734	58%
Total residential mortgages	**20,306**	**2,719**	**13.4%**	**1,345**	**49%**

Repossessed collateral

As at 31 December 2014, the Bank had 142 properties in possession (31 December 2013: 157 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	31 December 2014 €'000	31 December 2013 €'000
Residential mortgages	15,990	17,997

Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents a worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts, net of provisions, as reported in the balance sheet, adjusted for deferred acquisition costs.

	Maximum Exposure	
	31 December 2014 €'000	31 December 2013 €'000
Loans and advances to banks	2,464,686	2,623,402
Loans and advances to customers	18,733,727	18,869,964
Derivative financial instruments	225,907	231,701
Commitments	1,295,118	862,233
Total	**22,719,438**	**22,587,300**

The loans and advances to customers in the table above relate to residential mortgages. The loans and advances to banks and derivative financial instruments relate to Bank of Ireland and entities which have been approved by the Board of Directors in conjunction with recommendations by Bank of Ireland Group Risk Policy Committee.

26 RISK MANAGEMENT AND CONTROL (continued)

Concentration of risks of financial assets with credit risk exposure

(i) Geographical sectors

The table below analyses the Bank's main credit exposure for loans and advances to customers at their carrying amounts, as categorised by geographical region. For this table, the Bank has allocated exposures based on the location of the asset.

	31 December 2014	31 December 2013
	€'000	€'000
Loans and advances to customers		
- Dublin	6,765,503	6,701,117
- Rest of Ireland	13,133,036	13,605,298
Total	**19,898,539**	**20,306,415**

(ii) Industry Sectors

All loans and advances to banks and derivative financial instruments are categorised as financial assets. Loans and advances to customers are all categorised as Personal (residential mortgages).

Market risk

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises naturally through customer lending, deposit-taking and wholesale funding.

The management of market risk in the Bank is governed by Bank of Ireland Group policy, approved by the Group's Court of Directors ("the court") and the Bank's Board of Directors. The Bank complies with this policy.

Group Market Risk is responsible for ensuring that the Bank identifies, understands and measures the market risks to which it is exposed. It is charged with maintaining a policy framework and a set of methods to quantify market risk that are appropriate and fit for purpose and with operating effective monitoring and reporting arrangements that ensures compliance with policy, limits and other controls.

The current interest rate risk strategy aims to provide the Bank with protection against material adverse changes in interest and related funding rates by undertaking controlled management of the interest rate structure in the Bank's mortgage and funding products. The Bank has entered into a range of service level agreements with Bank of Ireland to support its overall risk management and control processes. The Bank of Ireland Group Treasury Unit has responsibility for day-to-day monitoring of market and liquidity risks. The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

Loans and Advances to Customers

At 31 December 2014, the Bank had €17.8 billion (31 December 2013: €18.1 billion) of floating-rate loans and advances to customers, where the interest rate is either linked to the ECB Base rate or the Bank's standard variable rate.

The Bank enters into interest rate swaps to hedge the interest rate exposure on floating rate mortgages against which asset covered securities are issued. These interest rate swaps and related floating rate mortgages qualify for hedge accounting. At 31 December 2014, the nominal value of swaps qualifying for hedge accounting is €3.8 billion (31 December 2013: €3.0 billion), Further details are provided in note 14.

At 31 December 2014, the Bank had €1.8 billion (31 December 2013: €1.8 billion) of loans and advances to customers, where the rate is typically fixed for periods of 1, 2, 3, 5 and 10 years. The interest rate exposure of the Bank relating to its Irish residential loans is managed through maturity matched borrowing from the Group resulting in no material sensitivity to changes in interest rates.

At 31 December 2014, the Bank had €0.3 billion (31 December 2013: €0.3 billion) of 'Life-loan' (equity release) loans and advances to customers, where the rate was initially fixed for 15 years and customers do not make any periodic repayments. The outstanding loan balance increases through the life of the loan as the interest due is capitalised on a quarterly basis. The mortgage is typically repaid out of the proceeds of the sale of the property. The interest rate exposure of the Bank is hedged on a behavioural basis through a mix of short term variable and longer term fixed rate funding in line with the expected 'Life-loan' mortgage redemption profile.

Asset Covered Securities

At 31 December 2014, the Bank had €9.0 billion (nominal) in issued asset covered securities (31 December 2013 €10.0 billion). €6.0 billion of the issued asset covered securities are at fixed rates (31 December 2013: €6.5 billion (nominal)) and the remaining €3.0 billion have an interest rate that resets based on short-dated EURIBOR (31 December 2013: €3.5 billion (nominal).

26 RISK MANAGEMENT AND CONTROL (continued)

Market risk (continued)

The Bank also enters into interest rate swaps to hedge the interest rate exposure on its fixed rate asset covered securities in issue. The majority of these interest rate swaps and related fixed rate issued asset covered securities qualify for hedge accounting. At 31 December 2014, the nominal value of swaps qualifying for hedge accounting is €2.0 billion (31 December 2013: €3.4 billion), Further details are provided in note 14.

Additionally, market risk arises where the rate charged on variable rate mortgage lending re-sets with changes in ECB rates, but the related funding is at short-dated EURIBOR. The Bank enters into interest rate swaps to economically hedge this risk. These interest rate swaps do not qualify for hedge accounting and the Bank is exposed to potential income statement volatility of c. €0.25 million for a one basis point movement in rates.

The Bank measures its interest rate risk in terms of the sensitivity of its fixed rate mortgage assets and related funding, in Net Present Value ("NPV") terms, to a 1% parallel shift in the yield curve. The Bank is required to ensure that this sensitivity remains within a low operational hedging limit of €0.8 million. At 31 December 2014, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.6 million (31 December 2013: €0.045 million), with an average of €0.143 million for the year ended 31 December 2014 (31 December 2013: €0.031 million).

Additionally to comply with ACS Acts, the Bank is required to manage the interest rate sensitivity of all of its assets and liabilities to a 10% of own funds limit (Equity Tier 1 and 2). This is monitored by the Cover-Asset Monitor on behalf of the Central Bank of Ireland.

Currency risk

The Bank is not exposed to currency risk as all financial assets and liabilities are denominated in Euro.

Liquidity risk

Liquidity risk is the risk that the Bank will experience difficulty in financing its assets and / or meeting its contractual payment obligations as and when they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven, among other things, by the maturity structure of loans and investments held by the Bank, while cash outflows are driven, inter alia, by the term of the debt issued by the Bank. Liquidity distress is almost invariably associated with a severe deterioration in financial performance, but it can also result from unexpected adverse events or systemic difficulties. The Bank has in place a risk management framework to manage that risk.

The Bank's Board of Directors has approved a funding policy for the business that permits funding through the use of asset covered securities, residential Mortgage Backed Promissory Note programmes and borrowing from Bank of Ireland. It is the Bank's policy to ensure that resources are at all times available to meet the Bank's obligations arising from mortgage products, asset covered securities, capital and expenditure. The management of liquidity is the responsibility of the Bank, supported by Bank of Ireland Group Treasury.

The Bank has outsourced the responsibility for the day to day monitoring and management of liquidity risk to Bank of Ireland Group Treasury. Bank of Ireland Group Treasury consolidates the Bank's cash flows into the Bank of Ireland liquidity centre, where a cash flow liquidity reporting tool provides daily liquidity risk information by designated cash flow buckets, which is used to manage liquidity risk. This system captures the cash flows from both balance sheet and off-balance sheet transactions. In the case of specific products such as mortgage repayments and off-balance sheet commitments, behavioural adjustments are applied to reflect the Bank's experience of these cash flows based on historical trends.

The Bank is also required to report regularly to its parent, Bank of Ireland, all relevant balance sheet and off balance sheet items to ensure compliance with Bank of Ireland liquidity procedures.

While the Bank raises a significant level of its funding from Bank of Ireland, the Bank has the capability to fund outside Bank of Ireland if required.

