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Bank of Ireland Mortgage Bank
Annual Report



**Bank of
Ireland**

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Directors and other information

Directors at Date of Signing

Geraldine Kelly
Harry Lorton
Aine McCleary
Tony McMahon
Tony Morley
John O'Beirne
Paul Raleigh

Registered Office and Number

Bank of Ireland
40 Mespil Road
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Registered Number 386415

Cover Assets Monitor

Mazars
Harcourt Centre
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Independent Auditor

KPMG
1 Stokes Place
St. Stephen's Green
Dublin 2

Secretary

Hill Wilson Secretarial Limited
Bank of Ireland
40 Mespil Road
Dublin 4

Report of the Directors

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 2020.

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 and Company of the Bank of Ireland ('Bank of Ireland'). The Bank's ultimate holding company is Bank of Ireland Group plc. Bank of Ireland Group plc and its subsidiaries constitute the Bank of Ireland Group (the 'Group').

The Bank generated profit before taxation in 2020 of €28 million (2019: €212 million):

- net interest income grew to €336 million (2019 (restated): €335 million) reflecting an increase in lending income offset by higher funding costs;
- operating expenses increased by €216 million, primarily due to the introduction of a transfer pricing charge of €250 million (see further detail below);
- loans and advances to customers at amortised cost (before impairment loss allowances) increased by €0.2 billion to €16.4 billion (2019: €16.2 billion);
- an impairment charge of €14 million arose in the year (2019: €44 million) (see notes 2(a), 8 and 13); and
- asset quality largely unchanged with non-performing exposures of €1.0 billion (2019: €1.0 billion).

COVID-19

The emergence of the COVID-19 pandemic and associated government restrictions have resulted in lower levels of activity in the Irish mortgage market. In 2020, the Irish new mortgage market reduced by 12% to €8.4 billion¹. Residential transactions in the market were down 1% in 2020 and housing completions were down 2%. House prices continued to grow, although at a slower pace.

In response to the COVID-19 pandemic and the imposition of social restrictions, the Bank established a range of supports for mortgage customers, including credit-related supports such as payment breaks for impacted customers. The Bank's processes in relation to payment breaks were in line with the common industry-wide approaches agreed through industry bodies and regulatory authorities in Ireland.

During the year, the Bank granted COVID-19 payment breaks to over 13,000 mortgage accounts, the vast majority of which expired with 583 accounts remaining on an active payment break as at 31 December 2020. Further information on the profile of accounts with payment breaks as at 31 December 2020 can be found on page 56. Customers remained at the heart of the Bank's response to COVID-19 as the crisis rapidly unfolded. The Bank also provided enhanced services and supports through the Group's Vulnerable Customer Unit.

Brexit

Brexit continues to carry considerable uncertainty for the ROI and UK economies. The Brexit risks impacting the Bank are credit risk, business and strategic risk, and operating model risk. The Bank continues to monitor developments closely and

to implement the Group's mitigation plans, which have been executed effectively.

Notwithstanding COVID-19 and Brexit uncertainty, Ireland's growing population means demand for property remains high. However, there are supply constraints in the housing market, particularly in the greater Dublin and other urban areas. There is strong demand from existing and new customers for fixed interest rate mortgages, which provide value, certainty and stability both for customers and for the Bank.

Transfer Pricing

A review of pricing arrangements between Bank of Ireland and the Bank, on the use of the Bank's issuance of asset covered securities as a source of funding for Bank of Ireland, was completed during the current financial year. Arising from this review a new pricing agreement was implemented with effect from 1 January 2020. The new agreement reflects OECD guidelines on Transfer Pricing, which are the internationally accepted principles in this area, and takes account of the functions, risks and assets involved in the financial arrangement between both parties. The impact of implementing the new transfer pricing agreement, which attributes an arm's length profit to the Bank of €28 million, is an increase in amounts payable to Bank of Ireland of €250 million in the year and is the primary reason for the reduction in profits before tax to €28 million (2019: €212 million). The additional charge is in respect of credit management, central function costs, risks borne by and assets provided by Bank of Ireland in facilitating the operations of the Bank.

Tracker Mortgage Examination Review

At 31 December 2020, the Bank held a provision of €60 million (31 December 2019: €61 million) in respect of the ongoing industry wide Tracker Mortgage Examination. The provision represents the Bank's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Bank in connection with the examination.

Since 31 December 2019, €11 million of the provision has been utilised to cover redress, compensation and related costs. During 2020, the Bank has set aside a further €10 million provision to cover the redress and compensation costs for a small number of additional customers, operational costs associated with the length and nature of the review and estimated costs of closing out the Tracker Mortgage Examination review (see notes 2(d), 3, 7 and 18).

While the Tracker Mortgage review by the Central Bank of Ireland has concluded, the provision covers the estimated costs of remediation of any remaining impacted customers, addressing customer appeals and closing out all other outstanding costs of the exercise, and in particular any sanction that may be incurred as a result of Central Bank of Ireland enforcement actions. With respect to the latter, the Bank considers that there is a range of potential sanction outcomes based on general and specific circumstances and the amount of any sanction imposed may differ from the amount provided at 31 December 2020.

Asset quality

Loans and advances to customers (before impairment loss allowances) at amortised cost amounted to €16.4 billion at 31 December 2020 (2019: €16.2 billion).

¹ Source: Banking and Payments Federation Ireland (BPF) new mortgage data.

During 2020, the Bank implemented a new policy on the definition of default for the purposes of credit risk. This policy was formulated with regard to regulatory guidelines including European Banking Authority (EBA) Guidelines on the application of the definition of default under Article 178 of the Capital Requirements Regulation. As a result, the Bank has revised its asset quality reporting methodology to align to its definition of non-performing exposures (NPEs) which resulted in €0.2 billion of assets being re-classified as credit-impaired on implementation during the period. Where default criteria are no longer met, the credit facility exits credit-impaired (Stage 3), subject to meeting defined probation criteria, in line with regulatory requirements. The approach adopted by the Bank in response to COVID-19 is consistent with regulatory guidance and the key elements of the Bank's approach are outlined in note 25 on pages 56 and 57.

The Bank's NPE resolution strategy involves restructuring and sales activity supplemented with portfolio level initiatives. The Bank continues to keep its NPE resolution strategies under review while responding to the associated and evolving regulatory framework. NPEs have remained unchanged at €1.0 billion at 31 December 2020 (2019: €1.0 billion). Impairment loss allowances are €0.3 billion (2019: €0.3 billion).

Owner occupied NPEs were €0.7 billion at 31 December 2020, an increase of 3% since 31 December 2019. Whilst progress was made by the Bank in portfolio resolution activity, the net increase is primarily reflective of the new definition of default policy implemented during the year. At 31 December 2020, 98% of the Owner occupied mortgage book was on a 'full principal and interest' repayment basis (2019: 98%).

Buy to let NPEs were €0.3 billion at 31 December 2020, a reduction of 1% since 31 December 2019. This reduction reflects the portfolio resolution activity referred to above and the continued progress made by the Bank in the ongoing restructuring of customer mortgages, supported by strong rental market conditions. At 31 December 2020, 91% of the Buy to let mortgage book was on a full principal and interest repayment basis (2019: 90%).

Capital

At 31 December 2020, the common equity tier 1 (CET 1) ratio on both a regulatory and a fully loaded basis was 24.4% (2019: 22.4%). The total capital ratio on both a regulatory and a fully loaded basis was 31.2% (2019: 28.6%). The movement in the Bank's capital ratios is primarily due to profits in the year and a reduction in risk weighted assets.

The leverage ratio at 31 December 2020 on both a regulatory and a fully loaded basis was 6.8% (2019: 6.9%). The Bank expects to remain above the European Commission future leverage ratio requirement of 3% which will be applicable from 2021.

The Bank has been required to maintain a Countercyclical Buffer (CCyB) since 5 July 2019. The Central Bank of Ireland reduced the RoI CCyB rate to 0% from 1 April 2020 as part of a range of measures introduced in response to the economic impact of COVID-19. See the section on 'Capital management' in note 25 on page 67 for further details.

Principal risks and uncertainties

The principal risks that the Bank is exposed to are Credit Risk, Market Risk, Funding and Liquidity Risk, Operational Risk, Regulatory Risk, Conduct Risk, Business and Strategic Risk, Reputation Risk and Capital Adequacy 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 25 Risk management and control.

Financial results

The profit before taxation for 2020 amounted to €28 million (2019: €212 million), as set out in the income statement on page 13.

Net interest income increased to €336 million for 2020, from €335 million in 2019 (restated). The increase is driven by higher interest income of €457 million (2019 (restated): €448 million) offset by increased funding costs €121 million (2019 (restated): €113 million), which reflect a changing funding mix during the year.

Fee and commission income amounted to €2 million for 2020 (2019: €2 million).

Operating expenses increased to €293 million for 2020 (2019: €77 million) driven primarily by €250 million payable under the new transfer pricing agreement. Excluding the impact of this agreement and the Tracker Mortgage Examination Review cost of €7 million (2019: €40 million), operating expenses were €36 million (2019: €37 million).

The net impairment losses of €14 million for 2020 (2019: €44 million) reflect the challenging economic conditions and the impact of COVID-19. The key drivers of the net impairment charge in the year were a net loss of €9 million from model parameter updates (including updated forward-looking information) and a €24 million loss due to an increase in the post-model management adjustment; offset by a net gain from portfolio activity of €19 million (including recoveries) reflecting observed resilience in the performance of customers who did not avail of payment breaks.

The €9 million net loss from model parameter updates in the year reflects a €49 million net impairment loss from general parameter updates and updated Forward Looking Information (FLI) in particular, based on latest views on macro-economic variables, offset by the impact from the application of enhanced data for the sales ratio, which was a €40 million reduction in impairment loss allowance.

The €24 million loss due to the increase in the post-model management adjustment includes a COVID-19 management adjustment of €22 million, recognised to cover credit losses relating to customers who had availed of payment breaks during 2020 but that modelled impairment losses at 31 December 2020 may not have fully captured, and a €2 million post-model management adjustment for late breaking events recognised to reflect an acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Republic of Ireland in late December 2020.

Net trading expense for the year was €3 million (2019 (restated): €4 million), which reflects the impact of fair value movements on Life Loans classified at fair value through profit or loss. Net trading income also 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.

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 ECB.

At 31 December 2020, the Bank had a customer loan portfolio of €16.3 billion (net of impairment loss allowances and including Life Loans) funded through debt securities in issue: €6.2 billion (38%); equity and subordinated debt: €1.7 billion (10%) and net Group borrowings: €8.4 billion (52%). Of the €6.2 billion debt

securities in issue, €3.2 billion is held by Bank of Ireland. The remaining €3.0 billion is issued to other external bondholders with a range of maturities out to 2043.

Covered bonds are an important element of the Bank's funding strategy. The Bank obtains a rating for the covered bonds from Moody's Investor Services, 2020: Aaa (2019: Aaa). During 2020, €1.2 billion of securities in issue matured (2019: €0.8 billion). Full details of debt securities in issue are contained in note 16 to the financial statements.

At 31 December 2020, the Bank had €141 million of subordinated loan borrowings from its immediate parent, Bank of Ireland (2019: €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 2020 (2019: €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.

Outlook

Notwithstanding COVID-19 and Brexit uncertainties, the Bank's loans and advances to customers (before impairment allowances and excluding Life Loans) have continued to grow to €16.4 billion in 2020 (2019: €16.2 billion). Forecasts out to 2022 indicate the Bank will continue to grow its loan book and generate sustainable profits and capital over the period.

Directors and Secretary

Harry Lorton
*Independent Non-executive
Chairman*

John O'Beirne
Managing Director

Neil Corcoran
*Executive Director
(Resigned 28 February 2020)*

Tony McMahon
Executive Director

Aine McCleary
*Group Non-executive
Director*

Tony Morley
*Group Non-executive
Director*

Geraldine Kelly
*Independent Non-
Executive Director*

Paul Raleigh
*Independent Non-
Executive Director*

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 2014. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2020 (2019: €nil).

Corporate governance

The Corporate governance statement on page 8 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. The considerations assessed are set out on page 18 in the going concern disclosure within the accounting policies in note 1 to the financial statements.

Post balance sheet events

There have been no significant events since the end of the financial year identified requiring adjustments to or disclosures in the financial statements.

Independent auditor

KPMG, Chartered Accountants, were appointed statutory auditor on 16 July 2018. They have been re-appointed annually since that date and will continue in office in accordance with section 383(2) of the Companies Act 2014.

Harry Lorton
Chairman

John O'Beirne
Managing Director

Paul Raleigh
Director

Hill Wilson
Secretarial Limited

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the financial statements in accordance with FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Bank and of its profit or loss for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Bank and which enable them to ensure that the financial statements comply with the provisions of the Companies Act 2014. They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Bank included on the Bank of Ireland website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Harry Lorton
Chairman

John O'Beirne
Managing Director

Paul Raleigh
Director

26 February 2021

Corporate governance statement

Introduction

A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements. The Bank is subject to the Central Bank of Ireland Corporate Governance 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 credit institutions.

The Bank is compliant with the provisions of the Code throughout 2020. (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 the Group, 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, monitoring and reviewing the quality and integrity of the financial statements, liaising with the external auditor particularly in relation to their audit findings, and reviews the effectiveness and adequacy of the Bank's regulatory 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 (GIA) provides independent, reasonable assurance to its key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA seeks to positively influence risk management standards, ensure identification and remediation of issues and sharing of lessons learned for the on-going benefit of the Group and its key stakeholders.

Independent auditor's report

to the members of Bank of Ireland Mortgage Bank

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of Ireland Mortgage Bank ('the Company') for the year ended 31 December 2020 set out on pages 13 to 76, which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 101 Reduced Disclosure Framework issued in the United Kingdom by the Financial Reporting Council.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 16 July 2018. The period of total uninterrupted engagement is therefore three years for the year ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The Bank of Ireland Group plc (Parent) adopts a centralised approach to its assessment of going concern, particularly having regard to the Liquidity Management Agreement between the Parent and the Company, thus our work was performed in conjunction with the auditors of the Parent (Parent auditors). Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- we used our knowledge of the Company, its Parent, the financial services industry, and the general economic environment to identify the inherent risks to the business

model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. In this regard we considered the Liquidity Management Agreement between the Company and its Parent, in which the Parent has responsibility for monitoring and overseeing the liquidity position of the Company and for ensuring at all times that the Company has sufficient liquidity to meet all obligations. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- the availability of funding and liquidity for the Parent to enable it to continue to meet its obligations under the Liquidity Management Agreement with the Company in the event of a market wide stress scenario in which the global COVID-19 pandemic continues to unfold; and
 - the impact on regulatory capital requirements in the Parent entity and the Company in the event of an economic slowdown or recession.
- we considered whether these risks could plausibly affect the availability of financial resources for the Company in the going concern period by comparing severe, but plausible, downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Parent's financial forecasts and in particular in relation to their impact on its liquidity management responsibilities to the Company.

We also benchmarked significant assumptions included in the Parent's downside scenarios relevant to liquidity and capital metrics insofar as they might impact on its liquidity arrangements with the Company. In particular, we considered sensitivities over the level of available financial resources indicated by the Parent's financial forecasts taking account of the impact of severe, but plausible, scenarios on these and assessing whether these downside scenarios applied consider reasonably possible outcomes. Based on the work we have performed, we have not identified any material uncertainty relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2019):

Impairment loss allowance under IFRS 9 €276 million (2019 - €261 million)

Refer to pages 21 to 23 (accounting policy) and note 25 (financial disclosures)

The key audit matter

The calculation of credit provisions requires a high degree of judgement to reflect recent developments in credit quality, arrears experience, and/or emerging macroeconomic risks.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's compliance with IFRS 9 include but are not limited to:

Accuracy of PD models

The Probability of Default ('PD') models are the key drivers of the expected credit loss calculation and also impact the staging of assets. ECLs may be inappropriate if PD models do not accurately predict defaults over time, become out of line with wider industry experience, or fail to reflect the credit risk of financial assets. This is particularly relevant for the current environment, where there are increased challenges in predicting defaults in light of COVID-19.

Material qualitative adjustments

Qualitative adjustments are raised by management to address known impairment model limitations and/or emerging trends. There is a high degree of estimation uncertainty and management judgment involved in post model adjustments (PMA's) and management overlays.

Economic Scenarios

Economic scenarios have a direct impact on the staging of loans and the resultant ECL. Significant management judgment is applied to the determination of the economic scenarios and the weightings applied to them especially when considering the current uncertain economic environment as a result of COVID-19.

How the matter was addressed in our audit

- The Bank of Ireland Group plc (Parent) adopts a centralised approach to modelling ECL, thus our work was performed in conjunction with the auditors of the Parent (Parent auditors).
- We performed end-to-end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the design and operating effectiveness of the key controls over the completeness and accuracy of the significant data inputs into the impairment models.
- We tested the design and implementation of key controls over the assessment and calculation of material SICR indicators and criteria, including credit risk monitoring controls.
- In conjunction with our modelling specialists, we tested the design and implementation of controls over the modelling process and methodologies, including model monitoring, validation and approval, as well as testing the design and implementation of controls over model outputs and recognition and approval of post model adjustments.
- We tested the design and implementation of key controls relating to the estimation of macroeconomic forecasts used in measuring ECL including the economic scenarios and probability weightings applied to them.
- We tested key aspects of the Company's SICR calculations to determine whether a SICR was appropriately identified.

- We assessed the reasonableness of the significant assumptions in the ECL models and the loss rate ECL calculations.
- We re-performed the calculation of certain components of the ECL model calculation.
- We involved our own economic specialists to assist us in assessing the reasonableness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed key economic variables used and challenged the overall reasonableness of the economic forecasts by comparing the Company's significant assumptions to observable industry forecasts. We assessed the reasonableness of the Company's considerations of the ECL impact of anticipated economic uncertainty associated with COVID-19.
- We assessed the completeness and adequacy of post model adjustments, having regard for the risk profile of loan books, recent loss history and performance of the relevant portfolios and key uncertainties such as COVID-19 and Brexit.

We found the significant judgments used by management in determining the ECL charge and provision, including the accuracy of PD models, application of PMAs and economic scenarios, to be reasonable.

Conduct Risk - specifically, the Tracker Mortgage Examination (TME) provision €60 million (2019 - €61 million)

Refer to page 26 (accounting policy) and note 18 (financial disclosures)

The key audit matter

At 31 December 2020, the Company's provision in respect of the tracker mortgage examination ('TME') was approximately €60m, primarily relating to remaining unpaid customer remediation and appeals costs, enforcement action costs and other remaining programme costs.

As a result of the level of uncertainty associated with the ultimate CBI sanction remaining high, we consider this to be a key audit matter.

