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Bank of Ireland Mortgage Bank Unlimited Company  
Annual Report



**Bank of  
Ireland**

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## Directors and other information

### **Directors at date of signing**

Alan Hartley  
James Hayden  
Harry Lorton  
Aine McCleary  
Tony McMahon  
Tony Morley

### **Registered Office and Number**

Bank of Ireland  
40 Mespil Road  
Dublin 4  
D04 C2N4  
Registered Number 386415

### **Cover Assets Monitor**

Mazars  
Harcourt Centre  
Block 3  
Harcourt Road  
Dublin 2  
D02 A339

### **Independent Auditor**

KPMG  
1 Harbourmaster Place,  
IFSC,  
Dublin 1  
D01 F6F5

### **Secretary**

Hill Wilson Secretarial Limited  
Bank of Ireland  
40 Mespil Road  
Dublin 4  
D04 C2N4

# 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 2022.

## 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 and 2007 (as amended, 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 (PBT) in 2022 of €26 million (2021: €28 million):

- net interest income reduced to €299 million (2021: €342 million) due to increased funding costs reflecting the higher interest rate environment;
- operating expenses increased to €300 million (2021: €295 million) and include a transfer pricing charge of €256 million (2021: €257 million);
- loans and advances to customers at amortised cost (before impairment loss allowances) amounted to €16.2 billion (31 December 2021: €16.2 billion);
- a net impairment gain of €25 million arose in the year (2021: €25 million charge) (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 non-performing exposure (NPE) disposals during the year of €0.5 billion (before impairment loss allowance), has resulted in a significant reduction in the stock of NPEs in 2022. NPEs reduced by 75% during the year to €0.2 billion at 31 December 2022 (31 December 2021: €0.7 billion); and
- the return on assets is 11 basis points (2021: 13 basis points) (see note 29).

## Financial results

The profit before taxation for 2022 amounted to €26 million (2021: €28 million), as set out in the income statement on page 14.

The reported PBT is reflective of the application of the transfer pricing arrangement between Bank of Ireland and the Bank based on the profit split method. The arrangement is in accordance with 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 €256 million in 2022 (2021: €257 million) and attributes an arm's length profit to the Bank of €26 million for the current year (2021: €28 million).

Net interest income decreased to €299 million for 2022, from €342 million in 2021. The reduction is driven by increased funding costs

€253 million (2021: €132 million), which reflect the higher interest rate environment, partly offset by higher interest income of €552 million (2021: €474 million).

Net trading income for the year was €2 million (2021: €5 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 €300 million for 2022 (2021: €295 million). The transfer pricing charge decreased to €256 million in 2022 (2021: €257 million). Other operating costs increased to €44 million (2021: €38 million), primarily driven by higher origination and servicing costs coupled with additional costs relating to closing out the Tracker Mortgage Examination Review.

The net impairment gain of €25 million for 2022 (2021: loss of €25 million) reflects impairment model updates incorporating the current macroeconomic outlook (€18 million charge), which is more than offset by gains primarily due to the release of previously held management adjustments (€42 million) and portfolio activity including NPE portfolio disposals (€1 million).

## Irish mortgage market performance

In 2022, the Irish new mortgage market increased by 34% to €14.1 billion (2021: €10.5 billion)<sup>1</sup>. Residential transactions in the market were up 5% in 2022 and housing completions were up 45%. House prices continued to grow by 7.8% nationally, with 6% growth in the Dublin area and 9.3% growth outside Dublin.

Notwithstanding global uncertainty and increased funding costs, the Bank delivered strong business performance in 2022 and material momentum in attracting new customers as the Irish banking landscape restructures. The Bank continues to play a leading role in the ongoing growth in the Irish residential mortgage market, providing €2.7 billion of new mortgage lending in 2022, up 41% on 2021 while maintaining both risk and pricing discipline.

While new lending increased by 41%, loans and advances to customers at amortised cost (before impairment loss allowances) remained stable at €16.2 billion (31 December 2021: €16.2 billion) due to an elevated level of pay-down partly impacted by a higher level of switcher activity in the market coupled with the NPE disposal of €0.5 billion during the year.

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.

## Tracker Mortgage Examination Review

In September 2022 the Central Bank of Ireland (CBI) concluded its enforcement investigation of the Group under the industry wide Tracker Mortgage Examination Review. The Group agreed

<sup>1</sup> Source: Banking and Payments Federation Ireland (BPF) Mortgage Drawdowns Report Q4 2022.

to pay a fine of €100.5 million under the CBI's administrative sanctions procedure, with €35 million of this payment being recognised in the Bank's financial statements in October 2022. This brought the CBI's investigation into tracker mortgages to a close (see notes 3,7 and 18).

#### Asset quality

Loans and advances to customers (before impairment loss allowances) at amortised cost amounted to €16.2 billion at 31 December 2022 (31 December 2021: €16.2 billion). Impairment loss allowances are €0.1 billion (31 December 2021: €0.3 billion).

The Bank's NPE resolution strategies involve restructuring and sales activity supplemented with portfolio level initiatives. During 2022, the Bank disposed of two NPE portfolios (comprising owner occupied and Buy to let (BTL) NPEs), with a total gross carrying value of c.€0.5 billion. 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 €0.2 billion at 31 December 2022 (31 December 2021: €0.7 billion).

Owner occupied NPEs were €0.1 billion at 31 December 2022, a reduction of 76% since 31 December 2021. At 31 December 2022, 99.6% of the Owner occupied mortgage book was on a 'full principal and interest' repayment basis (31 December 2021: 99%).

Buy to let NPEs were €0.06 billion at 31 December 2022, a reduction of 74% since 31 December 2021. 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 2022, 96% of the Buy to let mortgage book was on a full principal and interest repayment basis (2021: 94%).

#### Capital

At 31 December 2022, the common equity tier 1 ('CET 1') ratio on both a regulatory and a fully loaded basis was 27.0% (2021: 26.4%). The total capital ratio on a regulatory basis was 32.2% (2021: 34.0%) and fully loaded basis was 32.1% (2021: 33.9%). The Bank's regulatory capital ratios include an addback for IFRS 9 impairment. The movement in the Bank's CET1 capital ratios is primarily due to profits in the year partially offset by an increase in risk weighted assets. The decrease in the Bank's total capital ratio is due to the early redemption of the €90 million Tier 2 capital instrument issued on its Optional Redemption Date, 27 October 2022.

The leverage ratio at 31 December 2022 on both a regulatory and a fully loaded basis was 6.9% (2021: 6.8%). The Bank expects to remain above the regulatory leverage ratio requirement of 3% which is applicable from 2021. See the section on 'Capital Adequacy Risk' 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 Risk, Regulatory Risk, Business and Strategic 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.

#### Funding

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

At 31 December 2022, the Bank had a customer loan portfolio of €16.3 billion (net of impairment loss allowances and including Life Loans) funded through debt securities in issue: €4 billion (24%); equity and subordinated debt: €1.6 billion (10%) and net Group borrowings: €10.7 billion (66%). Of the €4 billion debt securities in issue, €2.7 billion is held by Bank of Ireland. The remaining €1.3 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, 2022: Aaa (2021: Aaa). During 2022, €0.95 billion of securities in issue matured (2021: €1.2 billion). Full details of debt securities in issue are contained in note 16 to the financial statements.