26 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

The tables below analyse liabilities into relevant maturity time-bands based on the remaining period at the balance sheet date to the contractual maturity date. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. In line with the requirements of FRS 29, the liabilities table below shows principal balances and undiscounted interest cash flows over the life of the liabilities and so the totals will not agree directly to the balance sheet. It excludes non cash items such as fair value adjustments.

31 December 2014						
Liabilities	**Demand €'000**	**Within 3 months €'000**	**After 3 months but within 1 year €'000**	**After 1 year but within 5 years €'000**	**After 5 years €'000**	**Total €'000**
Deposits from banks		8,714,706	683,422	1,218,872	145,835	10,762,835
Debt securities in issue	-	809,844	4,482,352	4,173,075	845,406	10,310,677
Subordinated liabilities		3,160	9,620	52,205	175,653	240,638
Commitments	1,295,118					1,295,118
Total liabilities	**1,295,118**	**9,527,710**	**5,175,394**	**5,444,152**	**1,166,894**	**22,609,268**

31 December 2013						
Liabilities	**Demand €'000**	**Within 3 months €'000**	**After 3 months but within 1 year €'000**	**After 1 year but within 5 years €'000**	**After 5 years €'000**	**Total €'000**
Deposits from banks	-	8,233,244	438,365	1,447,284	47,676	10,166,569
Debt securities in issue	-	220,699	1,680,630	8,680,131	706,545	11,288,005
Subordinated liabilities	-	3,193	171,523	201,158	129,216	505,090
Commitments	862,233	-	-	-	-	862,233
Total liabilities	**862,233**	**8,457,136**	**2,290,518**	**10,328,573**	**883,437**	**22,821,897**

Deposits from banks represent intergroup funding provided by Bank of Ireland Global Markets for the purposes of fixed mortgage book funding and residual variable mortgage book funding.

The tables below analyse cash flows on derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. Cash flows associated with derivatives are undiscounted cash flows anticipated over the life of the derivatives based on expected interest rates at year end. Derivative cash flows are included for the pay and receive legs of net settled contracts with negative fair values.

31 December 2014	**Within 3 months €'000**	**After 3 months but within 1 year €'000**	**After 1 year but within 5 years €'000**	**After 5 years €'000**	**Total €'000**
Net cash outflows on derivative financial instruments	2,627	6,128	8,076	2,867	19,698

31 December 2013	**Within 3 months €'000**	**After 3 months but within 1 year €'000**	**After 1 year but within 5 years €'000**	**After 5 years €'000**	**Total €'000**
Net cash outflows on derivative financial instruments	3,453	8,638	10,330	1,170	23,591

26 RISK MANAGEMENT AND CONTROL (continued)

Operational risk

The Bank faces operational risk in the normal pursuit of its business objectives. Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank operates systems of risk identification, assessment and monitoring designed to ensure that operational risk management is consistent with the approach, aims and strategic goals of the Bank and the Group. Operational risk is managed in compliance with the Group Operational Risk policy which has been adopted by the Board of the Bank. The Bank manages operational risk through accountable executives overseen by the Bank's Audit Committee. In addition, there is oversight by the Group Regulatory, Compliance and Operational Risk Committee, supported by the Group Operational Risk function. Potential risk exposures are assessed on a regular basis and appropriate controls are put in place or adapted as considered necessary. Recognising that operational risk cannot be entirely eliminated, the Bank implements risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms such as insurance, where appropriate.

Regulatory risk

Regulatory risk arises from a failure to comply with the laws, regulations or codes applicable to the Irish financial services industry. Non-compliance would have adverse reputational implications and could lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Regulatory risk and compliance risk in the Bank is managed in accordance with Bank of Ireland Group policy which has been adopted by the Board of the Bank. This requires the conduct of business in accordance with applicable regulations and an awareness of regulatory risk by all employees.

The effective management of regulatory compliance is the responsibility of the management of the Bank. At an overall level, the Bank reassesses its regulatory risk profile on a regular basis, monitors compliance and reports findings to the Board of Directors and separately to Bank of Ireland Group Regulatory Compliance and Operational Risk function.

Capital management

The objectives of the Bank's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Bank has sufficient capital to cover the risks of its business and support its strategy. The capital adequacy requirements set by the Central Bank of Ireland are used by the Bank as the basis for its capital management. These requirements set a floor under which capital levels must not fall. The Bank and the Group are committed to maintain sufficient capital to ensure that even under stressed conditions these requirements are met.

The Bank's capital includes the Bank's shareholders' funds (subject to regulatory adjustments) together with dated subordinated debt. Regulatory capital requirements are determined by risk asset levels. The Bank meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the Central Bank.

Capital strategy is integrated into the overall business strategy of the Bank and the Group.

27 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table represents the carrying amount and the fair value of financial assets and financial liabilities of the Bank.

		31 December 2014		31 December 2013	
		Carrying amount €'000	Fair values €'000	Carrying amount €'000	Fair values €'000
Assets					
Loans and advances to banks	(1)	2,464,686	2,529,337	2,623,402	2,605,345
Loans and advances to customers	(2)	18,841,513	15,797,803	18,978,863	15,354,557
Derivative financial instruments	(5)	225,907	225,907	231,701	231,701
Liabilities					
Deposits by banks	(3)	10,705,501	10,765,857	10,089,083	10,154,243
Debt securities in issue	(4)	9,854,585	10,156,276	10,795,311	10,841,031
Derivative financial instruments	(5)	19,623	19,623	23,678	23,678
Subordinated Liabilities	(4)	140,439	155,683	402,557	402,790

27 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

(1) Loans and advances to banks
The Bank places funds with Bank of Ireland. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans and advances. The carrying amount of variable rate loans is considered to be at market value. The fair value of fixed rate loans is calculated by discounting expected cash flows using market rates where practicable, or rates currently offered by other financial institutions with similar characteristics.

(2) Loans and advances to customers
Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques which include:

- The discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of credit losses over the life of the loans; and
- Recent arm's length transactions in similar assets.

(3) Deposits from banks
The carrying amount of variable rate deposits is considered to be at market value. The fair value of fixed rate deposits is calculated by discounting expected cash flows using market rates where practicable, or rates currently offered by other financial institutions with similar characteristics.

(4) Debt securities in issue and subordinated liabilities
The fair values of these instruments are calculated based on quoted market prices where available. For those notes, where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the Bank for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Bank's own credit spread.

(5) Derivative financial instruments
The carrying value and fair value of interest rate contracts represents amounts accrued and their clean fair value at the balance sheet date. The fair value is based on the discounted future cash flows of these contracts.

Fair value hierarchy

The table below shows the Bank's financial assets and liabilities that are recognised and subsequently measured in the balance sheet at fair value and their classification within the fair valuation hierarchy. All are classified as Level 2. The Bank has no financial assets and liabilities classified as Level 1 or Level 3.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data.

Level 3 comprises financial assets and liabilities which are valued using techniques incorporating significant non-observable market data. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Fair value hierarchy Level 2	**31 December 2014**	**31 December 2013**
	€'000	**€'000**
Financial assets held at fair value		
Derivative financial instruments	225,907	231,701
Total financial assets held at fair value	**225,907**	**231,701**
Financial liabilities held at fair value		
Derivative financial instruments	19,623	23,678
Total financial liabilities held at fair value	**19,623**	**23,678**

28 COMMITMENTS

At 31 December 2014, the Bank has €1.3 billion of approved mortgage loan applications that as at 31 December 2014 had not been drawn down. Undrawn mortgage loan applications at 31 December 2013 calculated on the same basis were €0.9 billion.

29 RELATED PARTY TRANSACTIONS

The Bank's immediate and ultimate parent undertaking is the Governor and Company of the Bank of Ireland, a company incorporated by royal charter in Ireland. The financial statements for the Bank of Ireland Group are available at the Bank of Ireland, Head Office, Mespil Road, Dublin 4.

(a) Irish Government

The Bank considers that the State is a related party under FRS 8 as it is in a position to exercise significant influence over the Bank of Ireland Group.

