2021

Bank of Ireland Mortgage Bank Unlimited Company
Annual Report

Bank of Ireland

Contents

Directors and other information

Directors at Date of Signing
James Hayden
Geraldine Kelly
Harry Lorton
Aine McCleary
Tony McMahon
Tony Morley
John O'Beirne
Paul Raleigh

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Independent Auditor
KPMG
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Secretary
Hill Wilson Secretarial Limited
Bank of Ireland
40 Mespil Road
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Report of the Directors

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank Unlimited Company (the 'Bank'), for the financial year ended 31 December 2021. In November 2021, the Bank's name was amended from 'Bank of Ireland Mortgage Bank' to 'Bank of Ireland Mortgage Bank Unlimited Company'.

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').

Financial Performance

The Bank generated profit before taxation in 2021 of €28 million (2020: €28 million):

- net interest income grew to €342 million (2020: €336 million) reflecting an increase in lending income;
- operating expenses increased to €295 million (2020: €293 million) and includes a transfer pricing charge of €257 million (2020: €250 million);
- loans and advances to customers at amortised cost (before impairment loss allowances) decreased to €16.2 billion (31 December 2020: €16.4 billion);
- a net impairment charge of €25 million arose in the year (2020: €14 million) (see notes 2(a), 8 and 13);
- the Bank continues to make good progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties. This, along with a €0.2 billion securitisation arrangement, has resulted in a significant reduction in the stock of non-performing exposures (NPEs) in 2021. NPEs reduced by 31% during the year to €0.7 billion (31 December 2020: €1.0 billion); and
- the return on assets is 13 basis points (2020: 12 basis points) (see note 29).

Notwithstanding the ongoing challenges presented by COVID-19, we are seeing a recovery in the Irish economy and, in particular, the Irish mortgage market.

In 2021, the Irish new mortgage market increased by 25% to €10.5 billion (2020: €8.4 billion)[1]. Residential transactions in the market were up 22.1% in 2021 and housing completions were down 0.5%. House prices continued to grow by 14.4% nationally, with 13.1% growth in the Dublin area and 15.4% growth outside Dublin.

We have continued to support our customers as they start to emerge from this challenging period. 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.

There were c.13,000 mortgage accounts for which the Bank granted payment breaks during 2020. The operating environment has improved since the introduction of the pandemic supports. The ability for customers to apply for a payment break expired in September 2020. As at 31 December 2021, all payment breaks have expired with over 95% of customers returned to previous repayment terms and forbearance support provided to the majority of remaining customers. 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.

Notwithstanding COVID-19 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 2020 and a pricing agreement was implemented with effect from 1 January 2020. The 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 transfer pricing charge 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 amounted to €257 million in the year (2020: €250 million) and attributes an arm's length profit to the Bank of €28 million for the period (2020: €28 million).

Tracker Mortgage Examination Review

At 31 December 2021, the Bank held a provision of €54 million (31 December 2020: €60 million) in respect of the ongoing industry-wide Tracker Mortgage Examination Review ('Review'). 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 Review.

Since 31 December 2020, €8 million of the provision has been utilised to cover redress, compensation and related costs. During 2021, the Bank has set aside a further €2 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 Review (see notes 2(d), 3, 7 and 18).

While the supervisory phase of the Review by the Central Bank of Ireland (CBI) has concluded, the CBI's investigation of tracker issues under its administrative sanctions procedure is ongoing. This 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

[1] *Source: Banking and Payments Federation Ireland (BPFI) new mortgage data.*

in particular any sanction that may be incurred under the CBI's administrative sanctions procedure. 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 2021.

Asset quality

Loans and advances to customers (before impairment loss allowances) at amortised cost amounted to €16.2 billion at 31 December 2021 (31 December 2020: €16.4 billion).

The Bank's NPE resolution strategies involves restructuring and sales activity supplemented with portfolio level initiatives. In June 2021, the Group entered into a securitisation arrangement which included €0.2 billion (before impairment loss allowance) of NPEs for the Bank through a special purpose vehicle, Mulcair Securities No.2 DAC. See note 13 for further details. The Bank continues to keep its NPE resolution strategies under review while responding to the associated and evolving regulatory framework. NPEs decreased to €0.7 billion at 31 December 2021 (31 December 2020: €1.0 billion). Impairment loss allowances are €0.3 billion (31 December 2020: €0.3 billion).

Owner occupied NPEs were €0.5 billion at 31 December 2021, a reduction of 32% since 31 December 2020. At 31 December 2021, 99% of the Owner occupied mortgage book was on a 'full principal and interest' repayment basis (31 December 2020: 98%).

Buy to let NPEs were €0.2 billion at 31 December 2021, a reduction of 30% since 31 December 2020. 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 2021, 94% of the Buy to let mortgage book was on a full principal and interest repayment basis (2020: 91%).

Capital

At 31 December 2021, the common equity tier 1 ('CET 1') ratio on both a regulatory and a fully loaded basis was 26.4% (2020: 24.4%). The total capital ratio on a regulatory basis was 34.0% (2020: 31.2%) and a fully loaded basis was 33.9% (2020: 31.2%). The Bank's regulatory capital ratios include an addback for IFRS 9 impairment. 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 2021 on both a regulatory and a fully loaded basis was 6.8% (2020: 6.8%). The Bank expects to remain above the European Commission leverage ratio requirement of 3% which is applicable from 2021. See the section on 'Capital management' in note 25 on page 67 for further details on the Bank's capital requirements.

Principal risks and uncertainties

The principal risks that the Bank is exposed to are Credit Risk, Market Risk, Funding and Liquidity Risk, Operational Risk, Conduct and Regulatory Risk, Business and Strategic Risk (including Brexit implications), 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 2021 amounted to €28 million (2020: €28 million), as set out in the income statement on page 13 and reflective of the transfer pricing arrangement which was implemented in 2020.

Net interest income increased to €342 million for 2021, from €336 million in 2020. The increase is driven by higher interest income of €474 million (2020: €457 million) offset by increased funding costs €132 million (2020: €121 million), which reflect a changing funding mix during the year.

Net trading income for the year was €5 million (2020: expense: €3 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 fair value movements on derivatives which do not qualify for hedge accounting.

Operating expenses increased to €295 million for 2021 (2020: €293 million). The transfer pricing charge increased to €257 million (2020: €250 million). Other operating costs decreased to €38 million (2020: €43 million), due to higher costs in 2020 relating to the Review.

The net impairment loss of €25 million for 2021 (2020: €14 million) reflects the ongoing negative impact of COVID-19, impairment model parameter updates, partly offset by the improved macroeconomic outlook. In addition, the Bank derecognised a portfolio of NPEs which resulted in net impairment gains of €16 million on disposal. See note 8 for further details.

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 2021, the Bank had a customer loan portfolio of €16.1 billion (net of impairment loss allowances and including Life Loans) funded through debt securities in issue: €4.9 billion (30%); equity and subordinated debt: €1.7 billion (11%) and net Group borrowings: €9.5 billion (59%). Of the €4.9 billion debt securities in issue, €2.7 billion is held by Bank of Ireland. The remaining €2.2 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, 2021: Aaa (2020: Aaa). During 2021, €1.2 billion of securities in issue matured (2020: €1.2 billion). Full details of debt securities in issue are contained in note 16 to the financial statements.

At 31 December 2021, the Bank had €141 million of subordinated loan borrowings from its immediate parent, Bank of Ireland (2020: €141 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 2021 (2020: €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;
- oversight of compliance functions; and
- review and monitoring of the statutory auditor's independence and the effectiveness of the audit process.

Outlook
While uncertainties remain about the more enduring impacts of COVID-19 as economies reopen, the outlook for the Irish economy has improved considerably over the last year.

The Bank has maintained a broadly stable loan book with loans and advances to customers (before impairment allowances and excluding Life Loans) at €16.2 billion in 2021 (2020: €16.4 billion). Forecasts out to 2023 indicate the Bank will grow its loan book and continue to generate sustainable profits and capital over the period.

Responsible and Sustainable Business
The Bank is cognisant of the growing regulatory requirements around the Environmental, Social and Corporate Governance (ESG) agenda, and these are addressed in the Responsible and Sustainable Business section of the Strategic report (pages 20 to 23) of the 2021 Annual Report of Bank of Ireland Group plc.

Directors
Harry Lorton
Independent Non-Executive Chairman

John O'Beirne
Managing Director

James Hayden
Executive Director
(Appointed 1 May 2021)

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 2021 (2020: €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*	**James Hayden** *Director*	**Hill Wilson Secretarial Limited**

25 February 2022

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 is 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*	**James Hayden** *Director*

25 February 2022

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 'Requirements'). The Bank is also subject to the additional obligations of Appendix 1 of the Requirements for High Impact designated credit institutions.

The Bank is compliant with the provisions of the Requirements throughout 2021. (The Requirements are 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 Bank'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 Bank and its key stakeholders.

Independent auditor's report
to the members of Bank of Ireland Mortgage Bank Unlimited Company

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Bank of Ireland Mortgage Bank Unlimited Company (the 'Company') for the year ended 31 December 2021 set out on pages 13 to 76, which comprise the income statement, statement of comprehensive income, balance sheet, 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 2021 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 four years for the year ended 31 December 2021. 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 director's 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 director's assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following:
- 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; and
  - the impact on regulatory capital requirements in the Parent entity and the Company in the event of an economic slowdown or recession.
- we also 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.

Based on the work we have performed, we have not identified a 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.

We found the assumptions associated with the use of the going concern basis of accounting to be acceptable.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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:

Impairment Loss Allowance under IFRS 9 €292 million (2020 - €276 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.

We have therefore identified a significant risk of error in expected credit losses (ECLs) as a result of inaccurate PDs being generated by the models.

Post model adjustment
Post model adjustments are raised by management to address known impairment model limitations, data limitations, market uncertainty and/or emerging trends.

There is a high degree of estimation uncertainty and management judgment involved in post model adjustments (PMAs).

