BANK OF IRELAND MORTGAGE BANK ANNUAL REPORT 31 December 2016

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DIRECTORS AND OTHER INFORMATION

Directors at 23 February 2017

Harry Lorton
John O'Beirne
Stephen Mason
Danny Buckley
Sean Crowe
Liam McLoughlin
Geraldine Kelly
Richard Milliken

Registered Office and number

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New Century House
Mayor Street Lower
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Dublin 1
Registered Number 386415

Cover-Assets Monitor

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Harcourt Centre
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Harcourt Road
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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
Bank of Ireland
40 Mespil Road
Dublin 4

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the "Bank") for the financial year ended 31 December 2016.

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 performance of the Bank has been positive this year and among the highlights were:

- an increase in pre-impairment operating profit of 24% to €205 million;
- profit after tax of €265 million (31 December 2015: €173 million) contributing to an excess in capital of €0.8 billion over regulatory requirements (31 December €0.5 billion);
- strong take up of fixed interest rate mortgages both by existing and new customers;
- growth in the Irish new mortgage market of more than 16% to €5.7 billion[1], with the Bank accounting for 25% of new mortgages;
- a reduction in non-performing loans of 27% to €1.6 billion, a reduction in non-performing forborne loans of 24% to €0.6 billion and in tracker mortgages of 9% to €8.8 billion; and
- the Bank's Asset Covered Securities ("ACS") rating was upgraded by Dominion Bond Rating Service, Inc. ("DBRS") from AA (low) to AA (high).

The Irish economy continued to grow in 2016. Unemployment has continued to decline from its peak of 15.2% at January 2012 to 7.2% at the end of 2016 with c.35,500 jobs (net) being created this year. Activity in the property market continues to increase with transactions up 8% year on year. The value of residential property has also continued to recover during 2016, increasing by an average of 8.6%. However, while there continues to be strong demand for property in Ireland, new mortgage lending is tempered by supply constraints in the housing market, particularly in urban areas. To address the shortage of new homes, the Minister of Finance announced the introduction of the Help to Buy Scheme during the year with the expectation that supply would increase to meet demand. The scheme provides an income tax rebate incentive to assist first time buyers of new homes to fund the deposit under Central Bank of Ireland ("CBI") macro prudential rules.

In November 2016, the CBI carried out a review of the regulations introduced in 2015 for macro prudential limits on new mortgage lending. The review introduced a number of refinements to the measures that place restrictions on the loan to value ("LTV") and loan to income ("LTI") ratios that apply to all regulated firms lending for house purchases in the Republic of Ireland. The new amendments, which include separate LTV allowances for first time buyers and second and subsequent buyers, came into effect on 1 January 2017.

The Bank issued a total of €2.0 billion ACS to Bank of Ireland during 2016 with terms ranging from 5 to 9 years and all priced at 50 basis points over mid swaps. The Bank's ACS were rated by Moody's Investor Services as Aa1 and the ratings by DBRS were upgraded in September 2016 from AA (low) to AA (high).

Asset Quality:

Loans and advances to customers (before impairment provisions) amounted to €19.2 billion at 31 December 2016 (31 December 2015: €19.5 billion).

There has been a further reduction this year of 27% in non-performing loans to €1.6 billion at 31 December 2016 (31 December 2015: €2.2 billion). Impairment provisions decreased to €0.7 billion at 31 December 2016 from €0.9 billion at 31 December 2015. Total provisions as a percentage of non-performing loans amount to 43% (31 December 2015: 41%).

The Bank's strong progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties has contributed to a significant reduction in the stock of non-performing loans and lower impairment charges in 2016. Application of a twelve month probation period continues to apply for 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.

Owner occupied non-performing loans were €0.9 billion at 31 December 2016, a reduction of 25% since 31 December 2015. This reduction is reflective of the improvement in economic conditions during the year and the ongoing progress being made by the Bank in effecting its mortgage arrears resolution strategies. The level of Owner occupied arrears (past due greater than 90 days) for the Bank remains at less than half the level of the rest of the industry as published on a quarterly basis by CBI[2] (latest industry statistics are as at 30 September 2016). At 31 December 2016, 96% of the Owner occupied mortgage book was on a 'full principal and interest' repayment basis (31 December 2015: 96%).

[1] 31 December 2016 BPFI new mortgage lending data
[2] Industry source: CBI Mortgage Arrears Statistics Report – adjusted to exclude the Bank

REVIEW OF BUSINESS (continued)

Asset Quality (continued)

Buy to let non-performing loans were €0.7 billion at 31 December 2016, a reduction of 30% since 31 December 2015. This reduction reflects the continued progress made by the Bank in the ongoing restructuring of customer mortgages on a sustainable basis and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas. The level of Buy to let arrears (past due greater than 90 days) for the Bank has reduced to less than half of the level of the rest of the industry as published on a quarterly basis by the CBI (latest industry statistics are as at 30 September 2016). At 31 December 2016, 80% of the Buy to let mortgage book was on a 'full principal and interest' repayment basis (31 December 2015: 78%).

Capital

During the year, the Bank revised the calculation of risk weighted assets ("RWA") under the Internal Ratings Based ("IRB") approach on its non-defaulted mortgage portfolio. While this resulted in an increase of approximately €1.5 billion in RWA[1], the overall amount of capital required by the Bank to meet minimum requirements under the Capital Requirement Directive ("CRD IV") remained unchanged at €0.6 billion, largely because of a reduction in the Basel 1 floor[2] requirement during the year.

Current year profits generated organic capital growth of 4.1% in 2016. This profit, offset by the revised calculation of RWA, contributed to an increase in the total capital ratio to 21.8% at 31 December 2016 (31 December 2015: 21.6%).

The common equity tier 1 ("CET 1") ratio on a transitional basis was 19.0% (31 December 2015: 18.3%) and on a fully loaded basis was 18.8% (31 December 2015: 17.3%). The leverage ratio at 31 December 2016 is 5.7% on a CRD IV transitional basis (31 December 2015: 4.4%); 5.6% on a fully loaded basis (31 December 2015: 4.1%). The Bank expects to remain above the Basel committee indicated minimum level leverage ratio of 3%. There were no changes to share capital or subordinated loans during the year to 31 December 2016.

Principal Risks and Uncertainties

The principal risks that the Bank is exposed to are Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Regulatory Risk, Conduct Risk, Business / Strategic Risk, Reputation Risk, Information Technology Risk, Payment Risk, Sourcing Risk, Capital Adequacy Risk and Pension Risk.

The financial risk management objectives and policies of the Bank, including the policy for hedging, and the exposure of the Bank to these key risks is set out in note 20 Risk Management and Control.

The UK's decision to exit the European Union, on as yet unidentified terms, represents a risk to the Irish economy. We will continue to monitor developments and assess their impact on our risk profile and potential growth trajectory.

The implementation of a new reporting standard, International Financial Reporting Standard 9 – Financial Instruments ("IFRS 9"), effective from 1 January 2018, is a key priority for the Bank. IFRS 9 introduces a forward-looking 'expected credit loss' model which may lead to higher impairment provisions and more volatile impairment charges with a consequent potential impact on capital ratios.

A Bank of Ireland Group ("the Group") IFRS 9 programme, supported by external advisors, was established in 2015 to implement the standard. The Group continues to assess the impact of implementing IFRS 9. Given the complexity of the standard and the implementation activity yet to be completed the Bank cannot reliably estimate, at this point, the quantitative impact on classification and measurement, impairment provisions and capital on initial application and thereafter.

Results

The profit before tax for the year ended 31 December 2016 amounted to €303 million, as set out in the income statement on page 12, compared to €200 million for the year ended 31 December 2015.

Net Interest Income ("NII") increased to €256 million for the year ended 31 December 2016, from €215 million in 2015. The improvement in NII is primarily driven by lower funding costs which have decreased by €54 million year on year reflecting the Bank's improved funding position. This has resulted in an increase in the net interest margin to 1.23% (31 December 2015: 1.06%).

Fee and commission income amounted to €1 million for the year ended 31 December 2016 in line with the prior year.

Operating expenses decreased to €51 million for the year ended 31 December 2016 from €60 million for the year ended 31 December 2015 driven primarily by reduced administrative expenses associated with the management of mortgage arrears.

The impairment reversal of €98 million for the year ended 31 December 2016 (year ended 31 December 2015: €35 million) reflects improved economic conditions, the continued improvement in the credit quality of our loan book and our actions to manage non-performing loans. 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 36.

[1] The RWA position at 31 December 2016 amounts to €6.4 billion (31 December 2015: €5.2 billion).
[2] Under CRD IV, BOIMB is required to maintain a transitional floor set at 80% of Basel 1 requirements. The transitional floor requirement was €44 million at 31 December 2016 (31 December 2015: €143 million).

REVIEW OF BUSINESS (continued)

Results (continued)

The Bank enters into derivative transactions only for the hedging of interest rates. Net trading income includes fair value movements on both derivatives and debt securities in a fair value hedge relationship and interest flows and fair value movements on derivatives which do not qualify for hedge accounting. For the year ended 31 December 2016, there was a net trading loss of €1.0 million compared to a gain of €9.5 million for the year ended 31 December 2015. The income in 2015 included interest flows on a derivative which no longer qualified for hedge accounting and which matured in 2015.

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 the Group. The Bank also has the ability to access secured funding through the tendering operations of the European Central Bank ("ECB").

Covered bonds are a key element of the Bank's long term funding strategy. During the year ended 31 December 2016, the Bank issued €2.0 billion in asset covered securities and there were €1.4 billion of maturities.

The Bank obtains a rating for the covered bonds from Moody's Investor Services and DBRS:

	31 December 2016	31 December 2015
Rating Agency		
Moody's Investor Services	Aa1	Aa1
DBRS	AA(high)	AA(low)

At 31 December 2016, the Bank had a €18.5 billion customer loan portfolio (net of impairment provisions) funded through debt securities in issue: €8.0 billion (43%); capital and subordinated debt: €1.4 billion (8%) and net Group borrowings: €9.1 billion (49%). Of the €8.0 billion debt securities in issue, €2.2 billion is held by Bank of Ireland. The remaining €5.8 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 14 to the accounts.

At 31 December 2016, the Bank had €140 million of subordinated loan borrowings from its parent company (31 December 2015: €140 million).

Accounting records

The measures taken by the Directors to secure compliance with the Bank's obligation to keep adequate accounting records are the use of appropriate systems, the implementation of robust controls and procedures and the employment of competent persons with relevant experience. The accounting records are kept at the Bank's registered office.

Disclosure of information to Auditors

The Directors in office at the date of this report have confirmed that, as far as they are aware:

- there is no relevant audit information of which the Bank's auditor is unaware; and
- they have taken all the steps that ought to be taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Dividends

No dividends were paid during the year ended 31 December 2016 (year ended 31 December 2015: €nil). The Directors do not recommend the payment of a dividend.

Audit Committee

The Bank's Audit Committee, which comprises a majority of independent non-executive Directors, assists the Board of Directors (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.

Directors and Secretary

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2016 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

Harry Lorton	Independent Non-Executive Chairman	
John O'Beirne	Managing Director	Appointed 11 October 2016
Stephen Mason	Executive Director	
Danny Buckley	Executive Director	
Sean Crowe	Group Non-Executive Director	
Liam McLoughlin	Group Non-Executive Director	
Geraldine Kelly	Independent Non-Executive Director	Appointed 18 July 2016
Richard Milliken	Independent Non-Executive Director	
John Clifford	Non-Executive Chairman	Resigned 25 July 2016
Gavin Kelly	Managing Director	Resigned 11 October 2016
Paul Flynn	Group Non-Executive Director	Resigned 22 March 2016
Brian McConnell	Independent Non-Executive Director	Resigned 25 July 2016

Directors' and Secretary's interests

The Directors and Secretary had no interests in the shares of the Bank or any other Group company that are required by the Companies Act 2014 to be recorded in the register of interests or disclosed in the Report of the Directors.

Political donations

Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2016 (31 December 2015: €nil).

Corporate governance

The Corporate Governance Statement on page 9 forms part of the Report of the Directors.

Going concern

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. See the accounting policy for further information.

Events since the end of the financial year

There have been no events requiring disclosure since the financial year end.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Harry Lorton **Director**	**John O'Beirne** **Managing Director**	**Danny Buckley** **Director**	**Hill Wilson Secretarial Limited**

23 February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Irish law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the Bank's assets, liabilities and financial position at the end of the financial year and of the profit or loss of the Bank for the financial year. Under that law the Directors have prepared the financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council, including Financial Reporting Standard 101 Reduced Disclosure Framework and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

Under Irish law, the Directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Bank's assets, liabilities and financial position at the end of the financial year and the profit or loss of the Bank for the financial year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Bank;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Bank to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The Directors 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 have satisfied, the above requirements in preparing the financial statements.

On behalf of the board

Harry Lorton	**John O'Beirne**	**Danny Buckley**
Director	**Managing Director**	**Director**

23 February 2017

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 Requirements for Credit Institutions 2015 with effect from 11 January 2016 (the 'Code'). The Bank is also subject to the additional requirements of Appendix 1 of the Code for High Impact Designated Institutions, and Credit Institutions. Previously the Bank was subject to the requirements of the Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013.

At the end of December 2015, the application for approval of the appointment of a Chief Risk Officer was under review with the Central Bank. The appointment of a Chief Risk Officer of the Bank was confirmed on 9 June 2016. The Bank established a Remuneration Committee and a Nominations and Governance Committee on 17 February 2016 having sought a derogation from the Central Bank which was received on 18 November 2016. The Directors believe that, subject to the above, the Bank complied with the provisions of the Code throughout 2016. (The Code is available at www.centralbank.ie).