(i) Ordinary Stock
At 31 December 2014 the State held, through the Ireland Strategic Investment Fund (ISIF), 13.95% of the ordinary stock of Bank of Ireland (31 December 2013: 14.08%).

(ii) Guarantee Schemes
The Eligible Liabilities Guarantee ("ELG") Scheme ended for all new liabilities on 28th March 2013. The Bank had no eligible liabilities under the scheme and therefore has no charge in the financial statements.

For further details on the above please refer to note 51, Summary of relations with the State, in the annual report of the Bank of Ireland Group.

(b) Transactions with Directors and Key Management Personnel

The following information is presented in accordance with the Companies Act 1990 as amended.

For the purposes of the Companies Act disclosures, "Directors" means the Board of Directors of the Bank, any past Directors who were Directors during the relevant period and Directors of the parent company, Bank of Ireland.

Directors' emoluments and details of compensation paid to key management personnel are provided within this note.

(i) Loans to Directors - Companies Acts Disclosures

	Balance as at 1 January 2014 €'000	Balance as at 31 December 2014 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2014 €'000
Directors at 31 December 2014			
P Flynn			
Mortgages total	516	432	516
S Mason			
Mortgages total	1,310	1,259	1,310
L McLoughlin			
Mortgages total	69	13	69
Directors no longer in office at 31 December 2014			
K O'Sullivan			
Mortgages total *	428	418	428

J Clifford, D Buckley, S Crowe, G Kelly, B McConnell and R Milliken had no loans with the Bank during the year ended 31 December 2014.

** On preferential staff rate.*
[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

29 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Directors and Key Management Personnel (continued)

(i) Loans to Directors - Companies Acts Disclosures (continued)

	Balance as at 1 January 2013 [1] €'000	Balance as at 31 December 2013 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2013 €'000
Directors at 31 December 2013			
P Flynn			
Mortgages total	604	516	604
S Mason			
Mortgages total	1,357	1,310	1,357
K O'Sullivan			
Mortgages total **	436	428	436
L McLoughlin			
Mortgages total	100	69	100
Directors no longer in office at 31 December 2013			
B Kealy			
Mortgages total*	578	580	596
J Byrne			
Mortgages total	471	448	471

J Clifford, S Crowe, G Kelly, B McConnell and R Milliken had no loans with the Bank during the year ended 31 December 2013.

**a portion of the mortgage total is on a preferential staff rate.*
***on preferential staff rate*
[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

(ii) Loans to Directors of parent company

	Balance as at [1] 1 January 2014 €'000	Balance as at [1] 31 December 2014 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2014 €'000
Directors of parent company at 31 December 2014			
R Boucher	113	81	113
Mortgages Total			
P Kennedy	2,823	2,823	2,823
Mortgages Total			

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, D Marston, B Martin, P Mullvhill, P O'Sullivan, W Ross and J Walsh had no loans with the Bank during the year ended 31 December 2014.

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

29 RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with Directors and Key Management Personnel (continued)

(ii) Loans to Directors of parent company (continued)

	Balance as at [1] 1 January 2013 €'000	Balance as at [1] 31 December 2013 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2013 €'000
Directors of parent company at 31 December 2013			
R Boucher			
Mortgages Total	145	113	145
P Kennedy			
Mortgages Total	3,958	2,823	3,958

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, D Marston, B Martin, P Mullvhill, P O'Sullivan, W Ross, J Walsh and P Watsa had no loans with the Bank during the year ended 31 December 2013.

There are no specific provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Bank and of similar financial standing and do not involve more than the normal risk of collectability.

Loans relate to mortgages secured on residential property.

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

(iii) Loans to connected persons on favourable terms

2014 Connected persons[3] of the following Director	Balance as at [1] 31 December 2014 €'000	Maximum amount outstanding during the year ended [2] 31 December 2014 €'000	Number of persons as at 31 December 2014	Maximum number of persons during the year ended 31 December 2014
Persons connected to P Flynn	16	18	1	1

2013 Connected persons[3] of the following Director	Balance as at [1] 31 December 2013 €'000	Maximum amount outstanding during the year ended [2] 31 December 2013 €'000	Number of persons as at 31 December 2013	Maximum number of persons during the year ended 31 December 2013
Persons connected to P Flynn	18	20	1	1

While the above arrangements are on favourable terms, the terms are similar to those available to staff generally.

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, civil partner, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the director, his spouse, children or a company which the Director controls, or a company controlled by the director or a person in partnership within the meaning of the Partnership Act 1890.

29 RELATED PARTY TRANSACTIONS (continued)

(iv) Loans to connected persons[3] - Central Bank licence condition disclosures

All loans to Connected Persons are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons and do not involve more than the normal risk of collectability.

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

(a) the aggregate amount of lending to all connected persons, as defined in Section 26 of the Companies Act 1990; and
(b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

Disclosure is subject to certain *de minimis* exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition:

2014 **Connected person of the following Director**	**Balance as at [1] 31 December 2014** **€'000**	**Aggregate maximum amount outstanding during the year ended [2] 31 December 2014** **€'000**	**Number of persons as at 31 December 2014**	**Maximum number of persons during the year ended 31 December 2014**
Persons connected to				
K O'Sullivan	138	141	1	1
J Clifford	267	278	1	1

2013 **Connected person of the following Director**	**Balance as at [1] 31 December 2013** **€'000**	**Aggregate maximum amount outstanding during the year ended [2] 31 December 2013** **€'000**	**Number of persons as at 31 December 2013**	**Maximum number of persons during the year ended 31 December 2013**
Persons connected to				
K O'Sullivan	141	144	1	1
J Clifford	278	289	1	1

[1] *Balances include principal and interest.*
[2] *The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.*
[3] *Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, civil partner, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the director, his spouse, children or a company which the Director controls, or a company controlled by the director or a person in partnership within the meaning of the Partnership Act 1890.*

(v) Key management personnel ("KMP") - loans

The following information is prepared in accordance with FRS 8: Related party disclosures.

For the purposes of FRS 8: Related Party Disclosures, key management personnel ("KMP") comprise the Directors of the Bank and key management personnel ("Head of Credit (Mortgage Arrears Resolution Strategy", "Head of Mortgage and Consumer Credit" and "Head of Mortgages"). Key management personnel also comprise KMP of the parent company, Bank of Ireland.

Key management personnel including Directors hold mortgages with the Bank in the ordinary course of business. All loans to Non-Executive Directors are made in the ordinary course of business on normal commercial terms. Loans to key management personnel other than Non-Executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank, its key management personnel, as defined above, including members of their close families and entities influenced by them, and key management personnel of the parent, Bank of Ireland, are shown in the table below.

29 RELATED PARTY TRANSACTIONS (continued)

(v) Key management personnel ("KMP") – loans (continued)

FRS 8 Disclosures 2014	Balance as at 1 January [1] 2014 €'000	Balance as at 31 December [1] 2014 €'000	Aggregate maximum amounts outstanding during the year ended [2] 31 December 2014 €'000	Number of KMP as at 1 January 2014	Number of KMP as at 31 December 2014
Key Management Personnel					
Loans [3]	7,909	7,436	8,021	13	13

2013	Balance as at 1 January [1] 2013 €'000	Balance as at 31 December [1] 2013 €'000	Aggregate maximum amounts outstanding during the year ended [2] 31 December 2013 €'000	Number of KMP as at 1 January 2013	Number of KMP as at 31 December 2013
Key Management Personnel					
Loans	9,862	7,909	9,394	14	13

[1] *Balances include principal and interest.*
[2] *The maximum amount outstanding during the year is calculated using the highest balance on each account. The highest maximum outstanding liability in respect of a loan or mortgage during the year ended 31 December 2014 for any member of key management personnel and their close family did not exceed €2.8 million (31 December 2013: €4.0 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.*
[3] *The opening balance includes balances and transactions with KMP who have retired during 2013 and are not related parties during the current year. Therefore these KMP's are not included in the maximum amounts outstanding.*

Loans relate to mortgages secured on residential property.