Economic scenarios
IFRS 9 requires the Company to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them especially when considering the current economic environment.

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).

Accuracy of PD models
- 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 assumptions and data used in the IFRS 9 impairment models.
- In conjunction with our credit modelling specialists, we tested the design, implementation and operating effectiveness of key controls including: model validation, implementation and model monitoring processes for the PD models; monitoring the staging effectiveness to assess whether the PD models are appropriately identifying assets which have experienced a significant increase in credit risk; and controls over model outputs.
- We inspected the testing and outputs of the model validation work performed by the Independent Validation Unit in the Bank.
- In conjunction with our credit modelling specialists, for a sample of models which were changed or updated during the year, we evaluated whether the changes (including the updated model code) were appropriate by assessing the updated model methodology.
- In conjunction with our credit modelling specialists, we performed detailed model code inspections and independently calculated certain key model calculations, as well as challenged the appropriateness of the PDs, PMAs and overall ECL having regard for the risk profile of loan books, recent loss history and performance of the relevant portfolios and market uncertainties such as COVID-19.

Post model adjustments
- We performed end to end process walkthroughs and assessed the design, implementation and operating effectiveness of key controls over the authorisation and calculation of PMAs.
- In conjunction with our credit modelling specialists, we assessed the completeness and adequacy of post model adjustments for certain portfolios, having regard for the risk profile of loan books, recent loss history and performance of the relevant portfolios, and market uncertainties such as COVID-19.
- We assessed the reasonableness of PMAs by inspecting the calculation methodology and tracing a sample of the data used back to source documentation. We challenged key assumptions with reference to issues arising from our model testing, comparing PMAs across portfolios, considering changes in portfolios and credit risk and performing benchmarking against other banks.
- We assessed whether any PMAs identified for testing were indicative of fraud/management bias or other deficiencies.

Economic scenarios
- We performed end to end process walkthroughs and tested the design and implementation of key controls relating to the selection and implementation of macroeconomic forecasts used in measuring ECL including the economic scenarios and probability weightings applied to them.
- In conjunction with our economic specialists, we assessed the reasonableness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them with reference to IFRS 9 requirements and industry practice.
- We assessed the key economic variables used in forward looking information (FLI) and challenged the overall reasonableness of macroeconomic variables with reference to independent and observable economic forecasts.
- We challenged the reasonableness of management's FLI upside / downside scenario weightings, having regard to relevant available information at year-end.
- We critically assessed the sensitivity analysis of the ECL impact from the application of alternative weightings applied to upside and downside scenarios in FLI.

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 €54 million (2020 - €60 million)
Refer to page 26 (accounting policy) and note 18 (financial disclosures)

The key audit matter
The calculation of provisions for conduct matters requires the directors to determine a number of key inputs and to consider a range of information. The most significant conduct-related provision at year-end relates to the Company's provision in respect of the tracker mortgage examination (TME) which is approximately €54 million, 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 Central Bank of Ireland (CBI) and the Company in relation to the TME and discussed the issues raised with the Company and with those charged with governance.
- We obtained an understanding of the methodology used by management in the determination of the TME provision and assessed the design and implementation of controls relating to the provision calculation at year-end.
- For significant assumptions inherent in the TME 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 key inputs and 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.

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 (2020: €13.0 million). This has been calculated at 0.8% of the benchmark of net assets of €1.58 billion (2020: 0.8%) which we consider to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.

We reported to the audit committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €0.65 million (2020: €0.65 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 Company'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:

- 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 is consistent with the financial statements and has been prepared in accordance with the Act; 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 by 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.

P. Carroll

Patricia Carroll
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place, St. Stephens Green,
Dublin 2, D02 DE03

25 February 2022

Income statement
for the year ended 31 December 2021

	Note	2021 €m	2020 €m
Interest income calculated using the effective interest method	3	449	444
Other interest income	3	25	13
Interest income		**474**	**457**
Interest expense	4	(132)	(121)
Net interest income		**342**	**336**
Fee and commission income		1	2
Net trading income / (expense)	5	5	(3)
Total operating income		**348**	**335**
Operating expenses	7	(295)	(293)
- Transfer pricing charge		*(257)*	*(250)*
- Other operating costs		*(38)*	*(43)*
Total operating profit before net impairment losses on financial instruments		**53**	**42**
Net impairment losses on financial instruments	8	(25)	(14)
Profit before taxation		**28**	**28**
Taxation charge	9	(3)	(3)
Profit for the financial year		**25**	**25**

Statement of comprehensive income
for the year ended 31 December 2021

	2021 €m	2020 €m
Profit for the financial year	25	25
Other comprehensive (expense) / 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	(12)	13
- Transfer to income statement	(7)	(12)
Net change in cash flow hedge reserve	**(19)**	**1**
Total other comprehensive (expense) / income, net of tax	**(19)**	**1**
Total comprehensive income for the year, net of tax	**6**	**26**

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

Balance sheet
as at 31 December 2021

	Note	2021 €m	2020 €m
Assets			
Derivative financial instruments	10	85	108
Other financial assets at fair value through profit or loss	11	225	239
Loans and advances to banks	12	3,403	3,843
Loans and advances to customers at amortised cost	13	15,924	16,093
Other assets		7	1
Total assets		**19,644**	**20,284**
Liabilities			
Deposits from banks	15	12,881	12,053
Derivative financial instruments	10	21	22
Debt securities in issue	16	4,930	6,168
Other liabilities	17	21	246
Current tax liability		5	5
Provisions	18	56	63
Deferred tax liability	19	7	10
Subordinated liabilities	20	141	141
Total liabilities		**18,062**	**18,708**
Equity			
Called up share capital presented as equity	21	488	488
Share premium	21	661	661
Reserves		233	227
Shareholders' equity		**1,382**	**1,376**
Other equity instruments	22	200	200
Total equity		**1,582**	**1,576**
Total equity and liabilities		**19,644**	**20,284**

Harry Lorton
Chairman

John O'Beirne
Managing Director

James Hayden
Director

Hill Wilson Secretarial Limited

25 February 2022

Statement of changes in equity
for the year ended 31 December 2021

	Share capital €m	Share premium €m	Reserves: Retained earnings €m	Reserves: Cash flow hedge reserve €m	Total shareholders' equity €m	Other equity instruments €m	Total equity €m
At 1 January 2020	**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**
Balance at 31 December 2020	**488**	**661**	**170**	**57**	**1,376**	**200**	**1,576**
Comprehensive income							
Profit for the year	-	-	25	-	25	-	25
Other comprehensive income	-	-	-	(19)	(19)	-	(19)
Total comprehensive income	**-**	**-**	**25**	**(19)**	**6**	**-**	**6**
At 31 December 2021	**488**	**661**	**195**	**38**	**1,382**	**200**	**1,582**

Notes to the financial statements

1 Accounting policies

Bank of Ireland Mortgage Bank Unlimited Company is a public unlimited company, incorporated and domiciled in Ireland. The significant accounting policies adopted by the Bank of Ireland Mortgage Bank Unlimited Company (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, D04 C2N4.

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 2021 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 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

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on 1 January 2021 have had a material impact on the Bank.

1 Accounting policies *(continued)*

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 Bank presents interest resulting from negative effective interest rates on financial liabilities as interest income.

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.

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 presented in net interest income, in line with the underlying hedged asset or liability.

For macro cash flow hedges of financial assets, the Bank aggregates the interest income or expense on the hedged assets with the interest income or expense on the related derivatives designated as hedging instruments. Where the resulting total is an expense, the amount is presented as interest expense on the assets. Where the resulting total is income, it is presented as interest income on the assets.

For micro fair value hedges of financial liabilities, the Bank aggregates, for each hedged liability separately, the interest income or expense on the liability with the interest income or expense on the related derivative or derivatives designated as hedging instruments. Where the resulting total for a liability is an expense, the amount is presented as interest expense on the liability. Where the resulting total is income, it is presented as interest income on the 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 Accounting policies *(continued)*

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 (FVOCI); or
- financial assets at fair value through profit or loss (FVTPL).

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 FVTPL:

- 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 FVOCI where it meets both of the following conditions and has not been designated as measured at FVTPL:

- 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 FVOCI. 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 FVOCI 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 FVTPL. Financial assets at FVTPL comprise:

Financial assets mandatorily measured at FVTPL
Financial assets meeting either of the conditions below are mandatorily measured at FVTPL (other than in respect of an equity investment designated as at FVOCI):
- 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 FVTPL
A financial asset may be designated at FVTPL 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 FVTPL 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 on a quantitative or qualitative basis, 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 FVTPL:
- 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 POCI 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 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 forborne 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 forborne until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally classified as Stage 2. A financial asset can

1 Accounting policies *(continued)*

1.7 Impairment of financial instruments *(continued)*

only be reclassified from Stage 3 when certain conditions are met over a pre-defined period of time or probation period, in line with regulatory requirements.

Where the cash flows from a forborne 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 FVTPL is required to measure liabilities mandatorily at FVTPL 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 debt security in issue.

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. When a hedged item held at amortised cost that is designated in a micro fair value hedge or included in a repricing time period of a portfolio hedge is derecognised, the unamortised fair value adjustment included in the carrying value of that hedged item is immediately reclassified to the income statement.

(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 Accounting policies *(continued)*

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 the applicable tax law, is recognised as an expense in the period in which profits arise.

(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 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.

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 consequences of dividends 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.

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.

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.

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 2021.

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 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's Executive Risk Committee (ERC) 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 four FLI scenarios at 31 December 2021, a decrease from five scenarios in 2020, comprising of a central scenario, 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 scenario for the year ending 31 December 2021 is based on internal and external information and management judgement and follows the same process as used in prior periods.

The upside and downside scenarios in previous reporting periods were 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 the 31 December 2021 and 31 December 2020 reporting dates in order to avoid counter-intuitive trends in the respective periods.