At 31 December 2022, the Bank had €51 million of subordinated loan borrowings from its immediate parent, Bank of Ireland (2021: €141 million). On 27 October 2022, the Bank redeemed a €90 million subordinated loan from its parent, having received prior supervisory approval to do so.

#### 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 2022 (2021: €nil).

#### Audit committee

During 2022, the Bank's Audit Committee and later, the Bank of Ireland Group Audit Committee, assisted 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.

Following the departure of an independent Non-Executive Director, who was also chair of the Audit Committee, during the financial year, the Bank's Audit Committee responsibilities are discharged at Bank of Ireland Group level, pending restoration of the Bank's Audit Committee.

The members of the Bank of Ireland Group Audit Committee are disclosed on page 77 of the Bank of Ireland Group Annual report.

### Outlook

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 2022 (2021: €16.2 billion). Forecasts out to 2024 indicate the Bank will grow its loan book and continue to generate sustainable profits and capital over the period.

### Sustainability

The Bank is cognisant of the growing regulatory requirements around the Environmental, Social and Corporate Governance (ESG) agenda, and these are addressed in the Sustainability section of the Strategic report (pages 15 to 41) of the 2022 Annual Report of Bank of Ireland Group plc.

### Directors

**Harry Lorton**  
Independent Non-Executive  
Chairman

**Alan Hartley**  
Managing Director  
(Appointed 16 September 2022)

**James Hayden**  
Executive Director

**Aine McCleary**  
Group Non-Executive  
Director

**Geraldine Kelly**  
Independent Non-  
Executive Director  
(Resigned 31 December 2022)

**John O'Beirne**  
Managing Director  
(Resigned 16 September 2022)

**Tony McMahon**  
Executive Director

**Tony Morley**  
Group Non-Executive  
Director

**Paul Raleigh**  
Independent Non-  
Executive Director  
(Resigned 25 July 2022)

### 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 2022 (2021: €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 19 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.



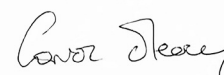
**Harry Lorton**  
Chairman



**Alan Hartley**  
Managing Director



**James Hayden**  
Director



**Hill Wilson**  
Secretarial Limited

## Statement of Directors' responsibilities

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


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

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

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

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Bank and which enable them to ensure that the financial statements comply with the provisions of the Companies Act 2014 and with the requirements of the European Union (Credit Institutions: Financial Statements) Regulations 2015. 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 concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**Harry Lorton**  
Chairman



**Alan Hartley**  
Managing Director



**James Hayden**  
Director

6 March 2023

# 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.

Due to the retirement of two independent Non-Executive Directors ('INEDs'), following the expiration of their respective terms in office, the Bank did not comply with Sections 22.1-22.3 of the Requirements, nor with the requirement in Sections 7.1 and 7.2 of Appendix 1 of the Requirements to have a minimum of seven directors, at least three of whom must be independent. As one of the retiring INEDs was also Chair of the Audit Committee, the Bank's Audit Committee responsibilities are discharged at Bank of Ireland Group level, pending restoration of compliance with the Requirements. A search process to find suitable candidates to be appointed as INEDs (including an Audit Committee Chair) commenced in 2022. These matters were reported promptly to the CBI including the steps being taken to rectify the position and to bring the Bank back into compliance with the Requirements. The Requirements are available at [www.centralbank.ie](http://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 ongoing 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 2022 set out on pages 14 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 2022 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 and the European Union (Credit Institutions: Financial Statements) Regulations 2015.

#### 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 five years for the year ended 31 December 2022. 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 public interest entities. No non-audit services prohibited by that standard were provided.

#### Conclusions relating to going concern

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

- 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 any material uncertainties 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.

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

#### Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included:

- Inquiring with the directors and other management as to the Company's policies and procedures regarding compliance with laws and regulations, identifying, evaluating and accounting for litigation and claims, as well as whether they have knowledge of non-compliance or instances of litigation or claims.

- Inquiring of directors, the audit committee and internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for whistleblowing, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Inquiring of directors, the audit committee and internal audit regarding their assessment of the risk that the financial statements may be materially misstated due to irregularities, including fraud.
- Inspecting the Company's regulatory and legal correspondence.
- Reading minutes of meetings of the Board of Directors and the audit committee.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Performing planning analytical procedures to identify any usual or unexpected relationships.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition. We identified a fraud risk in relation to Impairment Loss Allowance under IFRS 9 – Post model adjustments.

Further detail in respect of Impairment Loss Allowance under IFRS 9 – Post Model Adjustments is set out in the key audit matter disclosures in this report.

In response to the fraud risks, we also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation;
- Assessing significant accounting estimates for bias; and
- Assessing the disclosures in the financial statements.

As the Company is regulated, our assessment of risks involved obtaining an understanding of the legal and regulatory framework that the Company operates and gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

#### **Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgement, 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 matter was as follows (changed from 2021):

#### **Impairment loss allowance under IFRS 9 - €74 million (2021: €292 million)**

Refer to page 22 to 24 (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 Probability of Default (PD) and the Mortgage Loss Given Default (LGD) models**

Owing to the complexity and uncertainty in the PD model, including the underlying assumptions, we have identified a significant risk of error in expected credit losses (ECL) as a result of inaccurate PDs being generated by the PD model.

Having regard to the increased complexity arising from the incorporation of the 2021 Post Model Adjustment (PMA) associated with the Loss Given Default (LGD) floor into the LGD model, we have identified a new significant risk of error over the accuracy of the IFRS 9 Mortgage LGD model.

### **Post model adjustment (PMA)**

PMAs are raised by management to address known impairment model limitations or emerging trends.

We have identified a significant risk of error and fraud associated with the completeness of PMAs due to the high degree of estimation uncertainty involved in PMAs.

### **Economic scenarios**

Economic scenarios have a direct impact on the proportion of loans in stage 2 and the resultant ECL. Significant management judgement is applied to the determination of the economic scenarios and the weightings applied to them.

We have identified a significant risk due to error with respect to management judgement applied in the selection of scenarios, the associated scenario probabilities and the significant economic variables which drive the scenarios and the related weightings, particularly given the elevated economic and geopolitical uncertainty.

### **How the matter was addressed in our audit**

#### **Accuracy of PD and mortgage LGD models**

- We performed end-to-end process walkthroughs to identify the key systems, applications and key controls used in the impairment loss allowance modelling processes.
- In conjunction with our credit modelling specialists, we tested the design, implementation and operating effectiveness of key controls including:
  - model implementation, validation and monitoring for the PD model and mortgage LGD model;
  - monitoring of staging effectiveness to assess whether the PD model is appropriately identifying assets which have experienced a significant increase in credit risk; and
  - controls over significant model inputs and outputs.
- In conjunction with our credit modelling specialists, we held probing inquiries with the model development and validation teams to assess whether the basis for significant model enhancements introduced were reasonable.
- In conjunction with our credit modelling specialists, we assessed whether the changes to the mortgage LGD model were reasonable and in accordance with IFRS 9 by inspecting the associated model development document, validation report, and inspecting the model code which underpins the model changes.
- In conjunction with our credit modelling specialists, we performed reperformance of key aspects of the models underlying the calculation of expected credit losses, including:

- Reperformance of ECL execution for a selection of SAS models;
- ECL replication testing for the IFRS 9 PD model and the Mortgage LGD model;
- Assessing the accuracy of the LGD model components (portfolio sales, cure rates, time-to-sale);
- Inspecting model validation and model monitoring reports to assess whether the findings have been appropriately considered and addressed by management / model developers; and
- Inspecting the model development documentation to assess whether model updates in the period were reasonable.

