

Asset Covered Securities (ACS)

April 2021



Bank of Ireland Group FY 2020 Business Highlights

- Fully loaded CET1 capital ratio 13.4%, regulatory CET1 capital ratio 14.9%
- Return to profitability in H2 2020
- Irish mortgage market share increased 2% to 25.5% in 2020
- 6th straight reporting period of reductions; costs reduced by further 4% vs. 2019
- Achieved 2021 cost target of c.€1.7bn one year early; new cost target of €1.5bn by 2023
- Impairment charge of €1.1bn; c.60% relates to performing loans
- NPE ratio increased from 4.4% in 2019 to 5.7%; stable in H2
- Payment break outcomes more positive than expected; 94% concluded and only c.4% have migrated into 'new' arrears status¹

¹ Balances now categorised as arrears that were not previously in arrears prior to payment breaks; as at 12 February 2021

Challenging Macroeconomic Environment

GDP growth
2020: 3.4%
2021f: 5.0%
2022f: 5.8%

Employment growth
2020: (15.1%)
2021f: 3.6%
2022f: 12.4%

Sources: CSO, Forecasts: Bank of Ireland

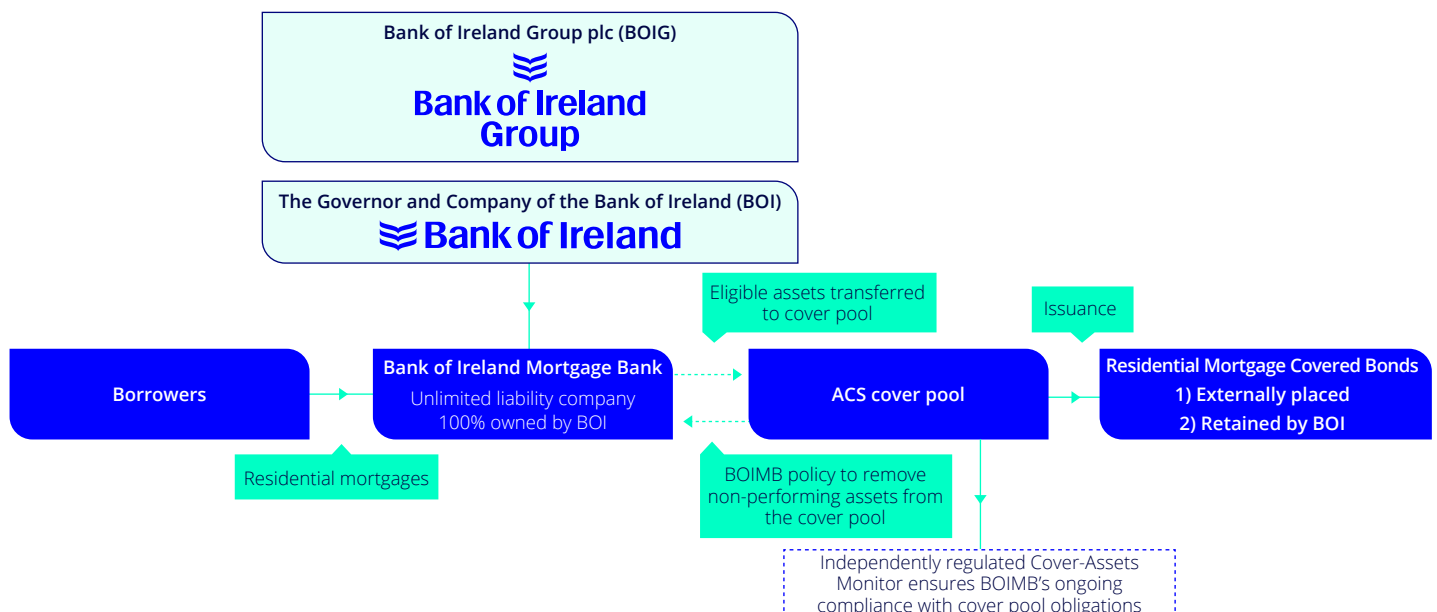


Key Features: Bank of Ireland Mortgage Bank ACS

1. 100% Irish residential mortgages
2. Cover pool marked to market at intervals not exceeding 3 months using Central Statistics Office (CSO) Residential Property Price Index
3. Strong overcollateralisation (OC) - min contractual OC of 5% and min legislative OC of 3% (both on a prudent market value basis)
4. BOIMB policy to remove non-performing assets (payment due \geq 3 months) from the pool on a quarterly basis
5. Compliance with cover pool obligations monitored by independently regulated Cover Assets Monitor
6. Pre-defined process in event of insolvency