Financial reporting process

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; and
- 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 and inputs to 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.

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 TO THE MEMBERS OF BANK OF IRELAND MORTGAGE BANK

Report on the financial statements

Our opinion

In our opinion, Bank of Ireland Mortgage Bank's financial statements (the "financial statements"):

- give a true and fair view of the Bank's assets, liabilities and financial position as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

What we have audited

The financial statements, included within the annual report, comprise:

- the balance sheet as at 31 December 2016;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the period then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information; and
- the information described as an integral part of the audited financial statements as set out in the Basis of Preparation in note 1.

The financial reporting framework that has been applied in the preparation of the financial statements 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), including FRS 101 "Reduced Disclosure Framework"

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Bank were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' Report is consistent with the financial statements.
- In our opinion, based on the work undertaken in the course of our audit of the financial statements, the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2)(c) of the Companies Act 2014.
- Based on our knowledge and understanding of the company and its environment, obtained in the course of our audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement.

Matter on which we are required to report by exception

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors Responsibilities as set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give 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 391 of the Companies Act 2014 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company'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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Ronan Doyle
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
23 February 2017

INCOME STATEMENT for the year ended 31 December 2016

	Notes	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Interest income	2	510	524
Interest expense	3	(254)	(309)
Net interest income		256	215
Fee and commission income		1	1
Total operating income		257	216
Operating expenses	4	(51)	(60)
Net trading (expense) / income	6	(1)	9
Total operating profit before impairment reversal		205	165
Impairment reversal	10	98	35
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		303	200
Taxation charge	7	(38)	(27)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		265	173

The notes on pages 16 to 54 form an integral part of the financial statements.

BANK OF IRELAND MORTGAGE BANK

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2016

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Profit for the financial year	265	173
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent years:		
Cash flow hedge reserve:		
change in fair value	(14)	(44)
income tax on reclassified items	1	6
Other comprehensive income for the year, net of tax	(13)	(38)
Total comprehensive income	252	135

BANK OF IRELAND MORTGAGE BANK

BALANCE SHEET as at 31 December 2016

	Note	31 December 2016 €m	31 December 2015 €m
ASSETS			
Loans and advances to banks	8	2,129	2,197
Loans and advances to customers	9	18,524	18,668
Derivative financial instruments	12	103	125
Deferred tax asset	11	16	53
Other assets		1	-
Total Assets		20,773	21,043
LIABILITIES			
Deposits from banks	13	11,363	12,411
Debt securities in issue	14	7,959	7,404
Derivative financial instruments	12	23	30
Other liabilities	15	12	53
Provisions	22	19	-
Subordinated liabilities	16	140	140
Total Liabilities		19,516	20,038
SHAREHOLDERS' EQUITY			
Called up share capital presented as equity	17	738	738
Share premium	17	661	661
Reserves		(142)	(394)
		1,257	1,005
Total Equity and Liabilities		20,773	21,043

The notes on pages 16 to 54 form an integral part of the financial statements.

Harry Lorton	**John O'Beirne**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Director	**Managing Director**	**Director**	

23 February 2017

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2016

	Share Capital €m	Share Premium €m	Retained Earnings €m	Cash Flow Hedge Reserve €m	Total Shareholders' Equity €m	Total Equity €m
As at 1 January 2015	738	661	(615)	86	870	870
Comprehensive income						
Profit for the year	-	-	173	-	173	173
Other comprehensive income	-	-		(38)	(38)	(38)
Total comprehensive income	-	-	173	(38)	135	135
As at 31 December 2015	738	661	(442)	48	1,005	1,005
Comprehensive income						
Profit for the year	-	-	265	-	265	265
Other comprehensive income	-	-	-	(13)	(13)	(13)
Total comprehensive income	-	-	265	(13)	252	252
As at 31 December 2016	738	661	(177)	35	1,257	1,257

The notes on pages 16 to 54 form an integral part of the financial statements.

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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 comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the notes to the financial statements on pages 16 to 54. The financial statements also include the tables in the Supplementary Asset Quality Disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 56.

The financial statements of the Bank have been prepared under the historical cost convention, modified to include the fair valuation of certain financial instruments, in accordance with the Companies Act 2014, the Asset covered Securities Acts 2001 to 2007 (the "ACS Acts") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle), issued in July 2014 and effective immediately, have been applied.

In preparing these financial statements, the Bank applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2014 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Bank's immediate and ultimate holding undertaking, the Governor and Company of the Bank of Ireland, includes the Bank in its consolidated financial statements. The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Bank of Ireland Head Office, Mespil Road, Dublin 4.

In these financial statements, the Bank has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the effects of new but not yet effective IFRS; and
- disclosures in respect of the compensation of key management personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The financial statements have been prepared in euro and are rounded to the nearest million except where otherwise indicated.

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 2016 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 availability of collateral to access the Eurosystem along with ongoing developments in the Eurozone. In addition, the Directors are satisfied that the Bank, through the existence of the Liquidity Management Agreement with its parent company, has sufficient liquidity to meet obligations as they fall due through the period of assessment.

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 income statement 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 (for example, repayment options) 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 profit or loss 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 as the related services are 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 income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred tax on items taken into other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement 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 income statement.

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.

1 ACCOUNTING POLICIES (continued)

1.6 Financial assets (continued)

(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.

Derecognition
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 income statement using the effective interest method.

A liability 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 derivative(s) that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

Derecognition
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.

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 income statement. 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.

1 ACCOUNTING POLICIES (continued)

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

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 the cost of 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 income statement. 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 income statement.

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 loan in a group of loans 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 income statement. 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 income statement. 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.

1.9 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.

1 ACCOUNTING POLICIES (continued)

1.9 Valuation of financial instruments (continued)

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. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. 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 fair values of the Bank's financial assets and liabilities are disclosed within note 21 together with a description of the valuation techniques used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

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 income statement 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.

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.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the 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 other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in reserves are reclassified to the income statement 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 other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement 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 other comprehensive income is immediately reclassified to the income statement.

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 income statement 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

Bank of Ireland Group operates various pension schemes, certain of which employees of the Bank are members: ICS Building Society Pension Plan (the “ICS PP”) and Bank of Ireland Group Pensions Fund (the “BIGPF”). The ICS PP is a Defined Benefit Scheme. A defined benefit scheme is a pension plan that defines the amount of the pension to be provided, usually a function of one or more factors such as age, years of service or compensation. The BIGPF is a hybrid scheme which includes elements of both defined benefit and defined contribution arrangements. Under IAS 19 the BIGPF is accounted for as a defined benefit scheme.

The schemes are operated for eligible employees of Bank of Ireland and certain of its subsidiaries, including the Bank, which are entities under common control. While the Schemes are recognised as defined benefit schemes, the Principal Employer recognises the net defined benefit cost of the plan as a whole and the Bank recognises a cost equal to its contributions payable for the year.

1.13 Accrued interest

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

1.14 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet where there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.15 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 income statement when the hedged transactions impact the Bank’s profit or loss.

1.16 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.

1.17 New accounting pronouncements

The following amendments to standards have been adopted by the Bank during the year ended 31 December 2016:

- IAS 1 - Disclosure Initiative
- Annual Improvements 2012 – 2014

None of the above amendments or interpretations have had a significant impact on the Bank.

1 ACCOUNTING POLICIES (continued)

1.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.19 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 from historical loss experience.

At 31 December 2016, the mortgage portfolio before impairment provisions amounted to €19.2 billion (31 December 2015: €19.5 billion), against which were held provisions for impairment of €0.7 billion (31 December 2015: €0.9 billion). A key assumption used in the calculation of the impairment charge for mortgages is the value of the underlying properties securing the loans (i.e. the "assumed value" for collective provisioning purposes). As set out on pages 36 to 37 at 31 December 2016, 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 discounted (i.e. adjusted downwards) by 10% for both Dublin and Non-Dublin properties. The discounted index value was then further adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The 'forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the discounted indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Bank's most recent property sales experience. The disposal costs assumptions reflect the estimated costs associated with selling the underlying residential properties.

In addition to containing judgements in relation to the assumed value of properties, collective impairment charges also contain key assumptions relating to 'time to sale', 'loss emergence periods' and 'weighted average cure rates' and 'weighted average repayment rates'. The assumptions relating to the assumed value of underlying properties securing the loans, together with all other key collective impairment provisioning model factors, continue to be reviewed as part of the Bank's year-end and half year financial reporting cycle.

The collective impairment charges on the mortgage portfolio can be sensitive to movements in any one of these assumptions, or a combination thereof. The sensitivities and estimated impacts set out below are based on movements in each of these individual assumptions in isolation.

- A 1% decrease in the discounted index values would give rise to estimated additional collective impairment provisions of c.€5 million to €6 million;
- A 1% increase in the 'forced sale discount' assumptions would give rise to estimated additional collective impairment provisions of c.€3 million to €4 million;
- A 1% increase in the 'disposal costs' assumption would give rise to estimated additional collective impairment provisions of c.€3 million to €4 million;
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would give rise to estimated additional collective impairment provisions of c.€2 million to €3 million;
- An increase of one month in the assumed 'loss emergence period' (i.e. the period of time between the occurrence and reporting of a loss event) would give rise to estimated additional collective impairment provisions of c.€1 million;

1 ACCOUNTING POLICIES (continued)

1.19 Critical accounting estimates and judgements (continued)

a) Impairment charges on financial assets (continued)

- A 1% increase in the 'weighted average cure rate' assumption (which refers 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) would give rise to estimated reduced collective impairment provisions of c.€1 million; and
- A 1% increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would give rise to estimated reduced collective impairment provisions of c.€3 million to €4 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 35 to 37 of Note 20.

b) 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. It is estimated that a one year move in the expected life would have an impact of c.€19 million in the income statement. There has been no change to the average life assumption in 2016.

2 INTEREST INCOME

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Loans and advances to banks	14	11
Loans and advances to customers	496	513
	510	524
Of which receivable from Bank of Ireland	41	40

Included within interest income recognised on loans and advances to customers for the year ended 31 December 2016 is:

- €20.0 million (year ended 31 December 2015: €21.5 million) of interest arising on impaired loans and advances to customers on which a specific impairment provision has been recognised at year end. €11.7 million of this amount (year ended 31 December 2015: €11.6 million) relates to loans on which specific provisions have been individually assessed and €8.3 million (year ended 31 December 2015: €9.9 million) relates to loans on which specific provisions have been collectively assessed;
- €11.7 million (year ended 31 December 2015: €16.2 million) of interest arising on loans and advances to customers classified as non-performing but on which a specific provision has not been recognised; and
- €41.6 million (year ended 31 December 2015: €37.7 million) of interest recognised on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2016, interest arising on total forborne loans and advances to customers were €53.2 million (31 December 2015: €52.4million).

2 INTEREST INCOME (continued)

Interest income received on loans and advances to customers for the year ended 31 December 2016 includes:

- €11.3 million (31 December 2015: €16.4 million) of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €10.6 million (year ended 31 December 2015: €14.8 million) of interest income received arising on loans and advances to customers classified as non-performing but on which a specific provision has not been recognised; and
- €41.3 million (year ended 31 December 2015: €37.5 million) of interest income received arising on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2016, interest income received on total forborne loans and advances to customers was €55.0 million (31 December 2015: €55.2 million).

3 INTEREST EXPENSE

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Debt securities in issue	99	143
Other interest payable	143	153
Interest on subordinated liabilities	12	13
	254	309
Of which payable to Bank of Ireland	155	161

4 OPERATING EXPENSES

	For the year ended 31 December 2016 €'000	For the year ended 31 December 2015 €'000
Staff costs:		
- wages and salaries	491	420
- social security costs	52	45
- pension costs	109	133
	652	598
Other operating expenses	50,304	59,973
Total operating expenses	50,956	60,571

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 Group. There were no other compensation costs paid to staff during the year (31 December 2015: €nil). No staff costs were capitalised during the year ended 31 December 2016 (31 December 2015: €nil).

Employee information

For the year ended 31 December 2016, the average number of employees was 6 (year ended 31 December 2015: 6 employees).

5 AUDITORS' REMUNERATION

	For the year ended 31 December 2016 €'000	For the year ended 31 December 2015 €'000
Auditors' remuneration including expenses (excluding VAT)		
Audit of entity financial statements	49	55
Other assurance services	20	80
Taxation services	-	-
Other non-audit services	-	-
Total	69	135

6 NET TRADING (EXPENSE) / INCOME

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Interest rate contracts	(1)	9
	(1)	9
Fair value hedges		
Fair value loss on derivative contracts in fair value hedge relationships	-	(21)
Fair value gain on liabilities in fair value hedge relationships	-	21
	-	-
	(1)	9

For the year ended 31 December 2016, there was a net trading loss of €1 million compared to a gain of €9 million for the year ended 31 December 2015. The decrease in trading income was largely due to interest flows on a matured derivative which no longer qualified for hedge accounting in the prior year.

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.