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

The existing FLI methodology was leveraged to assign probability weightings to the narrative driven scenarios. The FLI methodology is a simulation tool that uses recent actual observed values and historical data to produce a number of possible paths for the relevant economic variables based on their historical relationships and volatilities. The FLI model is used for scenario generation for a defined probability weighting and for assessing probability weights for a given scenario. The narrative-driven scenarios were assessed relative to the simulated distribution. The probability weightings attached to the scenarios are a function of their relative position on the 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 forward looking information (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 2022 to 2026, together with the scenario weightings.

	Central Scenario	Upside scenario	Downside Scenario 1	Downside Scenario 2
Scenario probability weighting	45%	20%	25%	10%
GDP Growth[1]	3.8%	4.2%	3.2%	2.1%
GNP Growth[1]	3.8%	4.1%	3.1%	2.0%
Unemployment rate[2]	5.9%	5.1%	7.3%	9.3%
Residential property price growth[3]	2.2%	3.4%	(0.8%)	(3.0%)

The tables below sets out the forecast values for 2022 and 2023 and the average forecast values for the period 2024 to 2026 for the key macroeconomic variables which underpin the above mean average values.

	2022	2023	2024-2026
Central scenario - 45% weighting			
GDP Growth[1]	5.7%	3.9%	3.2%
GNP Growth[1]	6.1%	3.6%	3.0%
Unemployment rate[2]	7.0%	6.0%	5.5%
Residential property price growth[3]	4.0%	1.0%	2.0%
Upside - 20% weighting			
GDP Growth[1]	7.0%	4.1%	3.3%
GNP Growth[1]	7.3%	3.8%	3.2%
Unemployment rate[2]	6.4%	5.2%	4.6%
Residential property price growth[3]	6.0%	2.0%	3.0%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	3.9%	3.7%	2.9%
GNP Growth[1]	4.2%	3.4%	2.7%
Unemployment rate[2]	8.2%	7.2%	7.1%
Residential property price growth[3]	0.0%	(2.0%)	(0.7%)
Downside scenario 2 - 10% weighting			
GDP Growth[1]	1.6%	0.5%	2.7%
GNP Growth[1]	1.9%	0.2%	2.6%
Unemployment rate[2]	9.1%	9.7%	9.3%
Residential property price growth[3]	(5.0%)	(4.0%)	(2.0%)

[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
The roll-out of COVID-19 vaccines and the re-opening of the Irish economy have boosted activity, with Ireland set to post robust GDP growth in 2021. Domestic demand is rebounding and the multinational sector is going strong. Large GDP gains are also in store for 2022 as consumer spending and business investment increase further, followed by more moderate growth over the rest of the forecast horizon. Against this backdrop, the central scenario has the unemployment rate tracking lower. Inflation is expected to pick up in the short term though reflecting inter alia high energy prices and COVID and post-Brexit supply bottlenecks before easing over the medium term.

Upside scenario
With vaccines keeping the public health situation under control and COVID-19 restrictions lifted, the upside scenario sees the economy benefitting from stronger confidence effects. Amid a consumer spending splurge and buoyant business activity, GDP expands vigorously in 2021 and again in 2022. Solid growth continues over the remainder of the forecast horizon and unemployment settles at a low rate.

Downside scenario 1
Vaccines fail to prevent a resurgence of COVID-19 in the downside scenario 1, leading to the re-imposition of some public health restrictions. These persist through much of 2022 and briefly tip the Irish economy into mild recession. Cautious consumer behaviour and increasing business failures keep a lid on the subsequent GDP recovery and mean the unemployment rate stays high out the forecast horizon.

Downside scenario 2
The downside scenario 2 sees an intensification of COVID-related bottlenecks and post-Brexit disruption (including the termination of the EU-UK trade agreement) which, together with higher oil prices, dampens economic activity and adds significantly to inflation. Financial conditions tighten considerably as markets price in rising central bank interest rates, further depressing consumer and business confidence and spending. GDP growth slows sharply in the early years of the forecast horizon, with the Irish economy in recession for a time in 2022 and again in 2023. Activity picks up and inflation eases in later years but the unemployment rate in Ireland remains elevated.

Property price growth, all scenarios
In the central scenario, following significant growth throughout 2021, residential price growth slows to 4%. Growth slows further in 2023 to 1% and, from 2024 onwards, the market records stable positive growth of 2% per annum.

In the downside scenarios, residential property prices growth is lower than the central scenario in each year of the forecast period and this is more negative in downside 2. Downside scenario 1 produces a trough point of -4% whilst downside scenario 2 produces -15%.

In the upside scenario, residential property prices slow from a high level of growth in 2021 to 6% in 2022 before slowing further to 2% in 2023. Price growth remains positive through the remainder of the forecast period increasing by 3% in each year.

The quantum of impairment loss allowance is impacted by the application of four probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2021 was increased by virtue of applying multiple scenarios rather than only a central scenario.

This analysis excludes post-model management adjustments, as such adjustments to impairment loss allowance are applied using management judgement outside of the macroeconomic conditioned ECL model framework (refer to the Management Judgement in Impairment Measurement section below).

Comparative figures as at 31 December 2020 are also outlined below (and in subsequent tables in this section). Changes in the figures as at 31 December 2021 compared to the previous reporting date reflect a number of inter-related dynamics including changes in forward-looking scenarios and associated probability weights and impairment model methodology updates in the year.

2 Critical accounting estimates and judgements *(continued)*

2021 Impact of applying multiple scenarios rather than only central scenario[1]	Additional impairment loss allowance							
	Stage 1		Stage 2		Stage 3		Total	
	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %
Residential mortgages	1	27%	1	76%	2	2%	4	2%

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

The following table indicates the approximate extent to which the 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:

2021 Impact of applying only a central, upside or downside scenarios rather than multiple probability weighted scenarios[1]	Multiple scenarios	Central scenario		Upside scenario		Downside scenario 1		Downside scenario 2	
	Impairment loss allowance €m	Impairment loss allowance €m	Impact %	Impairment loss allowance €m	Impact %	Impairment loss allowance €m	Impact %	Impairment loss allowance €m	Impact %
Residential mortgages	176	(4)	(2%)	(5)	(3%)	5	3%	29	17%

2020 Impact of applying only central scenarios rather than multiple probability weighted scenarios	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 Impact of applying only upside scenarios rather than multiple probability weighted scenarios	Multiple Scenarios	Upside Scenario	
	Impairment loss allowance €m	Impairment loss allowance €m	Impact %
Residential mortgages	217	(19)	(9%)

[1] *The scenarios outlined in the table are based on the FLI weightings outlined on page 28.*

2 Critical accounting estimates and judgements *(continued)*

2020 Impact of applying only downside scenarios rather than multiple probability weighted scenarios	Multiple Scenarios Impairment loss allowance €m	Downside Scenario 1 Impairment loss allowance €m	Downside Scenario 1 Impact %	Downside Scenario 2 Impairment loss allowance €m	Downside Scenario 2 Impact %
Residential mortgages	217	24	11%	42	19%

The following table indicates the approximate extent to which the impairment loss allowance, excluding post-model management adjustments, would be higher or lower than the application of the central scenario 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.

2021 Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances	Impairment loss allowance - Central Scenario €m	Residential property price reduction of 10% Impact €m	Residential property price reduction of 10% Impact %	Residential property price reduction of 5% Impact €m	Residential property price reduction of 5% Impact %	Residential property price increase of 5% Impact €m	Residential property price increase of 5% Impact %	Residential property price increase of 10% Impact €m	Residential property price increase of 10% Impact %
Residential mortgages	172	23	13%	11	6%	(10)	(6%)	(19)	(11%)

2020 Impact of an immediate change in residential property prices compared to central scenario 1 impairment loss allowances	Impairment loss allowance - Central Scenario €m	Residential property price reduction of 10% Impact €m	Residential property price reduction of 10% Impact %	Residential property price reduction of 5% Impact €m	Residential property price reduction of 5% Impact %	Residential property price increase of 5% Impact €m	Residential property price increase of 5% Impact %	Residential property price increase of 10% Impact €m	Residential property price increase of 10% 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 2021 to Stage 2 would increase the Bank's impairment loss allowance by approximately c.€1 million excluding management adjustments.

Management judgement in impairment measurement
Management judgement has been incorporated into the Bank’s impairment measurement process for 2021. 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
In 2020, initial Probability of Default (PD) estimates from impairment models were considered to be unreasonable when benchmarked against observed default rates and / or pre COVID-19 expectations. Management judgement was utilised to select appropriate PDs for the central scenario. Corresponding PDs in the upside and downside scenarios were derived from the central scenario taking into account the severity of the respective scenarios. PD adjustments in 2020 reflected the macroeconomic situation, including the impact of COVID-19 and related governmental income supports, which was unprecedented compared to historic experience. This resulted in impairment models generating PD estimates that in certain cases were not considered to be reasonable.

For the year ending 31 December 2021, management has assessed the modelled PD estimates, with reference to updated macroeconomic forecasts, and concluded that the PD adjustments are not required. Modelled impairment loss allowances and stage classifications are subject to review for post-model management adjustments as outlined below.

The ECL model framework was also updated in the period to reflect changes to the LGD component of the impairment models (as outlined on page 55 in the asset quality section of note 25) and other model factor updates to reflect observed information. The changes to the LGD component of the impairment models, results in an increase in impairment loss allowance of c.€53 million, noting that the €35 million management adjustment for stage 3 mortgages recognised at 31 December 2020 is no longer considered to be required (as outlined below).

The approach to applying forward-looking forecasts for residential property prices into the estimation of stage 3 impairment loss allowances in relevant models was updated in 2021. The approach was refined whereby property price forecasts used to estimate stage 3 impairment loss allowances are adjusted so that the property collateral value at the point of liquidation does not incorporate an improvement on the current market condition. The combined impact of this change is a c.€7 million increase in impairment loss allowance.