Included in the above FRS 8 loan disclosure are loans to key management personnel on preferential staff rates amounting to €0.4 million (31 December 2013: €0.5 million).

There are no specific provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

(vi) Directors' remuneration

	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Fees	105	105
Other emoluments*	201	188
Total remuneration	**306**	**293**

** No other fees or bonuses were paid to directors during the year ended 31 December 2014 or the year ended 31 December 2013.*

The Bank has availed of the exemption under FRS 8 not to disclose KMP remuneration.

30 SIGNIFICANT EVENTS

There are no other material significant events requiring disclosure which have not already been addressed in the notes to these financial statements and the Report of the Directors.

31 POST BALANCE SHEET EVENTS

In January 2015 the Bank successfully issued a €750 million 5 year fixed ACS priced at 20 basis points over mid swaps.

There are no other significant post balance sheet events identified requiring disclosure prior to the approval of these financial statements.

32 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 26 February 2015.

CONTENTS **Page**

The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 18. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.

Forbearance Disclosures

Impairment (reversals) / charges on forborne loans and advances to customers

The total impairment reversal of €101.3 million for the year ended 31 December 2014 includes €45.3 million relating to loans which are classified as forborne at the balance sheet date (year ended 31 December 2013: €80.5 million).

Table 1

Impairment (reversal) / charge on forborne loans and advances to customers	For the year ended 31 December 2014 €'000	For the year ended 31 December 2013 €'000
Specific (reversal) / charge individually and collectively assessed	(13,822)	24,476
Incurred but not reported	(31,435)	56,019
	(45,257)	**80,495**

The impairment reversal recognised on forborne reflects the considerations as set out on Page 5, which resulted in an overall impairment reversal on both the forborne and non-forborne portfolios in 2014.

Impairment provision on forborne loans and advances Composition

The total impairment provision of €1,076 million at 31 December 2014 includes €292 million impairment provision on forborne loans (31 December 2013; €255 million) as set out in the tables below.

Table 2

Impairment provision on forborne loans and advances composition	31 December 2014 €'000	31 December 2013 €'000
Advances	2,164,323	1,828,433
Defaulted loans	560,398	569,318
Specific provision individually and collectively assessed	141,724	132,338
Incurred but not reported	150,440	123,156
Total impairment provision on forborne loans	**292,164**	**255,494**
Impairment provisions as a % of defaulted loans	52%	45%

Specific and IBNR provisions held against forborne mortgages increased during 2014 primarily due to an increase in the number of customers with forbearance arrangements in place. This increase arose in both in the "neither past due nor impaired" and "impaired" forborne loan categories in 2014.

Risk profile of loans and advances to customers (before impairment provisions)

The Bank's total risk profile of loans and advances to customers at 31 December 2014 of €19.9 billion is available on page 43 in the asset quality section of Note 26. Exposures are before provisions for impairment. The tables below provide an analysis of loans that are 'neither past due or impaired' 'past due but not impaired' and 'impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'.

Risk profile of loans and advances to customers (before impairment provisions) (continued)

Table 3

	31 December 2014 €'000	31 December 2013 €'000
Non-forborne loans and advances		
High quality	15,680,564	15,913,603
Satisfactory quality	-	-
Acceptable quality	-	-
Lower quality but neither past due nor impaired	-	-
Neither past due nor impaired	**15,680,564**	**15,913,603**
Past due up to 30 days	204,005	213,171
Past due 31 - 60 days	70,210	125,994
Past due 61- 90 days	53,189	75,681
1 - 90 days past due but not impaired	**327,404**	**414,846**
Past due more than 90 days but not impaired	278,188	483,954
Impaired	1,448,060	1,665,579
Defaulted	**1,726,248**	**2,149,533**
Total non-forborne loans and advances to customers	**17,734,216**	**18,477,982**

	31 December 2014 €'000	31 December 2013 €'000
Forborne loans and advances		
High quality	-	-
Satisfactory quality	679,258	441,135
Acceptable quality	535,992	475,709
Lower quality but neither past due nor impaired	242,892	166,510
Neither past due nor impaired	**1,458,142**	**1,083,354**
Past due up to 30 days	82,448	81,918
Past due 31 - 60 days	35,734	52,041
Past due 61- 90 days	27,601	41,802
1 - 90 days past due but not impaired	**145,783**	**175,761**
Past due more than 90 days but not impaired	183,111	247,249
Impaired	377,287	322,069
Defaulted	**560,398**	**569,318**
Total forborne loans and advances to customers	**2,164,323**	**1,828,433**

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €1.5 billion or 67% of the Bank's forborne loan book at 31 December 2014 compared to €1.1 billion or 59% at 31 December 2013. Forborne loans and advances to customers classified as '1 – 90 days past due but not impaired' amounted to €0.1 billion or 7% of the Bank's forborne loan book at 31 December 2014 compared to €0.2 billion or 10% at 31 December 2013. Forborne loans and advances to customers classified as 'defaulted' amounted to €0.6 billion or 26% of the Bank's forborne loan book at 31 December 2014 compared to €0.6 billion or 31% at 31 December 2013. Forborne loans and advances to customers classified as 'impaired' amounted to €0.4 billion or 17% of the Bank's forborne loan book at 31 December 2014 compared to €0.3 billion or 18% at 31 December 2013 reflecting the ongoing restructure of customer mortgages on a sustainable basis in the mortgage portfolio.

Non-forborne loans and advances to customers classified as '1 – 90 days past due but not impaired' amounted to €0.3 billion or 2% of the Bank's non-forborne loan book at 31 December 2014 compared to €0.4 billion or 2% at 31 December 2013, which is consistent with the reduction in total loans and advances classified as '1 – 90 days past due but not impaired'. Non-forborne loans and advances to customers classified as 'defaulted' amounted to €1.7 billion or 10% of the Bank's non-forborne loan book at 31 December 2014 compared to €2.1 billion or 12% at 31 December 2013. Non-forborne loans and advances to customers classified as 'impaired' amounted to €1.4 billion or 8% of the Bank's non-forborne loan book at 31 December 2014 compared to €1.7 billion or 9% at 31 December 2013.

The following disclosures refer to the mortgage loan book in the Bank and provide additional detail and analysis on the composition and quality of this loan book.

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

Mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2014, lending criteria for the Bank’s mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (“LTV”) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book Composition

Mortgage loan book volumes
Table 1

Mortgage loan book - volumes (before impairment provisions)	**31 December 2014**	**31 December 2013**
	€m	**€m**
Owner occupied mortgages	15,819	15,770
Buy to let mortgages	4,080	4,536
Total	**19,899**	**20,306**

Total mortgages were €19.9 billion at 31 December 2014 compared to €20.3 billion at 31 December 2013, a decrease of €0.4 billion or 2%. The movement in the book size reflects a combination of factors including principal repayments, resolution activity and new mortgage lending.

The proportion of the portfolio on a ‘principal and interest’[1] repayment basis at 31 December 2014 was 90% (31 December 2013: 88%) with the balance of 10% on an ‘interest only’[2] repayment basis (31 December 2013: 12%). Of the Owner occupied mortgages of €15.8 billion, 95% were on a ‘principal and interest’ repayment basis (31 December 2013: 94%), while 74% of the Buy to let mortgages of €4.1 billion were on a ‘principal and interest’ repayment basis (31 December 2013: 69%). It is the Bank’s policy to revert all loans to a ‘principal and interest’ basis on expiry of the ‘interest only’ period.

The tables on the following page illustrate that at 31 December 2014, €5.6 billion or 28% of the mortgage loan book originated before 2006, €8.7 billion or 44% between 2006 and 2008 and €5.6 billion or 28% in the years since 2008.