7 TAXATION

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Current Tax		
Adjustments in respect of prior year	-	-
	-	-
Deferred Tax		
Trading losses	38	26
Adjustments in respect of prior year	-	1
	38	27
Taxation charge	38	27

The reconciliation of tax on the profit before tax at the standard Irish corporation tax rate to the Bank's actual tax charge for the year ended 31 December 2016 and 31 December 2015 is as follows:

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Profit on ordinary activities before tax	303	200
Profit @12.5%	38	25
Effects of:		
Transfer pricing adjustment	-	1
Adjustments in respect of prior year	-	1
Taxation charge	38	27

8 LOANS AND ADVANCES TO BANKS

	31 December 2016 €m	31 December 2015 €m
Funds placed with Bank of Ireland	2,129	2,197
Total loans and advances to banks	2,129	2,197
Loans and advances to banks by remaining maturity		
Repayable on demand	34	66
3 months or less	1,517	1,555
1 year or less but over 3 months	21	30
5 years or less but over 1 year	168	116
Over 5 years	389	430
	2,129	2,197

9 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016 €m	31 December 2015 €m
Loan and advances to customers	19,178	19,535
Accrued interest receivable	15	16
Less impairment provisions (note 10)	(669)	(883)
Total loan and advances to customers	18,524	18,668
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	275	289
1 year or less but over 3 months	723	715
5 years or less but over 1 year	3,732	3,765
Over 5 years	14,463	14,782
Less impairment provisions (note 10)	(669)	(883)
	18,524	18,668

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

10 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	31 December 2016 €m	31 December 2015 €m
Opening balance	883	1,076
Reversal in income statement	(98)	(35)
Provisions utilised	(124)	(161)
Other movements	8	3
Closing balance	669	883

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.

11 DEFERRED TAX ASSET

	31 December 2016 €m	31 December 2015 €m
Opening balance	53	74
Cash flow hedge	1	6
Charge to income statement	(38)	(27)
Closing balance	16	53

The deferred tax asset of €16 million (31 December 2015: €53 million) includes an amount of €21.3 million (31 December 2015: €60 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 probable 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.

12 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 the fair value is positive and as liabilities when the fair value is negative.

Derivatives held for trading are derivatives entered into with economic hedging intent but which do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 20.

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

31 December 2016	**Contract/ notional amount €m**	**Fair Values Assets €m**	**Fair Values Liabilities €m**
Derivatives held for trading			
Interest rate swaps	22,699	15	(15)
Derivatives designated as fair value hedges			
Interest rate swaps	96	23	-
Derivatives designated as cash flow hedges			
Interest rate swaps	5,248	65	(8)
Total derivative assets / (liabilities)		103	(23)

31 December 2015	**Contract/ notional amount €m**	**Fair Values Assets €m**	**Fair Values Liabilities €m**
Derivatives held for trading			
Interest rate swaps	24,960	18	(16)
Derivatives designated as fair value hedges			
Interest rate swaps	96	23	-
Derivatives designated as cash flow hedges			
Interest rate swaps	5,330	84	(14)
Total derivative assets / (liabilities)		125	(30)

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses.

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The derivative assets of €103 million (31 December 2015: €125 million) are available in full for offset against derivative liabilities under master netting arrangements. However, these transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

At 31 December 2016, cash collateral of €334 million was held (31 December 2015: €383 million) and is reported within deposits from banks (note 13).

There are no placements with other banks in respect of the net derivative liability position of €23 million (31 December 2015: €30 million).

The Bank designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

Fair value hedges
Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Bank's debt issued portfolios.

Cash flow hedges
The Bank designates certain interest rate and derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets. Movements in the cash flow hedge reserve are shown in other comprehensive income.

The years in which the hedged cash flows are expected to occur are shown in the table below:

	Up to 1 year € m	1 to 2 years € m	2 to 5 years € m	Over 5 years € m	Total € m
31 December 2016					
Forecast receivable cash flows	-	3	17	14	34
Forecast payable cash flows	-	-	-	-	-
31 December 2015					
Forecast receivable cash flows	3	3	8	33	47
Forecast payable cash flows	-	-	-	-	-

The hedged cash flows are expected to impact the income statement in the following years:

	Up to 1 year € m	1 to 2 years € m	2 to 5 years € m	Over 5 years € m	Total € m
31 December 2016					
Forecast receivable cash flows	-	3	17	14	34
Forecast payable cash flows	-	-	-	-	-
31 December 2015					
Forecast receivable cash flows	3	3	8	33	47
Forecast payable cash flows	-	-	-	-	-

13 DEPOSITS FROM BANKS

	31 December 2016 €m	31 December 2015 €m
Deposits from banks	11,363	12,411
Deposits by remaining maturity		
3 months or less	6,985	9,172
1 year or less but over 3 months	1,086	845
5 years or less but over 1 year	3,168	2,252
Greater than 5 years	124	142
Due to Bank of Ireland	11,363	12,411

14 DEBT SECURITIES IN ISSUE

	31 December 2016 €m	31 December 2015 €m
Debt securities in issue	7,959	7,404
Bonds and medium term notes by remaining maturity		
3 months or less	35	690
1 year or less but over 3 months	980	772
5 years or less but over 1 year	3,996	3,744
Greater than 5 years	2,948	2,198
	7,959	7,404
Of which is due to Bank of Ireland	2,195	1,546

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 Global Exchange Market of the Irish Stock Exchange Limited. ACS is 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 2 June 2016. In accordance with the ACS Acts the required disclosures are set out in note 14(a) – 14(h) below.

During the year ended 31 December 2016 the Bank issued €2.0 billion of securities and €1.4 billion of debt securities matured (year ended 31 December 2015: €2.7 billion and €4.3 billion respectively). Debt securities of €82 million were repurchased during the year (year ended 31 December 2015: €nil). This brought the total nominal value of asset covered securities in issue at 31 December 2016 to €7.9 billion (31 December 2015: €7.4 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 ("CBI") under which the Bank may issue mortgage backed € promissory notes to the CBI. An amendment agreement dated 15 May 2014 was entered into between the CBI 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.

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 CBI, 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.

The Bank has the option to participate in Targeted Longer-Term Refinancing Operations ("TLTRO") with the ECB since 2014. The Bank raised no TLTRO funding during the year ended 31 December 2016 (31 December 2015: €nil).

The Bank continues to participate in the ECB short term Main Re-financing Operation ("MRO"). The Bank had no MRO funds at any time during the year ended 31 December 2016 (31 December 2015: €nil).

The Bank entered into a separate framework agreement on 5 July 2004 with the CBI under which the Bank may also issue short term mortgage backed € promissory notes to the CBI. 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 CBI, the Bank shall:

14 DEBT SECURITIES IN ISSUE (continued)

Mortgage Backed € Promissory Notes (continued)

(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 2016 and 31 December 2015, the Bank has not utilised this short term facility.

14(a) Mortgage accounts and principal outstanding in the cover assets pool

Range		31 December 2016		31 December 2015	
From €'000	To €'000	Number of Accounts	Total Balances of Accounts €m	Number of Accounts	Total Balances of Accounts €m
-	100	44,127	1,888	46,456	1,982
100	200	27,170	3,953	28,734	4,193
200	500	13,621	3,678	15,684	4,260
Over 500		851	646	1,003	768
		85,769	10,165	91,877	11,203

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 74,393 properties in the Pool at 31 December 2016 (31 December 2015: 79,343). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2016 and 31 December 2015 respectively.

14(b) Geographic location of mortgage properties in the cover assets pool

	31 December 2016		31 December 2015	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	22%	78%	22%	78%
Number of accounts	18,982	66,787	20,393	71,484
Number of properties	16,724	57,669	17,796	61,547

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2016 and 31 December 2015 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 2016 and 31 December 2015.

14(c) Mortgage accounts in default in the cover assets pool at year end

	31 December 2016	31 December 2015
Number of accounts in default	36	10
	€m	€m
Cumulative current balance on above accounts	6	2
of which arrears represent	-	-

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

14 DEBT SECURITIES IN ISSUE (continued)

14(d) Mortgage accounts in default in the cover assets pool with arrears of more than €1,000

	For the year ended 31 December 2016	For the year ended 31 December 2015
Number of accounts in the Pool during the year which were three months or more in arrears with an arrears balance greater than €1,000	372	344

	31 December 2016	31 December 2015
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	28	22

14(e) Replacement of non-performing assets in the cover assets 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 three months or more’. During the year ended 31 December 2016, 388 accounts were non-performing (31 December 2015: 453 accounts) and were replaced with other mortgage credit assets.

14(f) Amount of interest in arrears on mortgage accounts in the cover assets pool not written off

The total amount in arrears (including principal and interest) in respect of mortgage credit assets that are in arrears for three months or more that had not been written off at 31 December 2016 was €108,899 (2015: €52,397). €33,060 of this represented non-payment of interest (2015: €17,501).

14(g) Total mortgage principal and interest repayments on mortgage accounts in the cover assets pool

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Interest paid in respect of mortgage credit assets	247	281
Capital repaid in respect of mortgage credit assets	1,015	1,007

14(h) Number and amount of mortgage loans in the cover assets pool secured on commercial property

At 31 December 2016 there were no loan accounts in the Pool that were secured on commercial property (31 December 2015: nil).

15 OTHER LIABILITIES

	31 December 2016 €m	31 December 2015 €m
Amounts due to Bank of Ireland	11	43
Other liabilities	1	10
	12	53

Amounts owed to Group undertakings are unsecured, interest free and are repayable on demand. Tax and social insurance are payable at various dates over the coming months in accordance with the applicable statutory provisions.

16 SUBORDINATED LIABILITIES

On 23 December 2011, the Bank availed of a €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. The loan may be redeemed at the option of the Bank on the fifth anniversary and each subsequent anniversary of the issuance by giving prior notice to its parent and subject to prior approval by the Competent Authority.

16 SUBORDINATED LIABILITIES (continued)

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. The loan may be redeemed in whole but not in part at the option of the parent on the fifth anniversary and each subsequent anniversary of the issuance by giving prior notice to the Bank. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event) or (ii) Tax reasons. Any redemption before the maturity date is subject to such approval by the Competent Authority as may be required by the Capital Requirements Regulation ("CRR") and / or such other laws and regulations which are applicable to the Issuer.

At 31 December 2016, total subordinated loans and accrued interest was €140.3 million (31 December 2015: €140.4 million).

17 SHARE CAPITAL AND PREMIUM

	31 December 2016 '000 Units	31 December 2015 '000 Units
Authorised		
Units of €1 of Ordinary Shares	1,000,000	1,000,000

	31 December 2016 €m	31 December 2015 €m
Allotted, called up and fully paid – presented as equity		
Units of €1 of Ordinary Shares	738	738
Share premium		
Balance at the beginning of the year	661	661
Premium in issue of ordinary shares	-	-
Balance at the end of the year	661	661

There was no share capital issued during the years ended 31 December 2016 or 31 December 2015.

18 SEGMENTAL INFORMATION

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

19 PENSION COSTS

The employees of the Bank are members of two pension schemes: ICS Building Society Pension Plan (the "ICS PP") and Bank of Ireland Group Pensions Fund (the "BIGPF").

The Bank is a participating employer in the ICS PP in respect of one employee (year ended 31 December 2015: 1 employee). The remaining employees 5 are members of the BIGPF (year ended 31 December 2015: 6 employees). The ICS PP is a defined benefit scheme based on final pensionable pay and the BIGPF scheme is a hybrid scheme, commonly known as a cash balance scheme. The schemes are operated for eligible employees of Bank of Ireland (the "Principal Employer") and the Bank which are entities under common control.

The Principal Employer met the employer's contributions due for the Bank in 2016 and 2015 (see note 4 for details of amounts recharged). At 31 December 2016, the Bank had no outstanding amounts payable to the scheme (31 December 2015: €nil).

20 RISK MANAGEMENT AND CONTROL

Risk management

The Board approves policies and limits with respect to credit risk, market risk, liquidity risk, operational risk, regulatory risk, conduct risk, business / strategic risk, capital adequacy risk, pension risk and reputation 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 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 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 framework of risk management, financial and operational controls is designed to safeguard the Bank's assets.

20 RISK MANAGEMENT AND CONTROL (continued)

Credit risk

Credit risk is the risk of loss resulting from a counterparty being unable 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 (the "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 and Group Risk Policy Committee ("GRPC").

Credit risk management

The Bank has an established credit risk governance framework by which it executes its 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, the 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 the Group, including the Bank. Its reviews incorporate an examination of adherence to credit policies and procedures within the portfolio.

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 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 IFRS (IAS 39) 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.

20 RISK MANAGEMENT AND CONTROL (continued)

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. Equity / negative equity values are determined using the Residential Property Price Index published by the CSO for the year ended 31 December 2016. The weighted average indexed LTV for the total loan book was 70% at 31 December 2016 (31 December 2015[1]: 79%).

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.

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 2016, 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 income statement.

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

The Bank's impairment provisioning methodologies are compliant with IAS 39 which 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.

[1] Restated to reflect revised Residential Property Price Index methodology, as published by the CSO.

20 RISK MANAGEMENT AND CONTROL (continued)

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 38.

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 classification. 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.

The Bank's mortgage customers with exposures less than €1 million may be 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 classification. 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 (including updated residential property sales data).

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 2016: 10% discount to indexed value[1] for both Dublin and Non-Dublin properties); forced sale discount (31 December 2016: c.10% to c.38%); workout costs (31 December 2016: c.7%); weighted average cure rate (31 December 2016: c.22.27% over three years, with cure assumptions segmented by: forbearance classification and region (for relevant cohorts)); weighted average repayment rate (31 December 2016: 5.50% over three years) and time to sale (31 December 2016: three years 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 CBI Impairment Provisioning and Disclosure Guidelines (May 2013) ("CBI guidelines") which requires satisfactory completion of a twelve month probation period, while being less than 30 days past due.