How the matter was addressed in our audit

- We read relevant correspondence between the CBI and the Company in relation to the TME and discussed the key matters with the Company and with those charged with governance. We considered the Group Internal Audit findings in respect of the matter.
- We obtained an understanding of the methodology used by management in the determination of the provision and assessed the design and implementation of controls relating to the provision calculation at year-end.
- For significant assumptions inherent in the provision at year-end and in particular those related to estimates as to remaining enforcement costs, we challenged the judgements made by management with regard to other available and relevant information, where possible, to determine whether they were reasonable.
- We inspected the adequacy of disclosures in respect of the TME provision to determine whether they were consistent with our understanding and in line with the relevant accounting standard.

We found the significant assumptions used by management in determining the provision, including the remaining enforcement costs, to be reasonable and the disclosures provided in respect of the TME to be in accordance with the relevant accounting standard.

Revenue recognition – Effective Interest Rate (EIR) adjustments €35.6 million (2019 - €33.7 million)

Refer to page 19 (accounting policy) and note 3 (financial disclosures)

The key audit matter

The recognition of interest income for mortgage loans involves determining the EIR which requires a high degree of management judgement with regard to the effective life of the underlying instruments.

There is also a risk that management or staff may perpetrate fraud due to incentives or pressures through the manipulation of certain inputs to the modelled estimates pertaining to expected life and associated cashflows from loans.

In that regard, we have identified a significant risk of error and fraud in respect of the determination of the EIR on mortgage loans.

How the matter was addressed in our audit

- We obtained an understanding and tested the design and implementation of key anti-fraud controls relating to the authorisation and review of the key assumptions regarding the EIR.
- We assessed the reasonableness of the key assumptions applied by the Company in determining the EIR by inspecting management's detailed calculations and associated judgement papers, primarily relating to the expected life, and the expected cash flows and considered how these associated EIR cash flows were forecasted over the expected life. We corroborated the expected life and expected cash flow assumptions to recent redemption experience of the Company where relevant, and compared the assumptions to management's expectations of future customer payment patterns.
- We recalculated the Company's calculation of the impact of a change in expected life to determine if it was reasonable.

We found the key assumptions used in the calculation of the EIR, including the expected life, and the expected cash flows, to be reasonable.

Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements, as a whole, was set at €13.0 million (2019: €10.6 million). This has been calculated as 0.8% of the benchmark of net assets of €1.58 billion which we consider to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.

Our prior year materiality was calculated as 5% of the benchmark of profit before tax. However, due to a transfer pricing change implemented by Bank of the Ireland Group in 2020, which has the effect of reducing profits earned by the Company, we have determined net assets to be a more appropriate benchmark.

We reported to the Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of our posting threshold of €0.65 million (2019: €0.5 million) in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed by a single engagement team in Dublin in conjunction with the Parent's auditors as described elsewhere herein.

In planning the audit, we applied materiality to assist in determining what risks were significant risks, including those set out above, and to determine the nature, timing and extent of our audit response.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information undertaken during the course of the audit, we report that:

- we have not identified material misstatements in the directors' report;
- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

Corporate governance disclosures

As required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Statement on page 8, that:

- based on the work undertaken for our audit, in our opinion:
 - the description of the main features of internal control and risk management systems in relation to the financial reporting process for preparing the financial statements is consistent with the financial statements and has been prepared in accordance with the Companies Act 2014; and
 - the Company is not subject to the European Communities (Takeover Bids (Directive 2004/EC)) Regulations 2006 and therefore not required to include information relating to voting rights and other matters required by those Regulations and specified by the Companies Act 2014 for our consideration in the Corporate Governance Statement; and
- based on our knowledge and understanding of the Company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information.

We also report that, based on work undertaken for our audit, the information required by the Act is contained in the Corporate Governance Statement.

Our opinions on other matters prescribed the Companies Act 2014 are unmodified

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

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's financial statements are in agreement with the accounting records.

We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Respective responsibilities and restrictions on use**Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from

material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at <http://www.iaasa.ie/Publications/Auditing-standards/International-Standards-on-Auditing-for-use-in-Ire/Description-of-the-auditor-s-responsibilities-for>.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for our report, or for the opinions we have formed.

Patricia Carroll

for and on behalf of

KPMG

Chartered Accountants

1 Stokes Place, St. Stephens Green, Dublin 2

26 February 2021

Income statement

for the year ended 31 December 2020

	Note	2020 €m	Restated ¹ 2019 €m
Interest income calculated using the effective interest method	3	444	432
Other interest income	3	13	16
Interest income		457	448
Interest expense	4	(121)	(113)
Net interest income		336	335
Fee and commission income		2	2
Net trading expense	5	(3)	(4)
Total operating income		335	333
Operating expenses	7	(293)	(77)
- Transfer pricing charge		(250)	-
- Other operating costs		(43)	(77)
Total operating profit before net impairment losses on financial instruments		42	256
Net impairment losses on financial instruments	8	(14)	(44)
Profit before taxation		28	212
Taxation charge	9	(3)	(28)
Profit for the financial year		25	184

¹ As outlined in the Bank's accounting policies on page 19, comparative figures have been restated to reflect the impact of the voluntary change in the Bank's accounting policy for the presentation of interest income and expense on certain financial instruments. See notes 3, 4 and 5 for additional information.

Statement of comprehensive income

for the year ended 31 December 2020

	2020 €m	2019 €m
Profit for the financial year	25	184
Other comprehensive income, net of tax		
Items that may be reclassified to profit or loss in subsequent years:		
Cash flow hedge reserve, net of tax		
- Changes in fair value	13	38
- Transfer to income statement	(12)	(15)
Net change in cash flow hedge	1	23
Total other comprehensive income, net of tax	1	23
Total comprehensive income for the year, net of tax	26	207

The tax effect of these transactions is included in note 9.

Balance sheet

as at 31 December 2020

	Note	2020 €m	2019 €m
Assets			
Derivative financial instruments	10	108	109
Other financial assets at fair value through profit or loss	11	239	246
Loans and advances to banks	12	3,843	3,533
Loans and advances to customers at amortised cost	13	16,093	15,934
Other assets		1	1
Total assets		20,284	19,823
Liabilities			
Deposits from banks	15	12,053	10,541
Derivative financial instruments	10	22	22
Debt securities in issue	16	6,168	7,444
Other liabilities	17	246	27
Current tax liability		5	27
Provisions	18	63	61
Deferred tax liability	19	10	11
Subordinated liabilities	20	141	140
Total liabilities		18,708	18,273
Equity			
Called up share capital presented as equity	21	488	488
Share premium	21	661	661
Reserves		227	201
Shareholders' equity		1,376	1,350
Other equity instruments	22	200	200
Total equity		1,576	1,550
Total equity and liabilities		20,284	19,823

Harry Lorton
Chairman

John O'Beirne
Managing Director

Paul Raleigh
Director

Hill Wilson
Secretarial Limited

Statement of changes in equity

for the year ended 31 December 2020

	Reserves				Total shareholders' equity €m	Other equity instruments €m	Total equity €m
	Share capital €m	Share premium €m	Retained earnings €m	Cash flow hedge reserve €m			
At 1 January 2019	738	661	(39)	33	1,393	200	1,593
Transactions with owners							
Cancellation of share capital (note 21)	(250)	-	-	-	(250)	-	(250)
Comprehensive income							
Profit for the year	-	-	184	-	184	-	184
Other comprehensive income	-	-	-	23	23	-	23
Total comprehensive income	-	-	184	23	207	-	207
Balance at 31 December 2019	488	661	145	56	1,350	200	1,550
Comprehensive income							
Profit for the year	-	-	25	-	25	-	25
Other comprehensive income	-	-	-	1	1	-	1
Total comprehensive income	-	-	25	1	26	-	26
At 31 December 2020	488	661	170	57	1,376	200	1,576

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1 Accounting policies

Bank of Ireland Mortgage Bank is a public unlimited company, incorporated and domiciled in Ireland. 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 17 to 76.

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').

In preparing these financial statements, the Bank applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union ('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 ultimate parent company, Bank of Ireland Group plc, is a public limited company incorporated and registered in

Ireland. The consolidated financial statements for the Bank of Ireland Group (the 'Group') are available to the public and may be obtained from the Bank of Ireland Head Office, 40 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 of the Group;
- 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 2020 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, the impact of Brexit and COVID-19 on business activity and the availability of collateral to access the Eurosystem. In addition, the Directors are satisfied that the Bank,

through the existence of the Liquidity Management Agreement with its immediate parent company, has sufficient liquidity to meet obligations as they fall due throughout 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 Adoption of new and amended accounting standards

The following amendments to standards have been adopted by the Bank during the year ended 31 December 2020:

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

These amendments are aimed at improving the understanding of the existing requirements rather than significantly impacting current materiality judgements. They provide a new definition of material which shall be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements. These amendments have not had a significant impact on the Bank at 31 December 2020.

Voluntary change in accounting policy

The Bank has voluntarily changed its accounting policy for the presentation of interest income and expense on certain financial instruments.

In prior periods, the total fair value movement on assets and liabilities held at fair value through profit or loss (FVTPL), including interest income or expense, was recognised in net trading income. The only exception to this was the recognition of interest income or expense on derivatives in a qualifying designated hedge accounting relationship, where interest income or expense on the derivative was recognised with the interest on the hedged item.

1 Accounting policies *(continued)*

1.3 Adoption of new and amended accounting standards *(continued)*

To enable a more relevant and enhanced understanding of business performance, the Bank has adopted an amended accounting policy in 2020, such that interest income and expense on the following financial instruments is now included within the components of net interest income:

- interest income on customer loans measured at FVTPL; and
- interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges).

The Bank believes this revised accounting policy provides reliable and more relevant information as it more closely reflects the basis upon which the underlying business is managed, on a net interest basis as opposed to a fair value basis.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change.

1.4 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for financial instruments measured at amortised cost in accordance with IFRS 9.

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or liability and in the allocation and recognition of interest revenue or interest expense in profit or loss 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 asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses (ECL) (except, in accordance with IFRS 9 in the case of purchased or originated credit-impaired (POCI) financial assets where ECL are included in the calculation of a 'credit adjusted effective interest rate'). The calculation includes all fees, broker commissions, transaction costs, points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of a financial asset that is neither credit-impaired nor a POCI financial asset, interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

In the case of a financial asset that is not a POCI financial asset but is credit-impaired at the reporting date, interest revenue is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount adjusted for any impairment loss allowance. In the case of a POCI financial asset, interest revenue is recognised by applying the credit-adjusted effective interest rate to the amortised cost.

This change in accounting policy has resulted in the following restatement of previously reported amounts for 2019:

- interest income has been increased by €16 million, from €432 million to €448 million;
- interest expense has increased by €1 million, from €112 million to €113 million; and
- net trading expense has reduced by €15 million from €11 million income to €4 million of trading expense.

There is no change to total operating income or profit for 2019 or 2020.

Comparatives

Comparative figures have been restated where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period. Any adjustments to comparatives are disclosed in the relevant note or supplementary asset disclosure as appropriate.

Where the Bank revises its estimates of payments or receipts on a financial instrument (excluding modifications of a financial asset and changes in ECL), it recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The adjustment is recognised as interest income or expense.

Interest income and expense on derivative financial instruments designated as hedging instruments are accounted for in net interest income, in line with the underlying hedged asset or liability. Interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges) is included in other interest income or expense. Interest income or expense on derivatives held with trading intent is included in trading income.

Interest income on customer loans measured at fair value through profit or loss (FVTPL) is recognised when earned, and presented within other interest income.

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

Modifications

Where the contractual cash flows of a financial asset are modified and the modification does not result in derecognition of the financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate and recognises a modification gain or loss in the income statement. Where a modification is a forbearance measure which does not result in derecognition, the modification gain or loss is included in the income statement within net impairment gains or losses. Otherwise, the modification gain or loss is included within interest income.

1.5 Fee and commission income

The Bank accounts for fee and commission income when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable that the Bank will collect the consideration to which it is entitled. Fee and

commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control of a product or service to a customer.

1.6 Financial assets

1. Recognition, classification and measurement

A financial asset is recognised in the balance sheet when, and only when, the Bank becomes a party to its contractual provisions. At initial recognition, a financial asset is measured at fair value (plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs) and is assigned one of the following classifications for the purposes of subsequent measurement:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income; or
- financial assets at fair value through profit or loss.

The Bank determines the appropriate classification based on the contractual cash flow characteristics of the financial asset and the objective of the business model within which the financial asset is held. In determining the business model for a group of financial assets, the Bank considers factors such as how performance is evaluated and reported to key management personnel; the risks that affect performance and how they are managed; how managers are compensated; and the expected frequency, value and timing of sales of financial assets.

In considering the contractual cash flow characteristics of a financial asset, the Bank determines whether the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In this context, 'principal' is the fair value of the financial asset on initial recognition and 'interest' is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In making the determination, the Bank assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers contingent events, leverage features, prepayment and term extensions, terms which limit the Bank's recourse to specific assets and features that modify consideration of the time value of money.

(a) Financial assets at amortised cost.

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at amortised cost where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and

- the financial asset is held within a business model whose objective is achieved by holding financial assets to collect contractual cash flows.

Purchases and sales of debt securities at amortised cost are recognised on trade date: the date on which the Bank commits to purchase or sell the asset. Loans measured at amortised cost are recognised when cash is advanced to the borrowers.

Interest revenue using the effective interest method is recognised in the income statement. An impairment loss allowance is recognised for expected credit losses (ECL) with corresponding impairment gains or losses recognised in the income statement.

(b) Financial assets at fair value through other comprehensive income

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at fair value through other comprehensive income where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Equity instruments

Where an irrevocable election has been made by the Bank at initial recognition, an investment in an equity instrument that is neither 'held for trading' nor contingent consideration recognised by the Bank in a business combination to which IFRS 3 'Business combinations' applies, is measured at fair value through other comprehensive income. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Regular way purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on trade date.

These classifications are not in use by the Bank.

1 Accounting policies *(continued)*

1.6 Financial assets *(continued)*

- (c) **Financial assets at fair value through profit or loss**
All other financial assets are measured, subsequent to initial recognition, at fair value through profit or loss. Financial assets at fair value through profit or loss comprise:

Financial assets mandatorily measured at fair value through profit or loss

Financial assets meeting either of the conditions below are mandatorily measured at fair value through profit or loss (other than in respect of an equity investment designated as at fair value through other comprehensive income):

- financial assets with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- financial assets held within a business model whose objective is achieved neither by collecting contractual cash flows nor both collecting contractual cash flows and selling financial assets. This classification includes the Bank's portfolio of Life Loans.

Financial assets designated as measured at fair value through profit or loss

A financial asset may be designated at fair value through profit or loss only if doing so eliminates or significantly reduces measurement or recognition inconsistencies (an 'accounting mismatch') that would otherwise arise from measuring financial assets or liabilities or recognising gains and losses on them on different bases.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date. They are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

2. Reclassification

When, and only when, the Bank changes its business model for managing financial assets, it reclassifies all affected financial assets. Reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification. Any previously recognised gains, losses or interest are not restated.

3. Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Bank has transferred substantially all the risks and rewards of ownership. Where a modification results in a substantial change to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Bank reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

1.7 Impairment of financial instruments

Scope

The Bank recognises impairment loss allowances for expected credit losses (ECL) on the following categories of financial instruments unless measured at fair value through profit or loss:

- financial assets that are debt instruments; and
- loan commitments.

Basis for measuring impairment

The Bank allocates financial instruments into the following categories at each reporting date to determine the appropriate accounting treatment.

Stage 1: 12-month ECL (not credit-impaired)

These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL (not credit-impaired)

These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance

equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL (credit-impaired)

These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

Purchased or originated credit-impaired (POCI) financial assets

These are financial assets that were credit-impaired at initial recognition. They are not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition. A purchased or originated credit-impaired financial asset remains classified as such until it is derecognised, even if assessed as no longer credit-impaired at a subsequent reporting date.

With the exception of POCI financial assets, a financial instrument may migrate between stages from one reporting date to the next.

1 Accounting policies *(continued)*

1.7 Impairment of financial instruments *(continued)*

Significant increase in credit risk

In determining if a financial instrument has experienced a significant increase in credit risk since initial recognition, the Bank assesses whether the risk of default over the remaining expected life of the financial instrument is significantly higher than had been anticipated at initial recognition, taking into account changes in prepayment expectations where relevant. The Bank uses reasonable and supportable information available without undue cost or effort at the reporting date, including forward-looking information. A combination of quantitative, qualitative and backstop indicators are generally applied in making the determination. For certain portfolios, the Bank assumes that no significant increase in credit risk has occurred if credit risk is 'low' at the reporting date.

Credit-impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Measurement of ECL and presentation of impairment loss allowances

ECL are measured in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECL are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of the difference between all contractual cash flows due to the Bank in accordance with the contract and all the cash flows the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn and the cash flows that the Bank expects to receive.

Expected cash flows arising from the sale on default of a loan are included in the measurement of ECL under IFRS 9 where the following conditions are met:

- selling the loan is one of the recovery methods that the Bank expects to pursue in a default scenario;
- the Bank is neither legally nor practically prevented from realising the loan using that recovery method; and
- the Bank has reasonable and supportable information upon which to base its expectations and assumptions.

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a POCI financial asset) or an approximation thereof. For undrawn loan commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

Impairment loss allowances for ECL are presented in the financial statements as follows:

- financial assets at amortised cost: as a deduction from the gross carrying amount in the balance sheet; and
- loan commitments: as a provision in the balance sheet.

Utilisation of impairment loss allowances

The Bank reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include the collection process having been exhausted or it becoming clear during the collection process that recovery will fall short of the amount due to the Bank. The Bank considers, on a case-by-case basis, whether enforcement action in respect of an amount that has been written off from an accounting perspective is or remains appropriate. Any subsequent recoveries are included in the income statement as an impairment gain.

Forbearance

Forbearance occurs when a borrower is granted an agreed change to a loan ('forbearance measure') 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 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 and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to Stage 3 (unless a POCI financial asset). If a forbore loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forbore until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forbore classifications. Forborne financial assets which are not credit-impaired are generally allocated to Stage 2. A financial asset can

1 Accounting policies *(continued)*

1.7 Impairment of financial instruments *(continued)*

only be classified from Stage 3 when certain conditions are met over a pre-defined period of time or probation period.

Where the cash flows from a forbore loan are considered to have expired, due to the loan being restructured in such a way that results in a substantial modification, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition is recognised in the income statement. The new financial asset may be initially

allocated to Stage 1 or, if credit-impaired, be categorised as a POCI financial asset.

Where a forbearance measure represents a modification of the contractual cash flows of a financial asset and does not result in its derecognition, the Bank recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate (before any modification of terms) and a modification gain or loss is included in the income statement within net impairment gains or losses.

1.8 Financial liabilities

The Bank classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities mandatorily at fair value through profit or loss such as derivative liabilities. 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 financial 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.