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 2021, the Bank’s stock of impairment loss allowance of €292 million includes the total impact of a c.€116 million total post-model management adjustment (2020: €59 million). Details of the components of the post-model management adjustment are outlined below.

Management adjustment for COVID-19
At 31 December 2021, 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 in 2020 and early 2021 to all customers regardless of credit status.

While all payment breaks have expired prior to the reporting date, the Bank’s view is that modelled impairment losses at 31 December 2021 may not fully capture expected COVID-19 related credit losses as ongoing government supports in particular may be masking increased credit risk for certain cohorts of customers.

As a result, a total post-model management adjustment of c.€11 million was applied (2020: €22 million), which relates to Stage 2 loans and advances to customers.

The loan portfolios were reviewed to identify highly impacted customers 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 previously availed of payment breaks (particularly customers who previously availed of a second payment break) with cross reference to other credit characteristics (e.g. employment type; employment status; employment sector; IFRS 9 staging status).

The post-model management adjustment includes the application of a staging adjustment whereby highly impacted customers, as referenced above, that impairment models classify as stage 1, are classified as Stage 2 with a lifetime impairment loss allowance applied. The impact of this staging adjustment is a c.€0.8 billion increase in Stage 2 volumes and a c.€1 million increase in impairment loss.

The requirement to apply this post-model adjustment for latent risk associated with COVID-19 will continue to be assessed during 2022 as government supports are unwound and underlying customer specific risk can be identified in risk management models and credit metrics.

Other management adjustments
The Loss Given Default (LGD) component of the Bank’s impairment models has been reviewed in 2021, including consideration of the rationale for the €35 million management adjustment to impairment loss allowance for stage 3 mortgages applied at 31 December 2020, as well as other internal and external information available at the period end.

2 Critical accounting estimates and judgements *(continued)*

A number of enhancements to model parameters (e.g. sales ratio, cash recoveries) for long-dated stage 3 assets in the Bank's portfolio were completed within the model framework (as outlined on the previous page and on page 55). Accordingly, the previous €35 million post-model management adjustment is no longer required.

However, it was considered appropriate to recognise a post-model management adjustment to account for risk associated with diminished internal data on distressed asset sales in recent years, which limits the Bank's ability to appropriately calibrate LGD estimates for variances between indexed valuations and individual property values for distressed sales. The quantification of this post-model adjustment has been estimated with reference to application of LGD floors for impairment loss allowance calculation.

Accordingly, a €53 million post-model management adjustment is included in the impairment loss allowance at 31 December 2021. The requirement for this post-model adjustment will continue to be assessed with reference to further review of the LGD methodology in 2022.

In addition, the impairment loss allowance for stage 3 mortgages at 31 December 2021 includes a €52 million post -model management adjustment to reflect the potential for the Bank to utilise portfolio sales and / or securitisations to a greater extent in its resolution strategies for non-performing exposures (NPEs). The requirement for post-model adjustments reflects the fact that modelled LGD parameters are calibrated based on historical resolution strategies, which were more heavily reliant on case-by-case resolution (e.g. forbearance arrangements, voluntary sales or legal recovery processes).

The Bank has identified cohorts of loans with certain current characteristics (e.g. defaulted cases in deep arrears) that may potentially form part of future portfolio sales and / or securitisations. The quantum of the post-model adjustment was calculated with reference to independent external benchmarking, internal impairment cover for these cohorts (i.e. incorporating the impact other post-model adjustments), and an assessment of the likelihood of the completion of future asset sales/ securitisations.

Management adjustment for late breaking events

A post-model management adjustment to the Bank's impairment loss allowance of €2 million was recognised as at 31 December 2020 to reflect the impact on macroeconomic scenarios of 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. At 31 December 2021 this adjustment is not considered to be required, noting the Bank's impairment models have been updated and reflects information available at the reporting date (including FLI).

(b) Transfer pricing

A 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 premiums 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.
- 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 €39 million in the income statement. There has been no change to the average life assumption in 2021.

2 Critical accounting estimates and judgements *(continued)*

(d) Tracker Mortgage Examination Review

At 31 December 2021, the Bank holds a provision of €54 million (2020: €60 million) in respect of the industry-wide Tracker Mortgage Examination Review ('Review'). While the supervisory phase of the Review by the CBI has concluded, the CBI's investigation of tracker issues under its administrative sanctions procedure is ongoing. This 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 under the CBI's administrative sanctions procedure.

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 2021.

Sources of estimation uncertainty

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

3 Interest income

	2021 €m	2020 €m
Loans and advances to banks	42	28
Loans and advances to customers at amortised cost	408	419
Impact of Tracker Mortgage Examination Review	(1)	(3)
Interest income calculated using the effective interest method	**449**	**444**
Interest on financial assets at FVTPL	11	12
Interest on non-trading derivatives	14	1
Total interest income	**474**	**457**
Of which receivable from Bank of Ireland	63	42

There was a further charge to interest income in 2021 of €1 million in respect of redress under the Tracker Mortgage Examination Review (2020: €3 million).

Interest income recognised on loans and advances to customers

In 2021, €14.6 million of interest was recognised on credit-impaired loans and advances to customers (2020: €19.7 million).

In 2021, €9 million of interest income was received on credit-impaired loans and advances to customers (2020: €14 million).

Transferred from cash flow hedge reserve

Interest income also includes a charge of €8 million (2020: €14 million) transferred from the cash flow hedge reserve (note 10).

4 Interest expense

	2021 €m	2020 €m
Deposits from banks	94	73
Debt securities in issue	21	44
Interest on subordinated liabilities	3	3
Interest expense from financial liabilities measured at amortised cost	**118**	**120**
Non-trading derivatives (not in hedge accounting relationships)	14	1
Interest expense	**132**	**121**
Of which payable to Bank of Ireland	109	78

5 Net trading income / (expense)

	2021 €m	2020 €m
Fair value movements on other financial assets at FVTPL	2	(1)
Interest rate contracts	3	(2)
	5	**(3)**
Fair value hedges		
Fair value gain on liabilities in fair value hedge relationships	4	-
Fair value loss on derivative contracts in fair value hedge relationships	(4)	-
	-	**-**
Net trading income / (expense)	**5**	**(3)**

In 2021, net trading income was €5 million (2020: €3 million expense). Net income from other financial assets at FVTPL 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.

6 Auditor's remuneration (excluding VAT)

	2021 €'000	2020 €'000
Audit and assurance services		
Statutory audit	150	150
Assurance services	37	46
	187	**196**
Other services		
Taxation services	-	-
Other non-audit services	-	-
Total auditor's remuneration	**187**	**196**

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

	2021 €m	2020 €m
Transfer pricing agreement charge	257	250
Tracker Mortgage Examination Review	1	7
Other operating expenses	37	36
Total operating expenses	**295**	**293**

7 Operating expenses *(continued)*

Staff costs	2021 €'000	2020 €'000
Wages and salaries	371	351
Social security costs	41	39
Pension costs	56	55
Total staff costs recognised in the income statement	**468**	**445**

The transfer pricing charge 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 amounted to €257 million in the year (2020: €250 million) and attributes an arm's length profit to the Bank of €28 million for the year (2020: €28 million).

There was a further charge of €1 million in 2021 in respect of the Tracker Mortgage Examination Review ('Review') to cover additional compensation costs for a small number of additional customers, operational costs associated with the length and nature of the Review and costs of closing out the Review (2020: €7 million).

During 2021, the average number of employees was 4 (2020: 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.

	2021 €m	2020 €m
Loans and advances to customers at amortised cost	(25)	(14)
- Cash recoveries	*4*	*4*
- Movement in impairment losses	*(29)*	*(18)*
Net impairment losses on financial instruments	**(25)**	**(14)**

The net impairment loss of €25 million for 2021 (2020: €14 million) reflects the recognition of the potential risk that longer term credit supports may be required for customers impacted by COVID-19, as well as impairment model parameter updates, partly offset by the change in the macroeconomic outlook and observed resilience in the credit quality of customers including those who availed of payment breaks. The loss also reflects the recognition of losses associated with potential greater utilisation of portfolio sales and/ or securitisations in resolution strategies for NPEs, and the risk associated with diminished levels of asset sales data underpinning the LGD component of the impairment model. This was partly offset by a c.€16 million gain recognised on completion of a securitisation of c.€0.2 billion of NPE assets.

In 2021, the Bank derecognised a portfolio of NPEs (see note 13 for further detail). Net impairment losses on financial instruments include net impairment gains of €16 million arising on the disposal of these loans. As outlined in the Accounting Policies on page 22, expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where certain conditions are met. Each disposal met the conditions set out in the Accounting Policies on page 22, and at the time of each transaction, the expected net sale proceeds, including costs of sale, were included in the IFRS 9 Expected Credit Loss (ECL) calculation.

9 Taxation

	2021 €m	2020 €m
Current tax		
Current year	4	4
	4	**4**
Deferred tax		
Current year credit	(1)	(1)
	(1)	**(1)**
Taxation charge	**3**	**3**

Reconciliation of taxation charge based on the standard Irish corporation tax rate of 12.5%	2021 €m	2020 €m
Profit before taxation	28	28
Profit @12.5%	3	3
Taxation charge	**3**	**3**

	2021			2020		
	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	(14)	2	(12)	15	(2)	13
Transfer to income statement	(8)	1	(7)	(14)	2	(12)
Net change in cash flow hedge reserve	**(22)**	**3**	**(19)**	**1**	**-**	**1**

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 €85 million (2020: €108 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 2021, cash collateral of €215 million (2020: €282 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 €21 million (2020: €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.

10 Derivative financial instruments *(continued)*

	2021			2020		
	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m
Interest rate swaps						
- Held for trading	23,442	22	(21)	26,770	20	(22)
- Designated as fair value hedges	40	13	-	40	16	-
- Designated as cash flow hedges	1,900	50	-	2,624	72	-
Total derivative assets / (liabilities)		**85**	**(21)**		**108**	**(22)**

Interest rate benchmark reform

At 31 December 2021, 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 benchmark rate (BMR) reform as at 31 December 2021.