At 31 December 2014, total defaulted loans were €2.3 billion (December 2013: €2.7 billion) or 11.5% of the mortgage loan book, of which €1.5 billion originated between 2006 and 2008. There has been a significant decrease in total defaulted loans in the year ended 31 December 2014 reflecting the effectiveness of the Bank’s operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

At 31 December 2014, impairment provisions were €1.1 billion equating to 47% of defaulted balances on the mortgage book.

[1] ‘Principal and interest’ repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.
[2] ‘Interest only’ mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes ‘principal and interest’ contracted to be repaid over the agreed term. ‘Interest only’ periods typically range between 3 and 5 years.

Book composition (continued)

Origination[1] profile
Table 2

Origination of mortgage loan book (before impairment provisions)

31 December 2014	Total mortgage loan book		Defaulted loans	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	348	12,508	29	641
2001	268	4,838	18	250
2002	464	6,695	42	369
2003	813	9,411	93	645
2004	1,426	12,934	169	1,009
2005	2,309	17,295	301	1,514
2006	3,418	21,227	608	2,371
2007	3,106	17,925	607	2,182
2008	2,185	13,417	330	1,243
2009	1,181	8,647	69	407
2010	925	6,300	16	90
2011	820	5,568	4	25
2012	774	5,211	1	10
2013	749	4,739	0	2
2014	1,113	6,554	0	0
Total	**19,899**	**153,269**	**2,287**	**10,758**

31 December 2013	Total mortgage loan book		Defaulted loans	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	429	14,466	39	809
2001	304	5,168	24	327
2002	525	7,125	51	469
2003	905	9,980	109	816
2004	1,571	13,832	204	1,223
2005	2,514	18,051	378	1,901
2006	3,685	21,936	719	2,931
2007	3,359	18,494	711	2,575
2008	2,343	13,765	383	1,480
2009	1,266	9,022	81	454
2010	981	6,479	17	92
2011	865	5,701	2	16
2012	812	5,326	1	7
2013	747	4,798	-	1
Total	**20,306**	**154,143**	**2,719**	**13,101**

[1] The lending originated in each year is net of related redemptions. For phased drawdowns the year of initial drawdown is classified as the year of origination.
[2] The number of accounts does not equate to either the number of customers or the number of properties.

Book composition (continued)

Table 3a

Risk profile of mortgage loan book (before impairment provisions)

31 December 2014	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	14,263	90%	2,876	70%	17,139	86%
1 - 90 days past due but not impaired	357	2%	116	3%	473	2%
Defaulted loans	1,199	8%	1,088	27%	2,287	12%
Total	**15,819**	**100%**	**4,080**	**100%**	**19,899**	**100%**

31 December 2013	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	13,898	88%	3,099	68%	16,997	84%
1 - 90 days past due but not impaired	420	3%	170	4%	590	3%
Defaulted loans	1,452	9%	1,267	28%	2,719	13%
Total	**15,770**	**100%**	**4,536**	**100%**	**20,306**	**100%**

The tables above illustrate that €17.1 billion or 86% of the total mortgage loan book at 31 December 2014 was classified as 'neither past due nor impaired' compared to €17.0 billion or 84% at 31 December 2013.

The '1 – 90 days past due but not impaired' category amounted to €0.5 billion or 2% of the total mortgage loan book at 31 December 2014 compared to €0.6 billion or 3% at 31 December 2013.

The 'defaulted' category amounted to €2.3 billion or 12% of the total mortgage loan book at 31 December 2014 compared to €2.7 billion or 13% at 31 December 2013.

Total defaulted mortgages reduced significantly by €432 million or 15.9% to €2.3 billion at 31 December 2014 reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

There has been a reduction in Owner occupied defaulted loans in the year ended 31 December 2014, decreasing by €253 million or 17.4% to €1.2 billion at 31 December 2014 (31 December 2013 €1.5 billion). This reduction further reflects the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies.

This progress is further evident in the reduction of defaulted Buy to let mortgages by €179 million or 14.1% to €1.1 billion at 31 December 2014 from €1.3 billion at 31 December 2013. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed assets by fixed charge receivers, supported by improved rental market conditions, particularly evident in primary urban areas.

The Buy to let mortgage loan portfolio reduced by €456 million or 10% in 2014 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 69% at 31 December 2013 to 74% at 31 December 2014.

Book composition (continued)

Arrears profile

Table 3b – Unaudited

Mortgage Arrears - defaulted loans (number of accounts)	31 December 2014	30 June 2014	31 December 2013
Owner occupied mortgages	5.50%	6.32%	6.74%
Industry[1] Owner occupied (number of accounts)	Not available	13.08%	13.89%
Buy to let mortgages	14.91%	17.10%	17.11%
Industry[1] Buy to let (number of accounts)	Not available	23.47%	22.33%

Mortgage Arrears - defaulted loans (value)	31 December 2014	30 June 2014	31 December 2013
Owner occupied mortgages	7.62%	8.70%	9.27%
Industry[1] Owner occupied (value)	Not available	17.97%	18.35%
Buy to let mortgages	26.77%	29.00%	28.07%
Industry[1] Buy to let (value)	Not available	31.54%	29.90%

The latest information published by the Central Bank of Ireland is for the quarter ended 30 September 2014. This information indicates that the proportion (by number of accounts) of the mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied and Buy to let mortgages. At 30 September 2014, 5.95% and 16.58% of the Bank's Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due and / or impaired' compared to 12.35% and 23.63% for the industry (respectively).

[1] Industry source: CBI Mortgage Arrears Statistics Report – adjusted to exclude the Bank. Industry statistics do not include impaired loans less than or equal to 90 days past due (all quoted Bank statistics include impaired loans less than or equal to 90 days past due).

Book composition (continued)

Table 3c

Loan to value profiles – total loans

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	3,199	20%	468	12%	3,667	18%
51% to 70%	3,349	21%	478	12%	3,827	19%
71% to 80%	1,950	12%	294	7%	2,244	11%
81% to 90%	1,978	13%	540	13%	2,518	13%
91% to 100%	1,320	8%	408	10%	1,728	9%
Subtotal	**11,796**	**74%**	**2,188**	**54%**	**13,984**	**70%**
101% to 120%	2,077	13%	862	21%	2,939	15%
121% to 150%	1,669	11%	723	18%	2,392	12%
151% to 180%	159	1%	136	3%	295	2%
Greater than 181%	118	1%	171	4%	289	1%
Subtotal	**4,023**	**26%**	**1,892**	**46%**	**5,915**	**30%**
Total	**15,819**	**100%**	**4,080**	**100%**	**19,899**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**78%**		**98%**		**82%**
New mortgages during the year		**70%**		**50%**		**69%**

31 December 2013

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	2,411	15%	322	7%	2,733	14%
51% to 70%	2,337	15%	361	8%	2,698	13%
71% to 80%	1,562	10%	235	5%	1,797	9%
81% to 90%	1,687	11%	425	10%	2,112	10%
91% to 100%	1,365	8%	321	7%	1,686	8%
Subtotal	**9,362**	**59%**	**1,664**	**37%**	**11,026**	**54%**
101% to 120%	2,506	16%	771	17%	3,277	16%
121% to 150%	2,555	16%	1,241	27%	3,796	19%
151% to 180%	1,110	7%	548	12%	1,658	8%
Greater than 181%	237	2%	312	7%	549	3%
Subtotal	**6,408**	**41%**	**2,872**	**63%**	**9,280**	**46%**
Total	**15,770**	**100%**	**4,536**	**100%**	**20,306**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**92%**		**116%**		**97%**
New mortgages during the year		**70%**		**54%**		**70%**

The tables above set out the weighted average indexed LTV for the total mortgage loan book which was, on average, 82% at 31 December 2014 (31 December 2013: 97%), 78% for Owner occupied mortgages and 98% for Buy to let mortgages. The weighted average indexed LTV for new mortgages written during 2014 was 69%, being 70% for Owner occupied mortgages and 50% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). The indexed LTV profile of the mortgage loan book contained in Table 3c is based on the CSO Residential Property Price Index at the applicable reporting date.