Bank of Ireland Mortgage Bank (BOIMB)

- Irish ACS legislation follows the specialist banking principle by requiring BOIMB to obtain a banking licence and to limit the scope of its banking activities
- BOIMB is regulated by the Central Bank of Ireland
- BOIMB is registered as a designated mortgage credit institution to issue Asset Covered Securities (Irish Covered Bonds) in accordance with the Irish ACS Acts



Cover Pool Summary

ACS definitions

Total indexed property valuation:

Indexed property valuation based on CSO Residential Property Price Index (quarterly)

Weighted average indexed LTV (Loan to Value):

An average of the individual indexed LTV calculations weighted by the current balance of each property. The indexed LTV of a property is the current balance of a mortgage divided by the historical property valuation indexed up to date with a 15% discount applied to any uplift in valuation

Non-performing assets (NPAs)

A mortgage account in arrears of 3 months or more. BOIMB policy to remove NPAs on a quarterly basis

Prudent market value of mortgages:

Nominal value of the mortgage capped at 75% of the indexed property valuation

Qualified substitution assets:

Deposits with eligible financial institution (BOI) capped at 15% of bonds in issue

Prudent market value of cover pool:

Prudent market value of mortgages plus qualified substitution assets

Legislative overcollateralisation:

Prudent market value of mortgages plus qualified substitution assets divided by bonds in issue

For further detail see:

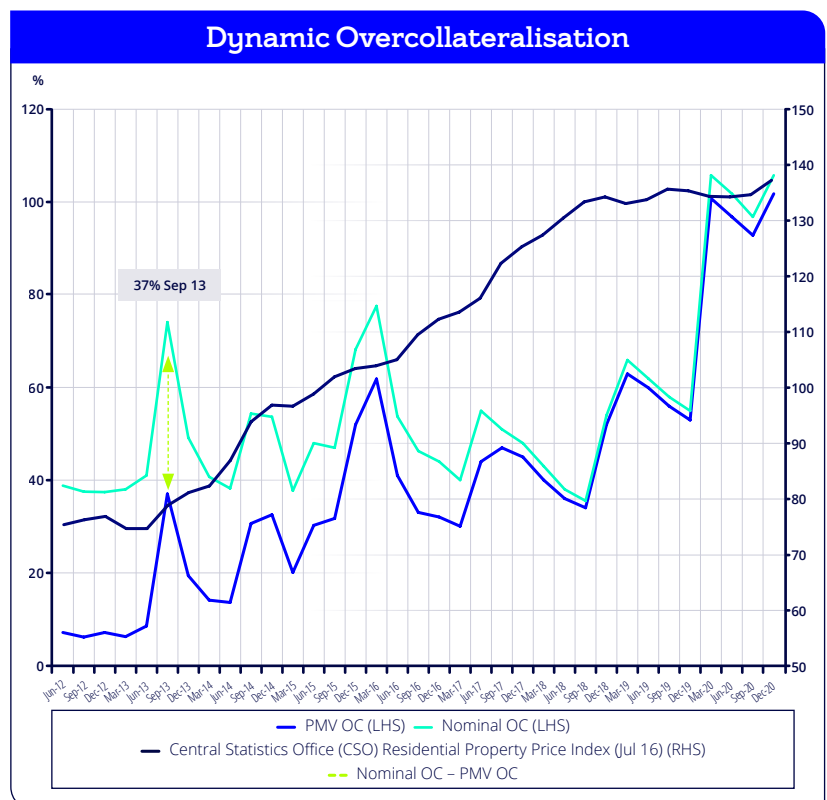
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- Mortgage accounts in arrears of 3 months or more removed voluntarily each quarter
- Marked to market cover pool