The Bank's critical accounting estimates and judgements on pages 23 to 24 include 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 38.

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 classification, 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).

[1] Indexed value with reference to end September 2016 Central Statistics Office ("CSO"), Residential Property Price Index ("RPPI") for 'Dublin – all residential properties' and 'National excluding Dublin – all residential properties' (hereafter 'Non-Dublin'). At that date, the Dublin index was 33.5% lower than its peak and the non-Dublin index was 37.5% lower than its peak. The end September CSO index was published on 17 November 2016 and was used in the updating of the Retail Ireland mortgage collective impairment provisioning parameters and assumptions, which were approved internally in December 2016.

20 RISK MANAGEMENT AND CONTROL (continued)

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

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 (including updated residential property sales data). The resulting updates, 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 as appropriate and updated for recent observed experience. At 31 December 2016 the cure assumptions reflect a weighted average cure rate of 43.66% over a three year period. At 31 December 2016 the weighted average repayment rate applied in the default (but not impaired) IBNR model is 10.09% over a three year period.

Emergence period refers to the period of time between the occurrence and reporting of a loss event. For example, at 31 December 2016, emergence periods for mortgages are in the following ranges: forborne 7-17 months and non-forborne 8-11 months.

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 2015. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, as 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 23 to 24 include sensitivity analysis disclosure on some of the key judgemental areas.

Methodology for loan loss provisioning and 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 and 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. Impairment provisioning methodologies and provisioning model factors and assumptions applied to forborne loan pools are reviewed regularly, and revised as 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.4 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.

20 RISK MANAGEMENT AND CONTROL (continued)

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 full 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.

Impairment (reversal) / charge on loans and advances to customers by nature of provision

	For the year ended 31 December 2016 €m	For the year ended 31 December 2015 €m
Specific provisions - individually assessed	(2)	73
Specific provisions - collectively assessed	(70)	(74)
Incurred but not reported	(26)	(34)
	(98)	**(35)**

Impairment provision by nature of impairment provision

	31 December 2016 €m	31 December 2015 €m
Specific provisions - individually assessed	349	449
Specific provisions - collectively assessed	143	231
Incurred but not reported	177	203
	669	**883**

The impairment reversal of €98 million for the period ended 31 December 2016 compares to an impairment reversal of €35 million in the prior year, and reflects positive underlying book performance and cure activity. Mortgage default arrears reduced during 2016 in both the Owner occupied and Buy to let market segments.

Asset quality

Loans and advances to banks (note 8), Loans and advances to customers (note 9) and Derivative financial instruments (note 12) 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 2016 and year ended 31 December 2015, 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 in conjunction with recommendations by Group Risk Policy Committee. There are no amounts past due or impaired at 31 December 2016 (31 December 2015: €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 74 to 76 of the Supplementary asset quality and forbearance disclosures.

20 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Loans and advances to customers (continued)

The Bank classifies forborne and non-forborne loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of IFRS 7.

'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. In addition, 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 'Self-cure' probationary residential mortgages (as defined below) and 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 'Forborne' probationary residential mortgages (as defined below) and to certain temporary mortgage forbearance arrangements that are neither past due nor impaired.

'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.

'Probationary' residential mortgages comprise both 'Self-cure' and 'Forborne' probationary residential mortgages defined as follows:

- 'Self-cure' probationary residential mortgages are non-forborne mortgages which were previously defaulted, did not require forbearance to exit default, and are now, or will be, subject to the successful completion of a 12 month probation period. Upon successful completion of this probation period, these mortgage loans will be reported as performing loans.
- 'Forborne' probationary residential mortgages are mortgages which were previously defaulted, required forbearance to exit default, and are now, or will be, subject to the successful completion of a 12 month probation period. Upon successful completion of this probation period, these mortgage loans will be reported as performing loans. 'Forborne' probationary mortgages also includes those mortgages which were previously defaulted, and are now in a 'full interest' forbearance arrangement, regardless of whether they have successfully completed a 12 month probation period.

'Non-performing' loans are defined as:

- defaulted loans together with probationary residential mortgages.

'Performing' loans comprise loans that are 'neither past due nor impaired' and loans that are up to and including 90 days past due, excluding any 'probationary' residential mortgages.

Loans and advances to customers (before impairment provisions) reduced from €19.5 billion at 31 December 2015 to €19.2 billion at 31 December 2016. For an analysis of the Bank's risk profile of loans and advances to customers past due and / or impaired between 'non-forborne' and 'forborne' see pages 74 to 76 in the supplementary asset quality and forbearance disclosures.

The tables on the following pages summarise the total loans and advances to customers over the categories described and include an aged analysis of loans 'past due but not impaired'. Exposures are before provisions for impairment.

20 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Total loans and advances	**31 December 2016 €m**	**31 December 2015 €m**
High quality	15,683	15,609
Satisfactory quality	1,072	891
Acceptable quality	720	659
Lower quality but neither past due nor impaired	243	314
Neither past due nor impaired	**17,718**	**17,473**
Past due up to 30 days	159	249
Past due 31 - 60 days	61	87
Past due 61- 90 days	33	45
Past due more than 90 days	160	254
Past due[1] but not impaired	**413**	**635**
Impaired	1,047	1,427
Total past due and impaired	**1,460**	**2,062**
Total loans and advances to customers	**19,178**	**19,535**

Loans and advances to customers (before impairment provisions) reduced by €0.3 billion to €19.2 billion at 31 December 2016. Loans 'neither past due nor impaired' increased by €0.2 billion to €17.7 billion at 31 December 2016 from €17.5 billion at 31 December 2015. Loans 'past due and impaired' reduced by €0.6 billion to €1.5 billion at 31 December 2016 reflecting the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies (31 December 2015: €2.1 billion).

Non-performing loans

The tables below provide an analysis of non-performing loans and advances to customers by asset classification.

	31 December 2016 €m	**31 December 2015 €m**
Total loans and advances to customers: non-performing		
Probationary mortgages		
Self-cure	76	118
Forborne	276	356
Total probationary mortgages	352	474
Defaulted		
Past due greater than 90 days but not impaired	160	254
Impaired	1,047	1,427
Total defaulted mortgages	1,207	1,681
Total	**1,559**	**2,155**

Non-performing loans have reduced by €0.6 billion to €1.6 billion at 31 December 2016. Non-performing loans comprise defaulted loans of €1.2 billion (31 December 2015: €1.7 billion) and probationary residential mortgages of €0.4 billion (31 December 2015: €0.5 billion).

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

20 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Composition and impairment

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

	Loan Volumes €m	Non-performing Loans €m	Non-performing Loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of non-performing loans %
31 December 2016					
Total mortgages					
Owner occupied mortgages	15,966	856	5.4%	302	35%
Buy to let mortgages	3,212	703	21.9%	367	52%
Total	**19,178**	**1,559**	**8.1%**	**669**	**43%**
31 December 2015					
Owner occupied mortgages	15,915	1,177	7.4%	390	33%
Buy to let mortgages	3,620	978	27.0%	493	50%
Total	**19,535**	**2,155**	**11.0%**	**883**	**41%**

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

	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of defaulted loans %
31 December 2016					
Total mortgages					
Owner occupied mortgages	15,966	665	4.2%	302	45%
Buy to let mortgages	3,212	542	16.9%	367	68%
Total	**19,178**	**1,207**	**6.3%**	**669**	**55%**
31 December 2015					
Owner occupied mortgages	15,915	888	5.6%	390	44%
Buy to let mortgages	3,620	793	21.9%	493	62%
Total	**19,535**	**1,681**	**8.6%**	**883**	**53%**

Repossessed collateral

At 31 December 2016, the Bank had 82 properties in possession (31 December 2015: 123 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 2016 €m	31 December 2015 €m
Residential mortgages	13	14

20 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

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 2016	31 December 2015
	€m	€m
Loans and advances to banks	2,129	2,197
Loans and advances to customers	18,391	18,552
Derivative financial instruments	103	125
Commitments	1,210	1,200
Total	**21,833**	**22,074**

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 Group Risk Policy Committee.

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 2016	31 December 2015
	€m	€m
Loans and advances to customers		
- Dublin	6,884	6,808
- Rest of Ireland	12,294	12,727
Total	**19,178**	**19,535**

(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 and wholesale funding.

The management of market risk in the Bank is governed by Group policy, approved by the Group's Court of Directors 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 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.

20 RISK MANAGEMENT AND CONTROL (continued)

Market risk (continued)

Loans and Advances to Customers

At 31 December 2016, the Bank had €14.3 billion (31 December 2015: €16.0 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 cash flow hedge accounting. At 31 December 2016, the nominal value of swaps qualifying for hedge accounting is €5.2 billion (31 December 2015: €5.3 billion). Further details are provided in note 12.

At 31 December 2016, the Bank had €4.6 billion (31 December 2015: €3.2 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 2016, the Bank had €0.3 billion (31 December 2015: €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 2016, the Bank had (nominal) €7.9 billion in issued asset covered securities (31 December 2015: €7.4 billion). €5.7 billion of the issued asset covered securities are at fixed rates (31 December 2015: €5.8 billion) and the remaining €2.2 billion have an interest rate that resets based on short-dated EURIBOR (31 December 2015: €1.6 billion).

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 fair value hedge accounting. At 31 December 2016, the nominal value of swaps qualifying for fair value hedge accounting is €0.1 billion (31 December 2015: €.0.1 billion) Further details are provided in note 12.

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.€0.13 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 €1.2 million. At 31 December 2016, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.27 million (31 December 2015: €0.067 million), with an average of €0.31 million for the year ended 31 December 2016 (31 December 2015: €0.264 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 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 borrowings from the Group. 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 Group Treasury.

20 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

The Bank has outsourced the responsibility for the day to day monitoring and management of liquidity risk to Group Treasury. 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.

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. The balances will not agree directly to the balance sheet as the table incorporates all cash flows on an undiscounted basis related to both the principal and interest payments.

31 December 2016						
Liabilities	**Demand**	**Within 3 months**	**After 3 months but within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Deposits from banks	-	6,987	1,092	3,169	132	11,380
Debt securities in issue	-	43	1,015	4,236	3,215	8,509
Subordinated liabilities	-	3	9	141	57	210
Commitments	1,210					1,210
Total liabilities	**1,210**	**7,033**	**2,116**	**7,546**	**3,404**	**21,309**

31 December 2015						
Liabilities	**Demand**	**Within 3 months**	**After 3 months but within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Deposits from banks	-	9,167	872	2,257	152	12,448
Debt securities in issue	-	672	832	4,015	2,411	7,930
Subordinated liabilities	-	3	9	52	163	227
Commitments	1,200	-	-	-	-	1,200
Total liabilities	**1,200**	**9,842**	**1,713**	**6,324**	**2,726**	**21,805**

Deposits from banks represent funding provided by the Group for the purposes of fixed mortgage book funding and residual variable mortgage book funding.

The tables on the next page 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.

20 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

31 December 2016	Within 3 months €m	After 3 months but within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Net cash outflows on derivative financial instruments	1	3	17	3	24

31 December 2015	Within 3 months €m	After 3 months but within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Net cash outflows on derivative financial instruments	2	5	4	20	31

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. There is a Master Service Agreement in place for the services being provided to the Bank by the Group underpinned by Service Level Agreements ("SLAs") with Group service delivery units. Formal management of SLAs facilitates the identification and management of risks ensuring that services are delivered to requirements and agreed standards, as documented in the SLAs, and according to predetermined key performance indicators.

Regulatory risk

Regulatory risk is defined as the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. It includes regulatory compliance risk and regulatory change risk and also the risk to capital, liquidity and profitability from the impact of future legislative and regulatory changes. 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 in the Bank is managed in accordance with Group policy which has been adopted by the Board. 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 and separately to Group Regulatory Compliance and Operational Risk function.

The Bank has no appetite to knowingly breach any of its regulatory obligations. However it is recognised that the business will be exposed to a level of unintentional breaches that may occur in the normal course of business as a result of operational risk events in the provision of financial service.

Changes to laws and regulations present a material risk to the Bank and therefore the policy of the Bank is to implement appropriate control to minimise the risk of regulatory breaches as a result of changes in laws and regulations.

20 RISK MANAGEMENT AND CONTROL (continued)

Conduct Risk

Conduct Risk is defined as the risk that the Bank or its representatives conduct business in an inappropriate or negligent manner that leads to adverse outcomes for the customer or the business.

The Bank seeks to eliminate the risk of systemic unfair outcomes for customers arising from the conduct risk lifecycle which includes product design, sales or after sales processes and culture. However where operational risks are identified in the business processes that may result in potential conduct risks for customers, the Bank will be proactive in escalating and agreeing appropriate actions and communicating clearly with customers to ensure equitable outcomes are achieved.

Business and strategic risk

Business risk is defined as the risk to the Bank (i.e. income, net worth or reputation) which could be associated with:

- a change in the operational economics of the Bank; and / or
- exposure to an event which cause reputational damage to the Bank.

The risk may arise from a change in the competitive environment, new market entrants, new products, or a failure to anticipate or mitigate a related risk. Typically business risk is assessed over a one year time-frame and references the risk to earnings caused by changes in the above factors.

Strategic risk is defined as the risk to the Bank (i.e. income, net worth or reputation) which could be associated with:

- failure to develop a strategy, leaving the Bank exposed to developments that could have been foreseen including adverse macroeconomic or market changes;
- poor execution of a chosen strategy, whatever the cause, including investments not aligned with strategic direction; and / or
- failing to realign a strategy, when one or several of the fundamental underpinning assumptions have changed, making that strategy inappropriate.