The timing of the nominal amounts of hedging instruments (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

	2021				2020			
Hedging strategy	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								
Interest rate risk								
- Interest rate swap - notional amount	-	-	-	40	-	-	-	40
- Average fixed interest rate (%)	-	-	-	5.5%	-	-	-	5.5%
Cash flow hedge								
Interest rate risk								
- Interest rate swap - notional amount	955	-	760	185	724	955	760	185
- Average fixed interest rate (%)	0.1%	-	0.6%	1.4%	0.1%	0.1%	0.6%	1.4%

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 Risk category	Hedging instrument[1]	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument Assets €m	Carrying amount of the hedging instrument Liabilities €m	Changes in value used to calculate hedge ineffectiveness[2,3] €m	Ineffectiveness recognised in profit or loss[3] €m
At 31 December 2021						
Interest rate risk	Interest rate swaps	40	13	-	4	-
At 31 December 2020						
Interest rate risk	Interest rate swaps	40	16	-	-	-

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)*

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 2021				
Interest rate risk				
Debt securities in issue	52	(12)	(4)	-
At 31 December 2020				
Interest rate risk				
Debt securities in issue	56	(15)	-	-

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: Assets €m	Carrying amount of the hedging instrument: Liabilities €m	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
At 31 December 2021							
Interest rate risk							
Interest rate swaps	1,900	50	-	22	(22)	-	(8)
At 31 December 2020							
Interest rate risk							
Interest rate swaps	2,624	72	-	(1)	1	-	(14)

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

	2021			2020		
Risk category	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	(22)	(44)	(1)	1	(64)	(1)

[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)*

In 2021 and 2020, 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.

	2021 €m	2020 €m
Changes in fair value		
- Interest rate risk	(14)	15
Transfer to income statement		
Interest income		
- Interest rate risk	(8)	(14)
Deferred tax on reserve movements	3	-
Net change in cash flow hedge reserve	**(19)**	**1**

11 Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit or loss	2021 €m	2020 €m
Life Loans	225	239
	225	**239**

Other financial assets at fair value through profit or loss (FVTPL) 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 FVTPL.

Other financial assets at FVTPL 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

	2021 €m	2020 €m
Funds placed with Bank of Ireland	3,404	3,844
Less impairment loss allowance on loans and advances to banks	(1)	(1)
Total loans and advances to banks at amortised cost	**3,403**	**3,843**
Loans and advances to banks by remaining maturity		
Repayable on demand	48	56
3 months or less	1,973	2,503
1 year or less but over 3 months	515	150
5 years or less but over 1 year	549	277
Over 5 years	319	858
Less impairment loss allowance	(1)	(1)
Total loans and advances to banks at amortised cost	**3,403**	**3,843**

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.

	2021		2020	
Movement in loans and advances to banks	**Gross carrying amount €m**	**Impairment loss allowance €m**	**Gross carrying amount €m**	**Impairment loss allowance €m**
Opening balance	**3,844**	**(1)**	**3,534**	**(1)**
Net changes in exposure	(440)	-	310	-
Closing balance	**3,404**	**(1)**	**3,844**	**(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.

	2021 €m	2020 €m
Loans and advances to customers at amortised cost	16,202	16,354
Accrued interest receivable	14	15
Less allowance for impairment charges on loans and advances to customers at amortised cost	(292)	(276)
Total loans and advances to customers at amortised cost	**15,924**	**16,093**
Loans and advances to customers at amortised cost by remaining maturity		
3 months or less	248	245
1 year or less but over 3 months	598	596
5 years or less but over 1 year	3,151	3,155
Over 5 years	12,219	12,373
Less allowance for impairment charges on loans and advances to customers at amortised cost	(292)	(276)
	15,924	**16,093**

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 2021.

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.

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 Bank 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)*

2021 Gross carrying amount (before impairment loss allowance)	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
Opening balance 1 January 2021	**13,844**	**1,494**	**1,016**	**16,354**
Total net transfers	(595)	598	(3)	-
- to 12-month ECL not credit-impaired	*1,728*	*(1,728)*	*-*	-
- to lifetime ECL not credit-impaired	*(2,296)*	*2,411*	*(115)*	-
- to lifetime ECL credit-impaired	*(27)*	*(85)*	*112*	-
Net changes in exposure	1,018	(867)	(297)	(146)
Impairment loss allowances utilised	-	-	(17)	(17)
Other movements	11	-	-	11
Gross carrying amount at 31 December 2021	**14,278**	**1,225**	**699**	**16,202**

Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2021 includes €5 million (2020: €9 million) of contractual amounts outstanding that are still subject to enforcement activity.

2021 Impairment loss allowance	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
Opening balance 1 January 2021	**(30)**	**(15)**	**(231)**	**(276)**
Total net transfers	(28)	21	7	-
- to 12-month ECL not credit-impaired	*(35)*	*35*	*-*	-
- to lifetime ECL not credit-impaired	*7*	*(18)*	*11*	-
- to lifetime ECL credit-impaired	*-*	*4*	*(4)*	-
Net impairment gains / (losses) in income statement	46	(38)	(37)	(29)
- Re-measurement	*37*	*(43)*	*(37)*	*(43)*
- Net changes in exposure	*1*	*4*	*24*	*29*
- ECL model parameter changes	*8*	*1*	*(24)*	*(15)*
Impairment loss allowances utilised	-	-	17	17
Measurement reclassification and other movements	-	-	(4)	(4)
Impairment loss allowance at 31 December 2021	**(12)**	**(32)**	**(248)**	**(292)**

Total gross loans and advances to customers decreased during the period by €0.2 billion from €16.4 billion as at 31 December 2020 to €16.2 billion as at 31 December 2021.

In June 2021, the Bank of Ireland Group entered into a securitisation arrangement which included €244 million (before impairment loss allowance) of non-performing exposures for the Bank through a special purpose vehicle named Mulcair Securities No.2 DAC. The net carrying value of the loans was €217 million (after impairment loss allowance).

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

The Bank has recognised a net impairment gain of €16 million after costs relating to the disposal of these loans, which has been reported through net impairment losses / gains on financial instruments, as required by IFRS 9.

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

The Bank had no POCI loans in 2021.

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

2020 **Gross carrying amount (before impairment loss allowance)**	**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**
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**

2020 **Impairment loss allowance**	**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**
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 held no POCI loans in 2020.

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 2021 and was, on average, 55% at 31 December 2021 (2020: 60%).

Property values are determined by reference to the latest property valuations held[1], 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 2021.

LTV ratio of total	2021			2020		
Mortgage loan book	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**
Less than 50%	6,736	168	6,904	5,548	196	5,744
51% to 70%	5,104	131	5,235	4,837	178	5,015
71% to 80%	2,697	60	2,757	2,249	90	2,339
81% to 90%	769	64	833	2,321	115	2,436
91% to 100%	81	37	118	229	76	305
Subtotal	**15,387**	**460**	**15,847**	**15,184**	**655**	**15,839**
101% to 120%	45	57	102	63	96	159
121% to 150%	31	56	87	39	80	119
Greater than 150%	40	126	166	52	185	237
Subtotal	**116**	**239**	**355**	**154**	**361**	**515**
Total	**15,503**	**699**	**16,202**	**15,338**	**1,016**	**16,354**
Weighted average LTV[1]:						
Stock of mortgages at year end (%)	53%	97%	55%	58%	100%	60%
New mortgages during the year (%)	70%		70%	74%		74%

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.

	2021 €m	**2020 €m**
Financial assets modified during the year		
Amortised cost before modification	85	70
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	925	176

[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

	2021 €m	2020 €m
Deposits from banks	**12,881**	**12,053**
Deposits by remaining maturity	-	-
3 months or less	1,465	1,557
1 year or less but over 3 months	3,146	2,498
5 years or less but over 1 year	7,800	7,557
Greater than 5 years	470	441
Total	**12,881**	**12,053**

All deposits from banks are due to Bank of Ireland.

16 Debt securities in issue

	2021 €m	2020 €m
Debt securities in issue	**4,930**	**6,168**
Bonds and medium term notes by remaining maturity		
3 months or less	8	744
1 year or less but over 3 months	959	503
5 years or less but over 1 year	3,458	3,961
Greater than 5 years	505	960
	4,930	**6,168**
Of which is due to Bank of Ireland	**2,700**	**3,200**

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

	2021 €m	2020 €m
Opening balance	6,168	7,444
Redemptions	(1,223)	(1,248)
Purchases	(11)	(22)
Other movements	(4)	(6)
Closing balance	**4,930**	**6,168**

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 16 December 2021. 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 2021 amounted to €4.9 billion (2020: €6.1 billion).

16 Debt securities in issue *(continued)*

Mortgage-Backed € Promissory Notes

The Bank executed on 13th December 2021 a Deed of Amendment to the Framework Agreement with the Central Bank of Ireland (CBI) dated 28 February 2012 under which the Bank may issue special mortgage-backed € promissory notes to the CBI. The Bank's obligations under the special mortgage-backed euro promissory notes ('Bank' SMBPN) 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 and Bank of Ireland, executed on 25 May 2021 a Framework Agreement with the CBI under which Bank of Ireland may issue special mortgage-backed € promissory notes to the CBI. Bank of Ireland's obligations under the special mortgage-backed euro promissory notes (Bank of Ireland SMBPN) are secured by way of a first floating charge over all the Bank's and Bank of Ireland's respective right, title, interest and benefit in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security. Both the Bank and Bank of Ireland entered into the Framework Agreement and deed of floating charge ('Deed of Charge') as the Bank in respect of certain of the mortgages and related security is the holder of the legal, right, title, interest and benefit therein and thereto and Bank of Ireland is the holder of the beneficial, right, title, interest and benefit therein and thereto. The Deed of Charge, contains a provision whereby during the subsistence of the security constituted by the Deed of Charge and in respect of the aforementioned mortgages and related security, otherwise than with the prior written consent of the CBI, the Bank and Bank of Ireland 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 ,which includes the property of which Bank of Ireland is the beneficial owner and the Bank is the legal owner ; 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 which includes the property of which Bank of Ireland is the beneficial owner and the Bank is the legal owner 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 2021 (2020: €nil).