[1] Weighted Average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.

Book composition (continued)

Loan to value profiles – total loans (continued)

The CSO index for December 2014 reported that average national residential property prices were 38% below peak (December 2013: 46% below peak), with Dublin residential prices and outside of Dublin residential prices 38% and 41% below peak respectively (December 2013: 49% and 47% below peak respectively). In the year to December 2014, residential property prices at a national level increased by 16.3%.

At 31 December 2014, €14.0 billion or 70% of the Bank's mortgages were classified as being in positive equity, 74% for Owner occupied mortgages and 54% for Buy to let mortgages.

At 31 December 2014, the total calculated negative equity in the mortgage loan book was €1.0 billion (31 December 2013: €2.1 billion). The majority of mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.6 billion negative equity related to loans that were 'neither past due nor impaired' at 31 December 2014.

Table 3d

Loan to value profiles – defaulted loans

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book - defaulted loans						
Less than 50%	96	8%	26	2%	122	5%
51% to 70%	120	10%	39	4%	159	7%
71% to 80%	81	7%	43	4%	124	5%
81% to 90%	101	8%	116	11%	217	10%
91% to 100%	110	9%	92	8%	202	9%
Subtotal	**508**	**42%**	**316**	**29%**	**824**	**36%**
101% to 120%	237	20%	259	24%	496	22%
121% to 150%	314	26%	344	32%	658	29%
151% to 180%	115	10%	68	6%	183	8%
Greater than 181%	25	2%	101	9%	126	5%
Subtotal	**691**	**58%**	**772**	**71%**	**1,463**	**64%**
Total	**1,199**	**100%**	**1,088**	**100%**	**2,287**	**100%**

31 December 2013

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book - defaulted loans						
Less than 50%	86	6%	23	2%	109	4%
51% to 70%	109	8%	33	3%	142	5%
71% to 80%	76	5%	22	2%	98	4%
81% to 90%	88	6%	77	6%	165	6%
91% to 100%	107	7%	58	4%	165	6%
Subtotal	**466**	**32%**	**213**	**17%**	**679**	**25%**
101% to 120%	233	16%	175	14%	408	15%
121% to 150%	378	26%	443	35%	821	30%
151% to 180%	288	20%	277	22%	565	21%
Greater than 181%	87	6%	159	12%	246	9%
Subtotal	**986**	**68%**	**1,054**	**83%**	**2,040**	**75%**
Total	**1,452**	**100%**	**1,267**	**100%**	**2,719**	**100%**

Book composition (continued)

Loan to value profiles – defaulted loans (continued)

The tables on the previous page illustrate the indexed loan to value ratios at the applicable reporting dates for defaulted mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the defaulted mortgages €0.8 billion or 36% are in positive equity (31 December 2013: €0.7 billion or 25%) while €1.5 billion or 64% are in negative equity at 31 December 2014 (31 December 2013: €2.0 billion or 75%).

For the defaulted category, 42% of Owner occupied mortgages (31 December 2013: 32%) and 29% of Buy to let mortgages (31 December 2013: 17%) were classified as being in positive equity at 31 December 2014.

Asset quality

Table 4

Composition and impairment

	Total					Of which			
31 December 2014	**Advances €m**	**Defaulted loans €m**	**Defaulted loans as a % of advances %**	**Impairment provisions €m**	**Impairment provisions as a % of defaulted loans %**	**Forborne mortgages €m**	**Defaulted[1] forborne mortgages €m**	**Impairment provisions forborne mortgages €m**	**Impairment provisions forborne mortgages as a % of defaulted forborne mortgages %**
Owner occupied mortgages	15,819	1,199	7.6%	480	40%	1,536	357	177	50%
Buy to let mortgages	4,080	1,088	26.7%	596	55%	628	203	115	57%
Total mortgages	**19,899**	**2,287**	**11.5%**	**1,076**	**47%**	**2,164**	**560**	**292**	**52%**

	Total					Of which			
31 December 2013	**Advances €m**	**Defaulted loans €m**	**Defaulted loans as a % of advances %**	**Impairment provisions €m**	**Impairment provisions as a % of defaulted loans %**	**Forborne mortgages €m**	**Defaulted[1] forborne mortgages €m**	**Impairment provisions forborne mortgages €m**	**Impairment provisions forborne mortgages as a % of defaulted forborne mortgages %**
Owner occupied mortgages	15,770	1,452	9.2%	611	42%	1,384	428	175	41%
Buy to let mortgages	4,536	1,267	27.9%	734	58%	444	141	80	56%
Total mortgages	**20,306**	**2,719**	**13.4%**	**1,345**	**49%**	**1,828**	**569**	**255**	**45%**

Defaulted mortgages at 31 December 2014 were €2.3 billion or 11.5% of advances compared to €2.7 billion or 13.4% of advances at 31 December 2013. Total defaulted mortgages reduced significantly by €0.4 billion or 15.9% to €2.3 billion at 31 December 2014, reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

There has been a reduction in Owner occupied defaulted loans in the year ended 31 December 2014, decreasing by €0.3 billion or 17.4% to €1.2 billion at 31 December 2014 (31 December 2013 €1.5 billion). This reduction further reflects the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies.

This progress is further evident in the reduction of defaulted Buy to let mortgages reducing by €0.2 billion or 14.1% to €1.1 billion at 31 December 2014 from €1.3 billion at 31 December 2013. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity and the disposal of a portfolio of distressed assets, supported by improved rental market conditions, particularly evident in primary urban areas.

[1] *The 'defaulted loans' classification included both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Properties in possession

At 31 December 2014, the Bank had possession of properties held as security as follows:

Table 5a

	31 December 2014		31 December 2013	
	Number of repossessions at balance sheet date	Balance[1] outstanding before impairment provisions €m	Number of repossessions at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied mortgages	98	29	92	26
Buy to let mortgages	44	13	65	20
Total residential properties in possession	**142**	**42**	**157**	**46**

Table 5b

Disposals of properties in possessions

31 December 2014	Number of disposals during the year	Balance[1] outstanding after impairment provisions
Disposals of repossessions		€m
Owner occupied mortgages	98	12
Buy to let mortgages	74	8
Total disposals of properties in possession	**172**	**20**

31 December 2013	Number of disposals during the year	Balance[1] outstanding after impairment provisions
Disposals of repossessions		€m
Owner occupied mortgages	50	5
Buy to let mortgages	39	4
Total disposals of properties in possession	**89**	**9**

During the year ended 31 December 2014 the Bank disposed of 172 repossessed properties (31 December 2013: 89 repossessed properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the year ended 31 December 2014, the proceeds from disposals of Owner occupied repossessed properties were €12 million (31 December 2013: €5 million).

For the year ended 31 December 2014, the proceeds from disposals of Buy to let repossessed properties before value of additional collateral applied were €8 million (31 December 2013: €4 million).

In addition, a further 769 Buy to let properties were disposed of by fixed charge receivers during the year (31 December 2013: 116).

[1] Group balance outstanding before value of additional collateral held.

Asset quality (continued)

Forbearance measures

The Bank continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan (‘forbearance measure’), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active ‘forbearance measure’ is a ‘forborne’ mortgage.

The Bank, as part of the Bank of Ireland Group, has an established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Bank seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Bank to undertake an assessment of the customer’s financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Bank’s policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Bank and the customer.

The effectiveness of forbearance is considered taking account of:

- the strategy that is being followed with a view to maximising recovery for the Bank and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:

- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2014.