Strategic risk generally relates to a longer timeframe than business risk.

Business and strategic risk is impacted by other risks that the Bank faces that may contribute to an adverse change in the Bank's revenues and / or costs if these risks were to crystallise. Examples include funding risk (through volatility in the cost of funding), interest rate risk, operational risk, regulatory and reputation risks.

Business risk is mitigated through business planning methods, such as cost base management and oversight of business plans which are informed by expectations of the external environment and the Bank's strategic priorities. The tracking of actual and regularly forecasted volumes and margins against budgeted levels is a key financial management process in the mitigation of business risk.

Strategic risk is mitigated through updates to the Board on industry developments, regular updates on the key macroeconomic environment impacting the Bank's activities, a review of the competitive environment and strategies at a divisional and business unit level.

Reputation risk

Reputation risk is defined as the risk to earnings or franchise value arising from adverse perception of the Bank's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators or regulators. This risk typically materialises through a loss of business in the areas affected. Reputation is not a standalone risk but overlaps with other risk areas and may often arise as a consequence of external events or operational risk related issues.

Reputation risk in the Bank is managed in accordance with Group policy which has been adopted by the Board.

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 Single Supervisory Mechanism ("SSM") 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 SSM.

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

20 RISK MANAGEMENT AND CONTROL (continued)

Capital management (continued)

The following table sets out the Bank's capital resources.

	31 December 2016	31 December 2015
	€m	€m
Total shareholders' equity	1,257	1,005
Dated subordinated debt	140	140
	1,397	1,145

21 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is defined as 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. Where possible, the Bank calculates fair value using observable market prices. Where market prices are not available fair values are determined 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 fair values of financial instruments are measured according to the following fair value hierarchy:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- 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.

Transfers between different levels are assessed at the end of all reporting periods.

The table below analyses the carrying amounts of the financial assets and liabilities by accounting treatment and by balance sheet heading. The table also shows the fair values of the Bank's financial assets and liabilities and their classification within the fair valuation hierarchy.

31 December 2016		Carrying amount in balance sheet					Fair Value hierarchy			
		At fair value through profit and loss		At fair value						
		Held for Trading	Fair value hedge derivative	Cash flow hedge derivative	Held at amortised cost	Total	Level 1	Level 2	Level 3	Total
		€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets not measured at fair value										
Loans and advances to banks	(1)	-	-	-	2,129	2,129	-	2,234	-	2,234
Loans and advances to customers	(2)	-	-	-	18,524	18,524	-	-	16,732	16,732
Financial assets measured at fair value										
Derivatives financial instruments	(5)	15	23	65	-	103	-	103	-	103
		15	**23**	**65**	**20,653**	**20,756**	**-**	**2,337**	**16,732**	**19,069**
Financial liabilities not measured at fair value										
Deposits by banks	(3)	-	-	-	11,363	11,363	-	11,398	-	11,398
Debt securities in issue	(4)	-	-	-	7,959	7,959	5,494		2,642	8,136
Subordinated Liabilities	(4)	-	-	-	140	140	-	140	-	140
Financial liabilities measured at fair value										
Derivative financial instruments	(5)	15	-	8	-	23	-	23	-	23
		15	**-**	**8**	**19,462**	**19,485**	**5,494**	**11,561**	**2,642**	**19,697**

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

31 December 2015		Carrying amount in balance sheet					Fair Value hierarchy			
		At fair value through profit and loss		At fair value						
		Held for Trading	Fair value hedge derivative	Cash flow hedge derivative	Held at amortised cost	Total	Level 1	Level 2	Level 3	Total
		€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets not measured at fair value										
Loans and advances to banks	(1)	-	-	-	2,197	2,197	-	2,273	-	2,273
Loans and advances to customers	(2)	-	-	-	18,668	18,668	-	-	16,494	16,494
Financial assets measured at fair value										
Derivatives financial instruments	(5)	18	23	84	-	125	-	125	-	125
		18	**23**	**84**	**20,865**	**20,990**	**-**	**2,398**	**16,494**	**18,892**
Financial liabilities not measured at fair value										
Deposits by banks	(3)	-	-	-	12,411	12,411	-	12,457	-	12,457
Debt securities in issue	(4)	-	-	-	7,404	7,404	5,539	-	2,007	7,546
Subordinated Liabilities	(4)	-	-	-	140	140	-	151	-	151
Financial liabilities measured at fair value										
Derivative financial instruments	(5)	16	-	14	-	30	-	30	-	30
		16	**-**	**14**	**19,955**	**19,985**	**5,539**	**12,638**	**2,007**	**20,184**

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

There were no transfers between the fair value hierarchy levels during the year end 31 December 2016 or the year ended 31 December 2015.

(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 by 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
Derivatives are carried at their fair value at the balance sheet date. The fair value is based on the discounted future cash flows of these contracts.

22 PROVISIONS

	31 December 2016	31 December 2015
	€m	€m
Opening balance	-	-
Charge to income statement	19	-
Closing Balance	19	-

In December 2015, the Central Bank of Ireland notified the Group of an industry-wide examination of tracker mortgages. The examination has required the Bank of Ireland Group ("the Group"), which includes Bank of Ireland Mortgage Bank ("the Bank"), to identify any tracker mortgages requiring redress and compensation where contractual rights and obligations were not honoured.

Arising from the examination, the Bank has identified a number of accounts where a right to, or the option of, a tracker rate of interest was not provided to the customer in accordance with their loan agreement. Furthermore, while conducting the review, the Bank has also identified a small rate differential on a number of accounts currently on a tracker rate which is not specified in the account loan documentation.

Prior to this current industry wide review, in 2010, under the direction of the Central Bank, the Group carried out a review of tracker rate mortgage switches which resulted in circa 2,100 accounts being remediated of which some were specific to the Bank.

At 31 December 2016, the Bank has provided €19 million in respect of redress, compensation and costs associated with the review. As the examination progresses through 2017, the Bank will continue to refund customers who were overcharged interest and, as part of the wider Group exercise, establish a redress and compensation scheme to compensate customers for detriment arising as a result of being on a higher rate of interest.

23 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 IAS 24 as it is in a position to exercise significant influence over the Group.

- **Ordinary Stock**

At 31 December 2016 the State held, through the Ireland Strategic Investment Fund ("ISIF"), 13.95% of the ordinary stock of Bank of Ireland (31 December 2015: 13.95%).

- **Guarantee Schemes**

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

(b) Transactions with Directors and Key Management Personnel

The following information is presented in accordance with the Companies Act 2014.

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 are provided within this note. The Bank has availed of the exemption under FRS 101 not to disclose KMP remuneration.

23 RELATED PARTY TRANSACTIONS (continued)

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

(i) Loans to Directors - Companies Act Disclosures

Directors at 31 December 2016	Balance as at 1 January 2016 [1] €'000	Balance as at 31 December 2016 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2016 €'000	Repayments [3] during the year ended 31 December 2016 €'000
Mortgages total				
D Buckley	-	569	591	28
S Mason	1,208	1,155	1,207	61
L McLoughlin	331	326	330	18
J O'Beirne	1,349	1,321	1,348	64
Directors no longer in office at 31 December 2016				
P Flynn	374	314	374	64

[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] Repayments include principal and interest.

J Clifford, S Crowe, Mr G Kelly, Ms G Kelly, B McConnell, R Milliken and H Lorton had no loans with the Bank during the year ended 31 December 2016. Advances totalling €590,000 were made to D Buckley during the year.

Directors at 31 December 2015	Balance as at 1 January 2015 [1] €'000	Balance as at 31 December 2015 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2015 €'000	Repayments [3] during the year ended 31 December 2015 €'000
Mortgages total				
P Flynn	432	374	432	64
S Mason	1,259	1,208	1,259	62
L McLoughlin	13	331	346	28
J O'Beirne[4]	544	1,349	1,369	52

[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] Repayments include principal and interest.
[4] Appointed as Managing Director on 11 October 2016; inserted to reflect preceding financial year position.

J Clifford, D Buckley, S Crowe, G Kelly, B McConnell, R Milliken and H Lorton had no loans with the Bank during the year ended 31 December 2015. Advances totalling €333,000 were made to L McLoughlin during the year.

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.

The value of arrangements at the beginning and end of each financial year as stated in the tables above, in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Bank at the beginning and end of the financial year is less than 1%.

23 RELATED PARTY TRANSACTIONS (continued)

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

(ii) Loans to Directors of parent company - Companies Act Disclosures

Directors at 31 December 2016	**Balance as at [1] 1 January 2016 €'000**	**Balance as at [1] 31 December 2016 €'000**	**Aggregate maximum amount outstanding during the year ended [2] 31 December 2016 €'000**	**Repayments [3] during the year ended 31 December 2016 €'000**
Mortgages Total				
Directors of parent company at 31 December 2016				
R Boucher	49	16	49	33
P Kennedy	2,823	2,823	2,823	17
F Muldoon	188	165	187	29

[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] *Repayments include principal and interest.*

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, D Marston, B Martin and P Mulvihill had no loans with the Bank during the year ended 31 December 2016. No advances were made during the year to any directors of the parent company.

Directors at 31 December 2015	**Balance as at [1] 1 January 2015 €'000**	**Balance as at [1] 31 December 2015 €'000**	**Aggregate maximum amount outstanding during the year ended [2] 31 December 2015 €'000**	**Repayments [3] during the year ended 31 December 2015 €'000**
Mortgages Total				
Directors of parent company at 31 December 2015				
R Boucher	81	49	81	33
P Kennedy	2,823	2,823	2,823	18
F Muldoon	195	188	195	15

[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] *Repayments include principal and interest.*

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, D Marston, B Martin, P Mulvihill and P O'Sullivan had no loans with the Bank during the year ended 31 December 2015. No advances were made during the year to any director of the parent company.

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.

The value of arrangements at the beginning and end of each financial year as stated in the tables above, in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Bank at the beginning and end of the financial year is less than 1%.

23 RELATED PARTY TRANSACTIONS (continued)

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

(iii) Loans to connected persons on favourable terms

2016 Connected persons[3] of the following Director	Balance as at [1] 31 December 2016 €'000	Maximum amount outstanding during the year ended [2] 31 December 2016 €'000	Number of persons as at 31 December 2016	Maximum number of persons during the year ended 31 December 2016
Persons connected to				
Directors no longer in office at 31 December 2016				
P Flynn	12	14	1	1

2015 Connected persons[3] of the following Director	Balance as at [1] 31 December 2015 €'000	Maximum amount outstanding during the year ended [2] 31 December 2015 €'000	Number of persons as at 31 December 2015	Maximum number of persons during the year ended 31 December 2015
Persons connected to				
P Flynn	14	16	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 220 of the Companies Act.

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

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.

Loans relate to mortgages secured on residential property.

(iv) Loans to connected persons[3] - Central Bank of Ireland 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 220 of the Companies Act 2014; 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:

2016 Connected persons[3] of the following Director	Balance as at [1] 31 December 2016 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2016 €'000	Number of persons as at 31 December 2016	Maximum number of persons during the year ended 31 December 2016
Directors no longer in office at 31 December 2016				
J Clifford	243	255	1	1

2015 Connected persons[3] of the following Director	Balance as at [1] 31 December 2015 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2015 €'000	Number of persons as at 31 December 2015	Maximum number of persons during the year ended 31 December 2015
J Clifford	255	267	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 220 of the Companies Act 2014.

23 RELATED PARTY TRANSACTIONS (continued)

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

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

The following information is prepared in accordance with IAS 24: Related party disclosures.

For the purposes of IAS 24: 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", "Chief Risk Officer" and "Director of Customer Products and Propositions"). 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.

Key Management Personnel **2016**	**Balance as at 1 January [1] 2016 €'000**	**Balance as at 31 December [1] 2016 €'000**	**Maximum amounts outstanding during the year ended [2] 31 December 2016 €'000**	**Number of KMP as at 1 January 2016**	**Number of KMP as at 31 December 2016**
Loans [3]	8,711	10,624	11,062	13	17

Key Management Personnel **2015**	**Balance as at 1 January [1] 2015 €'000**	**Balance as at 31 December [1] 2015 €'000**	**Maximum amounts outstanding during the year ended [2] 31 December 2015 €'000**	**Number of KMP as at 1 January 2015**	**Number of KMP as at 31 December 2015**
Loans [3]	7,436	8,711	9,218	13	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 2016 for any member of key management personnel and their close family did not exceed €2.8 million (31 December 2015: €2.8 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 2015 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.

The IAS 24 loan disclosure above includes loans to key management personnel on preferential staff rates amounting to €0.02 million (31 December 2015: €nil).

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.

23 RELATED PARTY TRANSACTIONS (continued)

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

(vi) Directors' remuneration

	For the year ended 31 December 2016 €'000	For the year ended 31 December 2015 €'000
Fees	143	125
Other emoluments	170	174
Other - Pension	22	22
Total remuneration	335	321

No other fees or bonuses were paid to Directors during the year ended 31 December 2016 (year ended 31 December 2015: €nil). There was no stock issue awarded under the Employee Stock Issue Scheme in 2016 (2015: €nil).

24 CONTINGENT LIABILITIES AND COMMITMENTS

The Bank has €1.2 billion of approved mortgage loan applications that had not been drawn down at 31 December 2016. Undrawn mortgage loan applications at 31 December 2015 calculated on the same basis were €1.2 billion.