#### **Post model adjustments**

- We performed end to end process walkthroughs and tested the design, implementation and operating effectiveness of the key controls over the identification and movement of PMAs.
- In conjunction with our credit modelling specialists, we evaluated the conceptual soundness of the current treatment of previous PMAs by critically assessing management's methodology, including the limitation and/or risk that the PMA was seeking to address, and the changes in PMAs for compliance with the requirements of IFRS 9.
- For model updates associated with 2021 PMAs which have been incorporated into the relevant IFRS 9 model during the year, we assessed the appropriateness of the updated model code and the conceptual soundness of model updates for compliance with IFRS 9.
- We tested the completeness of PMAs having regard for the risk profile of loan book, as well as known model limitations and by challenging management on their key assumptions relating to the credit risk impact of prevailing macroeconomic uncertainty such as interest rates and inflation.
- We assessed the overall adequacy of disclosures relating to the ECL impact associated with the cohorts of loans identified through management's affordability analysis.

#### **Economic scenarios**

- We performed end to end process walkthroughs and tested the design, implementation and operating effectiveness of key controls relating to the estimation of macroeconomic forecasts used in measuring ECL including the economic scenarios and probability weightings applied to them;
- In conjunction with our economic specialists, we held probing inquiries with the Real Estate Advisory Unit (REAU) and Economic Research Unit (ERU) and inspected related documentation to assess whether the basis for significant management assumptions are reasonable and consistent with independent consensus forecasts;
- We challenged whether management's forward-looking information (FLI) upside / downside scenario weightings were reasonable, having regard to relevant available information at year-end;
- We challenged the continued use of the narrative driven approach to derive the alternate scenarios and whether management's assumption that there are idiosyncratic factors which are not being captured by the Vector Autoregression (VAR) model remains reasonable;

- In conjunction with our economics specialists, we challenged and assessed the reasonableness of the significant assumptions underpinning management's economic scenarios which we determined to be GDP / GNP, unemployment and property prices by comparing to independent and observable economic forecasts, leveraging a number of external data points.

We found the significant judgements used by management in determining the ECL gain and provision, including the accuracy of PD and mortgage LGD models, completeness of PMAs and economic scenarios, to be reasonable.

### Conduct Risk

We continue to perform procedures over conduct risk. However, following the settlement of the Tracker Mortgage Examination fine in September 2022, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the financial statements as a whole was set at €13.0 million (2021: €13.0 million) determined with reference to the benchmark of net assets (of which it represents 0.9% (2021: 0.8%)). We consider net assets to be the most appropriate benchmark as it is one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole which equates to €9.75 million (2021: €9.75 million). We applied this percentage in our determination of performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding €0.65 million (2021: €0.65 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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.

Our audit was undertaken to the materiality and performance 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.

### Other information

The directors are responsible for the preparation of 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 statement

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
  - information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/EC)) Regulations 2006 and specified for our consideration, is consistent with the financial statements and has been prepared in accordance with the Act; 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 purposes 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 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*****Responsibilities of directors for the financial statements***

As explained more fully in the directors' responsibilities 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 for the audit of the financial statements***

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on IAASA's website at <https://iaasa.ie/publications/description-of-the-auditors-responsibilities-for-the-audit-of-the-financial-statements/>.

***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 this report, or for the opinions we have formed.

**James Black**

for and on behalf of

**KPMG**

Chartered Accountants, Statutory Audit Firm,  
1 Harbourmaster Place, IFSC,  
Dublin 1,  
D01 F6F5.

6 March 2023

# Income statement

for the year ended 31 December 2022

	Note	2022 €m	2021 €m
Interest income calculated using the effective interest method	3	458	449
Other interest income	3	94	25
<b>Interest income</b>		<b>552</b>	<b>474</b>
Interest expense	4	(253)	(132)
<b>Net interest income</b>		<b>299</b>	<b>342</b>
Fee and commission income		-	1
Net trading income	5	2	5
<b>Total operating income</b>		<b>301</b>	<b>348</b>
Operating expenses	7	(300)	(295)
- <i>Transfer pricing charge</i>		(256)	(257)
- <i>Other operating costs</i>		(44)	(38)
<b>Total operating profit before net impairment losses on financial instruments</b>		<b>1</b>	<b>53</b>
Net impairment gains / (losses) on financial instruments	8	25	(25)
<b>Profit before taxation</b>		<b>26</b>	<b>28</b>
Taxation charge	9	(3)	(3)
<b>Profit for the financial year</b>		<b>23</b>	<b>25</b>

# Statement of comprehensive income

for the year ended 31 December 2022

	2022 €m	2021 €m
Profit for the financial year	23	25
<b>Other comprehensive (expense) / income, net of tax</b>		
Items that may be reclassified to profit or loss in subsequent years:		
Cash flow hedge reserve, net of tax		
- Changes in fair value	(100)	(12)
- Transfer to income statement	(2)	(7)
<b>Net change in cash flow hedge reserve</b>	<b>(102)</b>	<b>(19)</b>
<b>Total other comprehensive expense, net of tax</b>	<b>(102)</b>	<b>(19)</b>
<b>Total comprehensive (expense) / income for the year, net of tax</b>	<b>(79)</b>	<b>6</b>

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

# Balance sheet

as at 31 December 2022

	Note	2022 €m	2021 €m
<b>Assets</b>			
Derivative financial instruments	10	283	85
Other financial assets at fair value through profit or loss	11	217	225
Loans and advances to banks	12	3,676	3,403
Loans and advances to customers at amortised cost	13	16,086	15,924
Deferred tax asset	19	9	-
Other assets		1	7
<b>Total assets</b>		<b>20,272</b>	<b>19,644</b>
<b>Liabilities</b>			
Deposits from banks	15	14,291	12,881
Derivative financial instruments	10	350	21
Debt securities in issue	16	3,972	4,930
Other liabilities	17	93	21
Current tax liability		-	5
Provisions	18	12	56
Deferred tax liability	19	-	7
Subordinated liabilities	20	51	141
<b>Total liabilities</b>		<b>18,769</b>	<b>18,062</b>
<b>Equity</b>			
Called up share capital presented as equity	21	488	488
Share premium	21	661	661
Reserves		154	233
<b>Shareholders' equity</b>		<b>1,303</b>	<b>1,382</b>
Other equity instruments	22	200	200
<b>Total equity</b>		<b>1,503</b>	<b>1,582</b>
<b>Total equity and liabilities</b>		<b>20,272</b>	<b>19,644</b>



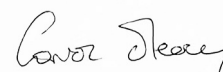
**Harry Lorton**  
Chairman



**Alan Hartley**  
Managing Director



**James Hayden**  
Director



**Hill Wilson**  
Secretarial Limited

6 March 2023



# Statement of changes in equity

for the year ended 31 December 2022

	Share capital €m	Share premium €m	Reserves		Total shareholders' equity €m	Other equity instruments €m	Total equity €m
			Retained earnings €m	Cash flow hedge reserve €m			
<b>At 1 January 2021</b>	<b>488</b>	<b>661</b>	<b>170</b>	<b>57</b>	<b>1,376</b>	<b>200</b>	<b>1,576</b>
<b>Comprehensive income</b>							
Profit for the year	-	-	25	-	25	-	25
Other comprehensive income	-	-	-	(19)	(19)	-	(19)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>(19)</b>	<b>6</b>	<b>-</b>	<b>6</b>
<b>Balance at 31 December 2021</b>	<b>488</b>	<b>661</b>	<b>195</b>	<b>38</b>	<b>1,382</b>	<b>200</b>	<b>1,582</b>
<b>Comprehensive income</b>							
Profit for the year	-	-	23	-	23	-	23
Other comprehensive expense	-	-	-	(102)	(102)	-	(102)
<b>Total comprehensive expense</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>(102)</b>	<b>(79)</b>	<b>-</b>	<b>(79)</b>
<b>At 31 December 2022</b>	<b>488</b>	<b>661</b>	<b>218</b>	<b>(64)</b>	<b>1,303</b>	<b>200</b>	<b>1,503</b>

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## 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 18 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'), Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and the European Union (Credit Institutions: Financial Statements) Regulations 2015.