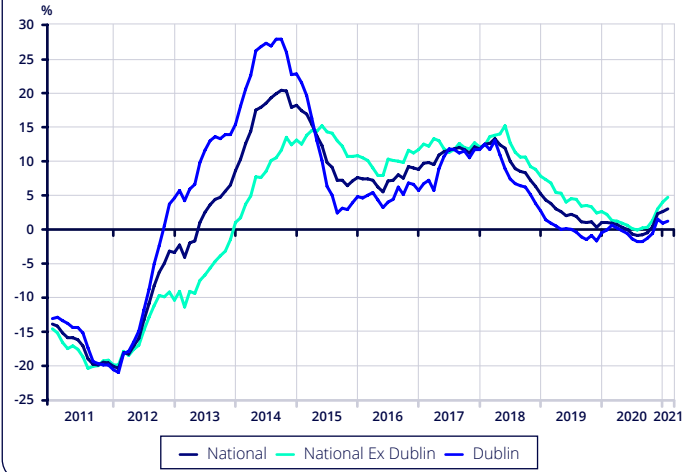
Table 1 Cover Pool Summary	Mar-20	Jun-20	Sep-20	Dec-20
Total indexed property valuation (bn)	€29.8	€29.0	€28.7	€28.2
Aggregate balances of the mortgages (bn)	€12.7	€12.4	€12.1	€11.7
Weighted average indexed LTV	58%	58%	58%	57%
% of mortgage accounts in arrears (≥ 3 months)	0.08%	0.02%	0.00%	0.02%
Table 2 Bond Summary				
Value of bonds in issue (bn)	€6.6	€6.6	€6.6	€6.1
Nominal overcollateralisation	106%	102%	97%	106%
Prudent market value of mortgages (bn)	€12.4	€12.1	€11.8	€11.5
Qualified substitution assets (bn)	€1.0	€1.0	€1.0	€0.9
Prudent market value of cover pool (bn)	€13.4	€13.1	€12.8	€12.4
Legislative overcollateralisation	101%	97%	93%	102%

*Data sourced from BOIMB HTT & Mortgage Pool data

- ACS cover pool is marked to market at intervals not exceeding 3 months using CSO Residential Property Price Index
- Legislative overcollateralisation (contractual minimum of 5%) is calculated on a prudent market value basis (i.e. nominal value of mortgage capped at 75% of the indexed property valuation)
- Graph illustrates the dynamic nature of legislative overcollateralisation. As property prices reduce, the difference between legislative and nominal overcollateralisation increases and vice versa
- As a result, at all times the value of the underlying assets in the cover pool (adjusted for changes in house prices) materially exceeds the point-in-time liabilities in the pool
- Therefore, at time of purchase, an investor in ACS always has significant protection against house price falls