At 31 December 2016, the Bank is engaged in an industry-wide mortgage review with respect to compliance with certain contractual and regulatory requirements. In accordance with IAS 37.92, the Bank has not provided further information on this issue.

25 EVENTS SINCE THE END OF THE FINANCIAL YEAR

There have been no events requiring disclosure since the financial year end.

26 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 23 February 2017.

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 17. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.

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 2016, lending criteria for the Bank's mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value ("LTV") limits;
- loan to income ("LTI") limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book Composition

Table 1

Mortgage loan book - volumes (before impairment provisions)	**31 December 2016**	**31 December 2015**
	€m	**€m**
Owner occupied mortgages	15,966	15,915
Buy to let mortgages	3,212	3,620
Total	**19,178**	**19,535**

Mortgage loan book - volumes (before impairment provisions) by interest rate type	**31 December 2016**		**31 December 2015**	
	€m	**%**	**€m**	**%**
Tracker	8,755	46%	9,664	49%
Variable Rate	5,568	29%	6,391	33%
Fixed Rate	4,855	25%	3,480	18%
Total	**19,178**	**100%**	**19,535**	**100%**

Total mortgages were €19.2 billion at 31 December 2016 compared to €19.5 billion at 31 December 2015, a decrease of €0.3 billion or 2%. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments and resolution activity. Tracker mortgages have reduced by €0.9 billion (9%) in 2016 and are now 46% of the mortgage book. Fixed rate mortgages have increased significantly in 2016, by €1.4 billion or 40%, due to strong take up by both existing and new customers.

The proportion of the portfolio on a 'full principal and interest'[1] repayment basis at 31 December 2016 was 94% (31 December 2015: 93%) with the balance of 6% on an 'interest only'[2] repayment basis (31 December 2015: 7%). Of the Owner occupied mortgages of €16.0 billion, 96% were on a 'full principal and interest' repayment basis (31 December 2015: 96%), while 80% of the Buy to let mortgages of €3.2 billion were on a 'full principal and interest' repayment basis (31 December 2015: 78%). It is the Bank's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

The tables on the following page illustrate that at 31 December 2016, €4.4 billion or 23% of the mortgage loan book originated before 2006, €7.3 billion or 38% between 2006 and 2008 and €7.5 billion or 39% in the years since 2008.

Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 39 in the credit risk section of the risk management note.

At 31 December 2016, total non-performing loans were €1.6 billion (31 December 2015: €2.2 billion) or 8.1% of the mortgage loan book, of which €1.0 billion originated between 2006 and 2008. There has been a significant decrease in total non-performing loans in the year ended 31 December 2016 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 2016, impairment provisions were €0.7 billion equating to 43% of non-performing balances on the mortgage book.

[1] 'Full 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 'full 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 2016	Total mortgage loan book		Non-performing loans	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	220	8,954	21	469
2001	203	3,853	12	183
2002	345	5,741	26	264
2003	636	8,249	59	486
2004	1,129	11,513	113	743
2005	1,882	15,353	218	1,140
2006	2,867	19,455	420	1,725
2007	2,601	16,704	395	1,559
2008	1,841	12,405	206	901
2009	997	7,828	59	373
2010	785	5,683	16	97
2011	693	5,052	7	49
2012	662	4,823	2	15
2013	643	4,399	3	18
2014	1,033	6,277	2	9
2015	1,290	7,306	-	1
2016	1,351	7,262	-	-
Total	**19,178**	**150,857**	**1,559**	**8,032**

31 December 2015	Total mortgage loan book		Non-performing loans	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	279	10,466	29	672
2001	235	4,487	17	263
2002	403	6,216	39	389
2003	719	8,816	86	691
2004	1,274	12,230	165	1,051
2005	2,101	16,245	298	1,594
2006	3,143	20,517	562	2,388
2007	2,845	17,371	558	2,200
2008	1,997	12,908	296	1,266
2009	1,092	8,261	74	459
2010	858	6,014	17	112
2011	761	5,357	7	40
2012	721	5,040	3	24
2013	701	4,602	2	11
2014	1,102	6,485	2	8
2015	1,304	7,420	-	2
Total	**19,535**	**152,435**	**2,155**	**11,170**

[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)

Risk Profile

Table 3a

Risk profile of mortgage loan book (before impairment provisions)

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Total loans and advances						
Neither past due nor impaired	15,115	95%	2,603	82%	17,718	93%
1 - 90 days past due but not impaired	186	1%	67	2%	253	1%
Past due greater than 90 days but not impaired	115	1%	45	1%	160	1%
Impaired	550	3%	497	15%	1,047	5%
Total	**15,966**	**100%**	**3,212**	**100%**	**19,178**	**100%**
Non performing loans						
Probationary mortgages						
Self-cure	49	6%	27	4%	76	5%
Forborne	142	16%	134	19%	276	18%
Total probationary mortgages	191	22%	161	23%	352	23%
Defaulted						
Past due greater than 90 days but not impaired	115	13%	45	6%	160	10%
Impaired	550	65%	497	71%	1,047	67%
Total defaulted loans	665	78%	542	77%	1,207	77%
Total	**856**	**100%**	**703**	**100%**	**1,559**	**100%**

31 December 2015

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Total loans and advances						
Neither past due nor impaired	14,747	93%	2,726	75%	17,473	90%
1 - 90 days past due but not impaired	280	2%	101	3%	381	2%
Past due greater than 90 days but not impaired	169	1%	85	2%	254	1%
Impaired	719	4%	708	20%	1,427	7%
Total	**15,915**	**100%**	**3,620**	**100%**	**19,535**	**100%**
Non performing loans						
Probationary mortgages						
Self-cure	75	7%	43	4%	118	5%
Forborne	214	18%	142	15%	356	17%
Total probationary mortgages	289	25%	185	19%	474	22%
Defaulted						
Past due greater than 90 days but not impaired	169	14%	85	9%	254	12%
Impaired	719	61%	708	72%	1,427	66%
Total defaulted loans	888	75%	793	81%	1,681	78%
Total	**1,177**	**100%**	**978**	**100%**	**2,155**	**100%**

The tables above illustrate that €17.7 billion or 93% of the total mortgage loan book at 31 December 2016 was classified as 'neither past due nor impaired' compared to €17.5 billion or 90% at 31 December 2015.

The '1 – 90 days past due but not impaired' category amounted to €0.3 billion or 1% of the total mortgage loan book at 31 December 2016 compared to €0.4 billion or 2% at 31 December 2015.

Book composition (continued)

Risk Profile (continued)

Table 3a (continued)

Risk profile of mortgage loan book (before impairment provisions) (continued)

The 'past due greater than 90 days but not impaired' category amounted to €0.2 billion or 1% of the total mortgage book at 31 December 2016 compared to €0.3 billion or 1% at 31 December 2015.

'Impaired' loans reduced by €0.4 billion to €1.0 billion or 5% of the total mortgage book at 31 December 2016 from €1.4 billion or 7% of the total mortgage book at 31 December 2015.

Total non-performing mortgages reduced significantly by €0.6 billion or 27% to €1.6 billion at 31 December 2016. Within this, probationary mortgages were €0.4 billion at 31 December 2016 (31 December 2015: €0.5 billion) and defaulted loans reduced by €0.5 billion or 29% to €1.2 billion at 31 December 2016 (31 December 2015: €1.7 billion), 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 non-performing loans in the year ended 31 December 2016, decreasing by €0.3 billion or 25% to €0.9 billion at 31 December 2016 (31 December 2015: €1.2 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 non-performing Buy to let mortgages by €0.3 billion or 30% to €0.7 billion at 31 December 2016 from €1.0 billion at 31 December 2015. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

The Buy to let mortgage loan portfolio reduced by €0.4 billion or 11% in 2016 and the percentage of the Buy to let portfolio on a 'full principal and interest' repayment basis increased from 78% at 31 December 2015 to 80% at 31 December 2016.

Book composition (continued)

Arrears profile

Table 3b – ***Unaudited***

Mortgage Arrears - Greater than 90 days past due (number of accounts)	**31 December 2016**	**30 June 2016**	**31 December 2015**
Owner occupied mortgages	2.55%	2.96%	3.50%
Industry[1] Owner occupied (number of accounts)	Not available	8.78%	9.30%
Buy to let mortgages	6.70%	7.93%	9.13%
Industry[1] Buy to let (number of accounts)	Not available	17.95%	18.58%

Mortgage Arrears - Greater than 90 days past due (value)	**31 December 2016**	**30 June 2016**	**31 December 2015**
Owner occupied mortgages	3.58%	4.16%	4.85%
Industry[1] Owner occupied (value)	Not available	12.85%	13.45%
Buy to let mortgages	14.39%	16.21%	17.88%
Industry[1] Buy to let (value)	Not available	25.30%	25.70%

The latest information published by the Central Bank of Ireland ("CBI") is for the quarter ended 30 September 2016. This information indicates that the proportion (by number of accounts) of the mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (32% of industry average) and Buy to let (42% of industry average) mortgages. At 30 September 2016, 2.79% and 7.55% of the Bank's Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 8.65%[1] and 17.91%[1] respectively for the industry.

Mortgage Arrears - 720 days past due (number of accounts)	**31 December 2016**	**30 June 2016**	**31 December 2015**
Owner occupied mortgages	1.42%	1.62%	1.80%
Industry[1] Owner occupied (number of accounts)	Not available	5.37%	5.50%
Buy to let mortgages	3.69%	4.38%	4.88%
Industry[1] Buy to let (number of accounts)	Not available	12.31%	12.19%

Mortgage Arrears - 720 days past due (value)	**31 December 2016**	**30 June 2016**	**31 December 2015**
Owner occupied mortgages	2.24%	2.55%	2.79%
Industry[1] Owner occupied (value)	Not available	8.79%	8.84%
Buy to let mortgages	7.96%	8.91%	9.43%
Industry[1] Buy to let (value)	Not available	18.80%	18.30%

The latest information published by the CBI is for the quarter ended 30 September 2016. This information indicates that the proportion (by number of accounts) of the mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (29% of industry average) and Buy to let (33% of industry average) mortgages. At 30 September 2016 1.54% and 4.12% of the Bank's Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than 720 days past due compared to 5.34%[1] and 12.34%[1] respectively for the industry.

[1] *Industry source: CBI Mortgage Arrears Statistics Report – adjusted to exclude the Bank.*

Book composition (continued)

Table 3c

Loan to value profiles – total loans

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	4,137	26%	594	19%	4,731	25%
51% to 70%	4,614	29%	565	18%	5,179	27%
71% to 80%	2,412	15%	305	9%	2,717	14%
81% to 90%	1,743	11%	518	16%	2,261	12%
91% to 100%	1,027	6%	348	11%	1,375	7%
Subtotal	**13,933**	**87%**	**2,330**	**73%**	**16,263**	**85%**
101% to 120%	1,525	10%	475	14%	2,000	10%
121% to 150%	447	3%	250	8%	697	4%
Greater than 150%	61	0%	157	5%	218	1%
Subtotal	**2,033**	**13%**	**882**	**27%**	**2,915**	**15%**
Total	**15,966**	**100%**	**3,212**	**100%**	**19,178**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**67%**		**84%**		**70%**
New mortgages during the year		**69%**		**50%**		**68%**

31 December 2015[2]

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	3,457	22%	497	14%	3,954	20%
51% to 70%	3,855	24%	494	13%	4,349	22%
71% to 80%	2,018	13%	281	8%	2,299	12%
81% to 90%	1,925	12%	532	15%	2,457	13%
91% to 100%	1,146	7%	371	10%	1,517	8%
Subtotal	**12,401**	**78%**	**2,175**	**60%**	**14,576**	**75%**
101% to 120%	1,919	12%	726	20%	2,645	13%
121% to 150%	1,412	9%	496	14%	1,908	10%
Greater than 150%	183	1%	223	6%	406	2%
Subtotal	**3,514**	**22%**	**1,445**	**40%**	**4,959**	**25%**
Total	**15,915**	**100%**	**3,620**	**100%**	**19,535**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**75%**		**93%**		**79%**
New mortgages during the year		**71%**		**49%**		**70%**

The tables above set out the weighted average indexed LTV for the total mortgage loan book which showed positive movements during 2016 and was, on average, 70% at 31 December 2016 (31 December 2015[2]: 79%), 67% for Owner occupied mortgages and 84% for Buy to let mortgages. The weighted average indexed LTV for new mortgages written during 2016 was 68%, being 69% 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 ("RPPI") published by the Central Statistics Office ("CSO"). In September 2016, the CSO launched a new RPPI for Ireland which covers all market transactions in the residential property market and measures price change with greater accuracy. The new RPPI represents a significant methodology improvement over the original RPPI as it includes cash purchases of properties, higher quality data sources and more detailed locational characteristics of dwellings. For comparability the December 2015 information has been revised. The indexed LTV profile of the mortgage loan book contained in Table 3c is based on the most recent RPPI for December 2016, as published by the CSO.

[1] *Weighted Average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*
[2] *Restated to reflect revised Residential Property Price Index methodology, as published by the CSO.*

Book composition (continued)

Loan to value profiles – total loans (continued)

The RPPI index for December 2016 reported that average national residential property prices were 32% below peak (December 2015[1]: 37% below peak), with Dublin residential prices and outside of Dublin residential prices 33% and 36% below peak respectively (December 2015[1]: 36% and 43% below peak respectively). In the year to December 2016, residential property prices at a national level increased by 8.1% (year ended 31 December 2015[1]: 4.6%).