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 2022 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 competitive landscape and the impact 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 2022 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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- 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:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- 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 forbore loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forbore until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forbore classifications. Forborne financial assets which are not credit-impaired are generally 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 forbore loan are considered to have expired, due to the loan being restructured in such a way that results in a substantial modification, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition is recognised in the income statement. The new financial asset may be initially

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

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

### 1.8 Financial liabilities

The Bank classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at FVTPL or 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:

- 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
- 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.

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

#### (b) Deferred income tax

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

Deferred tax on items taken to other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity except for the income tax 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.

While the BIGPF Scheme is recognised as a defined benefit scheme, the Principal Employer recognises the net defined benefit cost of the plan as a whole and the Bank recognises a cost equal to its contributions payable for the year.

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

Further information on the Group's pension schemes is available in note 46 of the Group's Annual Report for the year ended 31 December 2022.

## 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 2022, 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 2022 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 uses historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to the idiosyncratic nature of recent events i.e. Russia's invasion of Ukraine, the COVID-19 economic shock and Brexit, the Bank has employed an amended approach for the selection of the upside and downside FLI scenarios for reporting periods since 31 December 2020, in order to avoid counterintuitive trends in the respective scenarios.

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

The FLI methodology framework was leveraged to assign an initial set of 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 final set of probability weightings used in Expected credit losses (ECL) estimates reflected the application of management judgement to the initial probability weightings. Increased weight was assigned to the central scenario and downside scenario 2, with an offsetting decrease in the upside scenario weight. External forward looking information informed the application of this management judgement, and reflected economic uncertainty associated with a combination of factors including: Russia's invasion of Ukraine; elevated inflation rates; supply chain disruption; and interest rate expectations in the Bank's key economies. The estimated impact of this judgement was a c.€2 million increase in reported impairment loss allowance.

## 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 2023 to 2027, together with the scenario weightings.

2022	Central Scenario	Upside scenario	Downside	
			Scenario 1	Scenario 2
<b>Scenario probability weighting</b>	<b>45%</b>	<b>15%</b>	<b>25%</b>	<b>15%</b>
GDP - annual growth rate	3.5%	3.9%	2.8%	1.9%
GNP - annual growth rate	3.1%	3.6%	2.5%	1.5%
Unemployment - average yearly rate	4.8%	4.4%	6.4%	8.5%
Residential property price growth - year end figures	1.2%	1.6%	(3.0%)	(5.6%)

2021	Central Scenario	Upside scenario	Downside	
			Scenario 1	Scenario 2
<b>Scenario probability weighting</b>	<b>45%</b>	<b>20%</b>	<b>25%</b>	<b>10%</b>
GDP - annual growth rate	3.8%	4.2%	3.2%	2.1%
GNP - annual growth rate	3.8%	4.1%	3.1%	2.0%
Unemployment - average yearly rate	5.9%	5.1%	7.3%	9.3%
Residential property price growth - year end figures	2.2%	3.4%	(0.8%)	(3.0%)

The tables below sets out the forecast values for 2023 and 2024 and the average forecast values for the period 2025 to 2027 for the key macroeconomic variables which underpin the above mean average values.

	2023	2024	2025-2027
<b>Central scenario - 45% weighting</b>			
GDP - annual growth rate	4.1%	3.8%	3.1%
GNP - annual growth rate	3.7%	2.8%	3.0%
Unemployment - average yearly rate	4.9%	4.9%	4.8%
Residential property price - year end figures	0.0%	0.0%	2.0%
<b>Upside - 15% weighting</b>			
GDP - annual growth rate	4.6%	4.5%	3.4%
GNP - annual growth rate	4.2%	3.7%	3.3%
Unemployment - average yearly rate	4.5%	4.4%	4.3%
Residential property price - year end figures	2.0%	1.0%	1.7%
<b>Downside scenario 1 - 25% weighting</b>			
GDP - annual growth rate	2.0%	2.8%	3.0%
GNP - annual growth rate	1.8%	2.0%	2.8%
Unemployment - average yearly rate	6.0%	6.6%	6.4%
Residential property price - year end figures	(11.0%)	(4.0%)	0.0%
<b>Downside scenario 2 - 15% weighting</b>			
GDP - annual growth rate	0.0%	1.0%	2.8%
GNP - annual growth rate	(0.4%)	(0.1%)	2.7%
Unemployment - average yearly rate	7.1%	8.8%	8.9%
Residential property price - year end figures	(15.0%)	(8.0%)	(1.7%)

## 2 Critical accounting estimates and judgements *(continued)*

The central, upside and downside scenarios are described below:

### Central scenario

The Irish economy has been benefiting from the removal of pandemic-related restrictions and rebounding employment during 2022. At the same time, the fallout from Russia's invasion of Ukraine - including high global energy prices and an uncertain external environment - has been adding to prices and costs for consumers and businesses and weighing on confidence, with the UK also experiencing political and market turmoil. ECB and Bank of England interest rate increases are a drag for activity too, so notwithstanding the help to households and firms from government cost-of-living and energy supports, the Central Scenario envisages a moderation in GDP growth in Ireland in 2023. Inflation is expected to ease significantly in 2024 though, while unemployment ticks up for a time before settling at a relatively low rate.

### Upside scenario

In the Upside Scenario, a mild winter in Europe and increased conservation help lower wholesale energy prices. This has a knock-on effect to inflation in Ireland and with rising consumer and business confidence, reduced uncertainty and lingering post-restrictions tailwinds contributing to stronger economic momentum, unemployment edges down in 2023 and remains low in subsequent years.

### Downside scenario 1

Amid further geopolitical tension, the Downside Scenario 1 sees a complete cut off of Russian oil and gas supplies to Europe. Given limited substitution possibilities and a particularly cold winter, energy rationing and a spike in wholesale prices ensue. Higher food and other commodity prices also add to upward inflationary pressures. Tighter monetary and financial conditions put downward pressure on consumer and business spending, with weaker global demand a headwind for exporting sectors including Information and Communications Technology. The Irish economy goes into recession in late 2022/early 2023, while unemployment increases and stays relatively high out the forecast horizon.

### Downside scenario 2

The Downside Scenario 2 also assumes a complete cut off of Russian energy supplies to Europe. In addition, the full implementation of customs checks by the UK authorities is followed by the termination of the UK-EU trade agreement as post-Brexit tensions come to a head, adding to existing industrial unrest in the UK and significantly impacting Irish (indigenous)

exports. The parallel circulation of the COVID-19 and seasonal flu viruses also requires the imposition of some public health restrictions this winter and next. Amid high inflation, heightened uncertainty, collapsing confidence and tightening financial conditions, the Irish economy goes into recession in late 2022/early 2023 and again during 2024. Unemployment moves up and remains elevated over the entire forecast period.