Table 6a

Formal forbearance measures - mortgage loan book (before impairment provisions)

	Non-defaulted loans		Defaulted loans[2]		All loans	
31 December 2014	**Balance €m**	**Number of accounts[3]**	**Balance €m**	**Number of accounts[3]**	**Balance €m**	**Number of accounts[3]**
Owner occupied						
Full interest	93	721	39	278	132	999
Reduced payment (greater than full interest)	208	1,827	139	723	347	2,550
Term extension	288	3,446	76	557	364	4,003
Capitalisation of arrears	210	1,514	39	210	249	1,724
Hybrids	365	2,749	56	326	421	3,075
Other	15	107	8	54	23	161
Total	**1,179**	**10,364**	**357**	**2,148**	**1,536**	**12,512**
Buy to let						
Full interest	49	252	43	148	92	400
Reduced payment (greater than full interest)	68	499	82	268	150	767
Term extension	105	778	23	145	128	923
Capitalisation of arrears	50	260	20	72	70	332
Hybrids	153	713	35	131	188	844
Other	0	5	0	0	0	5
Total	**425**	**2,507**	**203**	**764**	**628**	**3,271**
Total						
Full interest	142	973	82	426	224	1,399
Reduced payment (greater than full interest)	276	2,326	221	991	497	3,317
Term extension	393	4,224	99	702	492	4,926
Capitalisation of arrears	260	1,774	59	282	319	2,056
Hybrids	518	3,462	91	457	609	3,919
Other	15	112	8	54	23	166
Total	**1,604**	**12,871**	**560**	**2,912**	**2,164**	**15,783**

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2014, this mortgage loan is not included in the stock of active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

Formal forbearance measures[1] - mortgage loan book (before impairment provisions) (continued)

31 December 2013	Non-defaulted loans Balance €m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance €m	Defaulted loans[2] Number of accounts[3]	All loans Balance €m	All loans Number of accounts[3]
Owner occupied						
Full interest	154	1,142	85	582	239	1,724
Reduced payment (greater than full interest)	200	1,425	179	981	379	2,406
Term extension	263	3,090	69	608	332	3,698
Capitalisation of arrears	141	1,032	25	128	166	1,160
Hybrids	181	1,367	56	364	237	1,731
Other	17	102	14	81	31	183
Total	**956**	**8,158**	**428**	**2,744**	**1,384**	**10,902**
Buy to let						
Full interest	57	296	43	178	100	474
Reduced payment (greater than full interest)	70	370	42	192	112	562
Term extension	88	668	17	119	105	787
Capitalisation of arrears	22	128	16	56	38	184
Hybrids	65	312	23	85	88	397
Other	1	3	-	3	1	6
Total	**303**	**1,777**	**141**	**633**	**444**	**2,410**
Total						
Full interest	211	1,438	128	760	339	2,198
Reduced payment (greater than full interest)	270	1,795	221	1,173	491	2,968
Term extension	351	3,758	86	727	437	4,485
Capitalisation of arrears	163	1,160	41	184	204	1,344
Hybrids	246	1,679	79	449	325	2,128
Other	18	105	14	84	32	189
Total	**1,259**	**9,935**	**569**	**3,377**	**1,828**	**13,312**

The total number of accounts in forbearance has increased from 13,312 at 31 December 2013 to 15,783 accounts at 31 December 2014. The balances on accounts in forbearance increased from €1.8 billion at 31 December 2013 to €2.1 billion at 31 December 2014. This overall increase reflects the Bank's progress in implementing restructure and resolution strategies. For Owner occupied mortgages, 12,512 accounts or €1.5 billion are in forbearance at 31 December 2014 (December 2013: 10,902 accounts or €1.4 billion). For Buy to let mortgages, 3,271 accounts or €0.6 billion are in forbearance at 31 December 2014 (December 2013: 2,410 accounts or €0.4 billion).

At 31 December 2014, there were a further 733 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (December 2013: 1,229 accounts).

In addition to the forbearance pertaining to Buy to let mortgages, the Bank has a strategy to appoint fixed charge receivers. At 31 December 2014, there were 954 properties where a fixed charge receiver had been appointed or approved, compared to 1,058 properties at 31 December 2013.

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2013, this mortgage loan is not included in the stock of active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

Formal forbearance measures - mortgage loan book (before impairment provisions) (continued)

Term extension is the largest forbearance category by number of accounts with 4,926 accounts at 31 December 2014 (December 2013: 4,485 accounts), followed by hybrid forbearance treatments with 3,919 accounts at 31 December 2014 (December 2013: 2,128 accounts).

A total of 827 accounts or €0.1 billion new term extensions were extended during the year. A further 397 accounts or €0.1 billion changed to term extension from another forbearance measure, while 601 accounts or €0.1 billion changed forbearance measure. A reduction of 182 accounts relates to redeemed accounts; a reduction of €33 million was due to those redeemed accounts and principal repayments made during the year.

Hybrids increased to 3,919 accounts or €0.6 billion at 31 December 2014 from 2,128 accounts or €0.3 billion at 31 December 2013. A total of 906 accounts or €0.2 billion new hybrid measures were put in place during the year. 1,202 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 255 accounts or €45 million changed to another forbearance measure. A reduction of 62 accounts relates to redeemed accounts; a reduction of €16 million was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 3,317 accounts or €0.5 billion at 31 December 2014, compared to 2,968 accounts or €0.5 billion at 31 December 2013. A total of 1,512 accounts or €0.2 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the year. A further 272 accounts or €47 million changed their forbearance measure to reduced payment (greater than full interest with step up to full capital and interest), while 560 accounts or €0.1 billion changed to another forbearance measure. A total of 787 accounts or €0.2 billion exited during the year. A reduction of 88 accounts relates to redeemed accounts; a reduction of €37 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisations of arrears increased to 2,056 accounts or €0.3 billion at 31 December 2014 from 1,344 accounts or €0.2 billion at 31 December 2013. A total of 659 accounts or €0.1 billion had capitalisation of arrears applied during the year. A further 171 accounts or €34 million changed to capitalisation of arrears from another forbearance measure, while 95 accounts or €15 million changed to another forbearance measure. A reduction of 23 accounts relates to redeemed accounts; a reduction of €11 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2014, 1,399 accounts or €0.2 billion were subject to full interest forbearance compared to 2,198 accounts or €0.3 billion at 31 December 2013. A total of 782 accounts or €0.1 billion of new full interest forbearance measures were extended during the year, 63 accounts or €8 million changed to full interest, while 573 accounts or €0.1 billion changed from full interest to another forbearance measure. A total of 954 accounts or €0.2 billion exited forbearance during the year. A reduction of 117 accounts relates to redeemed accounts; a reduction of €14 million was due to those redeemed accounts and principal repayments made during the year.

'Other' forbearance measures, decreased to 166 accounts or €23 million at 31 December 2014 from 189 accounts or €32 million at 31 December 2013.

Asset quality (continued)

The following table shows the movement in the stock of active forborne mortgages (before impairment provisions) during the year ended 31 December 2014.

Table 6b

Reconciliation of forborne loan stock by non-default / default status - mortgage loan book (before impairment provisions)	Owner Occupied Balance €m	Owner Occupied Number of accounts[1]	Buy to Let Balance €m	Buy to Let Number of accounts[1]	All loans Balance €m	All loans Number of accounts[1]
All loans						
Opening balance at 1 January 2014	1,384	10,902	444	2,410	1,828	13,312
New forbearance extended	488	3,523	282	1,283	770	4,806
Exited forbearance						
- Improved to or remained in non-default	(134)	(864)	(35)	(150)	(169)	(1,014)
- Improved / stabilised and remained in default	(49)	(313)	(14)	(54)	(63)	(367)
- Redemptions, principal repayments and other	(77)	(339)	(32)	(130)	(109)	(469)
- Disimproved to or within default	(76)	(397)	(17)	(88)	(93)	(485)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-
Closing balance at 31 December 2014	**1,536**	**12,512**	**628**	**3,271**	**2,164**	**15,783**
Non-defaulted loans						
Opening balance at 1 January 2014	956	8,158	303	1,777	1,259	9,935
New forbearance extended	337	2,633	159	837	496	3,470
Exited forbearance						
- Remained in non-default	(125)	(795)	(34)	(141)	(159)	(936)
- Redemptions, principal repayments and other	(64)	(262)	(25)	(97)	(89)	(359)
- Disimproved to default	(16)	(96)	(5)	(28)	(21)	(124)
Transfers within forbearance between non-defaulted and defaulted loans	91	726	27	159	118	885
Closing balance at 31 December 2014	**1,179**	**10,364**	**425**	**2,507**	**1,604**	**12,871**
Defaulted loans						
Opening balance at 1 January 2014	428	2,744	141	633	569	3,377
New forbearance extended	151	890	123	446	274	1,336
Exited forbearance						
- Improved to non-default	(9)	(69)	(1)	(9)	(10)	(78)
- Improved / stabilised and remained in default	(49)	(313)	(14)	(54)	(63)	(367)
- Redemptions, principal repayments and other	(13)	(77)	(7)	(33)	(20)	(110)
- Disimproved and remained in default	(60)	(301)	(12)	(60)	(72)	(361)
Transfers within forbearance between non-defaulted and defaulted loans	(91)	(726)	(27)	(159)	(118)	(885)
Closing balance at 31 December 2014	**357**	**2,148**	**203**	**764**	**560**	**2,912**