At 31 December 2016, €16.3 billion or 85% of the Bank's mortgages were classified as being in positive equity, 87% for Owner occupied mortgages and 73% for Buy to let mortgages.

At 31 December 2016, the total calculated negative equity in the mortgage loan book was €0.4 billion (31 December 2015: €0.6 billion). The majority of mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.3 billion negative equity related to loans that were 'neither past due nor impaired' at 31 December 2016.

Table 3d

Loan to value profiles – non-performing loans

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgages - non- performing loans						
Less than 50%	96	11%	27	4%	123	8%
51% to 70%	120	15%	49	7%	169	11%
71% to 80%	83	10%	44	6%	127	8%
81% to 90%	98	11%	104	15%	202	13%
91% to 100%	88	10%	66	9%	154	10%
Subtotal	**485**	**57%**	**290**	**41%**	**775**	**50%**
101% to 120%	184	21%	165	24%	349	22%
121% to 150%	145	17%	142	20%	287	18%
Greater than 150%	42	5%	106	15%	148	10%
Subtotal	**371**	**43%**	**413**	**59%**	**784**	**50%**
Total	**856**	**100%**	**703**	**100%**	**1,559**	**100%**

31 December 2015[1]

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgages - non-performing loans						
Less than 50%	113	10%	27	3%	140	6%
51% to 70%	131	11%	55	6%	186	9%
71% to 80%	85	7%	46	5%	131	6%
81% to 90%	100	8%	137	13%	237	11%
91% to 100%	115	10%	78	8%	193	9%
Subtotal	**544**	**46%**	**343**	**35%**	**887**	**41%**
101% to 120%	232	20%	240	25%	472	22%
121% to 150%	266	23%	249	25%	515	24%
Greater than 150%	135	11%	146	15%	281	13%
Subtotal	**633**	**54%**	**635**	**65%**	**1,268**	**59%**
Total	**1,177**	**100%**	**978**	**100%**	**2,155**	**100%**

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for non-performing mortgages. The ratios reflect the application of the most recent CSO index at the applicable reporting date to the portfolio.

[1] Restated to reflect revised Residential Property Price Index methodology, as published by the CSO.

Book composition (continued)

Loan to value profiles – non-performing loans (continued)

Of the non-performing mortgages €0.8 billion or 50% were classified as being in positive equity (31 December 2015[1]: €0.9 billion or 41%) while €0.8 billion or 50% were classified as being in negative equity at 31 December 2016 (31 December 2015[1]: €1.3 billion or 59%).

For the non-performing category, 57% of Owner occupied mortgages (31 December 2015[1]: 46%) and 41% of Buy to let mortgages (31 December 2015[1]: 35%) were classified as being in positive equity at 31 December 2016.

Asset quality

Composition and impairment

The risk profile of the Bank's loans and advances to customers at both 31 December 2016 and 31 December 2015 is outlined in the following tables.

Table 4a

	Loan Volumes €m	Non-performing Loans[2] €m	Non-performing Loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of non-performing loans %
31 December 2016					
Total mortgages					
Owner occupied mortgages	15,966	856	5.4%	302	35%
Buy to let mortgages	3,212	703	21.9%	367	52%
Total	**19,178**	**1,559**	**8.1%**	**669**	**43%**
Of which - forborne					
Owner occupied mortgages	1,603	359	22.4%	131	37%
Buy to let mortgages	833	250	30.0%	115	46%
Total	**2,436**	**609**	**25.0%**	**246**	**40%**
31 December 2015					
Total mortgages					
Owner occupied mortgages	15,915	1,177	7.4%	390	33%
Buy to let mortgages	3,620	978	27.0%	493	50%
Total	**19,535**	**2,155**	**11.0%**	**883**	**41%**
Of which - forborne					
Owner occupied mortgages	1,597	480	30.1%	157	33%
Buy to let mortgages	786	318	40.5%	130	41%
Total	**2,383**	**798**	**33.5%**	**287**	**36%**

Non-performing mortgages at 31 December 2016 were €1.6 billion or 8.1% of advances compared to €2.2 billion or 11.0% of advances at 31 December 2015. Total non-performing mortgages reduced significantly by €0.6 billion or 27% to €1.6 billion at 31 December 2016, 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 non-performing loans in the year ended 31 December 2016, decreasing by €0.3 billion or 25% to €0.9 billion at 31 December 2016 (31 December 2015: €1.2 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 non-performing Buy to let mortgages reducing by €0.3 billion or 30% to €0.7 billion at 31 December 2016 from €1.0 billion at 31 December 2015. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

[1]Restated to reflect revised Residential Property Price Index methodology, as published by the CSO.
[2]The NPL classification does not indicate that the terms of the forbearance measure are not being met.

Asset quality (continued)

Composition and impairment (continued)

The table below summarises the composition, defaulted loans and total impairment provision of the Bank's loans and advances.

Table 4b

	Loan Volumes €m	Defaulted loans[1] €m	Defaulted loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of defaulted loans %
31 December 2016					
Total mortgages					
Owner occupied mortgages	15,966	665	4.2%	302	45%
Buy to let mortgages	3,212	542	16.9%	367	68%
Total	**19,178**	**1,207**	**6.3%**	**669**	**55%**
Of which - forborne					
Owner occupied mortgages	1,603	217	13.5%	131	60%
Buy to let mortgages	833	116	13.9%	115	99%[2]
Total	**2,436**	**333**	**13.7%**	**246**	**74%**
31 December 2015					
Total mortgages					
Owner occupied mortgages	15,915	888	5.6%	390	44%
Buy to let mortgages	3,620	793	21.9%	493	62%
Total	**19,535**	**1,681**	**8.6%**	**883**	**53%**
Of which - forborne					
Owner occupied mortgages	1,597	267	16.7%	157	59%
Buy to let mortgages	786	176	22.4%	130	74%
Total	**2,383**	**443**	**18.6%**	**287**	**65%**

[1] 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 that the terms of the forbearance measure are not being met.
[2] Includes impairment provisions on defaulted loans, and loans no longer in default, which are completing or have completed probation.

Asset quality (continued)

Properties in possession

At 31 December 2016, the Bank had possession of properties held as security as follows:

Table 5a

	31 December 2016		31 December 2015	
	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	60	17	85	22
Buy to let mortgages	22	7	38	11
Total residential properties in possession	**82**	**24**	**123**	**33**

Disposals of properties in possession

Table 5b

31 December 2016	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied mortgages	105	13
Buy to let mortgages	41	5
Total disposals of properties in possession	**146**	**18**

31 December 2015	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied mortgages	107	15
Buy to let mortgages	36	3
Total disposals of properties in possession	**143**	**18**

During the year ended 31 December 2016 the Bank disposed of 146 repossessed properties (31 December 2015: 143 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 2016, the proceeds from disposals of Owner occupied repossessed properties were €13 million (31 December 2015: €15 million).

For the year ended 31 December 2016, the proceeds from disposals of Buy to let repossessed properties before value of additional collateral applied were €5 million (31 December 2015: €3 million).

In addition, a further 362 Buy to let properties were disposed of by fixed charge receivers during the year (year ended 31 December 2015: 389).

[1] *Gross 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 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 full 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 full 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 2016.

Table 6a

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

	Performing loans		Non-performing loans[2,3]		All loans	
31 December 2016	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**
Owner occupied						
Full interest	41	370	14	118	55	488
Reduced payment (greater than full interest)	193	1,828	101	823	294	2,651
Term extension	283	3,524	27	224	310	3,748
Capitalisation of arrears	310	2,231	84	516	394	2,747
Hybrids	399	3,294	128	854	527	4,148
Other	18	119	5	43	23	162
Total	**1,244**	**11,366**	**359**	**2,578**	**1,603**	**13,944**
Buy to let						
Full interest	47	218	17	64	64	282
Reduced payment (greater than full interest)	106	697	45	205	151	902
Term extension	115	896	11	67	126	963
Capitalisation of arrears	71	437	32	134	103	571
Hybrids	244	963	139	454	383	1,417
Other	-	-	6	14	6	14
Total	**583**	**3,211**	**250**	**938**	**833**	**4,149**
Total						
Full interest	88	588	31	182	119	770
Reduced payment (greater than full interest)	299	2,525	146	1,028	445	3,553
Term extension	398	4,420	38	291	436	4,711
Capitalisation of arrears	381	2,668	116	650	497	3,318
Hybrids	643	4,257	267	1,308	910	5,565
Other	18	119	11	57	29	176
Total	**1,827**	**14,577**	**609**	**3,516**	**2,436**	**18,093**

[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 2016, this mortgage loan is not included in the stock of active forbearance measures.
[2] The NPL classification does not indicate that the terms of the forbearance measure are not being met.
[3] Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 39 in the credit risk note.
[4] 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)

Table 6a (continued)

	Performing loans		Non-performing loans[2,3]		All loans	
31 December 2015	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**
Owner occupied						
Full interest	56	416	17	139	73	555
Reduced payment (greater than full interest)	166	1,526	151	1,136	317	2,662
Term extension	287	3,487	52	429	339	3,916
Capitalisation of arrears	241	1,733	104	618	345	2,351
Hybrids	351	2,750	152	1,027	503	3,777
Other	16	111	4	34	20	145
Total	**1,117**	**10,023**	**480**	**3,383**	**1,597**	**13,406**
Buy to let						
Full interest	50	232	29	96	79	328
Reduced payment (greater than full interest)	84	581	80	356	164	937
Term extension	113	852	18	120	131	972
Capitalisation of arrears	57	302	42	191	99	493
Hybrids	163	687	144	501	307	1,188
Other	1	3	5	13	6	16
Total	**468**	**2,657**	**318**	**1,277**	**786**	**3,934**
Total						
Full interest	106	648	46	235	152	883
Reduced payment (greater than full interest)	250	2,107	231	1,492	481	3,599
Term extension	400	4,339	70	549	470	4,888
Capitalisation of arrears	298	2,035	146	809	444	2,844
Hybrids	514	3,437	296	1,528	810	4,965
Other	17	114	9	47	26	161
Total	**1,585**	**12,680**	**798**	**4,660**	**2,383**	**17,340**

The total number of accounts in forbearance has increased from 17,430 at 31 December 2015 to 18,093 accounts at 31 December 2016. While the balance on accounts remained at €2.4 billion at 31 December 2016, the overall increase in forbearance accounts reflects the Bank's progress in implementing restructure and resolution strategies.

For Owner occupied mortgages, 13,944 accounts or €1.6 billion are in forbearance at 31 December 2016 (31 December 2015: 13,406 accounts or €1.6 billion). For Buy to let mortgages, 4,149 accounts or €0.8 billion are in forbearance at 31 December 2016 (31 December 2015: 3,934 accounts or €0.8 billion).

At 31 December 2016, there were a further 164 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2015: 431 accounts).

[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 2015, this mortgage loan is not included in the stock of active forbearance measures.
[2] The NPL classification does not indicate that the terms of the forbearance measure are not being met.
[3] Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 39 in the credit risk note.
[4] The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

Hybrids are the largest forbearance category by number of accounts with 5,565 accounts at 31 December 2016 (31 December 2015: 4,965 accounts), followed by term extension forbearance treatments with 4,711 accounts at 31 December 2016 (31 December 2015: 4,888 accounts).

Hybrids increased to 5,565 accounts or €0.9 billion at 31 December 2016 from 4,965 accounts or €0.8 billion at 31 December 2015. A total of 473 accounts or €0.1 billion new hybrid measures were put in place during the year. 654 accounts or €0.1 billion changed from another forbearance measure to hybrid, while 369 accounts or €79 million changed to another forbearance measure. A reduction of 158 accounts relates to redeemed accounts; a reduction of €44 million was due to those redeemed accounts and principal repayments made during the year.

Term extensions decreased to 4,711 accounts or €0.4 billion at 31 December 2016 from 4,888 accounts or €0.5 billion at 31 December 2015. A total of 205 accounts or €27 million new term extensions were extended during the year. A further 153 accounts or €20 million changed to term extension from another forbearance measure, while 263 accounts or €34 million changed forbearance measure. A reduction of 272 accounts relates to redeemed accounts; a reduction of €47 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) decreased to 3,553 accounts or €0.4 billion at 31 December 2016, compared to 3,599, accounts or €0.5 billion at 31 December 2015. A total of 581 accounts or €0.1 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 117 accounts or €32 million changed their forbearance measure to reduced payment (greater than full interest with step up to full capital and interest), while 329 accounts or €0.1 billion changed to another forbearance measure. A total of 328 accounts or €0.1 billion exited during the year. A reduction of 87 accounts relates to redeemed accounts; a reduction of €36 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisation of arrears increased to 3,318 accounts or €0.5 billion at 31 December 2016 from 2,844 accounts or €0.4 billion at 31 December 2015. A total of 435 accounts or €0.1 billion had capitalisation of arrears applied during the year. A further 308 accounts or €0.1 billion changed to capitalisation of arrears from another forbearance measure, while 158 accounts or €34 million changed to another forbearance measure. A reduction of 111 accounts relates to redeemed accounts; a reduction of €40 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2016, 770 accounts or €0.1 billion were subject to full interest forbearance compared to 883 accounts or €0.2 billion at 31 December 2015. A total of 378 accounts or €47 million of new full interest forbearance measures were extended during the year, 25 accounts or €3 million changed to full interest, while 134 accounts or €27 million changed from full interest to another forbearance measure. A total of 302 accounts or €41 million exited forbearance during the year. A reduction of 80 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 increased to 176 accounts or €29 million at 31 December 2016 from 161 accounts or €26 million at 31 December 2015.