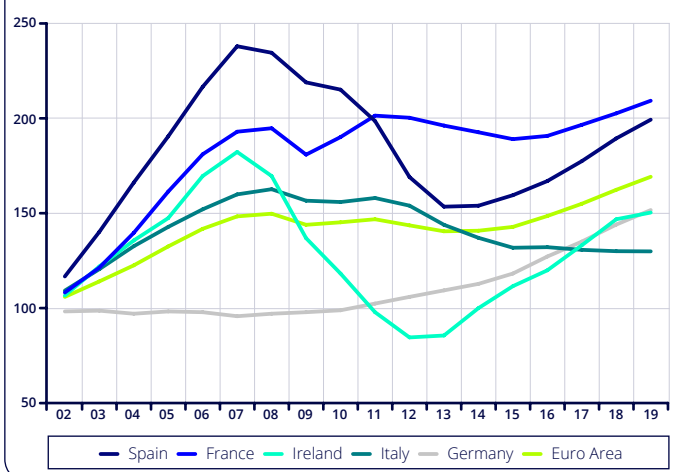


Residential property prices



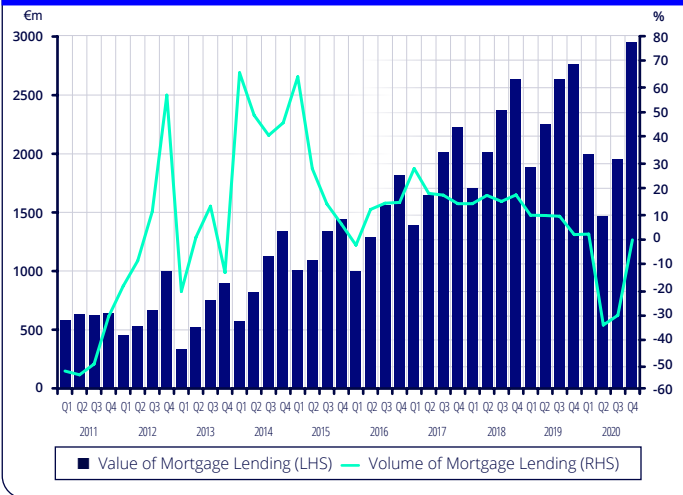
Graph shows: y-o-y change in residential property prices
Source: CSO

Ireland's house prices versus other European countries



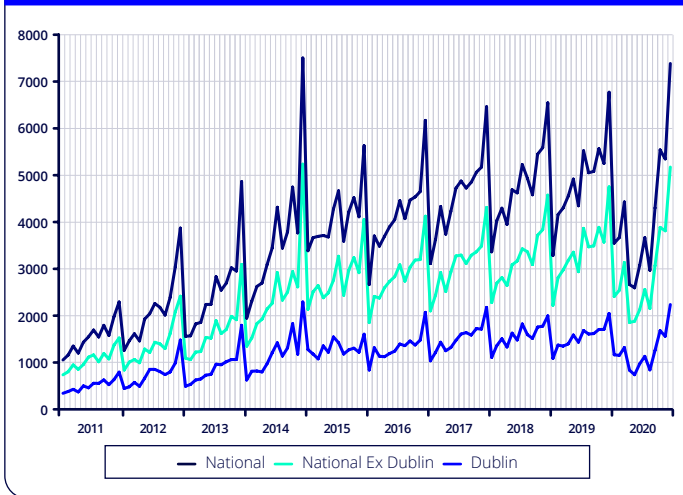
Graph shows: Change in nominal house prices in selected countries (index)
Source: OECD Economic Outlook Database, December 2020

Mortgage lending



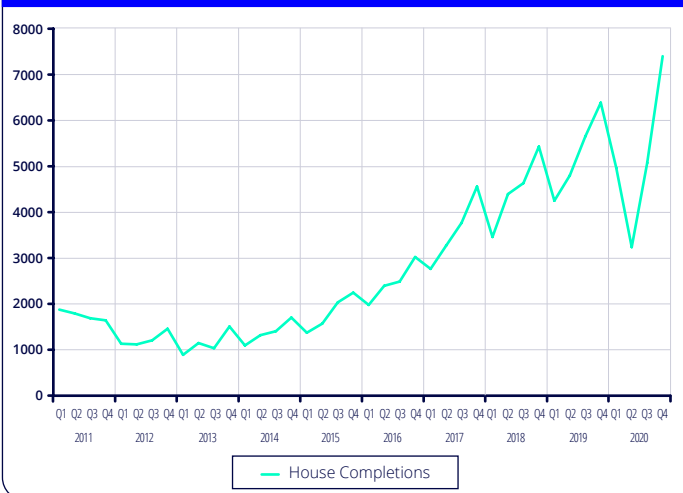
Graph shows: Value of mortgage lending per quarter in millions and annual change in volume of mortgages
Source: Banking & Payments Federation Ireland

Housing market activity



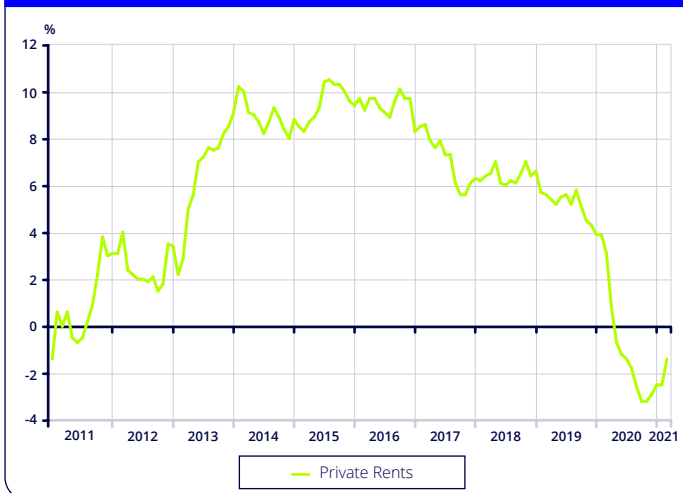
Graph shows: Number of transactions per month
Source: Property Services Regulatory Authority