When a financial liability that is measured at amortised cost is modified without resulting in derecognition, a gain or loss is recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate.

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

1.9 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when 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. No impairment loss allowance for ECL is recognised on a financial asset, or portion thereof, which has been offset.

1.10 Valuation of financial instruments

The Bank recognises certain financial assets and financial liabilities (including derivative financial instruments) at fair value in 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 (DCF) analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only 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.

1 Accounting policies *(continued)*

1.10 Valuation of financial instruments *(continued)*

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.

Transfers between levels of the fair value hierarchy

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Bank provides these disclosures within the Fair values of assets and liabilities note.

1.11 Derivative financial instruments and hedge accounting

The Bank has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

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 reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments that are not financial assets 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 entire 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. 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. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cash flow of the hedged items within a range of 80% to 125%.

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 and 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.

The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate loan. 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 straight line method for macro hedges and the effective interest method for micro hedges.

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

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.

1 Accounting policies *(continued)*

1.11 Derivative financial instruments and hedge accounting *(continued)*

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

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 other comprehensive income is immediately reclassified to the income statement.

1.12 Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Bank has absolute discretion in relation to the payment of coupons and

repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

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

1.13 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.

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 or loss.

(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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax on items taken to 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. Income tax on items recognised directly in equity is recognised directly in equity except for the income tax effect consequences on a dividend on a financial instrument classified as equity, which are recognised according to where the previous transactions or events that generated distributable profits were recognised.

1.14 Pensions

The Group operates various pension schemes, certain of which employees of the Bank are members: Bank of Ireland Retirement Savings Plan (also known as RetireWell) and Bank of Ireland Group Pensions Fund (BIGPF). RetireWell is a defined contribution scheme. 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.

While the BIGPF Scheme is recognised as a defined benefit scheme, 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.

The schemes are operated for eligible employees of Bank of Ireland (the 'Principal Employer') and certain of its subsidiaries, including the Bank, which are entities under common control.

Further information on the Group's pension schemes is available in note 47 of the Group's Annual Report for the year ended 31 December 2020.

1 Accounting policies *(continued)*

1.15 Share capital and reserves

(a) Dividends on ordinary shares

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders on the recommendation of the Board of Directors, or approved by the Board of Directors, as appropriate. Interim dividends are recognised in equity in the period in which they are paid.

(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.

(c) Other equity instruments

Other equity instruments represent the issuance of Additional tier 1 notes by the Bank to its immediate parent, Bank of Ireland. See note 22 for details.

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.

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customers' assets and gives the Bank a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Bank's balance sheet.

The Bank also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing

contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

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 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.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

2 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. Due to the inherent uncertainty involved in estimating 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 loss allowance on financial assets

The measurement of impairment loss allowance requires significant judgement and estimation and is dependent on complex impairment models.

In arriving at impairment loss allowances, accounting estimates which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include:

- generation of forward-looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances; and
- valuing property collateral.

Accounting judgements which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include determining if management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

Other key accounting estimates which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include determining timeframes to realisation of collateral and likely net sale proceeds.

Other key accounting judgements which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

- the Bank's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- the approximation made at transition to IFRS 9 of the residual lifetime Probability of Default (PD) expectations for most exposures originated prior to adoption of IFRS 9; and
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as PD and Loss Given Default (LGD).

The Bank's approach to measurement of impairment loss allowances and associated methodologies, is set out in the credit risk methodologies section on pages 54 to 57.

Changes in estimates

Forward Looking Information

Forward Looking Information (FLI) refers to probability weighted future macroeconomic scenarios approved semi-annually by the Group Risk Policy Committee (GRPC) and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Bank has used five RoI FLI scenarios, an increase from three scenarios in previous years, comprising of two central scenarios, an upside scenario, and two downside scenarios, all extending over a five year forecast period, with reversion to long run averages for property for years beyond the forecast period. The Bank keeps under review the number of FLI scenarios.

The central FLI scenarios for the year ending 31 December 2020 are based on internal and external information and management judgement and follow the same process as used in prior periods, though for December 2020 two central scenarios were developed to reflect different base case Brexit assumptions:

- central scenario 1 is based on less adverse base case consensus forecasts that assumed a Free Trade Agreement (FTA) Brexit; and
- central scenario 2 is based on more adverse base case consensus forecasts that assumed a World Trade Organisation (WTO) Brexit.

With the UK and EU reaching an agreement prior to year-end a higher weighting was applied to central scenario 1 (45%), with a small (5%) weighting retained for central scenario 2 to address initial disruption and uncertainty around the granular details of the new trading arrangement.

In prior years, the upside and downside scenarios have been generated using a simulation model that used historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to the unprecedented nature of the COVID-19 economic shock, the Bank employed an amended approach for the selection of the upside and downside FLI scenarios for 2020 to avoid counter-intuitive trends in the respective scenarios.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative-driven alternative scenarios comprising one upside and two downside scenarios have been constructed.

The pre-existing FLI methodology was leveraged whereby the narrative-driven scenarios were assessed relative to the simulated distribution, with a lower probability weighting attached to the scenarios that were assessed to be more distant from the centre of the distribution. The weightings were also informed by external FLI (e.g. equity market indicators).

2 Critical accounting estimates and judgements *(continued)*

The table below shows the mean average forecast values for the key macroeconomic variables under each scenario for the forecast period 2021 to 2025, together with the scenario weightings.

	Central		Upside scenario	Downside	
	Scenario 1	Scenario 2		Scenario 1	Scenario 2
Scenario probability weighting	45%	5%	20%	25%	5%
GDP Growth ¹	3.5%	3.0%	4.3%	2.0%	0.9%
GNP Growth ¹	3.4%	2.7%	4.2%	1.6%	0.5%
Unemployment rate ²	6.4%	7.1%	5.3%	9.6%	12.3%
Residential property price growth ³	0.4%	0.2%	1.2%	(0.6%)	(1.4%)

The tables below sets out the forecast values for 2021 and 2022 and the average forecast values for the period 2023 to 2025 for the key macroeconomic variables which underpin the above mean average values.

	2021	2022	2023-2025
Central scenario 1 - 45% weighting			
GDP Growth ¹	5.1%	3.6%	3.0%
GNP Growth ¹	5.1%	3.4%	2.8%
Unemployment rate ²	10.2%	5.9%	5.3%
Residential property price growth ³	(3.0%)	-	1.7%
Central scenario 2 - 5% weighting			
GDP Growth ¹	2.7%	3.7%	2.9%
GNP Growth ¹	1.6%	3.5%	2.8%
Unemployment rate ²	10.7%	8.1%	5.5%
Residential property price growth ³	(4.0%)	-	1.7%
Upside - 20% weighting			
GDP Growth ¹	8.1%	3.9%	3.2%
GNP Growth ¹	8.3%	3.7%	3.0%
Unemployment rate ²	9.1%	4.7%	4.2%
Residential property price growth ³	(1.0%)	1.0%	2.0%
Downside scenario 1 - 25% weighting			
GDP Growth ¹	(1.9%)	3.5%	2.8%
GNP Growth ¹	(3.0%)	3.3%	2.6%
Unemployment rate ²	12.9%	10.5%	8.2%
Residential property price growth ³	(5.0%)	(2.0%)	1.3%
Downside scenario 2 - 5% weighting			
GDP Growth ¹	(2.1%)	(1.0%)	2.5%
GNP Growth ¹	(3.2%)	(1.2%)	2.3%
Unemployment rate ²	14.0%	14.3%	11.1%
Residential property price growth ³	(5.0%)	(4.0%)	0.7%

There was acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Bank's key markets in late December 2020. In light of these late-breaking events a post-model management adjustment to the impairment loss allowance (€2 million) was recognised as at 31 December 2020. This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Bank's multiple economic scenarios utilised in its impairment models (per the tables above) were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%). For further reference see management adjustment for late breaking events on page 31.

¹ Annual growth rate

² Average yearly rate

³ Year-end figures

2 Critical accounting estimates and judgements *(continued)*

The central, upside and downside scenarios are described below:

Central scenario 1

Having been significantly impacted in the spring of 2020 when stringent measures to contain the spread of COVID-19 were imposed, the Irish economy saw a pick-up in activity over the summer months and into the autumn. However, rising virus cases led to a tightening of public health restrictions again in late 2020 and tensions over future UK-EU trading arrangements were high ahead of the end of the Brexit transition period on 31 December 2020.

The scenario assumes that restrictions are in place into 2021 and that the UK and EU have reached agreement on a trade deal which takes effect on 1 January 2021. Gross Domestic Product (GDP) in Ireland expands in 2021, with growth continuing over the rest of the forecast horizon and the unemployment rate declining.

Central scenario 2

This scenario also assumes that COVID-19 restrictions are in place into 2021 but that the UK would fail to reach agreement with the EU meaning trade is conducted on WTO terms from 1 January 2021. The latter causes additional short-term disruption but GDP still expands in 2021 in Ireland. Growth continues over the remainder of the forecast horizon and unemployment rates move down.

Upside scenario

With medical advances helping to keep the virus under control, the Irish economy expands strongly in 2021 even as the new UK-EU trade deal takes effect. Solid GDP growth continues over the remainder of the forecast horizon and unemployment settles at a low rate.

Downside scenario 1

Attempts to contain COVID-19 prove unsuccessful with another virus wave in the first half of 2021 resulting in a full shutdown of the Irish economy. Uncertainty, increasing business failures and less favourable post-Brexit trading terms also weigh on activity and GDP contracts for the year as a whole. And while growth

resumes in 2022, unemployment rates remain high for some time.

Downside scenario 2

Ongoing attempts to contain COVID-19 prove unsuccessful and repeat waves of the virus see the Irish economy fully shutdown in the first half of 2021 and again towards the end of 2021 and early 2022. This, together with less favourable post-Brexit trading terms, delivers a significant blow to activity. GDP contracts in 2021 and in 2022, while cautious behaviour on the part of consumers and widespread business failures keep the unemployment rate elevated for the forecast horizon.

Property price growth, all scenarios

In central scenario 1, after showing resilience throughout 2020, average residential prices reduce by 3% in 2021. From 2023 onwards the market recovers to record marginally positive growth of 1-2% per-annum. Central scenario 2 shows marginally worse falls in the average residential property prices in 2021 and 2022 before recovering to similar growth levels as central scenario 1 in later years.

In the downside scenarios, residential prices in 2021 are incrementally negatively impacted relative to the central scenarios and this persists into 2022 before recovery in 2024 and 2025. Downside scenario 1 produces a trough point with average prices expected to reduce by 7% whilst downside scenario 2 reflects a reduction of 9%.

In the upside scenario residential prices are marginally negative in 2021 increasing gradually.

The quantum of impairment loss allowance is impacted by the application of five probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2020, excluding post-model management adjustments to impairment loss allowances, was increased by virtue of applying multiple scenarios rather than only a central scenario (central scenario 1).

2020	Additional impairment loss allowance							
	Stage 1		Stage 2		Stage 3		Total	
	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %
Impact of applying multiple scenarios rather than only central scenario 1								
Residential mortgages	1	13%	3	39%	2	1%	6	3%

2 Critical accounting estimates and judgements *(continued)*

The following table indicates the approximate extent to which impairment loss allowance, excluding management adjustments, would be higher or lower than reported were a 100% weighting applied to the central, upside and downside future macroeconomic scenarios respectively:

2020	Multiple Scenarios		Central Scenario 1		Central Scenario 2	
	Impairment loss allowance €m		Impairment loss allowance €m	Impact %	Impairment loss allowance €m	Impact %
Residential mortgages	217		(6)	(3%)	-	-

2020	Multiple Scenarios		Upside Scenario	
	Impairment loss allowance €m		Impairment loss allowance €m	Impact %
Residential mortgages			217	(9%)

2020	Multiple Scenarios		Downside Scenario 1		Downside Scenario 2	
	Impairment loss allowance €m		Impairment loss allowance €m	Impact %	Impairment loss allowance €m	Impact %
Residential mortgages	217		24	11%	42	19%

The following table indicates the approximate extent to which the impairment loss allowances, excluding post-model management adjustments, would be higher or lower than the application of central scenario 1 if there was an immediate change in residential property prices. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Bank's impairment loss allowance to a once-off change in property values.

2020	Impairment loss allowance - Central Scenario €m	Residential property price reduction of 10%		Residential property price reduction of 5%		Residential property price increase of 5%		Residential property price increase of 10%	
		Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %
Residential mortgages	211	39	18%	18	9%	(16)	(8%)	(31)	(15%)

2 Critical accounting estimates and judgements *(continued)*

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2020 to Stage 2 would increase the Bank's impairment loss allowance by approximately €1.1 million excluding management adjustments.

Management judgement in impairment measurement

A higher level of management judgement has been incorporated into the Bank's impairment measurement process for 2020 compared to previous years. Management judgement can be described with reference to management judgement in impairment model parameters and post-model management adjustments to impairment loss allowance and staging classification.

Management judgement in impairment model parameters

The macroeconomic situation, which reflects the impact of COVID-19, is unprecedented compared to historic experience, resulting in impairment models generating Probability of Default (PD) rates that in certain cases were not considered to be reasonable.

In order for the Bank's impairment loss allowance as at 31 December 2020 to reflect an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, management judgement is required to adjust certain impairment model parameters (i.e. PD rate estimates, prepayment rates and staging classification). The Bank has assessed reasonable and supportable information available both internally and externally to inform its approach for management judgement applied to impairment model parameters. Where initial PD estimates from impairment models were considered to be unreasonable, a number of reference points were assessed, utilising data derived from internal and external information (including historical peak default rates; more recently observed default rates; long-run default rates; and payment break cases). Where relevant, management judgement informed by these reference points was utilised to select more appropriate PDs for central scenario 1, with corresponding PDs in the other upside, central and downside scenarios derived from central scenario 1 taking into account the severity of the respective scenarios. Once the PDs incorporating management judgement were applied, the standard ECL calculation was followed within the existing credit methodologies (which include the control framework).

The ECL model framework was also updated in the year to reflect the implementation of the revised definition of default (as outlined on page 55 in note 25 and model factor updates to reflect recent observed information. This included the utilisation of an enhanced data source for the sales ratio parameter in the Loss Given Default (LGD) model.

Post-model management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a management adjustment to the outputs of the Bank's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late

breaking event. At 31 December 2020, the Bank's impairment loss allowance of €276 million includes the total impact of a post-model management adjustment of approximately €59 million. This comprises the total impact of a COVID-19 management adjustment of €22 million, a management adjustment for late breaking events of €2 million and a Stage 3 management adjustment for customer loans of €35 million. Further details of each are outlined below.

COVID-19 management adjustment

At 31 December 2020, the Bank considered the data and measurement limitations arising from the unprecedented impact of COVID-19, including the availability of government supports and the general availability of payment breaks during the year to all customers regardless of credit status. While the majority of payment breaks have expired prior to the reporting date the Bank's view is that modelled impairment losses at 31 December 2020 may not fully capture expected credit losses relating to these customers as the days past due count was paused when payment breaks were applied in line with the industrywide approach. As a result, a post-model management adjustment of approximately €22 million, with €18 million of this management adjustment allocated to Stage 1 and €4 million to Stage 2.

Payment break cohorts were reviewed at a portfolio level. The above portfolio level review was completed with reference to the outputs of the IFRS 9 impairment models, combined with other available data sources including a customer vulnerability assessment and management judgement. The vulnerability assessments were informed by data on loans that availed of payment breaks during 2020 with cross reference to other credit characteristics (e.g. employment type; employment status; employment sector; IFRS 9 staging status).

Given the level at which this review was performed, the Bank did not reclassify any exposures into a different stage than that initially identified by the impairment models.

The total population remaining, with payment breaks in place at 31 December 2020, was €100 million. Further details in relation to payment breaks are set out on page 56. The management adjustment of €18 million in Stage 1 is broadly equivalent to the impact from a transfer of c.7% of the Bank's Stage 1 assets into Stage 2.

Management adjustment for late breaking events

A post-model management adjustment to the Bank's impairment loss allowance of €2 million has been recognised as at the 31 December 2020 to reflect an acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Group's key markets in late December 2020.

This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Bank's multiple economic scenarios utilised in its impairment models were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%).

2 Critical accounting estimates and judgements *(continued)*

The adjustment is allocated to reflect the estimated impacts of the adjusted scenario weightings on impairment loss allowance, with €1 million allocated to Stage 1 and €1 million to Stage 2. The stage classification of assets was not changed through the application of this management adjustment.

Stage 3 management adjustment

The impairment loss allowance of €276 million also includes a management adjustment of €35 million (2019: €36 million).

The management adjustment primarily reflects the concentration of Stage 3 assets which are longer in default, where utilisation of alternative recovery strategies to achieve realisation may require higher impairment coverage on disposal that currently cannot reasonably be reflected in IFRS 9 impairment model methodology. The €35 million (2019: €36 million) management adjustment reflects the profile of the Stage 3 population at 31 December 2020 and has been calculated and applied through increases to the LGD component of modelled impairment loss allowances for Stage 3 mortgages that have been in default for more than five years.

(b) Transfer pricing

A new transfer pricing agreement was implemented between the Bank and its immediate parent, Bank of Ireland from 1 January 2020 in relation to the use of the Bank's issuance of asset covered securities as a source of funding for Bank of Ireland. The agreement reflects the economic impact of the financial arrangement between both parties on an arm's length basis. Because the transactions between the parties are so closely related that they cannot be evaluated on a separate basis, a profit split method is used. This determines the appropriate profit allocation between Bank of Ireland and the Bank, using a Contribution analysis approach where the total profits generated from the transactions under review are shared. This calculation of the transfer price relies on allocating profits in proportion to the functions and economic risks borne by the parties involved in the transactions.

Judgements

Judgement has been exercised in relation to the funding arrangements and identification of relevant risk borne by Bank of Ireland, taking into consideration the assets provided to the Bank and additional risks undertaken by Bank of Ireland in facilitating the operations of the Bank.

Sources of estimation uncertainty

The principal sources of estimation uncertainty are the split of activity of key management personnel and their teams between the two parties to manage and operate the Bank, and the level of savings generated by issuing asset covered securities rather than getting unsecured funding.

A 1% move in the estimation of the split of key management personnel activity would have an impact of €0.4 million on profit before tax.

(c) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the

relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Judgements

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.

Sources of estimation uncertainty

- the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life;
- 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 €34.7 million in the income statement. There has been no change to the average life assumption in 2020.

(d) Tracker Mortgage Examination Review

At 31 December 2020, the Bank holds a provision of €60 million (2019: €61 million) in respect of the industry wide Tracker Mortgage Examination. While the supervisory phase of the examination was concluded by the Central Bank of Ireland in July 2019, the provision covers the estimated costs of remediation of any remaining impacted customers, addressing customer appeals and closing out all other outstanding costs of the exercise, and in particular, any sanction that may be incurred as a result of Central Bank of Ireland enforcement actions.