The table above illustrates the movement in forborne accounts and balances between 1 January 2014 and 31 December 2014 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in non-default;
  - Improved / stabilised and remained in default;
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2014 and remained in forbearance stock at 31 December 2014);
  - Disimproved to or within default; and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The non-default / default status of accounts which exited forbearance during the year is determined at the date of exit.

[1] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

A total of 15,783 accounts or €2.1 billion of account balances were in forbearance at 31 December 2014, compared to 13,312 accounts or €1.8 billion at 31 December 2013. Of these, 4,806 accounts or €0.8 billion new forbearance measures were put in place during the year, of which 3,470 accounts or €0.5 billion were classified as 'non-defaulted loans' while 1,336 accounts or €0.3 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 1,014 accounts or €0.2 billion improved to or remained in non-default, 367 accounts or €0.1 billion remained in default with improved or stabilised arrears and 485 accounts or €0.1 billion disimproved arrears to or within default. A reduction in the forbearance stock of 469 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 12,512 accounts or €1.5 billion of account balances were in forbearance at 31 December 2014 compared to 10,902 accounts or €1.4 billion at 31 December 2013. Of these, 3,523 accounts or €0.5 billion were new forbearance measures put in place during the year of which 2,633 accounts or €0.3 billion were classified as 'non-defaulted loans', while 890 accounts or €0.2 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 864 accounts or €0.1 billion improved to or remained in non-default, 313 accounts or €49 million remained in default with improved or stabilised arrears and 397 accounts or €0.1 billion disimproved arrears to or within default. A reduction of 339 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 3,271 accounts or €0.6 billion of account balances were in forbearance at 31 December 2014 compared to 2,410 accounts or €0.4 billion at 31 December 2013. Of these, 1,283 accounts or €0.3 billion were new forbearance measures put in place during the year of which 837 accounts or €0.2 billion were classified as 'non-defaulted loans' while 446 accounts or €0.1 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 150 accounts or €35 million improved to or remained in non-default, 54 accounts or €14 million remained in default with improved or stabilised arrears and 88 accounts or €17 million disimproved arrears to or within default. A reduction of 130 accounts relates to redeemed accounts during the year; a reduction of €32 million was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears

The Bank has invested in its Mortgage Arrears Resolution Strategy (MARS) infrastructure and continues to implement restructuring and resolution options for customers. The increased level of forbearance treatments reflects the ongoing effectiveness of the Bank's MARS strategy in supporting customers encountering mortgage difficulties.

The Bank's defined Mortgage Arrears Resolution Strategy, relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

Asset quality (continued)

Table 7a

Loan to value profiles – forborne loans

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgage loan book						
Less than 50%	225	15%	36	6%	261	12%
51% to 70%	239	16%	51	8%	290	13%
71% to 80%	145	9%	48	8%	193	9%
81% to 90%	160	10%	97	15%	257	12%
91% to 100%	147	10%	72	11%	219	10%
Subtotal	**916**	**60%**	**304**	**48%**	**1,220**	**56%**
101% to 120%	305	20%	144	23%	449	21%
121% to 150%	270	17%	149	24%	419	19%
151% to 180%	40	3%	18	3%	58	3%
Greater than 181%	5	0%	13	2%	18	1%
Subtotal	**620**	**40%**	**324**	**52%**	**944**	**44%**
Total	**1,536**	**100%**	**628**	**100%**	**2,164**	**100%**

31 December 2013

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgage loan book						
Less than 50%	159	12%	19	4%	178	10%
51% to 70%	156	11%	28	6%	184	10%
71% to 80%	99	7%	21	5%	120	6%
81% to 90%	114	8%	46	10%	160	9%
91% to 100%	115	8%	43	10%	158	9%
Subtotal	**643**	**46%**	**157**	**35%**	**800**	**44%**
101% to 120%	247	18%	90	20%	337	18%
121% to 150%	307	22%	129	29%	436	24%
151% to 180%	165	12%	46	11%	211	12%
Greater than 181%	22	2%	22	5%	44	2%
Subtotal	**741**	**54%**	**287**	**65%**	**1,028**	**56%**
Total	**1,384**	**100%**	**444**	**100%**	**1,828**	**100%**

The tables above illustrate the indexed loan to value ratios for total forborne mortgages which showed positive movements during 2014. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the total mortgages with active forbearance measures in place €1.2 billion or 56% are in positive equity (31 December 2013: €0.8 billion or 44%) while €0.9 billion or 44% are in negative equity at 31 December 2014 (31 December 2013: €1.0 billion or 56%). 60% of forborne Owner occupied mortgages (31 December 2013: 46%) and 48% of forborne Buy to let mortgages (31 December 2013: 35%) are in positive equity at 31 December 2014.

Asset quality (continued)

Loan to value profiles – forborne loans – defaulted loans

Table 7b

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgage loan book - defaulted loans						
Less than 50%	29	8%	5	2%	34	6%
51% to 70%	42	12%	7	4%	49	9%
71% to 80%	27	8%	11	5%	38	7%
81% to 90%	27	7%	28	14%	55	10%
91% to 100%	39	11%	24	12%	63	11%
Subtotal	**164**	**46%**	**75**	**37%**	**239**	**43%**
101% to 120%	80	22%	50	25%	130	23%
121% to 150%	88	25%	65	32%	153	27%
151% to 180%	20	6%	5	2%	25	5%
Greater than 181%	5	1%	8	4%	13	2%
Subtotal	**193**	**54%**	**128**	**63%**	**321**	**57%**
Total	**357**	**100%**	**203**	**100%**	**560**	**100%**

31 December 2013

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgage loan book - defaulted loans						
Less than 50%	30	7%	3	2%	33	6%
51% to 70%	36	9%	5	4%	41	7%
71% to 80%	25	6%	5	3%	30	5%
81% to 90%	26	6%	10	7%	36	6%
91% to 100%	32	7%	12	9%	44	8%
Subtotal	**149**	**35%**	**35**	**25%**	**184**	**32%**
101% to 120%	76	18%	28	19%	104	18%
121% to 150%	110	26%	49	34%	159	28%
151% to 180%	79	18%	20	15%	99	18%
Greater than 181%	14	3%	9	7%	23	4%
Subtotal	**279**	**65%**	**106**	**75%**	**385**	**68%**
Total	**428**	**100%**	**141**	**100%**	**569**	**100%**

The tables above illustrate the indexed loan to value ratios for defaulted forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the defaulted mortgages with active forbearance measures in place, €0.2 billion or 43% are in positive equity (31 December 2013: €0.2 billion or 32%), while €0.3 billion or 57% are in negative equity at 31 December 2014 (31 December 2013: €0.4 billion or 68%). For the active forbearance measures defaulted category, 46% of Owner occupied mortgages (31 December 2013: 35%) and 37% of Buy to let mortgages (31 December 2013: 25%) are in positive equity at 31 December 2014.