### Property price growth, all scenarios

In the central scenario, following reasonable growth throughout 2022, residential price growth slows to 0% in 2023. No further growth is forecast in 2024. From 2025 onwards the market records marginal positive growth of 0-3% per annum.

In the upside scenario, residential property shows low single digit growth for the forecast period.

In the downside scenarios (1 & 2), residential prices are expected to turn negative in 2023 with a trough point of -28% (downside scenario 2). Downside scenario (2) effectively sees a full reversal of the gains made in residential prices since recovery from COVID-19 uncertainty began in 2020.

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 2022 was increased by virtue of applying multiple scenarios rather than only a central scenario.

Comparative figures as at 31 December 2021 are also outlined below (and in subsequent tables in this section). Changes in the figures as at 31 December 2022 compared to the previous reporting date reflect a number of inter-related dynamics including changes in forward-looking scenarios and associated probability weights; impairment model methodology updates in the year; and the composition of the underlying portfolios at the respective reporting dates.

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). The scenarios outlined in the following tables are based on the FLI weightings outlined on the previous page.

## 2 Critical accounting estimates and judgements *(continued)*

2022	Additional impairment loss allowance							
	Stage 1		Stage 2		Stage 3		Total	
	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %	Impact €m	Impact %
Impact of applying multiple scenarios rather than only central scenario								
Residential mortgages	1	13%	8	101%	2	4%	11	17%

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

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:

2022	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 %
	Impact of applying only a central, upside or downside scenarios rather than multiple probability weighted scenarios								
Residential mortgages	74	(11)	(17%)	(12)	(16%)	26	35%	55	74%

2021	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 %
	Impact of applying only a central, upside or downside scenarios rather than multiple probability weighted scenarios								
Residential mortgages	176	(4)	(2%)	(5)	(3%)	5	3%	29	17%

## 2 Critical accounting estimates and judgements *(continued)*

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 residential property values.

2022	Impairment loss allowance - Central Scenario €m	Residential property price reduction of 10%		Residential property price reduction of 5%		Residential property price increase of 5%		Residential property price increase of 10%	
		Impact	Impact	Impact	Impact	Impact	Impact	Impact	Impact
		€m	%	€m	%	€m	%	€m	%
Residential mortgages	63	6	9%	3	4%	(2)	(4%)	(5)	(7%)

2021	Impairment loss allowance - Central Scenario €m	Residential property price reduction of 10%		Residential property price reduction of 5%		Residential property price increase of 5%		Residential property price increase of 10%	
		Impact	Impact	Impact	Impact	Impact	Impact	Impact	Impact
		€m	%	€m	%	€m	%	€m	%
Residential mortgages	172	23	13%	11	6%	(10)	(6%)	(19)	(11%)

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2022 to Stage 2 would increase the Bank's impairment loss allowance by c.€1 million.

### Management judgement in impairment measurement

Management judgement has been incorporated into the Bank's impairment measurement process for the year end. Management judgement can be described with reference to:

- credit risk assessment for significant increase in credit risk;
- management judgement in impairment model parameters; and
- post-model management adjustments to impairment loss allowance and staging classification.

### Credit risk assessment for significant increase in credit risk

As outlined on page 55 of note 25 Risk Management and Control, the Bank considers other reasonable and supportable information that would not otherwise be taken into account that would indicate that a significant increase in credit risk had occurred. In this regard, for the year ending 31 December 2022, the Bank has assessed the impact of inflation and rising interest rates on asset quality.

Credit risk assessments on the impact of elevated inflation rates and rising interest rates on debt affordability were completed across the residential mortgage portfolio. Where appropriate, outputs have been utilised to identify significant increases in credit risk and the classification of assets in stage 2. The credit risk assessments, which leveraged qualitative information not already captured in impairment models, resulted in a credit management decision to classify c.€0.8 billion of assets as stage 2 at the reporting date, with an associated €3 million increase in impairment loss allowance.

### Management judgement in impairment model parameters

As outlined on page 55 of the credit risk methodologies section of note 25, the ECL model framework was updated in the year to reflect an enhanced approach to the LGD component of the impairment models. The LGD component was reviewed and enhanced to improve the ability of the model to calibrate LGD estimates for variances between indexed property values and individual property values for distressed sales. The enhanced approach also utilises observed data with respect to alternative resolution strategies such as portfolio sales.

The enhancements to the LGD component of the impairment models, resulted in an increase in impairment loss allowance of c.€20 million. On a like-for-like basis, i.e. including the non-performing assets that were disposed in the second half of 2022, the impact would have been a c.€51 million increase in impairment loss allowance. Following these enhancements, the management adjustment for LGD recognised at 31 December 2021 is no longer considered to be required (as outlined below).

### 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 post-model 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 2022, the Bank's stock of impairment loss allowance of €74 million (2021: €292 million) includes no post-model adjustment (2021: €116 million). Details on the rationale for the removal and / or utilisation of previous management adjustments are outlined below.



## 2 Critical accounting estimates and judgements *(continued)*

	2022 €m	2021 €m
<b>Impairment loss allowance before post model adjustment</b>	<b>74</b>	<b>176</b>
Management adjustments	-	116
COVID-19	-	11
NPE	-	52
Loss Given Default (LGD)	-	53
<b>Total management adjustments</b>	<b>-</b>	<b>116</b>
<b>Total impairment loss allowance</b>	<b>74</b>	<b>292</b>

### Management adjustment for COVID-19

At 31 December 2022, the Bank considered the risk associated with the 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.

The majority of government supports for COVID-19 ceased in Q2 2022. Consequently, potential latent COVID-19 risk in the loan portfolio has diminished and management is satisfied that underlying customer specific risk can be identified in risk management models and credit metrics. Therefore, the €11 million post-model adjustment that was recognised at 31 December 2021 is no longer considered to be required.

### Management adjustment for NPE

As outlined on page 42, the Bank completed the disposal of €257 million of NPEs in 2022. Accordingly the post-model adjustment of €52 million recognised at 31 December 2021 associated with these transactions was utilised in full and is no longer required.

### Other management adjustments

As outlined above, the Loss Given Default (LGD) component of the Bank's impairment models has been reviewed. Given the enhancements to the LGD component of the impairment models in the period the €53 million management adjustment applied at 31 December 2021 is no longer considered to be required.

### (b) Transfer pricing

A transfer pricing agreement is in place between the Bank and its immediate parent, Bank of Ireland 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 (2021: €0.4 million) on profit before tax, similarly a 1% move in the estimation of the level of savings generated by issuing asset covered securities would have an impact of €0.3 million (2021: €0.3 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 €41 million (2021: €39 million) in the income statement. There has been no change to the average life assumption in 2022 or 2021.

### 3 Interest income

	2022 €m	2021 €m
Loans and advances to banks	52	42
Loans and advances to customers at amortised cost	406	408
Impact of Tracker Mortgage Examination Review	-	(1)
<b>Interest income calculated using the effective interest method</b>	<b>458</b>	<b>449</b>
Interest on financial assets at FVTPL	9	11
Interest on non-trading derivatives	85	14
<b>Total interest income</b>	<b>552</b>	<b>474</b>
Of which receivable from Bank of Ireland	138	63

#### Interest income recognised on loans and advances to customers

In 2022, €4.6 million of interest was recognised and €2.7 million of interest was received on credit-impaired loans and advances to customers (2021: €14.6 million recognised and €9 million received).