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

	2021		2020	
Range €'000	**Number of accounts**	**Total balances of accounts €m**	**Number of accounts**	**Total balances of accounts €m**
0-100	35,085	1,623	37,702	1,758
100-200	25,530	3,704	27,695	4,035
200-500	15,513	4,341	18,086	5,102
Over 500	935	632	1,210	818
	77,063	**10,300**	**84,693**	**11,713**

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 69,235 properties in the Pool at 31 December 2021 (31 December 2020: 75,781). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2021 and 2020 respectively.

16 Debt securities in issue *(continued)*

(b) Geographic location of mortgage properties in the cover assets pool	2021		2020	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	28%	72%	29%	71%
Number of accounts	21,760	55,303	24,323	60,370
Number of properties	19,601	49,634	21,805	53,976

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2021 and 2020 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 2021 and 31 December 2020.

(c) Mortgage accounts in default in the cover assets pool at year end	2021	2020
Number of accounts in default	6	15
Cumulative current balance on above accounts (€m)	1	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.

(d) Mortgage accounts in default in the cover assets pool with arrears of more than €1,000	2021	2020
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	150	216
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	25	34

(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 2021, 183 accounts were non-performing (2020: 256 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 2021 was €11,313 (2020: €60,763). €4,922 of this represented non-payment of interest (2020: €11,465).

(g) Total mortgage principal and interest repayments on mortgage accounts in the cover assets pool	2021 €m	2020 €m
Interest paid in respect of mortgage credit assets	314	339
Capital repaid in respect of mortgage credit assets	1,416	1,230

(h) Number and amount of mortgage accounts in the cover assets pool secured on commercial property
At 31 December 2021, there were no mortgage accounts in the Pool that were secured on commercial property (2020: nil).

17 Other liabilities

	2021 €m	2020 €m
Amounts due to Bank of Ireland	18	242
Other liabilities	3	4
	21	**246**

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

	2021 €m	2020 €m
Opening balance	63	61
Charge to income statement	2	13
Provision utilised	(9)	(11)
Closing balance	**56**	**63**

At 31 December 2021, the Bank held a provision of €54 million (31 December 2020: €60 million) in respect of the ongoing industry-wide Tracker Mortgage Examination Review ('Review') 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 Review.

Since 31 December 2020, the Bank has set aside a further €2 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 Review. Since 31 December 2020, €8 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 Review 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 Review, management has had to consider a range of costs associated with bringing the Review 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.

In 2020, the Bank made an additional €3 million provision to cover redress and compensation costs to a small number of additional customers where the contracted mortgage terms were not correctly applied to the operation of some accounts. €1 million of this was utilised during 2021.

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

19 Deferred tax

	2021 €m	2020 €m
The movement on the deferred tax account is as follows:		
Opening deferred tax liability	(10)	(11)
Cash flow hedges	2	-
Credit to income statement	1	1
Closing deferred tax liability	**(7)**	**(10)**
Deferred tax liabilities are attributable to the following items:		
Deferred tax liability		
Cash flow hedges	(6)	(8)
IFRS 9 transition adjustment	(1)	(2)
Closing deferred tax liability	**(7)**	**(10)**
Represented on the balance sheet as follows:		
Deferred tax liability	**(7)**	**(10)**

The Organisation for Economic Co-operation and Development (OECD) released the 15% minimum effective tax rate Model Rules on 20 December 2021. These Model Rules are the first of three expected sets of guidance: the Model Rules; an explanatory Commentary, expected in early 2022; and a more detailed Implementation Framework, expected later in 2022. It is currently expected that the new rules will be brought into Irish law in late 2022, to be effective from 1 January 2023 and it is possible that the change will increase the Bank's tax charge in future periods. There is no impact on the measurement of the current or deferred taxation liabilities at 31 December 2021. The Bank will monitor the evolving legislation and recognise and disclose the impact, if any, in the year ending 31 December 2022 as it is currently too early to indicate the possible quantitative effects.

20 Subordinated liabilities

On 29 January 2020, the Bank 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 issued a €90 million interest bearing subordinated loan to 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 2.25%. 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 2021, total subordinated loans and accrued interest were €141 million (2020: €141 million).

21 Share capital and share premium

Authorised	2021 '000 Units	2020 '000 Units
Units of €1 of ordinary shares	1,000,000	1,000,000

Allotted, called up and fully paid - presented as equity	2021 €m	2020 €m
Units of €1 of ordinary shares	488	488
Share premium	661	661

22 Other equity instruments

	2021 €m	2020 €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 schemes

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 (2020: 1 employee). The remaining 3 employees are members of the BIGPF (2020: 3 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 2021 and 2020 (see note 7 for details of amounts recharged). At 31 December 2021, the Bank had €nil outstanding amounts payable to the scheme (2020: €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, conduct and regulatory risk, business and 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 value deterioration 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 the Group's Executive Risk Committee (ERC). 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 Board-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 61.

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 pre-defined 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 FVTPL. The Bank's impairment modelling methodologies are approved by the Group's Model Risk Committee (MRC) and / or Risk Measurement Committee (RMC) and the quantum of the Bank's impairment gain or loss, non-performing exposures (NPEs) and impairment loss allowances are reviewed by 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 pages 54 and 55.

25 Risk management and control *(continued)*

An analysis of the Bank's impairment loss allowances at 31 December 2021 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 2021 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 2021 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 loan portfolio is set out on page 45. 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 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.

25 Risk management and control *(continued)*

Risk Profile of loans and advances to customers at amortised cost - NPEs	2021 €m	2020 €m
Credit-impaired	699	1,016
Not credit-impaired	-	-
Total	**699**	**1,016**

As at 31 December 2021, NPEs are all credit-impaired and decreased to €0.7 billion (2020: €1.0 billion).

Composition and impairment

The table below summarises the composition, NPE volumes and related impairment loss allowance of the Bank's loans and advances to customers at amortised cost. It should be noted that the volume of NPEs is the same as the volume of credit-impaired loans.

Composition and impairment[1]	Advances (pre-impairment loss allowance) €m	NPEs[2] €m	NPEs as % of advances %	Impairment loss allowance on NPEs €m	Impairment loss allowance NPEs as % of NPEs %
At 31 December 2021					
Owner occupied mortgages	15,149	491	3%	144	29%
Buy to let mortgages	1,053	208	20%	104	50%
Total loans and advances to customers at amortised cost	**16,202**	**699**	**4%**	**248**	**35%**
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 2021, loans and advances to customers (pre-impairment loss allowance) of €16.2 billion were €0.2 billion less than 31 December 2020, as a result of the securitisation arrangement referred to in note 13.

Credit-impaired loans decreased to €0.7 billion or 4% of customer loans at 31 December 2021 (2020: €1.0 billion or 6%). The decrease in credit-impaired loans was due in part to the securitisation arrangement of €0.2 billion and from ongoing resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

Assets in Stage 2 decreased by €0.3 billion to €1.2 billion, reflecting the application of updated FLI. This was offset by the application of a post-model staging adjustment for latent risk associated with COVID-19 (refer to page 32).

The stock of impairment loss allowance on credit-impaired loans increased to €248 million at 31 December 2021 (2020: €231 million).

The total impairment loss allowance as at 31 December 2021 includes a total management adjustment of €116 million (2020: €59 million), €77 million of which of which was related to credit-impaired assets. Details of the management adjustment are provided in note 2(a).

Impairment loss allowance as a percentage of credit-impaired loans increased to 35% at 31 December 2021 (2020: 23%), reflecting changes in LGD models implemented in the year and an increase in the post-model management adjustments.

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.

[1] *Excludes €225 million of loans and advances to customers at 31 December 2021 (2020: €239 million) that are measured at FVTPL 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)*

The Bank has adopted the Retail Internal Rating Based (IRB) approach 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 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. 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 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 and caps the exposure at the contractual limit.

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.

The LGD component of the impairment models was reviewed in the period, including consideration of the rationale for the €35 million management adjustment to impairment loss allowance for stage 3 residential mortgages applied at 31 December 2020, as well as other internal and external information available at the period end.

Following completion of this review, a number of changes to the LGD models have been implemented including adjustments to LGD parameters (e.g. sales ratio; cash recoveries) for long-dated stage 3 assets. The combined impact of these changes is a c.€53 million increase in impairment loss allowance, noting that the €35 million management adjustment for stage 3 loans applied at 31 December 2020 is no longer considered to be required following the changes to LGD models outlined above.

The approach to applying forward-looking forecasts for residential property prices into the estimation of stage 3 impairment loss allowances in relevant models and discounted cash flow analysis (see below) was reviewed in 2021.

The review considered regulatory guidance on non-performing loans. Following this review, the approach was refined whereby property price forecasts used to estimate stage 3 impairment loss allowances are adjusted so that the property collateral value at the point of liquidation does not incorporate an improvement on the current market condition. The combined impact of this change is a c.€7 million increase in impairment loss allowance.

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 NPE.

25 Risk management and control *(continued)*

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:

(i) exposures have moved directly from Stage 1 to Stage 3;
(ii) exposures have moved to Stage 3, having spent only a short period in Stage 2;
(iii) exposures have moved frequently between Stages 1 and 2; and
(iv) 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

The Bank's policy on the definition of default for the purposes of credit risk management ensures that financial assets identified as credit-impaired are 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.

Under the 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 forborne 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.

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 regularly review credit-impaired loans above agreed thresholds 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

In response to the COVID-19 pandemic and the imposition of social restrictions, the Bank established a range of supports for personal and business customers in 2020, including credit-related supports such as payment breaks for impacted customers. At 31 December 2021, there were c.13,000 cases for which the Bank granted payment breaks during 2020. At 31 December 2021, all payment breaks had expired and 5% had been approved for new and / or additional forbearance.