House completions



Graph shows: New dwelling completions by quarter
Sources: CSO

Private rents



Graph shows: y-o-y change in private rents
Source: CSO

Irish ACS Legislation

The issuance of Irish Covered Bonds is governed by the Asset Covered Securities Acts 2001 and 2007.

Investors benefit from:

1. Robust collateral restrictions

- Strict Loan to Value (LTV) limit of 75% on individual loans
- Indexed LTV levels for loans in the cover pool can exceed 75% threshold; however the balance of the loan above the 75%, while remaining in the cover pool, is disregarded for legislative or contractual overcollateralisation calculation purposes

2. Strong overcollateralisation (OC)

- Minimum contractual OC of 5% and minimum legislative OC of 3% (both on a prudent market value basis)
- Cover Assets Monitor (CAM) is responsible for monitoring the level of contractual and legislative OC

3. Robust external monitoring

- CAM is responsible for monitoring the cover pool, the ACS issuer's compliance with specific provisions of the ACS Acts and reporting breaches to the Central Bank of Ireland
- Central Bank of Ireland has approved the appointment of CAM

4. Strict asset & liability management requirements

- Duration matching:
The weighted average term to maturity of the cover pool assets cannot be less than that of the ACS cover pool liabilities
- Interest matching:
The amount of interest receivable on the cover pool assets over a 12 month period must not be less than the amount of interest payable on the ACS cover pool liabilities over the same period taking account of any derivatives
- Currency matching:
No currency risk permitted in the cover pool. Derivatives utilised to mitigate any currency risk created

- Interest rate risk control:

The net present value changes on the balance sheet of an ACS issuer arising from i) 100bps upward shift, ii) 100bps downward shift and iii) 100bps twist, in the yield curve, must not exceed 10% of the ACS issuer's total own funds at any time

5. Clarity in event of bankruptcy

- National Treasury Management Agency (NTMA) pre-defined manager of cover pool as a last resort
- NTMA to source or alternatively act as manager of cover pool post insolvency
- Upon appointment the manager will assume control of all the cover assets of the ACS issuer and its ACS business. The manager must manage the ACS business of the ACS issuer in the commercial interests of the ACS holders and the ACS hedge counterparties

6. Preferential claims

- ACS holders are preferred creditors in relation to the cover assets (ranking after the CAM and the NTMA (or other manager) and equally with the ACS hedge counterparties)
- Cover assets included in a cover pool do not form part of the assets of the ACS issuer for the purposes of insolvency until such time as the creditors benefiting from the insolvency protection under the ACS Acts have been satisfied
- If the claims of the ACS holders (and other parties benefiting from insolvency protection including the ACS hedge counterparties) are not fully satisfied from the proceeds of the disposal of the cover assets, such parties are, with respect to the unsatisfied part of their claims, to be regarded as unsecured creditors of the ACS issuer in the insolvency process

Non-legislative features

1. Extension maturity feature (where applicable):

- If the ACS issuer fails to redeem a bond at par on the maturity date, the maturity of the principal amount outstanding of the bond will automatically be extended on a monthly basis for up to one year
- This extension can only occur if there are insufficient funds in the pool to repay maturities as they fall due
- Unlike RMBS, this is not an option that BOIMB can "choose" to exercise. Secondary spreads of ACS will have no direct impact on extension feature being exercised

- This feature is a rating agency requirement to mitigate any potential liquidity risk that may arise as bonds are due to mature
- In the event of liquidity problems, this feature avoids the immediate sale of assets and gives the ACS issuer time to source alternative funding

2. Non-performing assets:

- As a matter of policy, BOIMB removes non-performing assets (payment due \geq 3 months) from the pool on a quarterly basis

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