#### Transferred from cash flow hedge reserve

Interest income also includes a charge of €2 million (2021: €8 million) transferred from the cash flow hedge reserve (note 10).

### 4 Interest expense

	2022 €m	2021 €m
Deposits from banks	131	94
Debt securities in issue	33	21
Subordinated liabilities	2	3
<b>Interest expense from financial liabilities measured at amortised cost</b>	<b>166</b>	<b>118</b>
Non-trading derivatives (not in hedge accounting relationships)	87	14
<b>Interest expense</b>	<b>253</b>	<b>132</b>
Of which payable to Bank of Ireland	233	109

## 5 Net trading income

	2022 €m	2021 €m
Fair value movements on other financial assets at FVTPL	4	2
Interest rate contracts	(2)	3
	<b>2</b>	<b>5</b>
<b>Fair value hedges</b>		
Fair value gain on liabilities in fair value hedge relationships	10	4
Fair value loss on derivative contracts in fair value hedge relationships	(10)	(4)
	-	-
<b>Net trading income</b>	<b>2</b>	<b>5</b>

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)

	2022 €'000	2021 €'000
<b>Audit and assurance services</b>		
Statutory audit	150	150
Assurance services	48	37
	<b>198</b>	<b>187</b>
<b>Other services</b>		
Taxation services	-	-
Other non-audit services	-	-
<b>Total auditor's remuneration</b>	<b>198</b>	<b>187</b>

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

	2022 €m	2021 €m
Transfer pricing agreement charge	256	257
Tracker Mortgage Examination Review	2	1
Other operating expenses	42	37
<b>Total operating expenses</b>	<b>300</b>	<b>295</b>

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 €256 million in the year (2021: €257 million) and attributes an arm's length profit to the Bank of €26 million for the year (2021: €28 million).

## 7 Operating expenses *(continued)*

	2022 €'000	2021 €'000
<b>Staff costs</b>		
Wages and salaries	319	371
Social security costs	36	41
Pension costs	48	56
<b>Total staff costs recognised in the income statement</b>	<b>403</b>	<b>468</b>
<b>Average number of employees</b>	<b>3</b>	<b>4</b>

## 8 Net impairment gains / (losses) on financial instruments

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

	2022 €m	2021 €m
Loans and advances to customers at amortised cost	25	(25)
- <i>Cash recoveries</i>	-	4
- <i>Movement in impairment losses</i>	25	(29)
<b>Net impairment gains / (losses) on financial instruments</b>	<b>25</b>	<b>(25)</b>

The net impairment gain of €25 million for 2022 (2021: net impairment loss of €25 million) incorporates a number of impairment dynamics reflecting:

- impairment model updates incorporating the current macroeconomic outlook (c.€18 million net loss);
- net impairment gains associated with portfolio activities including case specific loss emergence and NPE resolution activity including portfolio disposals (c.€1 million gain); and
- the application of a reduced quantum of adjustments at 31 December 2022 (c.€42 million net gain in the year), which reflects the removal / utilisation of previously recognised management adjustments (refer to note 2, page 32).

Model updates in 2022 included a number of changes to the LGD models resulting in a net increase in impairment loss allowance of c.€20 million. Accordingly, the €53 million

management adjustment previously applied at 31 December 2021 is no longer considered to be required. Details on the LGD model updates are outlined on page 55 of note 25.

During 2022, the Bank completed two transactions whereby it derecognised €257 million of loans and advances to customers (after impairment loss allowance). Expected cash flows arising from the sale of a loan are included in the measurement of expected credit losses under IFRS 9, where certain conditions are met. As the transactions satisfied these conditions, the cash flows have been included in the impairment calculation.

As a result, net impairment gains / (losses) on financial instruments includes a net impairment gain of €7 million arising on the transactions. See note 13 for further information.

## 9 Taxation

	2022 €m	2021 €m
<b>Current tax</b>		
Current year	4	4
<b>Deferred tax</b>		
Current year	(1)	(1)
<b>Taxation charge</b>	<b>3</b>	<b>3</b>

<b>Reconciliation of taxation charge based on the standard Irish corporation tax rate of 12.5%</b>	2022 €m	2021 €m
Profit before taxation	26	28
Profit @12.5%	3	3
<b>Taxation charge</b>	<b>3</b>	<b>3</b>

	2022			2021		
	Pre-tax €m	Tax €m	Net of tax €m	Pre-tax €m	Tax €m	Net of tax €m
<b>Cash flow hedge reserve</b>						
Changes in fair value	(115)	15	(100)	(14)	2	(12)
Transfer to income statement	(2)	-	(2)	(8)	1	(7)
<b>Net change in cash flow hedge reserve</b>	<b>(117)</b>	<b>15</b>	<b>(102)</b>	<b>(22)</b>	<b>3</b>	<b>(19)</b>

## 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 €283 million (2021: €85 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 2022, cash collateral of €329 million (2021: €215 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 €350 million (2021: €21 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)*

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:

	2022			2021		
	Contract notional amounts €m	Fair values		Contract notional amounts €m	Fair values	
		Assets €m	Liabilities €m		Assets €m	Liabilities €m
<b>Interest rate swaps</b>						
- Held for trading	20,203	280	(281)	23,442	22	(21)
- Designated as fair value hedges	40	3	-	40	13	-
- Designated as cash flow hedges	945	-	(69)	1,900	50	-
<b>Total derivative assets / (liabilities)</b>		<b>283</b>	<b>(350)</b>		<b>85</b>	<b>(21)</b>

### Interest rate benchmark reform

At 31 December 2022, 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 2022.

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:

Hedging strategy	2022				2021			
	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
<b>Fair value hedge</b>								
<i>Interest rate risk</i>								
- Interest rate swap - notional amount	-	-	-	40	-	-	-	40
- Average fixed interest rate (%)	-	-	-	5.5%	-	-	-	5.5%
<b>Cash flow hedge</b>								
<i>Interest rate risk</i>								
- Interest rate swap - notional amount	-	-	760	185	955	-	760	185
- Average fixed interest rate (%)	-	-	0.6%	1.4%	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		Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument		Changes in value used to calculate hedge ineffectiveness <sup>2,3</sup> €m	Ineffectiveness recognised in profit or loss <sup>3</sup> €m
Risk category	Hedging instrument <sup>1</sup>		Assets €m	Liabilities €m		
<b>At 31 December 2022</b>						
Interest rate risk	Interest rate swaps	40	3	-	10	-
<b>At 31 December 2021</b>						
Interest rate risk	Interest rate swaps	40	13	-	4	-

<sup>1</sup> All hedging instruments are included within derivative financial instruments on the balance sheet.

<sup>2</sup> Ineffectiveness is included within net trading income on the income statement.