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:

25 Risk management and control *(continued)*

- FLI scenarios for the period from 2022 to 2026 take into account the impact of COVID-19 on key macroeconomic factors, including consideration of upside and downside risks associated with vaccine efficacy, emergence of new variants and implementation of social restrictions; and
- collective assessments have been considered, with outputs utilised to inform post-model management adjustments to the model-driven impairment loss allowance, as well as staging classification where appropriate.

Where customers required further support following the expiry of COVID-19 payment breaks or concessions, the Bank offered suitable and sustainable solutions. As at 31 December 2021, c.5% customers have availed of new and / or additional forbearance arrangements following the expiry of their payment break arrangement. These cases are classified as forborne. Customers that are not in forbearance following expiry of payment breaks are subject to standard credit management processes as outlined above. However, management has assessed certain portfolios for latent risk associated with ongoing government supports, that may mask credit risk in standard risk metrics, and has applied post-model management adjustments to impairment loss allowances where considered to be appropriate.

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 Group's ERC 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(a).

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. As outlined on page 55 above, the application of property price growth forecasts for the estimation of stage 3 impairment loss allowances was refined in 2021, so that the property collateral value at the point of liquidation does not incorporate an improvement on the current market condition.

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, 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 32 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+, BBB
5-7	0.26% ≤ PD < 1.45%	BBB-, BB+, BB, BB-
8-9	1.45% ≤ PD < 3.60%	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 summarise the composition and risk profile of the Bank's financial assets subject to impairment and the impairment loss allowances on these financial assets.

2021 Financial assets exposure by stage (before impairment loss allowance)	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 measured at amortised cost				
Loans and advances to customers[1]	14,278	1,225	699	16,202
Loans and advances to banks	3,404	-	-	3,404
Other financial assets	7	-	-	7
Total financial assets measured at amortised cost[2]	**17,689**	**1,225**	**699**	**19,613**

2021 Impairment loss allowance on financial assets	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 measured at amortised cost				
Loans and advances to customers[1]	12	32	248	292
Loans and advances to banks	1	-	-	1
Other financial assets	-	-	-	-
Total financial assets measured at amortised cost[2]	**13**	**32**	**248**	**293**

The Bank had no POCI loans in 2020 or 2021.

2020 Financial assets exposure by stage (before impairment loss allowance)	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 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 cost[2]	**17,689**	**1,494**	**1,016**	**20,199**

[1] *Loans and advances to customers at amortised cost excludes loans mandatorily at FVTPL, 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)*

2020 **Impairment loss allowance on financial assets**	**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 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 cost[2]	**31**	**15**	**231**	**277**

The Bank had no POCI loans in 2020 or 2021.

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.

	2021				**2020**			
Loans and advances to customers Composition and risk profile (before impairment loss allowance)	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Total %**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Total %**
Owner occupied mortgages	14,658	491	15,149	94%	14,356	718	15,074	92%
Buy to let mortgages	845	208	1,053	6%	982	298	1,280	8%
Total	**15,503**	**699**	**16,202**	**100%**	**15,338**	**1,016**	**16,354**	**100%**
Impairment loss allowance on loans and advances to customers	**44**	**248**	**292**	**2%**	**45**	**231**	**276**	**2%**

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

2021	**Stage 1**				**Stage 2**			
Not credit-impaired loans and advances to customers - Composition and impairment loss allowance	**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 %**
Total mortgages								
Owner occupied mortgages	13,568	84%	10	-	1,090	7%	26	2%
Buy to let mortgages	710	4%	2	-	135	1%	6	4%
Total	**14,278**	**88%**	**12**	**-**	**1,225**	**8%**	**32**	**3%**

[1] *Loans and advances to customers at amortised cost excludes loans mandatorily at FVTPL, 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)*

2020	**Stage 1**				**Stage 2**			
Not credit-impaired loans and advances to customers - Composition and impairment loss allowance	**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 %**
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%**

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.

2021 **Not credit-impaired loans and advances to customers (before impairment loss allowance)** **Asset quality**	**Stage 1 €m**	**Stage 1 %**	**Stage 2 €m**	**Stage 2 %**	**Total €m**	**Total %**
PD Grade						
1-4	1,812	13%	9	-	1,821	12%
5-7	11,350	79%	648	53%	11,998	77%
8-9	733	5%	168	14%	901	6%
10-11	383	3%	400	33%	783	5%
Total not credit-impaired	**14,278**	**100%**	**1,225**	**100%**	**15,503**	**100%**

2020 **Not credit-impaired loans and advances to customers (before impairment loss allowance)** **Asset quality**	**Stage 1 €m**	**Stage 1 %**	**Stage 2 €m**	**Stage 2 %**	**Total €m**	**Total %**
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)*

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).

2021 **Credit-impaired loans and advances to customers** **Composition and impairment loss allowance**	**Credit-impaired loans €m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance €m**	**Impairment loss allowance as % of credit-impaired loans %**
Owner occupied mortgages	491	3%	144	29%
Buy to let mortgages	208	1%	104	50%
Total credit-impaired	**699**	**4%**	**248**	**35%**

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

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 loss allowances, as categorised by geographical region. For this table, the Bank has allocated exposures based on the location of the asset.

(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).

Loans and advances to customers at amortised cost	**2021 €m**	**2020 €m**
Dublin	6,451	6,597
Rest of Republic of Ireland	9,751	9,757
Total	**16,202**	**16,354**

25 Risk management and control *(continued)*

Repossessed collateral
At 31 December 2021, the Bank had 33 properties in possession (2020: 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:

Repossessed collateral	2021 €m	2020 €m
Residential mortgages	6	5

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 2021 is €1 million (2020: €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- (2020: BBB-).

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.

	2021		2020	
Financial instruments at FVTPL with ratings equivalent to:	€m	%	€m	%
AAA to AA-	-	-	-	-
A+ to A-	-	-	-	-
BBB+ to BBB-	85	27%	108	31%
BB+ to BB-	-	-	-	-
B+ to B-	196	64%	234	68%
Lower than B-	29	9%	5	1%
Total	**310**	**100%**	**347**	**100%**

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	2021 €m	2020 €m
Loans and advances to banks	3,403	3,843
Loans and advances to customers at amortised cost	15,691	15,874
Other financial assets at fair value through profit or loss	225	239
Derivative financial instruments	85	108
Loan commitments	1,006	868
Total	**20,410**	**20,932**

25 Risk management and control *(continued)*

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 ensures compliance with policy, limits and other controls.

The current interest rate risk strategy aims to provide the Bank with protection against material adverse changes in interest and related funding rates by undertaking controlled management of the interest rate structure in the Bank's mortgage and funding products. The Bank has entered into a range of service level agreements with Bank of Ireland to support its overall risk management and control processes. 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 2021, the Bank had €4.6 billion (2020: €5.4 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 2021, the nominal value of swaps qualifying for hedge accounting was €1.9 billion (2020: €2.6 billion). Further details are provided in note 10.

At 31 December 2021, the Bank had €11.6 billion (2020: €11.0 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 FVTPL

At 31 December 2021, the Bank had €0.2 billion (2020: €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 2021, the Bank had (nominal) €4.9 billion in issued asset covered securities (2020: €6.1 billion). €2.2 billion of the issued asset covered securities are at fixed rates (2020: €2.9 billion) and the remaining €2.7 billion have an interest rate that resets based on short-dated EURIBOR (2020: €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 hedge accounting. At 31 December 2021, the nominal value of swaps qualifying for fair value hedge accounting is €40 million (2020: €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 negligible income statement volatility 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 2021, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.1 million (2020: €0.3 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 CBI.

25 Risk management and control *(continued)*

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 2021 and 2020 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.

2021 Liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	-	1,459	3,134	7,784	474	12,851
Debt securities in issue	-	9	965	3,540	622	5,136
Subordinated liabilities	-	1	92	53	-	146
Other financial liabilities	18	-	-	-	-	18
Loan commitments	1,006	-	-	-	-	1,006
Total	**1,024**	**1,469**	**4,191**	**11,377**	**1,096**	**19,157**

2020 Liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
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)*

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

	2021					2020				
Liabilities	**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	7	16	-	(2)	21	2	5	13	2	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. Risks include Business Continuity, Change Execution, Business Process, Data Quality and Availability, Information Security and Cyber, Information Technology, Legal and Contractual, Model, Payments, Sourcing and Physical Security.

The Bank operates systems of risk identification, assessment, management, monitoring and reporting 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 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.

The risk of cyber security attacks remain material as their frequency, sophistication and severity continue to develop. Information Technology risk (including Cloud) continues to be a focus area in an increasingly digital world requiring heightened service continuity and operational resilience.

The COVID-19 pandemic 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, to ways of working for our customers and colleagues, is being kept under continuous review by the Bank.

Conduct and regulatory risk

Conduct and regulatory risk is the risk that the Bank, and / or its staff, conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes and / or non-compliance with laws, rules and regulations related to Conduct of Business, Data Protection and Financial Crime. It is also the risk of the failure to appropriately identify and implement governance arrangements for compliance with any new laws, rules and regulations that relate to licensed financial services activity.

Conduct and Regulatory risk is categorised as a non-financial risk within the Bank's Risk Framework and is further broken down into distinct risk categories:

Customer-focused strategy: The risk of not delivering fair outcomes to customers. It also covers those laws, regulations, codes and guidelines that govern the activities of the Bank with regard to consumer protection requirements, advertising and marketing compliance, mortgage arrears and lending codes. This also includes regulatory expectations with regard to the delivery or good/fair customer outcomes laid out in formal industry communications such as Dear CEO letters.

Product & Service Governance & Lifecycle Management: The risk of the design and development of products and services that do not continue to be appropriate and suitable over the lifetime of the product or respond to changing customer needs. It also covers those laws, regulations, codes and guidelines that govern the activities of the Bank with regard to product and services design, development, oversight and governance.