Judgements

The Bank has exercised judgement in particular in determining the level of potential appeals and the impact of any potential administrative sanction. With respect to the latter, the Bank considers that there is a range of potential sanction outcomes based on general and specific circumstances and the amount of any sanction imposed may differ from the amount provided at 31 December 2020.

Sources of estimation uncertainty

- the level of costs to be incurred by the Bank in concluding the examination, and in particular, any potential fine;
- estimates of the level of appeals; and
- appeal success rates.

3 Interest income

	2020 €m	<i>Restated¹</i> 2019 €m
Loans and advances to banks	28	18
Loans and advances to customers at amortised cost	419	421
Underlying interest income on financial assets measured at amortised cost	447	439
Interest on financial assets at fair value through profit or loss	12	13
Interest on non-trading derivatives	1	3
Impact of Tracker Mortgage Examination Review	(3)	(7)
Total interest income	457	448
Of which receivable from Bank of Ireland (including swap interest)	42	36

There was a further charge to interest income in 2020 of €3 million in respect of redress under the Tracker Mortgage Examination Review (2019: €7 million).

Interest income recognised on loans and advances to customers

In 2020, €19.7 million of interest was recognised on credit impaired loans and advances to customers at the year end (2019: €16.5 million).

In 2020, €14.0 million of interest income was received on credit impaired loans and advances to customers at the year end (2019: €11.4 million).

Transferred from cash flow hedge reserve

Interest income also includes a charge of €14 million (2019: €16 million) transferred from the cash flow hedge reserve (note 10).

Impact of change in Interest income and expense accounting policy

As outlined in the Interest income and expense accounting policy on page 19 and Adoption of new accounting standards and voluntary changes in accounting policies, also on page 19, the Bank has voluntarily changed its accounting policy in relation to Interest income and expense

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The impact has been to increase interest income by €12 million (2019: €13 million) in relation to interest on Life loans, which are measured at fair value through profit or loss, with a further increase in relation to non-trading derivatives of €1 million (2019: €3 million).

¹ As outlined in the Bank's accounting policies on page 19, comparative figures have been restated to reflect the impact of the voluntary change in the Bank's accounting policy for the presentation of interest income and expense on certain financial instruments. See notes 3, 4 and 5 for additional information.

4 Interest expense

	2020 €m	Restated ¹ 2019 €m
Deposits from banks	73	49
Debt securities in issue	44	59
Interest on subordinated liabilities	3	4
Interest expense from financial liabilities measured at amortised cost	120	112
Non-trading derivatives (not in hedge accounting relationships)	1	1
Interest expense	121	113
Of which payable to Bank of Ireland	78	57

Impact of change in Interest income and expense accounting policy

As outlined in the Interest income and expense accounting policy on page 19 and Adoption of new accounting standards and voluntary changes in accounting policies, also on page 19, the Bank has voluntarily changed its accounting policy in relation to

Interest income and expense. This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. As a result, interest expense has increased by €1 million (2019: €1 million).

5 Net trading expense

	2020 €m	Restated ¹ 2019 €m
Fair value movements on other financial assets at fair value through profit or loss	1	4
Interest rate contracts	2	-
Net trading expense	3	4

In 2020, net trading expense was €3 million (2019 (restated): €4 million). Net income from other financial assets at fair value through profit or loss includes realised and unrealised gains and losses on Life Loans, but not interest income.

Interest rate contracts include 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.

Impact of change in Interest income and expense accounting policy

As outlined in the Interest income and expense accounting policy on page 19 and Adoption of new accounting standards and voluntary changes in accounting policies, also on page 19, the Bank has voluntarily changed its accounting policy in relation to Interest income and expense

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. Consequently, net trading expense has reduced by €12 million (2019: €15 million).

¹ As outlined in the Bank's accounting policies on page 19, comparative figures have been restated to reflect the impact of the voluntary change in the Bank's accounting policy for the presentation of interest income and expense on certain financial instruments. See notes 3, 4 and 5 for additional information.

6 Auditor's remuneration (excluding VAT)

	2020 €'000	2019 €'000
Audit and assurance services		
Statutory audit	150	150
Assurance services	46	70
	196	220
Other services		
Taxation services	-	-
Other non-audit services	-	-
Total auditor's remuneration	196	220

Disclosure of auditor's fees is made in accordance with Section 322 of the Companies Act, 2014 which mandates the disclosure of fees in particular categories and that fees paid to KPMG, the Bank's auditor, for services provided to the Bank be disclosed in this format.

7 Operating expenses

	2020 €m	2019 €m
Transfer pricing agreement charge	250	-
Cost of Tracker Mortgage Examination Review	7	40
Other operating expenses	36	37
Total operating expenses	293	77

	2020 €'000	2019 €'000
Staff costs		
Wages and salaries	351	570
Social security costs	39	41
Pension costs	55	60
Total staff costs recognised in the income statement	445	671

There was a further charge in 2020 of €7 million in respect of the Tracker Mortgage Examination Review to cover additional compensation costs for a number of customers, operational costs associated with the length and nature of the review and costs of closing out the Tracker Mortgage Examination review (2019: €40 million).

A review of pricing arrangements between Bank of Ireland and the Bank, and in accordance with the OECD guidelines on transfer pricing which are the internationally accepted principles in this area, was completed during the current financial year. The review looked at the use of the Bank's issuance of asset covered securities as a source of funding for Bank of Ireland. Arising from this review, a new pricing agreement was implemented with

effect from 1 January 2020. The new agreement reflects, and takes account of the functions, risks and assets involved in the financial arrangement between both parties. The impact of implementing the new transfer pricing agreement, which attributes an arm's length profit to the Bank of €28 million, is an increase in amounts payable to Bank of Ireland of €250 million. The additional charge is in respect of credit management, central function costs, risks borne by and assets provided by Bank of Ireland in facilitating the operations of the Bank.

During 2020, the average number of employees was 4 (2019: 4 employees).

8 Net impairment losses on financial instruments

The Bank's net impairment losses on loans and advances to customers at amortised cost are set out in this table.

	2020 €m	2019 €m
Loans and advances to customers at amortised cost	(14)	(44)
- Cash recoveries	4	1
- Movement in impairment losses	(18)	(45)
Net impairment losses on financial instruments	(14)	(44)

The net impairment losses of €14 million for 2020 (2019: €44 million) reflect the challenging economic conditions and the impact of COVID-19. The key drivers of the net impairment charge in the year were a net loss of €9 million from model parameter updates (including updated forward-looking information) and a €24 million loss due to an increase in the post-model management adjustment; offset by a net gain from portfolio activity of €19 million (including recoveries) reflecting observed resilience in the performance of customers who did not avail of payment breaks.

The €9 million net loss from model parameter updates in the year reflects a €49 million net impairment loss from general parameter updates and updated Forward Looking Information (FLI) in particular, based on latest views on macro-economic variables, offset by the impact from the application of enhanced data for the sales ratio, which was a €40 million reduction in impairment loss allowance.

The €24 million loss due to the increase in the post-model management adjustment includes a COVID-19 management adjustment of €22 million, recognised to cover credit losses relating to customers who had availed of payment breaks during 2020 but that modelled impairment losses at 31 December 2020 may not have fully captured, and a €2 million post-model management adjustment for late breaking events recognised to reflect an acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the Republic of Ireland in late December 2020.

As outlined in note 13, in 2019, the Bank derecognised a portfolio of non-performing loans. Net impairment losses on financial instruments included net impairment losses of €12 million arising on the disposal of these loans.

There have been no similar disposals or resulting impairment gains / losses in the year ended 31 December 2020.

9 Taxation

	2020 €m	2019 €m
Current tax		
Current year	4	27
Adjustment in respect of prior years	-	2
	4	29
Deferred tax		
Current year credit	(1)	(1)
	(1)	(1)
Taxation charge	3	28

9 Taxation (continued)

Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to the Bank's actual taxation charge	2020 €m	2019 €m
Profit before taxation	28	212
Profit @12.5%	3	27
Adjustment in respect of prior years	-	1
Taxation charge	3	28

	2020			2019		
	Pre-tax €m	Tax €m	Net of tax €m	Pre-tax €m	Tax €m	Net of tax €m
Cash flow hedge reserve						
Changes in fair value	15	(2)	13	44	(6)	38
Transfer to income statement	(14)	2	(12)	(17)	2	(15)
Net change in cash flow hedge reserve	1	-	1	27	(4)	23

10 Derivative financial instruments

The Bank's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in note 25 Risk management and control. The notional amounts of certain types of derivatives 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. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Bank are set out in the table below.

Derivatives held for trading comprise derivatives entered into with economic hedging intent to which the Bank does not apply hedge accounting. Derivatives classified as held for hedging in the table below comprise only those derivatives to which the Bank applies hedge accounting.

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. All of the derivative assets €108 million (2019: €109 million) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

At 31 December 2020, cash collateral of €282 million (2019: €295 million) was held against these assets and is reported within deposits from banks (note 15).

There are no placements with other banks in respect of the net derivative liability position of €22 million (2019: €22 million).

For further information on hedging risk management, see note 25. The Bank designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships. The Bank held the following interest rate swaps as hedging instruments.

	2020			2019		
	Contract notional amounts €m	Fair values		Contract notional amounts €m	Fair values	
		Assets €m	Liabilities €m		Assets €m	Liabilities €m
Interest rate swaps						
- Held for trading	26,770	20	(22)	24,069	30	(22)
- Designated as fair value hedges	40	16	-	40	15	-
- Designated as cash flow hedges	2,624	72	-	3,874	64	-
Total derivative assets / (liabilities)		108	(22)		109	(22)

10 Derivative financial instruments *(continued)*

Interest rate benchmark reform

At 31 December 2020, EURIBOR represented the most significant IBOR interest rate benchmarks to which the Bank's fair value and cash flow hedge relationships of interest rate risk are exposed.

As EURIBOR has been reformed and complies with the EU Benchmarks Regulation under a new hybrid methodology, the Bank expects EURIBOR to continue as a benchmark interest rate for the foreseeable future and, therefore, does not consider interest rate hedge relationships of EURIBOR to be directly affected by IBOR reform as at 31 December 2020.

Hedging strategy	2020				2019			
	Up to 1 year €m	1-2 years €m	2-5 years €m	>5 years €m	Up to 1 year €m	1-2 years €m	2-5 years €m	>5 years €m
Fair value hedge								
<i>Interest rate risk</i>								
- Interest rate swap - notional amount	-	-	-	40	-	-	-	40
- Average fixed interest rate (%)	-	-	-	5.5%	-	-	-	5.5%
Cash flow hedge								
<i>Interest rate risk</i>								
- Interest rate swap - notional amount	724	955	760	185	1,250	724	955	945
- Average fixed interest rate (%)	0.1%	0.1%	0.6%	1.4%	0.6%	0.1%	0.1%	0.8%

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 issued debt portfolios. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows:

Items designated as hedging instruments and hedge ineffectiveness		Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument		Changes in value used to calculate hedge ineffectiveness ^{2,3} €m	Ineffectiveness recognised in profit or loss ³ €m
Risk category	Hedging instrument ¹		Assets €m	Liabilities €m		
At 31 December 2020						
Interest rate risk	Interest rate swaps	40	16	-	-	-
At 31 December 2019						
Interest rate risk	Interest rate swaps	40	15	-	-	-

Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item €m	Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item €m	Changes in value used for calculating hedge ineffectiveness €m	Remaining adjustments for discontinued hedges €m
At 31 December 2020				
Interest rate risk				
Debt securities in issue	56	(15)	-	-
At 31 December 2019				
Interest rate risk				
Debt securities in issue	55	(15)	-	-

¹ All hedging instruments are included within derivative financial instruments on the balance sheet.

² Ineffectiveness is included within net trading income on the income statement.

³ There are no material causes of ineffectiveness in the Bank's fair value hedges.

10 Derivative financial instruments *(continued)*

Cash flow hedges

The Bank designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability

in future cash flows arising from floating rate assets. The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

Risk category and hedging instrument ¹	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument		Changes in value used for calculating hedge ineffectiveness €m	Changes in the value of the hedging instrument recognised in other comprehensive income €m	Ineffectiveness recognised profit or loss ^{2,3} €m	Amount reclassified from the cash flow hedge reserve to profit or loss ³ €m
		Assets €m	Liabilities €m				
At 31 December 2020							
Interest rate risk							
Interest rate swaps	2,624	72	-	(1)	1	-	(14)
At 31 December 2019							
Interest rate risk							
Interest rate swaps	3,874	64	-	(27)	27	-	(17)

The amounts relating to items designated as hedged items were as follows:

Risk category	2020			2019		
	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discontinued hedges €m	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discontinued hedges €m
Interest rate risk	1	(64)	(1)	27	(63)	(1)

In 2020 and 2019, there were no forecast transactions to which the Bank had applied hedge accounting which were no longer expected to occur. Movements in the cash flow hedge reserve

are shown in the statement of changes in equity (page 16). A reconciliation of the movements in the cash flow hedge reserve is shown in the table below.

	2020 €m	2019 €m
Changes in fair value		
- Interest rate risk	15	43
Transfer to income statement		
<i>Interest income</i>		
- Interest rate risk	(14)	(16)
<i>Net trading income / (expense)</i>		
- Interest rate risk	-	(1)
Deferred tax on reserve movements	-	(3)
Net change in cash flow hedge reserve	1	23

¹ All hedging instruments are included within derivative financial instruments on the balance sheet.

² Ineffectiveness is included within net trading income on the income statement.

³ There are no material causes of ineffectiveness in the Bank's fair value hedges.

11 Other financial assets at fair value through profit or loss

	2020 €m	2019 €m
Other financial assets at fair value through profit or loss		
Life Loans	239	246
	239	246

Other financial assets at fair value through profit or loss represent the Life Loan mortgage product, which was offered by the Bank until November 2010.

On Life Loans, unlike a standard mortgage product, borrowers do not make any periodic repayments and the outstanding loan balance increases through the life of the loan as interest due is capitalised. The mortgage is typically repaid out of the proceeds of the sale of the property.

The cash flows of the Life Loans are not considered to consist solely of payments of principal and interest, and as such are classified as 'fair value through profit or loss'.

Other financial assets at fair value through profit or loss are not subject to impairment under IFRS 9. For further information on the calculation of fair value, see note 26.

12 Loans and advances to banks

	2020 €m	2019 €m
Funds placed with Bank of Ireland	3,844	3,534
Less impairment loss allowance on loans and advances to banks	(1)	(1)
Total loans and advances to banks at amortised cost	3,843	3,533
Loans and advances to banks by remaining maturity		
Repayable on demand	56	44
3 months or less	2,503	2,640
1 year or less but over 3 months	150	238
5 years or less but over 1 year	277	300
Over 5 years	858	312
Less impairment allowance	(1)	(1)
Total loans and advances to banks at amortised cost	3,843	3,533

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial assets at amortised cost in note 25 on page 58.

	2020		2019	
	Gross carrying amount €m	Impairment loss allowance €m	Gross carrying amount €m	Impairment loss allowance €m
Movement in loans and advances to banks				
Opening balance	3,534	(1)	3,621	(1)
Net changes in exposure	310	-	(87)	-
Closing balance	3,844	(1)	3,534	(1)

The table shows the movement in both the gross carrying amount and impairment loss allowance subject to 12 month Expected Credit Losses (ECL) on loans and advances to banks. All balances are receivable from Group entities and are deemed,

due to low credit risk, to be Stage 1 for the purposes of ECL measurement. See note 25 for more detail on risk management and control.

13 Loans and advances to customers at amortised cost

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

	2020 €m	2019 €m
Loans and advances to customers at amortised cost	16,354	16,180
Accrued interest receivable	15	15
Less allowance for impairment charges on loans and advances to customers at amortised cost	(276)	(261)
Total loans and advances to customers at amortised cost	16,093	15,934
Loans and advances to customers at amortised cost by remaining maturity		
3 months or less	245	237
1 year or less but over 3 months	596	581
5 years or less but over 1 year	3,155	3,105
Over 5 years	12,373	12,272
Less allowance for impairment charges on loans and advances to customers at amortised cost	(276)	(261)
	16,093	15,934

The following tables show the changes in gross carrying amount and impairment loss allowances of loans and advances to customers at amortised cost for the year ended 31 December 2020.

Transfers between stages represent the migration of loans from Stage 1 to Stage 2 following a 'significant increase in credit risk' or to Stage 3 as loans enter defaulted status. Conversely, improvement in credit quality and loans exiting default result in loans migrating in the opposite direction. The approach taken to identify a 'significant increase in credit risk' and identifying defaulted and credit-impaired assets is outlined in note 25 Risk management and control and the accounting policies note 1 (including the impact of the implementation of a revised definition of default) outlined in the Credit Risk section of note 25.

Transfers between each stage reflect the balances and impairment loss allowances prior to transfer. The impact of re-measurement of impairment loss allowance on stage transfer is reported within 're-measurement' in the new stage that a loan has transferred into. For those tables based on an aggregation of the months' transfers between stages, transfers may include loans which have subsequently transferred back to their original stage or migrated further to another stage.

'Net changes in exposure' comprise the movements in the gross carrying amount and impairment loss allowance as a result of new loans originated and repayments of outstanding balances throughout the reporting period.

'Net impairment losses in income statement' does not include the impact of cash recoveries which are recognised directly in the income statement (note 8).

'Re-measurements' includes the impact of remeasurement on stage transfers noted above, other than those directly related to the update of FLI and / or other model and parameter updates, changes in management adjustments and remeasurement due to changes in asset quality that did not result in a transfer to another stage.

'ECL model parameter changes' represents the impact on impairment loss allowances of semi-annual updates to the FLI, and other model and parameter updates used in the measurement of impairment loss allowances, including the impact of stage migrations where the migration is directly related to the update of FLI and / or other model and parameter updates.

'Impairment loss allowances utilised' represents the reduction in the gross carrying amount and associated impairment loss allowance on loans where the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The utilisation of an allowance does not, of itself, alter a customer's obligations nor does it impact on the Bank's rights to take relevant enforcement action.

13 Loans and advances to customers at amortised cost *(continued)*

2020	Stage 1 - 12 month ECL (not credit impaired) €m	Stage 2 - Lifetime ECL (not credit impaired) €m	Stage 3 - Lifetime ECL (credit impaired) €m	Total gross carrying amount €m
Gross carrying amount (before impairment loss allowance)				
Opening balance 1 January 2020	14,533	762	885	16,180
Total net transfers	(1,016)	807	209	-
- to 12-month ECL not credit-impaired	657	(649)	(8)	-
- to lifetime ECL not credit-impaired	(1,596)	1,701	(105)	-
- to lifetime ECL credit-impaired	(77)	(245)	322	-
Net changes in exposure	319	(75)	(66)	178
Impairment loss allowances utilised	-	-	(12)	(12)
Other movements	8	-	-	8
Gross carrying amount at 31 December 2020	13,844	1,494	1,016	16,354

Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2020 includes €9 million (2019: €17 million) of contractual amounts outstanding that are still subject to enforcement activity.