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 2016.

Table 6b

Reconciliation of forborne loan stock by performing / non-performing status - mortgage loan book (before impairment provisions)	**Owner Occupied**		**Buy to Let**		**All loans**	
	Balance €m	**Number of accounts[1]**	**Balance €m**	**Number of accounts[1]**	**Balance €m**	**Number of accounts[1]**
All loans						
Opening balance at 1 January 2016	**1,597**	**13,406**	**786**	**3,934**	**2,383**	**17,340**
New forbearance extended	225	1,642	130	544	355	2,186
Exited forbearance						
- Improved to or remained in performing	(63)	(401)	(8)	(50)	(71)	(451)
- Improved / stabilised and remained in non-performing	(20)	(133)	(14)	(40)	(34)	(173)
- Redemptions, principal repayments and other	(123)	(488)	(60)	(231)	(183)	(719)
- Disimproved to or within non-performing	(13)	(82)	(1)	(8)	(14)	(90)
Transfers within forbearance between performing and non-performing loans	-	-	-	-	-	-
Closing balance at 31 December 2016	**1,603**	**13,944**	**833**	**4,149**	**2,436**	**18,093**
Performing loans						
Opening balance at 1 January 2016	**1,117**	**10,023**	**468**	**2,657**	**1,585**	**12,680**
New forbearance extended	120	917	59	280	179	1,197
Exited forbearance						
- Remained in performing	(58)	(390)	(7)	(47)	(65)	(437)
- Redemptions, principal repayments and other	(88)	(380)	(36)	(137)	(124)	(517)
- Disimproved to non-performing	(4)	(27)	-	(3)	(4)	(30)
Transfers within forbearance between performing and non-performing loans	157	1,223	99	461	256	1,684
Closing balance at 31 December 2016	**1,244**	**11,366**	**583**	**3,211**	**1,827**	**14,577**
Non-performing loans						
Opening balance at 1 January 2016	**480**	**3,383**	**318**	**1,277**	**798**	**4,660**
New forbearance extended	105	725	71	264	176	989
Exited forbearance						
- Improved to performing	(5)	(11)	(1)	(3)	(6)	(14)
- Improved / stabilised and remained in non-performing	(20)	(133)	(14)	(40)	(34)	(173)
- Redemptions, principal repayments and other	(35)	(108)	(24)	(94)	(59)	(202)
- Disimproved and remained in non-performing	(9)	(55)	(1)	(5)	(10)	(60)
Transfers within forbearance between performing and non-performing loans	(157)	(1,223)	(99)	(461)	(256)	(1,684)
Closing balance at 31 December 2016	**359**	**2,578**	**250**	**938**	**609**	**3,516**

The table above details the movement in forborne accounts and balances between 1 January 2016 and 31 December 2016 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 performing;
  - Improved / stabilised and remained in non-performing;
  - 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 2016 and remained in forbearance stock at 31 December 2016);
  - Disimproved to or within non-performing; and
- Those accounts and balances which transferred between performing loans and non-performing loans but remained in forbearance.

The non-performing loan classification does not indicate that the terms of the forbearance measure have not been met. The ‘performing / non-performing’ 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 18,093 accounts or €2.4 billion of account balances were in forbearance at 31 December 2016, compared to 17,340 accounts or €2.4 billion at 31 December 2015. Of these, 2,186 accounts or €0.4 billion new forbearance measures were put in place during the year, of which 1,197 accounts or €0.2 billion were classified as 'performing loans' while 989 accounts or €0.2 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 451 accounts or €0.1 billion improved to or remained in performing, 173 accounts or €34 million remained in non-performing with improved or stabilised arrears and 90 accounts or €14 million disimproved arrears to or within non-performing. A reduction in the forbearance stock of 719 accounts relates to redeemed accounts during the year; a reduction of €0.2 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 13,944 accounts or €1.6 billion of account balances were in forbearance at 31 December 2016 compared to 13,406 accounts or €1.6 billion at 31 December 2015. Of these, 1,642 accounts or €0.2 billion were new forbearance measures put in place during the year of which 917 accounts or €0.1 billion were classified as 'performing loans', while 725 accounts or €0.1 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 401 accounts or €0.1 billion improved to or remained in performing, 133 accounts or €20 million remained in non-performing with improved or stabilised arrears and 82 accounts or €13 million disimproved arrears to or within non-performing. A reduction of 488 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, 4,149 accounts or €0.8 billion of account balances were in forbearance at 31 December 2016 compared to 3,934 accounts or €0.8 billion at 31 December 2015. Of these, 544 accounts or €0.1 billion were new forbearance measures put in place during the year of which 280 accounts or €0.1 billion were classified as 'performing loans' while 264 accounts or €0.1 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 50 accounts or €8 million improved to or remained in performing, 40 accounts or €14 million remained in non-performing with improved or stabilised arrears and 8 accounts or €1 million disimproved arrears to or within non-performing. A reduction of 231 accounts relates to redeemed accounts during the year; a reduction of €60 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 MARS 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 2016

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of forborne mortgages						
Less than 50%	302	19%	59	7%	361	15%
51% to 70%	311	20%	95	11%	406	17%
71% to 80%	178	11%	71	9%	249	10%
81% to 90%	176	11%	173	21%	349	14%
91% to 100%	180	11%	113	13%	293	12%
Subtotal	**1,147**	**72%**	**511**	**61%**	**1,658**	**68%**
101% to 120%	291	18%	203	25%	494	20%
121% to 150%	155	9%	82	10%	237	10%
Greater than 150%	10	1%	37	4%	47	2%
Subtotal	**456**	**28%**	**322**	**39%**	**778**	**32%**
Total	**1,603**	**100%**	**833**	**100%**	**2,436**	**100%**

31 December 2015[1]

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of forborne mortgages						
Less than 50%	245	15%	46	6%	291	12%
51% to 70%	249	16%	71	9%	320	13%
71% to 80%	150	9%	55	7%	205	9%
81% to 90%	160	10%	142	18%	302	13%
91% to 100%	156	10%	86	11%	242	10%
Subtotal	**960**	**60%**	**400**	**51%**	**1,360**	**57%**
101% to 120%	305	19%	204	26%	509	21%
121% to 150%	277	18%	143	18%	420	18%
Greater than 150%	55	3%	39	5%	94	4%
Subtotal	**637**	**40%**	**386**	**49%**	**1,023**	**43%**
Total	**1,597**	**100%**	**786**	**100%**	**2,383**	**100%**

The tables above illustrate the indexed loan to value ratios for total forborne mortgages which showed positive movements during 2016. The ratios reflect the application of the most recent CSO index at the applicable reporting date to the portfolio.

Of the total mortgages with active forbearance measures in place €1.7 billion or 68% were classified as being in positive equity (31 December 2015: €1.4 billion or 57%) while €0.8 billion or 32% were classified as being in negative equity at 31 December 2016 (31 December 2015: €1.0 billion or 43%). 72% of forborne Owner occupied mortgages (31 December 2015: 60%) and 61% of forborne Buy to let mortgages (31 December 2015: 51%) are in positive equity at 31 December 2016.

[1] *Restated to reflect revised Residential Property Price Index methodology, as published by the CSO.*

Asset quality (continued)

Loan to value profiles – forborne loans – non-performing loans

Table 7b

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgages- non-performing loans						
Less than 50%	43	12%	10	4%	53	9%
51% to 70%	54	15%	20	8%	74	12%
71% to 80%	35	10%	14	6%	49	8%
81% to 90%	45	12%	51	21%	96	16%
91% to 100%	39	11%	29	11%	68	11%
Subtotal	**216**	**60%**	**124**	**50%**	**340**	**56%**
101% to 120%	83	23%	71	28%	154	25%
121% to 150%	55	16%	38	15%	93	15%
Greater than 150%	5	1%	17	7%	22	4%
Subtotal	**143**	**40%**	**126**	**50%**	**269**	**44%**
Total	**359**	**100%**	**250**	**100%**	**609**	**100%**

31 December 2015[1]

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgages- non-performing loans						
Less than 50%	47	10%	10	3%	57	7%
51% to 70%	63	13%	16	5%	79	10%
71% to 80%	35	7%	19	6%	54	7%
81% to 90%	42	9%	55	18%	97	12%
91% to 100%	46	10%	29	9%	75	9%
Subtotal	**233**	**49%**	**129**	**41%**	**362**	**45%**
101% to 120%	107	22%	91	29%	198	25%
121% to 150%	107	22%	75	23%	182	23%
Greater than 150%	33	7%	23	7%	56	7%
Subtotal	**247**	**51%**	**189**	**59%**	**436**	**55%**
Total	**480**	**100%**	**318**	**100%**	**798**	**100%**

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

Of the non-performing mortgages with active forbearance measures in place, €0.3 billion or 56% were classified as being in positive equity (31 December 2015: €0.4 billion or 45%), while €0.3 billion or 44% were classified as being in negative equity at 31 December 2016 (31 December 2015: €0.4 billion or 55%). For the active forbearance measures non-performing category, 60% of Owner occupied mortgages (31 December 2015: 49%) and 50% of Buy to let mortgages (31 December 2015: 41%) were classified as being in positive equity at 31 December 2016.

[1] Restated to reflect revised Residential Property Price Index methodology, as published by the CSO.

Forbearance Disclosures

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

The tables below provide an analysis of loans that are 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by asset classification over the following categories: 'non-forborne' and 'forborne' and include an aged analysis of loans 'past due but not impaired'. Exposures are before provisions for impairment.

Table 1

Non-forborne loans and advances	**31 December 2016 €m**	**31 December 2015 €m**
High quality	15,683	15,609
Satisfactory quality	-	-
Acceptable quality	55	79
Lower quality but neither past due nor impaired	-	-
Neither past due nor impaired	**15,738**	**15,688**
Past due up to 30 days	86	156
Past due 31 - 60 days	31	47
Past due 61- 90 days	13	22
Past due more than 90 days	97	154
Past due[1] but not impaired	**227**	**379**
Impaired	777	1,085
Total past due and impaired	**1,004**	**1,464**
Total non-forborne loans and advances to customers	**16,742**	**17,152**

Forborne loans and advances	**31 December 2016 €m**	**31 December 2015 €m**
High quality	-	-
Satisfactory quality	1,072	891
Acceptable quality	665	580
Lower quality but neither past due nor impaired	243	314
Neither past due nor impaired	**1,980**	**1,785**
Past due up to 30 days	73	93
Past due 31 - 60 days	30	40
Past due 61- 90 days	20	23
Past due more than 90 days	63	100
Past due[1] but not impaired	**186**	**256**
Impaired	270	342
Total past due and impaired	**456**	**598**
Total forborne loans and advances to customers	**2,436**	**2,383**

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €2.0 billion at 31 December 2016 compared to €1.8 billion 31 December 2015. Forborne loans and advances to customer classified as 'past due but not impaired was at €0.2 billion at 31 December 2016 (31 December 2015: €0.3 billion). Forborne impaired loans are €0.3 million at 31 December 2016 (31 December 2015: €0.3 billion).

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[1]The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification doesn't indicate that the terms of the forbearance measure are not being met.

Forbearance disclosures (continued)

Non-performing loans

Table 2

	31 December 2016 €m	31 December 2015 €m
Non-forborne loans and advances: non-performing		
Probationary mortgages		
Self-cure	76	118
Forborne	-	-
Total probationary mortgages	76	118
Defaulted		
Past due greater than 90 days but not impaired	97	154
Impaired	777	1,085
Total defaulted mortgages	874	1,239
Total	**950**	**1,357**
Forborne loans and advances: non-performing		
Probationary mortgages		
Self-cure	-	-
Forborne	276	356
Total probationary mortgages	276	356
Defaulted		
Past due greater than 90 days but not impaired	63	100
Impaired	270	342
Total defaulted mortgage	333	442
Total	**609**	**798**

Impairment reversals on forborne loans and advances to customers - Composition

The total impairment reversal of €98 million for the year ended 31 December 2016 includes €75 million relating to loans which are classified as forborne at the balance sheet date (year ended 31 December 2015: €71 million).

Table 3

Impairment reversal on forborne loans and advances to customers	**For the year ended 31 December 2016 €m**	**For the year ended 31 December 2015 €m**
Specific reversal individually and collectively assessed	(43)	(29)
Incurred but not reported	(32)	(42)
	(75)	**(71)**

The impairment reversal recognised on forborne mortgages reflects our ongoing progress with resolution strategies that include appropriate and sustainable support to viable customers that are in financial difficulty.

Forbearance disclosures (continued)

Impairment provision on forborne loans and advances – Composition (continued)

The total impairment provision of €669 million at 31 December 2016 (31 December 2015: €883 million) includes €246 million impairment provision on forborne loans (31 December 2015: €287 million) as set out in the table below.

Table 4

Impairment provision on forborne loans and advances composition	31 December 2016 €m	31 December 2015 €m
Advances	2,436	2,383
Non-performing loans	609	798
Specific provision individually and collectively assessed	143	136
Incurred but not reported	103	151
Total impairment provision on forborne loans	**246**	**287**
Impairment provisions as a % of non-performing loans	40%	36%

Specific and Incurred but not reported (IBNR) provisions held against forborne mortgages decreased during 2016. While the associated forborne loan balances have increased during the year as more customers enter into long-term sustainable forbearance solutions, the provision stock has decreased reflecting a reduction in the volume of non-performing forborne loans.