<sup>3</sup> 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
<b>At 31 December 2022</b>				
<b>Interest rate risk</b>				
Debt securities in issue	43	(2)	(10)	-
<b>At 31 December 2021</b>				
<b>Interest rate risk</b>				
Debt securities in issue	52	(12)	(4)	-

### 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 <sup>1</sup>	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument		Changes in value used for calculating hedge ineffectiveness €m	Changes in the value of the hedging instrument recognised in other comprehensive income €m	Ineffectiveness recognised profit or loss <sup>2,3</sup> €m	Amount reclassified from the cash flow hedge reserve to profit or loss <sup>3</sup> €m
		Assets €m	Liabilities €m				
<b>At 31 December 2022</b>							
<b>Interest rate risk</b>							
Interest rate swaps	945	-	69	117	(117)	-	(2)
<b>At 31 December 2021</b>							
<b>Interest rate risk</b>							
Interest rate swaps	1,900	50	-	22	(22)	-	(8)

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

Risk category	2022			2021		
	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	117	73	(1)	(22)	(44)	(1)

<sup>1</sup> All hedging instruments are included within derivative financial instruments on the balance sheet.

<sup>2</sup> Ineffectiveness is included within net trading income on the income statement.

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

## 10 Derivative financial instruments *(continued)*

In 2022 and 2021, 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 17). A reconciliation of the movements in the cash flow hedge reserve is shown in the table below.

	2022 €m	2021 €m
<b>Changes in fair value</b>		
- Interest rate risk	(115)	(14)
<b>Transfer to income statement</b>		
<i>Interest income</i>		
- Interest rate risk	(2)	(8)
Deferred tax on reserve movements	15	3
<b>Net change in cash flow hedge reserve</b>	<b>(102)</b>	<b>(19)</b>

## 11 Other financial assets at fair value through profit or loss

	2022 €m	2021 €m
<b>Other financial assets at fair value through profit or loss</b>		
Life Loans	217	225
	<b>217</b>	<b>225</b>

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.

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.

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.

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

	2022 €m	2021 €m
Funds placed with Bank of Ireland	3,677	3,404
Less impairment loss allowance on loans and advances to banks	(1)	(1)
<b>Total loans and advances to banks at amortised cost</b>	<b>3,676</b>	<b>3,403</b>
<b>Loans and advances to banks by remaining maturity</b>		
Repayable on demand	34	48
3 months or less	1,891	1,973
1 year or less but over 3 months	1,319	515
5 years or less but over 1 year	125	549
Over 5 years	308	319
Less impairment loss allowance	(1)	(1)
<b>Total loans and advances to banks at amortised cost</b>	<b>3,676</b>	<b>3,403</b>



## 12 Loans and advances to banks *(continued)*

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.

	2022		2021	
	Gross carrying amount €m	Impairment loss allowance €m	Gross carrying amount €m	Impairment loss allowance €m
<b>Movement in loans and advances to banks</b>				
<b>Opening balance</b>	<b>3,404</b>	<b>(1)</b>	<b>3,844</b>	<b>(1)</b>
Net changes in exposure	273	-	(440)	-
<b>Closing balance</b>	<b>3,677</b>	<b>(1)</b>	<b>3,404</b>	<b>(1)</b>

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.

	2022 €m	2021 €m
Loans and advances to customers at amortised cost	16,145	16,202
Accrued interest receivable	15	14
Less allowance for impairment charges on loans and advances to customers at amortised cost	(74)	(292)
<b>Total loans and advances to customers at amortised cost</b>	<b>16,086</b>	<b>15,924</b>
<b>Loans and advances to customers at amortised cost by remaining maturity</b>		
3 months or less	217	248
1 year or less but over 3 months	573	598
5 years or less but over 1 year	3,068	3,151
Over 5 years	12,302	12,219
Less allowance for impairment charges on loans and advances to customers at amortised cost	(74)	(292)
	<b>16,086</b>	<b>15,924</b>

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 2022.

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.

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

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

'Re-measurement' 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.

2022	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
<b>Gross carrying amount (before impairment loss allowance)</b>				
<b>Opening balance 1 January 2022</b>	<b>14,278</b>	<b>1,225</b>	<b>699</b>	<b>16,202</b>
Total net transfers	(739)	769	(30)	-
- to 12-month ECL not credit-impaired	1,299	(1,299)	-	-
- to lifetime ECL not credit-impaired	(2,027)	2,123	(96)	-
- to lifetime ECL credit-impaired	(11)	(55)	66	-
Net changes in exposure	609	(191)	(298)	120
Impairment loss allowances utilised	-	-	(197)	(197)
Other movements	20	-	-	20
<b>Gross carrying amount at 31 December 2022</b>	<b>14,168</b>	<b>1,803</b>	<b>174</b>	<b>16,145</b>

Total gross loans and advances to customers (excluding accrued interest) decreased during the period by €0.1 billion from €16.2 billion as at 31 December 2021 to €16.1 billion as at 31 December 2022.

During 2022, the Bank completed two transactions whereby it derecognised €257 million of loans and advances to customers (after impairment loss allowance) as follows:

- In April 2022, the Bank disposed of a portfolio of non-performing residential mortgage loans (comprising owner occupied and BTL). The portfolio disposed of had a gross carrying value of €57 million (before impairment loss allowance) and a net carrying value of €49 million (after impairment loss allowance);
- In November 2022, the Bank disposed of a portfolio of non-performing loans (comprising owner occupier and BTL) with a gross carrying value of €395 million (before impairment loss allowance) and a net carrying value of €208 million (after impairment loss allowance).

The Bank has recognised an impairment gain of €7 million relating to the disposal of these loans which has been reported through net impairment losses on financial instruments, see note 8.

The Bank had no POCI loans in 2022.

Stage 1 loans have decreased by €0.1 billion primarily reflecting the impact of net transfers of €0.7 billion to other risk stages partly offset by net new lending. Net transfers to other risk stages reflect the impact of the deterioration in the economic conditions, including elevated inflation rates and interest rates on the credit risk in the loan book, offset by the diminished latent credit risk associated with COVID-19 that was reflected in the balance sheet at 31 December 2021.

Stage 2 loans have increased by €0.6 billion, with transfers from other stages of €0.8 billion partly offset by net changes in exposure. The net increase in stage 2 loans reflects the application of updated FLI at the reporting date, individually assessed risk ratings, credit risk assessments and re-assessment for post-model adjustments, which resulted in a net migration of €0.6 billion loans from Stage 1 to Stage 2 in the year (i.e. cases that are identified as having experienced a significant increase in credit risk).

Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2022 includes €7 million (2021: €5 million) of contractual amounts outstanding that are still subject to enforcement activity.

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

2022	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
<b>Impairment loss allowance</b>				
<b>Opening balance 1 January 2022</b>	(12)	(32)	(248)	(292)
Total net transfers	(33)	16	17	-
- to 12-month ECL not credit-impaired	(35)	35	-	-
- to lifetime ECL not credit-impaired	2	(21)	19	-
- to lifetime ECL credit-impaired	-	2	(2)	-
Net impairment gains / (losses) in income statement	39	-	(14)	25
- Re-measurement	42	5	(15)	32
- Net changes in exposure	-	7	6	13
- ECL model parameter changes	(3)	(12)	(5)	(20)
Impairment loss allowances utilised	-	-	197	197
Measurement reclassification and other movements	-	-	(4)	(4)
<b>Impairment loss allowance at 31 December 2022</b>	<b>(6)</b>	<b>(16)</b>	<b>(52)</b>	<b>(74)</b>

During 2022, the stock of impairment loss allowances decreased by €0.2 billion to €74 million. This was primarily due to impairment loss allowance utilisation of €0.2 billion, primarily relating to the NPE portfolio disposals.