2020	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Total impairment loss allowance €m
Impairment loss allowance				
Opening balance 1 January 2020	(4)	(15)	(242)	(261)
Total net transfers	(9)	6	3	-
- to 12-month ECL not credit-impaired	(12)	11	1	-
- to lifetime ECL not credit-impaired	3	(13)	10	-
- to lifetime ECL credit-impaired	-	8	(8)	-
Net impairment gains / (losses) in income statement	(17)	(6)	5	(18)
- Re-measurement	(12)	(8)	(16)	(36)
- Net changes in exposure	-	2	5	7
- ECL model parameter changes	(5)	-	16	11
Impairment loss allowances utilised	-	-	12	12
Measurement reclassification and other movements	-	-	(9)	(9)
Impairment loss allowance at 31 December 2020	(30)	(15)	(231)	(276)

Total gross loans and advances to customers increased during the period by €0.2 billion from €16.2 billion as at 31 December 2019 to €16.4 billion as at 31 December 2020 reflective of redemptions and demand for new lending.

The Bank had no purchased or originated credit-impaired loans in 2020.

13 Loans and advances to customers at amortised cost *(continued)*

2019	Stage 1 - 12 month ECL (not credit impaired) €m	Stage 2 - Lifetime ECL (not credit impaired) €m	Stage 3 - Lifetime ECL (credit impaired) €m	Total gross carrying amount €m
Gross carrying amount (before impairment loss allowance)				
Opening balance 1 January 2019	13,730	875	1,350	15,955
Total net transfers	15	(18)	3	-
- to 12-month ECL not credit-impaired	547	(547)	-	-
- to lifetime ECL not credit-impaired	(524)	650	(126)	-
- to lifetime ECL credit-impaired	(8)	(121)	129	-
Net changes in exposure	767	(95)	(356)	316
Impairment loss allowances utilised	-	-	(113)	(113)
Other movements	21	-	1	22
Gross carrying amount at 31 December 2019	14,533	762	885	16,180

2019	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Total impairment loss allowance €m
Impairment loss allowance				
Opening balance 1 January 2019	(3)	(10)	(311)	(324)
Total net transfers	(4)	(6)	10	-
- to 12-month ECL not credit-impaired	(5)	5	-	-
- to lifetime ECL not credit-impaired	1	(15)	14	-
- to lifetime ECL credit-impaired	-	4	(4)	-
Net impairment gains / (losses) in income statement	3	1	(49)	(45)
- Re-measurement	4	8	(79)	(67)
- Net changes in exposure	-	1	77	78
- ECL model parameter changes	(1)	(8)	(47)	(56)
Impairment loss allowances utilised	-	-	113	113
Measurement reclassification and other movements	-	-	(5)	(5)
Impairment loss allowance at 31 December 2019	(4)	(15)	(242)	(261)

The Bank held no purchased or originated credit-impaired loans in 2019.

During 2019, the Bank derecognised a portfolio of non-performing loans. The portfolio was split as two transaction tranches as follows:

In April 2019, the Group entered into a securitisation arrangement which included €232 million (before impairment loss allowance) of non-performing exposures for the Bank through a special purpose vehicle, Mulcair Securities DAC. The net carrying value of the tranche was €205 million.

In August 2019, the Bank of Ireland Group sold a second tranche of non-performing exposures for the Bank to a third party, Promontoria 2019 DAC, under a Mortgage Sale Agreement. The loans had a gross carrying value of €130 million and a (net carrying value of €81 million).

The Bank has not retained any interest in the disposed assets in 2019.

The Bank recognised a net impairment loss of €12 million after costs relating to the disposal of these loans, which was reported through net impairment losses / gains on financial instruments, as required by IFRS 9.

In accordance with IFRS 9, the loan assets were derecognised from the balance sheet.

In 2019, the impairment loss allowance reduced primarily due to the disposal of non-performing loans. However, this reduction was offset in part by an increase in impairment losses arising from changes to the forward looking information which reflect a reduction in the rate of residential property price growth.

13 Loans and advances to customers at amortised cost *(continued)*

The Bank takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed. The table below sets out the weighted average indexed Loan to Value (LTV) for the mortgage loan book at amortised cost which showed positive movements during 2020 and was, on average, 60% at 31 December 2020 (2019: 60%).

Property values are determined by reference to the latest property valuations held¹, indexed to the Residential Property Price Index (RPPI) published by the CSO. The indexed LTV profile of the mortgage loan book in the table is based on the CSO RPPI at October 2020.

LTV ratio of total	2020			2019		
	Not credit-impaired €m	Credit-impaired €m	Total €m	Not credit-impaired €m	Credit-impaired €m	Total €m
Mortgage loan book						
Less than 50%	5,548	196	5,744	5,746	123	5,869
51% to 70%	4,837	178	5,015	5,069	139	5,208
71% to 80%	2,249	90	2,339	2,166	78	2,244
81% to 90%	2,321	115	2,436	1,844	99	1,943
91% to 100%	229	76	305	270	74	344
Subtotal	15,184	655	15,839	15,095	513	15,608
101% to 120%	63	96	159	95	100	195
121% to 150%	39	80	119	43	84	127
Greater than 150%	52	185	237	62	188	250
Subtotal	154	361	515	200	372	572
Total	15,338	1,016	16,354	15,295	885	16,180
Weighted average LTV¹:						
Stock of mortgages at year end (%)	58%	100%	60%	57%	110%	60%
New mortgages during the year (%)	74%		74%	73%		73%

14 Modified financial assets

The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime expected credit loss, and where the modification did not result in derecognition.

COVID-19 payment breaks are disclosed separately in note 25 on page 56, and include €24 million of assets which were granted a COVID-19 payment break, while they had an impairment loss allowance measured at an amount equal to lifetime ECL at 31 December 2020.

	2020 €m	2019 €m
Financial assets modified during the year		
Amortised cost before modification	70	73
Net modification gains / (losses) on modified financial assets (net of impairment loss impact)	-	-
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the year	176	233

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

15 Deposits from banks

	2020 €m	2019 €m
Deposits from banks	12,053	10,541
Deposits by remaining maturity	-	-
3 months or less	1,557	987
1 year or less but over 3 months	2,498	2,232
5 years or less but over 1 year	7,557	6,270
Greater than 5 years	441	1,052
Total	12,053	10,541

All deposits from banks are due to Bank of Ireland.

16 Debt securities in issue

	2020 €m	2019 €m
Debt securities in issue	6,168	7,444
Bonds and medium term notes by remaining maturity		
3 months or less	744	768
1 year or less but over 3 months	503	505
5 years or less but over 1 year	3,961	3,923
Greater than 5 years	960	2,248
	6,168	7,444
Of which is due to Bank of Ireland	3,200	3,201

The movement on debt securities in issue is analysed as follows:

	2020 €m	2019 €m
Opening balance	7,444	8,328
Redemptions	(1,248)	(795)
Purchases	(22)	(80)
Other movements	(6)	(9)
Closing balance	6,168	7,444

16 Debt securities in issue *(continued)*

Asset Covered Securities (ACS)

The Bank, as a registered designated mortgage credit institution under the Asset Covered Securities Act, 2001, established its mortgage covered securities programme (the 'Programme') in 2004. Pursuant to the Programme, the Bank may from time to time issue mortgage covered securities denominated in any currency in accordance with the provisions of the ACS Acts. ACS issued by the Bank may be listed on the Main Securities Market or the Global Exchange Market of the Irish Stock Exchange plc. 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 10 November 2020. In accordance with the ACS Acts the required disclosures are set out in note 16 (a) – 16 (h) below.

The total nominal value of mortgage covered securities in issue at 31 December 2020 amounted to €6.1 billion (2019: €7.4 billion).

Mortgage-Backed € Promissory Notes

The Bank participated in the ECB three year long term refinancing operation entering into a framework agreement on 28 February 2012 with the Central Bank of Ireland (CBI) under which the Bank may issue special 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. The Bank's obligations under the special mortgage-backed euro 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.

A deed of floating charge ('Deed of Charge') entered into by the Bank at the time 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:

- (i) 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
- (ii) 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 continued to have an option to participate in the ECB short term Main Refinancing Operations (MRO). The Bank did not access MRO for funding purposes at any time during 2020 (2019: €nil).

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

Range €'000	2020		2019	
	Number of accounts	Total balances of accounts of accounts €m	Number of accounts	Total balances of accounts of accounts €m
0-100	37,702	1,758	37,793	1,734
100-200	27,695	4,035	25,725	3,733
200-500	18,086	5,102	14,890	4,170
Over 500	1,210	818	1,095	743
	84,693	11,713	79,503	10,380

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 75,781 properties in the Pool at 31 December 2020 (2019: 70,355). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2020 and 2019 respectively.

(b) Geographic location of mortgage properties in the cover assets pool	2020		2019	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	29%	71%	28%	72%
Number of accounts	24,323	60,370	22,163	57,340
Number of properties	21,805	53,976	19,694	50,660

16 Debt securities in issue *(continued)*

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2020 and 2019 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 2020 and 31 December 2019.

	2020	2019
(c) Mortgage accounts in default in the cover assets pool at year end		
Number of accounts in default	15	16
Cumulative current balance on above accounts (€m)	2	2
- of which arrears represent (€m)	-	-

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

	2020	2019
(d) Mortgage accounts in default in the cover assets pool with arrears of more than €1,000		
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	216	321
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	34	26

(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 2020, 256 accounts were non-performing (2019: 395 accounts) and were replaced with other mortgage credit assets.

(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 2020 was 60,763 (2019: €53,249). €11,465 of this represented non-payment of interest (2019: €12,165).

	2020 €m	2019 €m
(g) Total mortgage principal and interest repayments on mortgage accounts in the cover assets pool		
Interest paid in respect of mortgage credit assets	339	316
Capital repaid in respect of mortgage credit assets	1,230	1,155

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

At 31 December 2020, there were no mortgage accounts in the Pool that were secured on commercial property (2019: nil).

17 Other liabilities

	2020 €m	2019 €m
Amounts due to Bank of Ireland	242	24
Other liabilities	4	3
	246	27

Amounts owed to Bank of Ireland are unsecured, interest free and are repayable on demand. Other liabilities include tax and social insurance, which are payable at various dates over the coming months in accordance with the applicable statutory provisions and are expected to be fully repaid within 12 months.

18 Provisions

	2020 €m	2019 €m
Opening balance	61	38
Charge to income statement	13	47
Provision utilised	(11)	(24)
Closing balance	63	61

At 31 December 2020, the Bank held a provision of €60 million (31 December 2019: €61 million) in respect of the ongoing industry wide Tracker Mortgage Examination. The provision represents the Bank's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Bank in connection with the examination.

Since 31 December 2019, the Bank has set aside a further €10 million provision to cover the additional redress and compensation costs for a small number of additional customers, operational costs associated with the length and nature of the review and estimated costs of closing out the Tracker Mortgage Examination review. Since 31 December 2019, €11 million of the provision has been utilised covering redress, compensation and related cost.

While the redress and compensation element of the provision is largely known, there are still a number of uncertainties as to the eventual total cost of the examination and in particular, the administrative sanctions proceedings. Management has therefore exercised judgement to determine the appropriate provision in respect of certain key items in addition to the core elements of the redress and compensation to be paid to customers. These key judgemental items principally comprise the following:

- appeals: customers can pursue certain other options in respect of the determination as to whether they are impacted and the quantum of redress and compensation

offered by the Bank including lodging appeals to an independent appeals panel in the 12 months after receiving their letter offering redress and compensation. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals; and

- programme costs: in determining the provision in respect of the examination, management has had to consider a range of costs associated with bringing the examination to an ultimate conclusion. This includes costs associated with various oversight and governance processes, and in particular any potential fine relating to the conclusion of the ongoing CBI administrative sanctions proceedings and the running of the appeals panel, tax liabilities that the Bank will settle on behalf of customers, data system costs and tracing agents.

Separate from the above provision, during 2020, the Bank has set aside €3 million to cover redress and compensation costs to a small number of customers where the contracted mortgage terms were not correctly applied to the operation of some accounts. A review has been completed and no further impact is anticipated.

The Bank expects that the majority of the provisions will be fully utilised within 12 months of the balance sheet date.

19 Deferred tax

	2020 €m	2019 €m
<i>The movement on the deferred tax account is as follows:</i>		
Opening deferred tax liability	(11)	(9)
Cash flow hedges	-	(3)
Credit to income statement	1	1
Closing deferred tax liability	(10)	(11)
<i>Deferred tax liabilities are attributable to the following items:</i>		
Deferred tax liability		
Cash flow hedges	(8)	(8)
IFRS 9 transition adjustment	(2)	(3)
Closing deferred tax liability	(10)	(11)
<i>Represented on the balance sheet as follows:</i>		
Deferred tax liability	(10)	(11)

20 Subordinated liabilities

On 29 January 2020, the Bank redeemed a €50 million interest bearing subordinated loan issued from its immediate parent, Bank of Ireland, having received prior supervisory approval to do so. The loan was issued in 2014 with a coupon based on three month EURIBOR plus 4.3%.

On 29 January 2020, the Bank also issued €50 million interest bearing subordinated notes to its immediate parent, Bank of Ireland. The notes are subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the notes is 2.128%. The notes mature on 29 January 2030, callable at the issuer's discretion after five years and any interest payment date thereafter.

On 27 October 2017, the Bank availed of a €90 million interest bearing subordinated loan from its immediate 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 2.05%. The loan matures on 27 October 2027. 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 immediate parent and subject to prior approval by the Competent Authority.

At 31 December 2020, total subordinated loans and accrued interest were €141 million (2019: €140 million).

21 Share capital and share premium

Authorised	2020 '000 Units	2019 '000 Units
Units of €1 of ordinary shares	1,000,000	1,000,000

Allotted, called up and fully paid – presented as equity	2020 €m	2019 €m
Opening balance	488	738
Cancellation of shares	-	(250)
Closing balance	488	488
Share premium	661	661

In 2019, following ECB approval, the Bank completed a reduction of €250 million of ordinary share capital by means of the cancellation of 250 million of ordinary shares at par of €1 each. The reduction in share capital was carried out under Section 1252 of the Companies Act 2014 and was effected by means of Shareholders' Resolution.

The capital reduction resulted in a distribution of €250 million to its immediate parent, Bank of Ireland and reduced common equity tier 1 (CET 1) capital in the Bank by c.4%.

Following the reduction in share capital, the Bank continues to have an adequate capital surplus over risk appetite and regulatory requirements.

22 Other equity instruments

	2020 €m	2019 €m
Additional tier 1 notes issued	200	200

In 2017, the Bank issued Additional tier 1 (AT1) notes with a par value of €200 million to its immediate parent, Bank of Ireland.

The principal terms of the AT1 notes are as follows:

- the notes constitute direct, unsecured and subordinated obligations of the Bank, rank behind Tier 2 instruments and in priority to ordinary shareholders;
- the notes bear a fixed rate of interest of 5.01% until the first call date (on 27 October 2022). After the initial call date, in the event that they are not redeemed, the AT1 notes will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Bank may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the notes have no fixed redemption date, and the note holders will have no right to require the Bank to redeem or purchase the notes at any time;
- the Bank may, in its sole and full discretion but subject to the satisfaction of certain conditions, elect to redeem all (but not some only) of the notes on the initial call date or semi-annually on any interest payment date thereafter. In addition, the AT1 notes are repayable, at the option of the Bank, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities;
- the notes will be written down together with any accrued but unpaid interest if the Bank's CET 1 ratio (calculated on an individual basis) falls below 5.125%; and
- subsequent to any write-down event the Bank may, at its sole discretion, write-up some or all of the written-down principal amount of the AT1 notes provided regulatory capital requirements and certain conditions are met.

23 Pension costs

The employees of the Bank are members of two pension schemes: Bank of Ireland Retirement Savings Plan (also known as RetireWell) and Bank of Ireland Group Pensions Fund (BIGPF).

The Bank is a participating employer in the RetireWell plan in respect of 1 employee (2019: 1 employee). The remaining 3 employees are members of the BIGPF (2019: 4 employees). RetireWell is a defined contribution scheme 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 2020 and 2019 (see note 7 for details of amounts recharged). At 31 December 2020, the Bank had €nil outstanding amounts payable to the scheme (2019: €nil).

24 Segmental information

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

25 Risk management and control

Risk management

The Board approves policies and limits with respect to credit risk, market risk, funding and liquidity risk, operational risk, regulatory risk, conduct risk, business / strategic risk, reputation risk and capital adequacy risk. The Bank has entered into a range of service level agreements with the Group to support its overall risk management and control processes. The Bank's Head of Credit has responsibility for credit policy implementation and the Bank's Head of Finance has responsibility for financial risk policy implementation. Group Treasury has responsibility for day-to-day monitoring of market and liquidity risks. The Group Operational Risk Unit has responsibility for the operational risk framework and policy.

The Bank's risk management and control policies comply with Group risk management policies, which include reviews on a regular basis. In addition, Group control functions (e.g. Credit, Group Internal Audit, etc.) independently review compliance with 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.

Definition of credit risk

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Bank in respect of loans or other financial transactions. Credit risk is a key risk for the Bank and, aside from exposures to entities within the Group, primarily arises from loans and advances to customers to purchase residential property.

Credit risk includes but is not limited to:

- Default risk: the risk that borrowers will be unable to meet the required payments on their debt obligations. Default may be as a result of one or a number of factors including, but not limited to, deterioration in macroeconomic or general market conditions and deterioration in a borrower's capacity to service their debts;
- Credit concentration risk: the risk of loss due to exposures to a single borrower or group of borrowers having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions; and

- Collateral risk: the risk of loss arising from a change in the value or enforceability of security held due to errors in the nature, quantity, pricing, or characteristics of that security.

Credit risk statement

The Bank's credit strategy is to underwrite credit risk within a clearly defined risk appetite and risk governance framework. This is achieved through the extension of credit to customers in a manner that results in an appropriate return for the risks taken and on the capital deployed while operating within prudent risk parameters. The Bank also seeks to maximise recoveries on loans that become distressed.

The Bank's exposure to credit risk is governed by credit policy which is approved by the Board and Group Risk Policy Committee (GRPC). The credit risk function of the Group is responsible for proposing credit policy to the Board and for the management of credit risk in accordance with approved policies. Underwriting and credit management / collections' activities are centralised within the Group.

Exposures are approved only by dedicated underwriting units and according to a system of tiered individual authorities reflecting credit competence, proven judgement and experience.