25 Risk management and control *(continued)*

Colleague Compliance and Culture: The risk of colleagues not meeting set regulatory compliance standards as well as standards of behaviour that have a material negative outcome for stakeholders including customers, colleagues and communities (including shareholders, suppliers and regulators). It also covers the Group's Individual Accountability Framework and Accountability Risk as well as those laws, regulations, codes and guidelines that govern the activities of the Group with regard to conduct and other standards required of individuals and the business.

Regulatory Compliance: The risk of failure by the Bank to implement effective governance in respect of regulatory change, as well as failure to appropriately manage our regulatory engagements or to comply with conduct of business laws, regulations, codes and guidelines.

Data Protection and Privacy: The risk of failing to comply with data protection and privacy principles and requirements and/or protect the personal data of our customers, employees and other individuals who allow the Bank to process their personal data. It covers laws, regulations and guidelines relating to data protection and privacy.

Financial Crime: The risk that the measures adopted by the Bank to prevent and detect money laundering, terrorist financing, sanctions evasion or fraud are not effective and/or do not meet regulator expectations. It also covers those laws and regulations that require the Bank to design and manage processes to identify, assess, mitigate and report on anti-money laundering, countering financing of terrorism and financial sanctions risks and to ensure that staff are aware of those laws and ensure they are alert to those risks when required to do so.

Risk management and measurement
Conduct and regulatory risk, which sits below the overarching Group Risk Framework, sets out the structures and methodologies by which the Bank identifies and manages conduct and regulatory risk. There are two components within the Framework:
- **Governance and Oversight:** Governance arrangements and management oversight of Conduct and Regulatory risk, including specific roles and responsibilities across three lines of defence.
- **Risk Management Lifecycle:** The conduct and regulatory risk management lifecycle recognises the importance of regular risk identification and assessment, diligently setting risk appetite and having robust measurement in place to monitor and report against this.

The effective management of conduct and regulatory risk is primarily the responsibility of business management and is supported by Group Compliance. On an annual basis, the Board approves the Group Risk Appetite Statement, which incorporates statements for all material risks, including conduct and regulatory risk.

Risk mitigation
The primary risk mitigants for conduct and regulatory risk are the suite of policies and policy standards and the existence of appropriate controls in place throughout the business. The Bank also mitigates Conduct and Regulatory Risk through the early identification, appropriate assessment, measurement and reporting of 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.

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;

25 Risk management and control *(continued)*

- 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 CBI reduced the RoI Countercyclical Buffer (CCyB) rate from 1% to 0% until at least the end of 2022. This change was part of a range of measures introduced by supervisors in response to the economic impact of COVID-19. In November 2021, the CBI announced that if the current outlook for the economic recovery holds, it would expect to announce a gradual rebuilding of the CCyB in 2022. In this scenario, a positive CCyB rate would be effective during 2023.

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

These are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

These 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.

	At fair value through profit or loss					Fair value hierarchy			
2021	**Mandatorily €m**	**Fair value hedge derivative €m**	**Cash flow hedge derivative at FVOCI €m**	**Held at amortised cost €m**	**Total €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	-	-	-	3,403	3,403	-	3,484	-	3,484
Loans and advances to customers	-	-	-	15,924	15,924	-	-	15,025	15,025
Other assets	-	-	-	7	7	-	-	7	7
(b) Financial assets held at fair value									
Derivative financial instruments	22	13	50	-	85	-	35	50	85
Other financial assets at FVTPL	225	-	-	-	225	-	-	225	225
	247	**13**	**50**	**19,334**	**19,644**	**-**	**3,519**	**15,307**	**18,826**
(a) Fair value of financial liabilities held at amortised cost									
Deposits from banks	-	-	-	12,881	12,881	-	12,889	-	12,889
Debt securities in issue	-	-	-	4,930	4,930	1,993	279	2,721	4,993
Subordinated liabilities	-	-	-	141	141	-	141	-	141
Other financial liabilities	-	-	-	18	18	-	-	18	18
(b) Financial liabilities held at fair value									
Derivative financial instruments	21	-	-	-	21	-	20	1	21
	21	**-**	**-**	**17,970**	**17,991**	**1,993**	**13,329**	**2,740**	**18,062**

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

2020	At fair value through profit or loss: Mandatorily €m	At fair value through profit or loss: Fair value hedge derivative €m	Cash flow hedge derivative at FVOCI €m	Held at amortised cost €m	Total €m	Fair value hierarchy: 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 FVTPL	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**

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-rate 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 2021 would result in a decrease / increase of €59 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 FVTPL 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.

	2021			2020		
	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	70	239	309	65	246	311
Net interest (expense) / income	(20)	11	(9)	7	12	19
Net trading income	-	2	2	-	(1)	(1)
Repayments	-	(27)	(27)	-	(18)	(18)
Transfers to level 2	-	-	-	(2)	-	(2)
Closing balance	**50**	**225**	**275**	**70**	**239**	**309**
Unrealised gain at year end	**20**	**11**	**31**	**8**	**10**	**18**
Movement in level 3 liabilities measured at fair value						
Opening balance	3	-	3	2	-	2
Net trading income	(2)	-	(2)	1	-	1
Closing balance	**1**	**-**	**1**	**3**	**-**	**3**
Unrealised loss at year end	**(2)**	**-**	**(2)**	**(1)**	**-**	**(1)**

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

The transfers from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2020, which were unavailable at 31 December 2019.

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

			Fair value		Range	
Level 3 assets / liabilities	Valuation technique	Unobservable input	2021 €m	2020 €m	2021 %	2020 %
Other financial assets at FVTPL	Discounted cash flow	Discount on market rate	225	239	2.75% - 4.50%	2.75%-4.50%
	Collateral values	Collateral changes			1.00% - 5.80%	(3.00%)-5.80%
Derivative financial instruments	Discounted cash flow	ECB forecast rates 2025-2043	50 asset 1 liability	70 asset 3 liability	1.00% - 5.80%	0%-0.11%

27 Contingent liabilities and commitments

Loans and advances to customers at amortised cost	2021	2020
Loan commitments (€bn)	1.0	0.9
Loss allowance provision on loan commitments (€'000)	89	399

The Bank has €1.0 billion of approved mortgage loan applications that had not been drawn down at 31 December 2021 (2020: €0.9 billion). Loss allowance provisions of €0.1 million (2020: €0.4 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 ECL 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 Unlimited Company 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.

In November 2021, the Bank's name was amended from 'Bank of Ireland Mortgage Bank' to 'Bank of Ireland Mortgage Bank Unlimited Company'.

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 2021 are available at the Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4 D04 C2N4.

(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 2021, the State held, through the Ireland Strategic Investment Fund, 7.74% of the ordinary shares of Bank of Ireland Group plc (2020: 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 2021 (2020: €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.

2021 **Companies Act Disclosures** **Loans - Mortgages**	**Balance at 1 January 2021[1]** **€'000**	**Balance at 31 December 2021[1]** **€'000**	**Aggregate maximum amount outstanding during the year ended 31 December 2021[2]** **€'000**	**Repayments[3] during the year ended 31 December 2021** **€'000**
Directors at 31 December 2021				
T McMahon	352	324	352	31
T Morley	10	-	10	10
J O'Beirne	461	447	461	19

During 2021, J Hayden, 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)*

2020 Companies Act Disclosures Loans - Mortgages	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 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.

(ii) Loans to Directors of parent companies[1] - Companies Act Disclosures

2021 Directors of parent companies[4] Loans - Mortgages	Balance at 1 January 2021[1] €'000	Balance at 31 December 2021[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2021[2] €'000	Repayments[3] during the year ended 31 December 2021 €'000
Directors at 31 December 2021				
F McDonagh	926	748	926	203
F Muldoon	50	-	50	50

2020 Directors of parent companies[4] Loans - Mortgages	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 at 31 December 2020				
F McDonagh	953	926	952	56
F Muldoon	82	50	82	35

[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 2021 and 2020 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 Kennedy, M O'Grady and S Pateman had no loans with the Bank during 2021. No amounts were waived during 2021.

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 2021 or 2020.

(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.

2021 Connected persons of the following Director	Balance at 31 December 2021 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2021 €'000	Number of persons as at 31 December 2021	Maximum number of persons during the year ended 31 December 2021
T McMahon	1,630	1,684	1	1

2020 Connected persons of the following Director	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
T McMahon	1,686	1,723	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' 'Chief Risk Officer' and 'Director - Home Buying'. 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)*

2021 IAS 24 Disclosures Key Management Personnel	Balance at 1 January 2021[1] €'000	Balance at 31 December 2021[1] €'000	Maximum amounts outstanding during the year ended 31 December 2021[2] €'000	Number of KMP as at 1 January 2021	Number of KMP as at 31 December 2021
Loans[3]	6,353	6,080	6,895	11	10

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

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 (2020: €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 2021 (2020: €nil).

	2021 €'000	2020 €'000
Fees	125	125
Other emoluments	229	217
Other - pension	47	43
Other - termination benefits	-	24
Total remuneration	**401**	**409**

[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 2021 for any member of KMP and their close family did not exceed €1.1 million (2020: €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 the prior year and are not related parties during the current year. Therefore these KMP are not included in the maximum amounts outstanding.*

29 Alternative performance measures

The Directors' report is prepared using IFRS and non-IFRS measures to analyse the Bank's performance, providing comparability year on year. These performance measures include the alternative performance measure of 'Return on assets' in line with the requirement of the EU (Capital Requirements) Regulations 2014. It is calculated as the statutory net profit after tax divided by total assets.

Calculation	Source	2021 €m	2020 €m
Profit for the year	Income statement	25	25
Total assets	Balance sheet	19,644	20,284
Return on assets (bps)		**13**	**12**

30 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.

31 Approval of the financial statements

The Directors approved these financial statements on 25 February 2022.

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.

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

Abbreviations

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