Credit risk management

The Bank's approach to the management of credit risk entails a detailed credit analysis at origination followed by early intervention and active management of accounts where creditworthiness has deteriorated. The Bank seeks to prevent loans from becoming credit-impaired and to minimise any losses through actions such as implementing forbearance solutions, action to enforce security where appropriate, or asset/portfolio disposals. Loans that are credit-impaired or at risk of becoming credit-impaired are managed by dedicated collection teams focused on working-out loans.

The Bank manages, limits and controls concentrations of credit risk by placing limits on the amounts of risk accepted in relation to one borrower or groups of borrowers. Concentrations of credit risk by geographical and industry sector are provided in a table on page 62.

25 Risk management and control *(continued)*

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, impairment loss allowances and compliance with approved risk limits.

An independent control unit within the Risk Division of the Group 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.

Credit Review undertakes periodic reviews of the quality and management of the Bank's credit risk assets, including an examination of adherence to approved credit policies and procedures.

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 risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific borrowers, is central to the credit risk assessment and ongoing management processes within the Bank.

The Bank measures impairment loss allowances for expected credit losses on essentially all credit risk exposures not measured at fair value through profit or loss. The Bank's impairment modelling methodologies are approved by the Group's Risk Measurement Committee (RMC) and the quantum of the Bank's impairment gain or loss, non-performing exposures and impairment loss allowances are reviewed by the Group's Credit Risk Committee and by the GRPC in advance of providing a recommendation to the Bank's Audit Committee.

The Bank's credit risk rating systems and impairment models and methodologies play a key role in quantifying the appropriate level of impairment loss allowance. Further details are provided in the section on credit risk methodologies on page 54.

An analysis of the Bank's impairment loss allowances at 31 December 2020 is set out on page 58.

Collateral

The Bank takes collateral as a secondary repayment source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally envisaged. The Bank's requirements around completion, valuation and management of collateral are set out in appropriate policies and procedures.

In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank's credit risk processes are designed to ensure that mortgage charges are enforceable from the outset of the loan. The market value at 31 December 2020 of properties held as security for the Bank's loan book are determined by reference to the original or latest property valuations held, indexed to the October 2020 Residential Property Price Index (RPPI) published by the CSO. An annual external valuation is required on security for non-performing exposures in excess of €300,000. The Bank applies Forward Looking Information (FLI) to collateral values for the purposes of measuring the impairment loss allowance. This is described in note 2(a).

The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Bank's residential mortgage portfolio is set out on page 44. Information on repossessed collateral is set out in the table on page 62.

Forbearance strategies

Forbearance occurs when a borrower is granted an agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower.

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

A request for forbearance is 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 deterioration in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed. This assessment may also result in a loan being considered to have experienced a 'significant increase in credit risk' or becoming classified as credit-impaired.

It is the Bank's policy to measure the effectiveness of forbearance arrangements over the lifetime of those arrangements.

Asset quality - loans and advances to customers

Asset quality methodology

The Bank has allocated financial instruments into one of the following categories at the reporting date:

Stage 1 – 12 month Expected Credit Loss (ECL) (not credit-impaired):

Loans which have not experienced a significant increase in credit risk since initial recognition and are not credit-impaired. An impairment loss allowance equal to 12-month ECL is recognised, which is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2 – Lifetime ECL (not credit-impaired):

Loans which have experienced a 'significant increase in credit risk since initial recognition' and are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised, being the ECL resulting from all possible default events over the expected life of the loan. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the loan.

Stage 3 – Lifetime ECL (credit-impaired):

Credit-impaired loans, other than purchased or originated credit-impaired loans. An impairment loss allowance equal to lifetime ECL is recognised. This encompasses loans where: (i) the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security; and / or (ii) the borrower is greater than or equal to 90 days past due and the arrears amount is material.

Purchased or originated credit-impaired financial asset (POCI):

Loans that were credit-impaired at initial recognition. A POCI is not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the

25 Risk management and control *(continued)*

cumulative changes in lifetime ECL since initial recognition. A POCI remains classified as such until it is derecognised, even if assessed as no longer credit-impaired at a subsequent reporting date.

The Bank continued to apply the following classifications at the reporting date:

Forborne loans

Loans where a forbearance measure has been granted and where the criteria to exit a forborne classification, in line with European Banking Authority (EBA) guidance, are not yet met. Loans that have never been forborne or loans that are no longer required to be reported as 'forborne' are classified as 'non-forborne'.

'Non-performing exposures' (NPEs)

These are:

- (i) **credit-impaired loans** which includes loans where the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and
- (ii) **other loans** meeting NPE criteria as aligned with regulatory requirements.

The table below provides an analysis of non-performing loans and advances to customers at amortised cost by asset classification.

Risk Profile of loans and advances to customers at amortised cost - Non-performing exposures	2020 €m	2019 €m
Credit-impaired	1,016	885
Not credit-impaired	-	110
Total	1,016	995

As at 31 December 2020, NPEs are all credit-impaired and are largely unchanged at €1.0 billion (2019: €1.0 billion).

Composition and impairment

The table below summarises the composition, credit-impaired volumes and related impairment loss allowance of the Bank's loans and advances to customers at amortised cost.

Composition and impairment ¹	Advances (pre-impairment loss allowance) €m	Credit- impaired loans ² €m	Credit- impaired loans as % of advances %	Impairment loss allowance on credit- impaired loans €m	Impairment loss allowance on credit- impaired loans as % of credit impaired loans %
At 31 December 2020					
Owner occupied mortgages	15,074	718	5%	135	19%
Buy to let mortgages	1,280	298	23%	96	32%
Total loans and advances to customers at amortised cost	16,354	1,016	6%	231	23%
At 31 December 2019					
Owner occupied mortgages	14,757	617	4%	145	24%
Buy to let mortgages	1,423	268	19%	97	36%
Total loans and advances to customers at amortised cost	16,180	885	5%	242	27%

¹ Excludes €239 million of loans and advances to customers at 31 December 2020 (2019: €246 million) that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.

² Includes Stage 3 assets which remain credit-impaired at the reporting date.

25 Risk management and control *(continued)*

At 31 December 2020, loans and advances to customers (pre-impairment loss allowance) of €16.4 billion were €0.2 billion higher than 31 December 2019, reflecting redemptions and demand for new lending.

Credit-impaired loans increased to €1.0 billion or 6% of customer loans at 31 December 2020 (2019: €0.9 billion or 5%). The increase in credit-impaired loans was due in part to the revised definition of default that was implemented for the Bank in 2020 which resulted in €0.2 billion of assets being re-classified as credit-impaired on implementation during the period. The increase in credit-impaired loans was partly offset by ongoing resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

COVID-19 has impacted the Bank's IFRS 9 staging profile, whereby the application of updated forward-looking information, as well as individually assessed risk ratings has resulted in a material migration of loans from Stage 1 to Stage 2 (i.e. identified as having experienced a significant increase in credit risk).

The stock of impairment loss allowance on credit-impaired loans decreased to €231 million at 31 December 2020 (2019: €242 million). This decrease is mainly attributable to the update of model factors reflecting the impact of the new definition of default.

The total impairment loss allowance as at 31 December 2020 includes a total management adjustment of €59 million (2019: €36 million), €35 million of which was related to credit-impaired assets. Details on the management adjustment are provided in note 2(a).

Impairment loss allowance as a percentage of credit-impaired loans decreased to 23% at 31 December 2020 (2019: 27%). The reduction reflected the impact of the revised definition of default which involved the classification of cases as credit-impaired that have assessed impairment loss allowances coverage that is lower than average.

The table below summarises the composition, NPEs and related impairment loss allowance of the Bank's loans and advances to customers at amortised cost.

Composition and impairment ¹	Advances (pre-impairment) loss allowance €m	NPEs €m	NPEs as % of advances %	Impairment loss allowance on NPEs €m	Impairment loss allowance on NPEs as % of NPEs %
At 31 December 2020					
Owner occupied mortgages	15,074	718	5%	135	19%
Buy to let mortgages	1,280	298	23%	96	32%
Total loans and advances to customers	16,354	1,016	6%	231	23%
At 31 December 2019					
Owner occupied mortgages	14,757	694	5%	155	22%
Buy to let mortgages	1,423	301	21%	102	34%
Total loans and advances to customers	16,180	995	6%	257	26%

Credit risk methodologies

The Bank's credit risk methodologies encompass internal credit rating models and scoring tools and impairment models. A formal model risk policy is in place whereby regular performance monitoring and periodic independent validation of models is required.

Internal credit rating models

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. The primary model measures used are:

- Probability of Default (PD): the probability of a given counterparty defaulting on any of its borrowings from the Bank within the next twelve months;
- Exposure at Default (EAD): the exposure the Bank has to a defaulting borrower at the time of default; and
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD.

The Bank has adopted the Retail Internal Rating Based (IRB) for its exposures. Under this approach, the Bank uses its own estimates of PD, LGD and credit conversion factors when calculating regulatory capital requirements.

Lending to financial institutions is assigned an internal rating supported by external ratings of the major rating agencies.

Methodology for loan loss provisioning

Approach to measurement of impairment loss allowances

Impairment is measured in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Impairment on loans and advances to customers at amortised cost and associated loan commitments is measured through the

¹ Excludes €239 million of loans and advances to customers at 31 December 2020 (2019: €246 million) that are measured at fair value through profit or loss and are therefore not subject to impairment under IFRS 9.

25 Risk management and control *(continued)*

use of impairment models, supplemented where necessary by management adjustments. In general, a loss allowance is recognised for all loans and loan commitments in scope for the impairment requirements of IFRS 9. However this may not be the case for very highly collateralised loans, such as mortgages at low loan to value ratios. Impairment on other financial assets at amortised cost is measured using modelled loss rates.

Impairment models

The Bank's impairment models are executed on a monthly basis and allocate financial instruments to Stage 1, 2 or 3 and measure the applicable 12 month or lifetime ECL. The characteristics of an exposure determine which impairment model is applied, with market segment being a key influencing factor (e.g. Owner occupied and Buy to let).

ECL are calculated as the sum of the marginal losses for each time period from the reporting date. The key components of the ECL calculation are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), and are as described below. Other components include discount rate and maturity. The current contractual interest rate is generally used as the discount rate as it is considered a suitable approximation of the effective interest rate determined at initial recognition.

IFRS 9 PD

Where available, the ratings or underlying scores from internal credit rating models are used as a starting point for IFRS 9 PD calibration. A current point-in-time IFRS 9 PD is calculated as the expected default rate over the next 12 months. This PD is used in the calculation of 12-month ECL and as a starting point in the calculation of lifetime PD. Future point-in-time IFRS 9 PDs are also calculated, being the expected default rates for each year from the start of year two to maturity of the loan.

Together, the current point-in-time IFRS 9 PD and future point-in-time IFRS 9 PDs are used to calculate an IFRS 9 lifetime PD expectation for each Forward Looking Information (FLI) scenario. The scenario weighted averages are used to generate an overall IFRS 9 lifetime PD expectation. As lifetime PD was not calculated historically, the Bank used reasonable and supportable information available without undue cost or effort to approximate the residual IFRS 9 lifetime PD expectations at initial recognition for most loans originated prior to the adoption of IFRS 9 on 1 January 2018.

IFRS 9 EAD

Current point-in-time EAD is the expected exposure at default were the borrower to default within the next 12 months. Future point-in-time EAD also incorporates expected contractual cash flows.

IFRS 9 LGD

Current point-in-time LGD is the loss that would be incurred should default occur in the next 12 months. To facilitate the calculation of lifetime ECL, future point-in-time LGDs are calculated for each year from the start of year 2 to maturity of the exposure.

Identifying a significant increase in credit risk

The Bank's standard criteria to identify financial instruments which have had a 'significant increase in credit risk since initial recognition' are applied to loans and advances to customers at amortised cost. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the loan.

Unless credit-impaired, a loan is generally allocated to Stage 2 if any of the following criteria are met at the reporting date:

- remaining lifetime PD is more than double and more than 50 basis points higher than the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations);
- a contractual payment is greater than 30 days past due; and / or
- the exposure is a forborne loan or a non-performing exposure.

The above criteria are automatically applied as part of the monthly execution of the Bank's impairment models. In addition, management considers whether there is reasonable and supportable information that would not otherwise be taken into account that would indicate that a significant increase in credit risk had occurred.

Where a financial asset has been modified but not derecognised, the quantitative assessment of 'significant increase in credit risk' continues to be based on the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations).

The Bank assesses the effectiveness of its staging criteria semi-annually, taking into account considerations such as the extent to which:

- exposures have moved directly from Stage 1 to Stage 3;
- exposures have moved to Stage 3, having spent only a short period in Stage 2;
- exposures have moved frequently between Stages 1 and 2; and
- there is potential over-reliance on backstop or qualitative criteria in identifying Stage 2 exposures.

The Bank applies the low credit risk expedient to loans and advances to banks. Low credit risk encompasses PD grades 1 to 5 on the Bank's internal PD rating system, which broadly aligns with ratings of AAA to BBB- for the external major rating agencies. Such financial instruments are allocated to Stage 1.

Identifying defaulted assets and credit-impaired assets

During 2020, the Bank implemented a new policy on the definition of default for the purposes of credit risk management. The policy was formulated with regard to regulatory guidelines including European Banking Authority (EBA) Guidelines on the application of the definition of default under Article 178 of the Capital Requirements Regulation. The Bank's Impairment Policy has been revised accordingly and the manner in which the Bank identifies financial assets as credit-impaired continues to result in the population of credit-impaired financial assets being consistent with the population of defaulted financial assets and materially aligned with the Bank's definition of NPEs. Where default criteria are no longer met, the credit facility exits credit-impaired (Stage 3), subject to meeting defined probation criteria, in line with regulatory requirements.

The revised definition of default was implemented in 2020 and resulted in €0.2 billion of assets being reclassified as defaulted (Stage 3), with a corresponding increase in NPEs of €0.1 billion. The change resulted in a €14 million increase in impairment loss allowance as at 31 December 2020 which has been recognised within the impairment charge for the period.

25 Risk management and control *(continued)*

The re-classification of assets as defaulted reflects the wider scope of default triggers under the revised policy, including: non-performing forbore loans; probation periods; the impact of contagion; and revised 'unlikelihood to pay' assessment triggers.

Where necessary, the remaining lifetime probability of default at initial recognition has been re-calibrated to take into account the revised definition of default and other model parameters have been updated within the normal review process to take into account the revised definition of default.

Under the revised definition of default the Bank considers certain events as resulting in mandatory default and credit-impaired classification without further assessment. These include:

- greater than or equal to 90 days past due and the past due amount is material;
- more than 3 full monthly payments past due;
- legal action is underway by the Bank to enforce repayment or realise security;
- the Bank or a receiver takes security into possession;
- the Bank has formally sought an insolvency arrangement in respect of the borrower;
- the exposure is classified as non-performing forbore for supervisory reporting purposes; and
- residential mortgages where default has occurred on another credit facility secured on the same property collateral, or more than 20% of overall balance sheet exposure to the customer in the mortgage portfolio is in default.

Certain other events necessitate a lender assessment and, if the outcome of the lender assessment is that the contractual amount of principal, interest and fees will not be fully repaid in what is assessed to be the most likely cash flow scenario or will be repaid only via recourse by the Bank to actions such as realising security, default and credit-impaired classification is mandatory. For larger value commercial lending cases (typically greater than €1 million), the lender assessment involves production of an individual discounted cash flow analysis. The events differ by portfolio and include those set out below:

- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans, including refinancing and renegotiation of facilities where during the renegotiation process, the lender becomes aware that the borrower is under actual or apparent financial distress;
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
- a borrower's sources of recurring income are no longer available to meet regular loan repayments;
- evidence of fraudulent activity by the borrower or another party connected with the loan;
- the contractual maturity date has passed without repayment in full;
- repayment of a credit obligation is suspended because of a law allowing this option or other legal restrictions;
- it becomes known that an insolvency arrangement is in force in respect of the borrower or that the borrower has formally sought an insolvency arrangement.
- offer of voluntary surrender of security or sale of security at a possible shortfall; or
- it becomes known that the borrower has become unemployed with no comparable new employment secured.

Review of credit-impaired loans

It is Bank policy to review credit-impaired loans above agreed thresholds semi-annually or on receipt of material new information, with the review including a reassessment of the recovery strategy and the continued appropriateness of a credit-impaired classification. The minimum requirements for a credit-impaired loan to return to non credit-impaired status are that the borrower must not be greater than 90 days past due on a material amount, the borrower must be considered likely to pay in full without recourse by the Bank to actions such as realising security and there must be no forbearance arrangement in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged. Typically, an updated assessment of the borrower's current financial condition and prospects for repayment is required with the borrower to have satisfactorily met repayments required under the original or modified agreement regularly for a reasonable period of time.

COVID-19

The following tables analyse the number and value of customer accounts where a payment break was availed of, as a result of COVID-19. Information is presented on an aggregate basis at the date a payment break was granted, in addition to an analysis of accounts still subject to a payment break as at 31 December 2020.

Analysis of all COVID-19 payment breaks granted in 2020

Total number of accounts granted a payment break	12,809
Total gross carrying amount of loans granted a payment break ¹ (€m)	2,002
Total impairment loss allowance on loans granted a payment break ¹ (€m)	34

2020

Analysis of loans and advances to customers subject to a COVID-19 payment break at 31 December 2020

Total number of accounts subject to a payment break	517
Percentage of customer loan accounts ²	0.4%
Total gross carrying amount of loans subject to a payment break ³ (€m)	100
Total impairment loss allowance on loans subject to a payment break ³ (€m)	1

2020

Risk profile of loans and advances to customers subject to a COVID-19 payment break at 31 December 2020

	€m
Stage 1 - Not Credit Impaired	76
Stage 2 - Not Credit Impaired	15
Stage 3 - Credit Impaired	9
Total	100

¹ The gross carrying amount and impairment loss allowance on loans granted a payment break relate to balances as at the date the payment break was granted.

² The number of accounts does not equate to the number of customers.

³ The gross carrying amount and impairment loss allowance on loans subject to a payment break, relate to balances as at 31 December 2020.

25 Risk management and control *(continued)*

The Bank has considered regulatory and supervisory statements issued since the onset of the pandemic, which provided guidance on the treatment of COVID-19 payment breaks, including EBA guidelines on the criteria applicable in determining whether such payment breaks should be considered as forbearance. The approach adopted by the Bank in response to COVID-19 is consistent with regulatory guidance and key elements of the Bank's approach are outlined below:

- due weight to longer-term economic outlook versus the short-term impacts of COVID-19, has been considered in the formulation of forward-looking information (FLI) at the reporting date. FLI scenarios for the period from 2021 to 2025 assume reversion to long-run trends, with consideration given to impact of governmental supports for customers and payment moratoria;
- COVID-19 payment breaks do not automatically result in migration of cases into Stage 2 (or forbearance classification) or Stage 3;
- collective assessments have been considered with outputs utilised to inform post-model Bank management adjustments to the model driven loss allowance, where impairment models were unable to adequately capture effects of COVID-19 for the period ended 31 December 2020; and
- a greater degree of management judgement (based on available reasonable and supportable internal and external information) has been incorporated into impairment reporting processes for this reporting period. In particular judgement has been applied where the unprecedented nature of the COVID-19 FLI scenarios would have generated inappropriate predictions of default.

Further details on the selected FLI scenarios for the reporting period, management adjustments and management judgement incorporated into impairment model parameters are provided in the Critical Accounting Estimates and Judgements on pages 27 to 29.

Forward Looking Information (FLI)

FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the GRPC and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. Further information is set out in note 2.

Typically, one or two macroeconomic variables are incorporated into each impairment model, being those determined to be most relevant to forecasting default of the credit risk exposures flowing through that model.

The lifetime PD expectation for an exposure generated under each of the FLI scenarios, weighted by the probability of each scenario occurring, is used to generate the lifetime PD expectations used for the assessment of 'significant increase in credit risk'.

Forecasts of residential property price growth are incorporated as appropriate into the LGD component of the ECL calculation.

The overall ECL for an exposure is determined as a probability-weighted average of the ECL calculated for each scenario, weighted by the probability of each scenario occurring.

Beyond the forecast period, default rates are assumed to revert over time to an observed long run average and the value of property collateral for LGD purposes is assumed to grow at an observed long-run rate.

FLI is generally not applied to exposures to which the low credit risk expedient has been applied.

Management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a management adjustment to the outputs of the Bank's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late-breaking event. See page 31 for further details.

Asset quality

The table below illustrates the relationship between the Bank's internal credit risk rating grades as used for credit risk management purposes and Probability of Default (PD) percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings

PD Grade	PD %	Indicative S&P type external ratings
1-4	0% ≤ PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5-7	0.26% ≤ PD < 1.45%	BBB, BBB-, BB+, BB
8-9	1.45% ≤ PD < 3.60%	BB-, B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

25 Risk management and control *(continued)*

The following disclosures provide quantitative information about credit risk within financial instruments held by the Bank.

Financial assets

Composition and risk profile

The tables below summarises the composition and risk profile of the Bank's financial assets subject to impairment and the impairment loss allowances on these financial assets.

2020	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Total €m
Financial assets exposure by stage (before impairment loss allowance)				
Financial assets measured at amortised cost				
Loans and advances to customers ¹	13,844	1,494	1,016	16,354
Loans and advances to banks	3,844	-	-	3,844
Other financial assets	1	-	-	1
Total financial assets measured at amortised cost²	17,689	1,494	1,016	20,199

2020	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Total €m
Impairment loss allowance on financial assets				
Financial assets measured at amortised cost				
Loans and advances to customers ¹	30	15	231	276
Loans and advances to banks	1	-	-	1
Other financial assets	-	-	-	-
Total financial assets measured at amortised cost²	31	15	231	277

The Bank had no purchased or originated credit-impaired loans in 2019 or 2020.

¹ Loans and advances to customers at amortised cost excludes loans mandatorily at fair value through profit or loss which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (note 11).

² The above tables exclude loan commitments that are subject to impairment (note 27).

25 Risk management and control *(continued)*

2019	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Total €m
Financial assets exposure by stage (before impairment loss allowance)				
Financial assets measured at amortised cost				
Loans and advances to customers ¹	14,533	762	885	16,180
Loans and advances to banks	3,534	-	-	3,534
Other financial assets	1	-	-	1
Total financial assets measured at amortised cost²	18,068	762	885	19,715

2019	Stage 1 - 12 month ECL (not credit- impaired) €m	Stage 2 - Lifetime ECL (not credit- impaired) €m	Stage 3 - Lifetime ECL (credit- impaired) €m	Total €m
Impairment loss allowance on financial assets				
Financial assets measured at amortised cost				
Loans and advances to customers ¹	4	15	242	261
Loans and advances to banks	1	-	-	1
Other financial assets	-	-	-	-
Total financial assets measured at amortised cost²	5	15	242	262

The Bank had no purchased or originated credit-impaired loans in 2019 or 2020.

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Bank's loans and advances to customers at amortised cost.

Loans and advances to customers Composition and risk profile (before impairment loss allowance)	2020				2019			
	Not credit- impaired €m	Credit- impaired €m	Total		Not credit- impaired €m	Credit- impaired €m	Total	
	€m	€m	€m	%	€m	€m	€m	%
Owner occupied mortgages	14,356	718	15,074	92%	14,140	617	14,757	91%
Buy to let mortgages	982	298	1,280	8%	1,155	268	1,423	9%
Total	15,338	1,016	16,354	100%	15,295	885	16,180	100%
Impairment loss allowance on loans and advances to customers	45	231	276	2%	19	242	261	2%

¹ Loans and advances to customers at amortised cost excludes loans mandatorily at fair value through profit or loss which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (note 11).

² The above tables exclude loan commitments that are subject to impairment (note 27).

25 Risk management and control *(continued)*

Asset quality - not-credit impaired

The tables below summarise the composition and impairment loss allowance of the Bank's loans and advances to customers at amortised cost that are not-credit impaired.

2020	Stage 1				Stage 2			
	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %
Not-credit impaired loans and advances to customers - Composition and impairment loss allowance								
Total mortgages								
Owner occupied mortgages	12,953	79%	24	-	1,403	9%	13	1%
Buy to let mortgages	891	5%	6	1%	91	-	2	2%
Total	13,844	84%	30	-	1,494	9%	15	1%

2019	Stage 1				Stage 2			
	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %
Not-credit impaired loans and advances to customers - Composition and impairment loss allowance								
Total mortgages								
Owner occupied mortgages	13,536	84%	3	-	604	4%	10	2%
Buy to let mortgages	997	6%	1	-	158	1%	5	3%
Total	14,533	90%	4	-	762	5%	15	2%

The tables below provide analysis of the asset quality of loans and advances to customers at amortised cost that are not credit impaired based on mapping the IFRS 9 twelve month PD of each loan to a PD grade based in the table on page 57.

2020	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
Not-credit impaired loans and advances to customers (before impairment loss allowance)						
Asset quality						
PD Grade						
1-4	222	2%	-	-	222	1%
5-7	4,553	33%	74	5%	4,627	30%
8-9	7,385	53%	733	49%	8,118	53%
10-11	1,684	12%	687	46%	2,371	16%
Total not credit impaired	13,844	100%	1,494	100%	15,338	100%

25 Risk management and control *(continued)*

2019

Not-credit impaired loans and advances to customers (before impairment loss allowance) Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	12,114	84%	53	7%	12,167	79%
5-7	1,923	13%	96	13%	2,019	13%
8-9	354	2%	184	24%	538	4%
10-11	142	1%	429	56%	571	4%
Total not credit impaired	14,533	100%	762	100%	15,295	100%

Asset quality – credit-impaired

Credit-impaired loans include loans where the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security, and loans where the borrower is greater than 90 days past due and the arrears amount is material. All credit-impaired loans and advances to customers are risk rated PD grade 12.

The table below summarises the composition and impairment loss allowance of the Bank's loans and advances to customers at amortised cost that are credit-impaired (i.e. Stage 3).

2020	Credit-impaired loans €m	Credit-impaired loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of credit-impaired loans %
Credit-impaired loans and advances to customers Composition and impairment loss allowance				
Owner occupied mortgages	718	4%	135	19%
Buy to let mortgages	298	2%	96	32%
Total credit-impaired	1,016	6%	231	23%

2019	Credit-impaired loans €m	Credit-impaired loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of credit-impaired loans %
Credit-impaired loans and advances to customers Composition and impairment loss allowance				
Owner occupied mortgages	617	4%	145	24%
Buy to let mortgages	268	2%	97	36%
Total credit-impaired	885	6%	242	27%

25 Risk management and control *(continued)*

Concentration of risks of financial assets with credit risk exposure

(i) Geographical sectors

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

	2020 €m	2019 €m
Loans and advances to customers at amortised cost		
Dublin	6,597	6,590
Rest of Republic of Ireland	9,757	9,590
Total	16,354	16,180

(ii) Industry sectors

All loans and advances to banks and derivative financial instruments are categorised as financial assets or liabilities with banks. All derivatives and loans and advances to banks are transacted with Bank of Ireland. Loans and advances to customers are all categorised as Personal (residential mortgages).

Repossessed collateral

At 31 December 2020, the Bank had 36 properties in possession (2019: 36 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	2020 €m	2019 €m
Repossessed collateral		
Residential mortgages	5	6

Other financial assets at amortised cost

Asset quality

Other financial assets subject to impairment under IFRS 9 include loans and advances to banks and amounts receivable. The impairment loss allowance on other financial assets at amortised cost at 31 December 2020 is €1 million (2019: €1 million). None of the balance is credit-impaired. For both years, all other financial assets at amortised cost were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland which is rated BBB- (2019: A-).

The Bank applies the low credit risk expedient to loans and advances to banks for the impairment requirements of IFRS 9. 'Low credit risk' encompasses PD grades 1 to 5 on the Bank's internal PD rating system, which broadly aligns with ratings of AAA to BBB- for the external major rating agencies. Such financial instruments are allocated to Stage 1.

Financial instruments at fair value through profit or loss

Financial instruments at FVTPL include derivatives and Life Loans. The table summarises the asset quality of these financial instruments by equivalent external ratings. These financial instruments are not subject to impairment under IFRS 9.

	2020		2019	
	€m	%	€m	%
Financial instruments at fair value through profit or loss with ratings equivalent to:				
AAA to AA-	-	-	-	-
A+ to A-	108	31%	109	31%
BBB+ to BBB-	-	-	-	-
BB+ to BB-	-	-	-	-
B+ to B-	234	68%	243	68%
Lower than B-	5	1%	3	1%
Total	347	100%	355	100%

25 Risk management and control *(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 are based on net carrying amounts, net of impairment loss allowances, as reported in the balance sheet, adjusted for deferred acquisition costs.

Maximum exposure	2020 €m	2019 €m
Loans and advances to banks	3,843	3,533
Loans and advances to customers at amortised cost	15,874	15,713
Other financial assets at fair value through profit or loss	239	246
Derivative financial instruments	108	109
Commitments	868	782
Total	20,932	20,383

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 both the Group's and the Bank's Boards of Directors. The Bank complies with this policy.

Group Market and Liquidity 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 ensure 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. Group Treasury 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.

InterBank Offered Rate (IBOR) reform

Following the financial crisis, the reform and replacement of benchmark interest rates to alternative or nearly risk-free rates has become a priority for global regulators. The Bank's primary exposure to impacted benchmark rates is EURIBOR which has an amended calculation methodology and is now considered Benchmark Regulation compliant, reducing the impact of reform on the Bank.

A formal Group-wide Benchmark Reform Programme has been mobilised since early 2018 to manage the orderly transition to new regulatory compliant benchmarks. The Programme is overseen by the Group Assets & Liabilities Committee ensuring close monitoring and management of the specific risks and challenges associated with same.

Loans and advances to customers at amortised cost

At 31 December 2020, the Bank had €5.4 billion (2019: €5.8 billion) of floating-rate loans and advances to customers at amortised cost, 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 2020, the nominal value of swaps qualifying for hedge accounting was €2.6 billion (2019: €3.9 billion). Further details are provided in note 10.

At 31 December 2020, the Bank had €11.0 billion (2019: €10.3 billion) of loans and advances to customers at amortised cost, 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.

Other financial assets at fair value through profit or loss

At 31 December 2020, the Bank had €0.2 billion (2019: €0.2 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 2020, the Bank had (nominal) €6.1 billion in issued asset covered securities (2019: €7.4 billion). €2.9 billion of the issued asset covered securities are at fixed rates (2019: €4.2 billion) and the remaining €3.2 billion have an interest rate that resets based on short-dated EURIBOR (2019: €3.2 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

25 Risk management and control *(continued)*

hedge accounting. At 31 December 2020, the nominal value of swaps qualifying for fair value hedge accounting is €40 million (2019: €40 million). Further details are provided in note 10.

Additionally, market risk arises where the rate charged on variable rate mortgage lending resets 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.€0.1 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 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 €1.4 million. At 31 December 2020, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.3 million (2019: €0.2 million). Additionally, to comply with the 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.

Funding and liquidity risk

Funding and 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 held by the Bank, while cash outflows are driven, inter alia, by the term of the debt issued by the Bank. Liquidity risk can increase due to the unexpected lengthening of maturities or non-repayment of assets, or the inability to refinance maturing debt. These factors are often associated with times of distress or adverse events such as a credit rating downgrade(s) or economic or financial turmoil. The Bank has established a risk management framework to manage this risk.

Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities. The Bank's ability to access funding markets at a sustainable cost and in a sufficient volume can be negatively impacted by a credit rating downgrade(s) or deterioration in market sentiment which in turn could impact its financial position.

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. The Bank has outsourced the responsibility for the day to day monitoring and management of liquidity risk to Group Treasury. The Group has been granted a liquidity waiver under Article 8 of the CRR in respect of the application of CRR Liquidity requirements on an individual basis for Bank of Ireland and the Bank. Consequently, the Group manages funding and liquidity for Bank of Ireland and the Bank as a single liquidity centre. 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 immediate 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 2020 and 2019 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 tables incorporate all cash flows on an undiscounted basis related to both the principal and interest payments.

2020	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Liabilities						
Deposits from banks	-	1,553	2,489	7,551	447	12,040
Debt securities in issue	-	748	509	4,033	1,083	6,373
Subordinated liabilities	-	1	2	146	-	149
Other financial liabilities	250	-	-	-	-	250
Loan commitments	868	-	-	-	-	868
Total	1,118	2,302	3,000	11,730	1,530	19,680

25 Risk management and control *(continued)*

2019	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Liabilities						
Deposits from banks	-	1,043	2,385	6,729	411	10,568
Debt securities in issue	-	769	531	4,034	2,417	7,751
Subordinated liabilities	-	-	3	152	-	155
Other financial liabilities	24	-	-	-	-	24
Loan commitments	782	-	-	-	-	782
Total	806	1,812	2,919	10,915	2,828	19,280

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

The table below analyses 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.

Liabilities	2020					2019				
	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Net cash outflows / (inflows) on derivative financial instruments	2	5	13	2	22	3	8	11	-	22

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 Operational Risk committee.

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.

Specifically in relation to 2020, operational risk also includes model risk which is the risk of adverse consequences from decisions based on incorrect or misused model outputs and reports. COVID-19 has caused significant changes for our customers and corresponding operational changes for the Bank, including the deployment of interventions to mitigate model risk. The potential for increased operational risk arising from COVID-19 and the legacy of changes, that may ensue, to ways of working for our customers and colleagues, will be kept under continuous review by the Bank.

Regulatory risk

Regulatory risk is the risk of failure by the Bank to meet new or existing regulatory and / or legislative requirements and deadlines or to embed regulatory requirements into processes. Underpinned by strong engagement with regulatory stakeholders, regulatory risk comprises regulatory compliance risk, corporate governance risk, regulatory change risk and financial crime risk.

The Bank is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of its business, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions. 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.

25 Risk management and control *(continued)*

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 the Group Compliance function.

The Bank has no appetite to knowingly breach any of its regulatory obligations. However, it acknowledges that instances may occur as a consequence of being in business. The Bank has therefore established an approach to ensure the identification, assessment, monitoring, management and reporting of these instances.

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.

Conduct Risk

Conduct risk is the risk that the Bank, and / or its staff, conducts business in an inappropriate or negligent manner that leads to adverse customer outcomes. It includes all Group customers and it also includes the risk the Group's wholesale market activities do not meet the necessary standards of integrity and the level of professionalism required or expected. The key conduct risk exposure areas include the following:

Customer Focused Strategy

The risk of not delivering fair outcomes to customers.

The delivery of fair outcomes for customers forms the principal consideration of the Bank's customer-focused strategy. The Bank acknowledges that a level of residual customer protection risk arises from the provision of residential mortgages across a range of systems and processes and it is committed to continually reducing same. There is no appetite for the Bank and / or its staff conducting business in an inappropriate or negligent manner that leads to adverse outcomes for stakeholders including customers, colleagues and communities (including shareholders, suppliers and regulators). To this end, the risk of systemic unfair and adverse outcomes for customers, if crystallised, would be inconsistent with the Bank Risk Appetite statement. This risk should be managed in accordance with the Bank's Operational & Regulatory Risk Assessment & Issue Management Policy Standard.

Product & Service Lifecycle Management

The risk of not delivering appropriate products & services to the market in line with appropriate governance.

The Bank is committed to creating and maintaining suitable and appropriate products and services for customers as they are working towards their financial goals. This helps to ensure that the customer has a positive experience throughout the product and service lifecycle. The Bank acknowledges that a level of residual customer protection risk arises from the provision of a full range of financial services across a range of systems and

processes it is committed to continually reducing same. The Bank has no appetite for the Bank and / or its staff conducting business in an inappropriate or negligent manner that leads to adverse outcomes for stakeholders including customers, colleagues and communities (including shareholders, suppliers and regulators). To this end, the failure to:

- design and develop products and services that continue to be suitable over their lifetime, or
- respond to changing customer needs¹ would be inconsistent with the Bank's Risk Appetite statement.

However, while the Bank acknowledges that a level of residual customer protection risk arises from the provision of residential mortgages across a range of systems and processes it is committed to continually reducing same.

Behavioural Standards and Culture

The risk of not implementing Bank standards of behaviour for protecting our customers and the integrity of the markets we operate in.

The Bank acknowledges that a level of residual risk arises from the provision of residential mortgages across a range of systems and processes and it is committed to continually reducing same. There is no appetite for the Bank and / or its staff conducting business in an inappropriate or negligent manner that leads to adverse outcomes for stakeholders including customers, colleagues and communities (including shareholders, suppliers and regulators).

The Bank manages conduct risk under the Conduct Risk Management Framework (CRMF). The CRMF sets out the risk management activities and underlying enablers (tools, structures and roles) established to ensure an effective, prudent and proportionate response to its principal Conduct risks.

Business and strategic risk

Business risk is defined as the risk to the Bank's projected outcomes (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 causes 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 timeframe and references the risk to earnings caused by changes in the above factors.

Strategic risk is defined as the risk to the Bank's projected outcomes (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.

¹ There may be instances where the Bank will not be made aware of changing customer needs and, as such, will not be able to respond to same. In addition, there may be instances where recommendations to better serve a customer's needs may be disregarded by customers.

25 Risk management and control *(continued)*

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.

Key considerations relating to the Group's management of Business & Strategic risk which are of relevance to the Bank:

- the impact of COVID-19 extends across all other business and strategic risks. It has accelerated existing trends, with consumer activity switching rapidly to digital alternatives and new ways of working impacting customers and colleagues, and created an uncertain economic outlook with groups of customers and sectors likely to benefit from a recovery at differing scales and speeds;
- the Group continues to monitor and mitigate risks associated with Brexit;
- the Group is undergoing significant transformation across Culture, Business and Systems with a number of programmes underway delivering against this strategy;
- continued low levels of bond yields, official interest rates and discount rates, and a slower conversion of Irish economic activity into credit formation, causes challenges and risk; and
- the Group continues to develop its Responsible and Sustainable Business agenda which considers climate related impacts across the Group's footprint and that of its stakeholders.

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, colleagues, legislators, regulators, partners or wider society.

The Bank does not intentionally incur reputation risk as part of its business activities to earn a return, but rather the risk arises as a direct or indirect consequence of the Bank's operations and business activities. 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 Bank was required to maintain a CET 1 ratio of 7% on a regulatory basis. This includes a Pillar 1 requirement of 4.5% and a Capital Conservation Buffer (CCB) of 2.5%. In April 2020, the Central Bank of Ireland (CBI) reduced the RoI Countercyclical Buffer (CCyB) rate from 1% to 0% until at least Q1 2022. This change was part of a range of measures introduced by supervisors in response to the economic impact of COVID-19.

The Bank's capital includes the Bank's shareholders' funds (subject to regulatory adjustments) together with dated subordinated debt and other equity instruments. The amount of regulatory capital required to be held is determined by risk weighted 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 and CBI.

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

26 Fair values of financial assets and financial liabilities

Fair value of assets and 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 market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Bank or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

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

Inputs are unobservable inputs for the asset or liability.

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

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

2020	At fair value through profit or loss		Cash flow hedge derivative at fair value through other comprehensive income €m	Held at amortised cost €m	Total €m	Fair value hierarchy				
	Mandatorily €m	Fair value hedge derivative €m				Level 1 €m	Level 2 €m	Level 3 €m	Total €m	
(a) Fair value of financial assets held at amortised cost										
Loans and advances to banks	-	-	-	3,843	3,843	-	3,964	-	-	3,964
Loans and advances to customers	-	-	-	16,093	16,093	-	-	15,162	-	15,162
Other assets	-	-	-	1	1	-	-	1	-	1
(b) Financial assets held at fair value										
Derivative financial instruments	20	16	72	-	108	-	38	70	-	108
Other financial assets at fair value through profit or loss	239	-	-	-	239	-	-	239	-	239
	259	16	72	19,937	20,284	-	4,002	15,472	-	19,474
(a) Fair value of financial liabilities held at amortised cost										
Deposits from banks	-	-	-	12,053	12,053	-	12,157	-	-	12,157
Debt securities in issue	-	-	-	6,168	6,168	2,768	302	3,268	-	6,338
Subordinated liabilities	-	-	-	141	141	-	141	-	-	141
Other financial liabilities	-	-	-	250	250	-	-	250	-	250
(b) Financial liabilities held at fair value										
Derivative financial instruments	22	-	-	-	22	-	19	3	-	22
	22	-	-	18,612	18,634	2,768	12,619	3,521	-	18,908

26 Fair values of financial assets and financial liabilities (continued)

2019	At fair value through profit or loss		Cash flow hedge derivative at fair value through other comprehensive income €m	Held at amortised cost €m	Total €m	Fair value hierarchy			
	Mandatorily €m	Fair value hedge derivative €m				Level 1 €m	Level 2 €m	Level 3 €m	Total €m
(a) Fair value of financial assets held at amortised cost									
Loans and advances to banks	-	-	-	3,533	3,533	-	3,638	-	3,638
Loans and advances to customers	-	-	-	15,934	15,934	-	-	15,063	15,063
Other assets	-	-	-	1	1	-	-	1	1
(b) Financial assets held at fair value									
Derivative financial instruments	30	15	64	-	109	-	44	65	109
Other financial assets at fair value through profit or loss	246	-	-	-	246	-	-	246	246
	276	15	64	19,468	19,823	-	3,682	15,375	19,057
(a) Fair value of financial liabilities held at amortised cost									
Deposits from banks	-	-	-	10,541	10,541	-	10,615	-	10,615
Debt securities in issue	-	-	-	7,444	7,444	4,030	316	3,280	7,626
Subordinated liabilities	-	-	-	140	140	-	142	-	142
Other financial liabilities	-	-	-	24	24	-	-	24	24
(b) Financial liabilities held at fair value									
Derivative financial instruments	22	-	-	-	22	-	20	2	22
	22	-	-	18,149	18,171	4,030	11,093	3,306	18,429

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

(a) Financial assets and liabilities held at amortised cost

For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Bank discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks

The estimated fair value of floating rate placements and overnight placings which are held at amortised cost is their carrying amount. The estimated fair value of fixed interest bearing placements which are held at amortised cost is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers held at amortised cost and other assets

The fair value of both fixed and variable rate loans and advances to customers held at amortised cost 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 reporting date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

Deposits from banks and other financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on DCFs using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue and subordinated liabilities

The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a DCF 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 (level 2 and level 3 inputs).

26 Fair values of financial assets and financial liabilities *(continued)*

(b) Financial assets and financial liabilities recognised and subsequently measured at fair value

All financial instruments are initially recognised at fair value. The Bank subsequently measures the following instruments at fair value through profit or loss (FVTPL): derivatives and other financial assets at FVTPL.

A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by management and the valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent compared to prior reporting periods.

Derivative financial instruments

The Bank's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads and counterparty credit (level 2 inputs).

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as ECB forecast rates, which are significant to their valuation (level 3 inputs). A 1% increase / decrease in the forecasted ECB rates within the EUR Base Rate curve for 2020 would result in a decrease / increase of €70 million respectively in the fair value of the derivatives, with a corresponding impact on other comprehensive income. This sensitivity information assumes that all other factors, specifically, Eonia and LIBOR rates, remain constant.

Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit or loss represent the Life Loan mortgage product which was offered by the Bank until 2010. Fair values are calculated using DCF models, which incorporate unobservable inputs (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

The table below shows the movement in level 3 assets and liabilities measured at fair value.

	2020			Restated ¹ 2019		
	Derivative financial instruments €m	Other financial assets at FVTPL €m	Total €m	Derivative financial instruments €m	Other financial assets at FVTPL €m	Total €m
Movement in level 3 assets measured at fair value						
Opening balance	65	246	311	32	262	294
Net interest income	7	12	19	8	13	21
Net trading income	-	(1)	(1)	26	(2)	24
Repayments	-	(18)	(18)	-	(27)	(27)
Transfers (to) / from level 2	(2)	-	(2)	(1)	-	(1)
Closing balance	70	239	309	65	246	311
Unrealised gain at year end	8	10	18	34	10	44
Movement in level 3 liabilities measured at fair value						
Opening balance	2	-	2	1	-	1
Net trading income	1	-	1	1	-	1
Closing balance	3	-	3	2	-	2
Unrealised gain / (loss) at year end	(1)	-	(1)	(1)	-	(1)

¹ As outlined in the Bank's accounting policies on page 19, comparative figures have been restated to reflect the impact of the voluntary change in the Bank's accounting policy for the presentation of interest income and expense on certain financial instruments. See notes 3, 4 and 5 for additional information.

26 Fair values of financial assets and financial liabilities *(continued)*

The transfers from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement at the reporting date.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets / liabilities	Valuation technique	Unobservable input	Fair value		Range	
			2020 €m	2019 €m	2020 %	2019 %
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount on market rate	239	246	2.75%-4.50%	2.75%-4.50%
	Collateral values	Collateral changes			(3.00%)-5.80%	0.50%-5.80%
Derivative financial instruments	Discounted cash flow	ECB forecast rates 2025-2043	70 asset 3 liability	65 asset 2 liability	0%-0.11%	0%-0.52%

27 Contingent liabilities and commitments

Loans and advances to customers at amortised cost	2020	2019
Loan commitments (€bn)	0.9	0.8
Loss allowance provision on loan commitments (€'000)	399	158

The Bank has €0.9 billion of approved mortgage loan applications that had not been drawn down at 31 December 2020 (2019: €0.8 billion). Loss allowance provisions of €0.4 million (2019: €0.2 million) were recognised on mortgage loan commitments.

Loan commitments are classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision

for loan commitments on a 12 month or lifetime expected credit loss approach. The loan commitments are mainly classified as Stage 1 for ECL measurement.

The impairment charge is included in the income statement as part of net impairment losses on financial instruments.

28 Related party transactions

Bank of Ireland Mortgage Bank is a public unlimited company, incorporated and domiciled in Ireland. The Bank's immediate parent undertaking is The Governor and Company of the Bank of Ireland, a corporation established in Ireland.

The Bank's ultimate parent undertaking, and controlling party, is Bank of Ireland Group plc, a public limited company incorporated and registered in Ireland. Copies of the consolidated financial statements of the Group for 2020 are available at the Bank of Ireland, Head Office, 40 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 Shares**

At 31 December 2020, the State held, through the Ireland Strategic Investment Fund, 13.95% of the ordinary shares of Bank of Ireland Group plc (2019: 13.95%).

- **Guarantee Schemes**

The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ('ELG Scheme') ended for all new liabilities on 28 March 2013.

Although the Bank has no guaranteed liabilities under the ELG Scheme, that scheme shall continue to exist until terminated by the Minister for Finance. Pending that termination, the Bank continues to be bound by the terms of the ELG Scheme including the provision of certain covenants and an indemnity for the costs of the ELG Scheme in favour of the Minister pursuant to the Scheme documents of the ELG Scheme. No fees were payable in respect of 2020 (2019: €nil).

(b) Transactions with Directors and Key Management Personnel

(i) Loans to Directors

The information in the table below 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 companies, The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

Directors' emoluments are provided within this note. The Bank has availed of the exemption under FRS 101 not to disclose key management personnel remuneration.

2020	Balance at 1 January 2020 ¹ €'000	Balance at 31 December 2020 ¹ €'000	Aggregate maximum amount outstanding during the year ended 31 December 2020 ² €'000	Repayments ³ during the year ended 31 December 2020 €'000
Companies Act Disclosures				
Loans - Mortgages				
Directors at 31 December 2020				
T McMahon	380	352	380	31
T Morley	21	10	21	12
J O'Beirne	477	461	477	21
Directors no longer in office at 31 December 2020				
N Corcoran	398	380	398	30

During 2020, G Kelly, H Lorton, A McCleary and P Raleigh had no loans with the Bank. No advances were made during the year. No amounts were waived during the year. None of the above loans were considered to be credit-impaired.

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

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 is included in the closing balances.

³ Repayments include principal and interest.

28 Related party transactions *(continued)*

2019	Balance at 1 January 2019 ¹ €'000	Balance at 31 December 2019 ¹ €'000	Aggregate maximum amount outstanding during the year ended 31 December 2019 ² €'000	Repayments ³ during the year ended 31 December 2019 €'000
Companies Act Disclosures				
Loans - Mortgages				
Directors at 31 December 2019				
N Corcoran	416	398	416	30
T McMahon	407	380	407	31
T Morley	32	21	32	12
J O'Beirne	1,256	477	1,260	803
Directors no longer in office at 31 December 2019				
None	-	-	-	-

During 2019, S Crowe (resigned 22 February 2019), G Kelly, H Lorton, A McCleary, R Milliken (resigned 25 July 2019) and P Raleigh had no loans with the Bank. No advances were made during the year. No amounts were waived during the year. None of the above loans were considered to be credit-impaired.

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

In 2019 and 2020, 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%.

(ii) Loans to Directors of parent companies¹ - Companies Act Disclosures

2020	Balance at 1 January 2020 ¹ €'000	Balance at 31 December 2020 ¹ €'000	Aggregate maximum amount outstanding during the year ended 31 December 2020 ² €'000	Repayments ³ during the year ended 31 December 2020 €'000
Directors of parent companies⁴				
Loans - Mortgages				
Directors at 31 December 2020				
F McDonagh	953	926	952	56
F Muldoon	82	50	82	35

2019	Balance at 1 January 2019 ¹ €'000	Balance at 31 December 2019 ¹ €'000	Aggregate maximum amount outstanding during the year ended 31 December 2019 ² €'000	Repayments ³ during the year ended 31 December 2019 €'000
Directors of parent companies⁴				
Loans - Mortgages				
Directors at 31 December 2019				
F McDonagh	981	953	980	56
F Muldoon	103	82	103	24

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 is included in the closing balances.

³ Repayments include principal and interest.

⁴ Parent companies at 31 December 2020 and 2019 are The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

28 Related party transactions *(continued)*

G Andrews, E Bourke, I Buchanan, E Fitzpatrick, R Goulding, M Greene, P Haren (resigned 31 December 2020), P Kennedy, P Mulvihill (resigned 31 December 2020), M O'Grady and S Pateman had no loans with the Bank during 2020. No amounts were waived during 2020.

None of the loans above are considered to be credit-impaired. There is no interest which having fallen due on the above loans has not been paid.

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%.

(iii) Loans to connected persons on favourable terms

There were no loans to connected persons required to be disclosed as at 31 December 2020 or 2019.

(iv) Loans to connected persons - Central Bank of Ireland licence condition disclosures

Connected persons of Directors are defined by Section 220 of the Companies Act 2014. 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:

- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- 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.

2020	Balance at 31 December 2020 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2020 €'000	Number of persons as at 31 December 2020	Maximum number of persons during the year ended 31 December 2020
Connected persons of the following Director				
T McMahon	1,686	1,723	1	1

2019	Balance at 31 December 2019 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2019 €'000	Number of persons as at 31 December 2019	Maximum number of persons during the year ended 31 December 2019
Connected persons of the following Director				
T McMahon	1,722	1,774	1	1

(v) Key management personnel (KMP) - loans

The information in the table below 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 the following roles: 'Head of Mortgages' and 'Chief Risk Officer'. Key management personnel also comprise KMP of the parent companies, The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

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 companies as noted above, are shown in the following table.

28 Related party transactions *(continued)*

2020					
IAS 24 Disclosures Key Management Personnel	Balance at 1 January 2020 ¹ €'000	Balance at 31 December 2020 ¹ €'000	Maximum amounts outstanding during the year ended 31 December 2020 ² €'000	Number of KMP as at 1 January 2020	Number of KMP as at 31 December 2020
Loans ³	7,515	6,353	6,752	14	11

2019					
IAS 24 Disclosures Key Management Personnel	Balance at 1 January 2019 ¹ €'000	Balance at 31 December 2019 ¹ €'000	Maximum amounts outstanding during the year ended 31 December 2019 ⁴ €'000	Number of KMP as at 1 January 2019	Number of KMP as at 31 December 2019
Loans ³	11,155	7,515	8,879	19	14

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 €nil (2019: €nil). Save as referred to in sub-section (iv) above, none of the loans in sub-section (i) to (v), are considered to be

credit-impaired and there is no interest which having fallen due on the above loans has not been paid.

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

(vi) Directors' remuneration

Other than those fees listed below, there were no other fees or bonuses were paid to Directors during 2020 (2019: €nil).

	2020 €'000	2019 €'000
Fees	125	126
Other emoluments	217	249
Other - pension	43	53
Other - termination benefits	24	-
Total remuneration	409	428

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 2020 for any member of KMP and their close family did not exceed €1.2 million (2019: €1.2 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 2019 and are not related parties during the current year. Therefore these KMP are not included in the maximum amounts outstanding.

⁴ 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 2019 for any member of KMP and their close family did not exceed €1.2 million. While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.

29 Post balance sheet events

There have been no significant events since the end of the financial year identified requiring adjustments to or disclosures in the financial statements.

30 Approval of the financial statements

The Directors approved these financial statements on 26 February 2021.

Glossary

Further information related to certain measures referred to in this Report

Bank of Ireland is The Governor and Company of the Bank of Ireland.

Cure rate is a rate used in ECL calculation which reflects that a portion of loans entering default will exit default with no loss realised.

Life Loans, unlike a standard mortgage product, do not require borrowers to make any periodic repayments and the outstanding loan balance increases through the life of the loan as interest due is capitalised. The mortgage is typically repaid out of the proceeds of the sale of the property.

'Non-performing exposures' (NPEs) consist of:

- (i) **credit-impaired loans** which includes loans where the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and
- (ii) **other loans** meeting NPE criteria as aligned with regulatory requirements.

Principal employer is The Governor and Company of the Bank of Ireland.

The Group is the Bank of Ireland Group plc and its subsidiary undertakings.

Underlying net interest income is net interest income excluding the impact of the Tracker Mortgage Examination Review and comprises underlying interest income less interest expense.

Wholesale funding is comprised of deposits by banks (including collateral received) and debt securities in issue.

Abbreviations

ACS	Asset Covered Securities	GRPC	Group Risk Policy Committee
AT1	Additional tier 1	IAASA	Irish Auditing and Accounting Standards Authority
Bank	Bank of Ireland Mortgage Bank	IAS	International Accounting Standard
Bank of Ireland	The Governor and Company of the Bank of Ireland	IASB	International Accounting Standards Board
BIGPF	Bank of Ireland Group Pension Fund	IBOR	InterBank Offered Rate
BPI	Banking and Payments Federation Ireland	IFRS	International Financial Reporting Standard
CBI	Central Bank of Ireland	IRB	Internal Rating Based
CCB	Capital Conservation Buffer	ISAs	International Standards on Auditing
CCyB	Countercyclical buffer	KMP	Key management personnel
CET 1	Common equity tier 1	LGD	Loss Given Default
CRMf	Conduct Risk Management Framework	LIBOR	London InterBank Offered Rate
CRR	Capital Requirements Regulation	LTV	Loan to Value
CSO	Central Statistics Office	MRO	Main Refinancing Operations
DAC	Designated Activity Company	NPEs	Non-performing exposures
DCF	Discounted Cash Flow	OCI	Other Comprehensive Income
EAD	Exposure at Default	OECD	Organisation for Economic Co-operation and Development
EBA	European Banking Authority	PD	Probability of Default
ECB	European Central Bank	PMA	Post-model adjustment
ECL	Expected credit losses	POCI	Purchased or Originated Credit-Impaired
EIR	Effective Interest Rate	RMC	Risk Measurement Committee
ELG	Eligible Liabilities Guarantee Scheme	RoI	Republic of Ireland
EONIA	Euro OverNight Index Average	RPPI	Residential Property Price Index
EU	European Union	RWAs	Risk weighted assets
EURIBOR	Euro InterBank Offered Rate	S&P	Standard & Poor's
FLI	Forward looking information	SICR	Significant Increase in Credit Risk
FRS 101	Financial Reporting Standard 101	SLAs	Service Level Agreements
FTA	Free Trade Agreement	SSM	Single Supervisory Mechanism
FVTPL	Fair Value Through Profit or Loss	TME	Tracker Mortgage Examination
GDP	Gross Domestic Product	UK	United Kingdom
GIA	Group Internal Audit	VAT	Value added tax
GNP	Gross National Product	WTO	World Trade Organisation
Group	Bank of Ireland Group plc		