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

2021	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
<b>Gross carrying amount (before impairment loss allowance)</b>				
<b>Opening balance 1 January 2021</b>	<b>13,844</b>	<b>1,494</b>	<b>1,016</b>	<b>16,354</b>
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
<b>Gross carrying amount at 31 December 2021</b>	<b>14,278</b>	<b>1,225</b>	<b>699</b>	<b>16,202</b>

2021	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
<b>Impairment loss allowance</b>				
<b>Opening balance 1 January 2021</b>	<b>(30)</b>	<b>(15)</b>	<b>(231)</b>	<b>(276)</b>
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)
<b>Impairment loss allowance at 31 December 2021</b>	<b>(12)</b>	<b>(32)</b>	<b>(248)</b>	<b>(292)</b>

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 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 held no POCI loans in 2021.

### 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.

Property values are determined by reference to the latest property valuations held<sup>1</sup>, 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 2022.

LTV ratio of total	2022			2021		
	Not credit-impaired €m	Credit-impaired €m	Total €m	Not credit-impaired €m	Credit-impaired €m	Total €m
<b>Mortgage loan book</b>						
Less than 50%	7,329	55	7,384	6,736	168	6,904
51% to 70%	5,537	33	5,570	5,104	131	5,235
71% to 80%	1,815	14	1,829	2,697	60	2,757
81% to 90%	1,128	11	1,139	769	64	833
91% to 100%	132	6	138	81	37	118
<b>Subtotal</b>	<b>15,941</b>	<b>119</b>	<b>16,060</b>	<b>15,387</b>	<b>460</b>	<b>15,847</b>
101% to 120%	9	14	23	45	57	102
121% to 150%	12	13	25	31	56	87
Greater than 150%	9	28	37	40	126	166
<b>Subtotal</b>	<b>30</b>	<b>55</b>	<b>85</b>	<b>116</b>	<b>239</b>	<b>355</b>
<b>Total</b>	<b>15,971</b>	<b>174</b>	<b>16,145</b>	<b>15,503</b>	<b>699</b>	<b>16,202</b>
<b>Weighted average LTV<sup>1</sup>:</b>						
Stock of mortgages at year end (%)	52%	91%	52%	53%	97%	55%
New mortgages during the year (%)	71%		71%	70%		70%

### 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.

	2022 €m	2021 €m
<b>Financial assets modified during the year</b>		
Amortised cost before modification	33	85
Net modification gains / (losses) on modified financial assets (net of impairment loss impact)	-	-
<b>Financial assets modified since initial recognition</b>		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the year	746	925

<sup>1</sup> 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

	2022 €m	2021 €m
<b>Deposits from banks</b>	<b>14,291</b>	<b>12,881</b>
Deposits by remaining maturity		-
3 months or less	1,501	1,465
1 year or less but over 3 months	3,622	3,146
5 years or less but over 1 year	8,233	7,800
Greater than 5 years	935	470
<b>Total</b>	<b>14,291</b>	<b>12,881</b>

All deposits from banks are due to Bank of Ireland.

## 16 Debt securities in issue

	2022 €m	2021 €m
<b>Debt securities in issue</b>	<b>3,972</b>	<b>4,930</b>
<b>Bonds and medium term notes by remaining maturity</b>		
3 months or less	15	8
1 year or less but over 3 months	502	959
5 years or less but over 1 year	2,959	3,458
Greater than 5 years	496	505
	<b>3,972</b>	<b>4,930</b>
<b>Of which is due to Bank of Ireland</b>	<b>2,700</b>	<b>2,700</b>

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

	2022 €m	2021 €m
Opening balance	4,930	6,168
Redemptions	(954)	(1,223)
Purchases	-	(11)
Other movements	(4)	(4)
<b>Closing balance</b>	<b>3,972</b>	<b>4,930</b>

### 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 19 October 2022. In accordance with the ACS Acts the required disclosures are set out in note 16(a) - 16(h) below.

In November 2021, the new EU Covered Bonds Directive was transposed into Irish Law via the implementation of the European Union (Covered Bonds) Regulations 2021 and applied from 8 July 2022. The EU Covered Bonds Directive established a uniform approach for creating specific structural features which must be satisfied by bonds issued by EU credit institutions that are classified as covered bonds. These legislative amendments have harmonised certain aspects of national frameworks which will support the continuous development of well-functioning covered bond markets in the EU. It also establishes a common

## 16 Debt securities in issue *(continued)*

baseline for the issue of all covered bonds and provides greater transparency to investors. With the exception of additional reporting requirements, covered bonds issued by the Bank before 8 July 2022 were not impacted by the legislative changes.

The total nominal value of mortgage covered securities in issue at 31 December 2022 amounted to €4.0 billion (2021: €4.9 billion).

### Mortgage-Backed € Promissory Notes

The Bank executed on 13 December 2021 a Deed of Amendment to the Framework Agreement with the 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 2022 or 2021.

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

Range €'000	2022		2021	
	Number of accounts	Total balances of accounts €m	Number of accounts	Total balances of accounts €m
0-100	34,148	1,510	35,085	1,623
100-200	22,835	3,300	25,530	3,704
200-500	12,429	3,426	15,513	4,341
Over 500	653	444	935	632
	<b>70,065</b>	<b>8,680</b>	<b>77,063</b>	<b>10,300</b>

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 63,193 properties in the Pool at 31 December 2022 (31 December 2021: 69,235). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2022 and 2021 respectively.

## 16 Debt securities in issue *(continued)*

	2022		2021	
	Dublin	Outside Dublin	Dublin	Outside Dublin
<b>(b) Geographic location of mortgage properties in the cover assets pool</b>				
% of overall properties	28%	72%	28%	72%
Number of accounts	19,494	50,571	21,760	55,303
Number of properties	17,621	45,572	19,601	49,634

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2022 and 2021 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 2022 and 31 December 2021.

	2022	2021
<b>(c) Mortgage accounts in default in the cover assets pool at year end</b>		
Number of accounts in default	32	6
Cumulative current balance on above accounts (€m)	5	1
- 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.

	2022	2021
<b>(d) Mortgage accounts in default in the cover assets pool with arrears of more than €1,000</b>		
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	150
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	38	25

### (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 2022, 146 accounts were non-performing (2021: 183 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 assets that are in arrears for three months or more that had not been written off at 31 December 2022 was €153,178 (2021: €11,313). €51,301 of this represented non-payment of interest (2021: €4,922).

	2022 €m	2021 €m
<b>(g) Total mortgage principal and interest repayments on mortgage accounts in the cover assets pool</b>		
Interest paid in respect of mortgage credit assets	270	314
Capital repaid in respect of mortgage credit assets	1,621	1,416

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

At 31 December 2022 and 31 December 2021, there were no mortgage accounts in the Pool that were secured on commercial property.



## 17 Other liabilities

	2022 €m	2021 €m
Amounts due to Bank of Ireland	91	18
Other liabilities	2	3
	<b>93</b>	<b>21</b>

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

	2022 €m	2021 €m
Opening balance	56	63
Charge to income statement	2	2
Provision utilised	(46)	(9)
<b>Closing balance</b>	<b>12</b>	<b>56</b>

At 31 December 2022, the Bank held a provision of €10 million (31 December 2021: €54 million) in respect of the industry wide Tracker Mortgage Examination Review ('Review'). The provision represents the Bank's best estimate of estimated costs of remediation of any remaining impacted customers, addressing customer appeals and closing out all other outstanding costs of the exercise. In September 2022 the Group was fined €100.5 million by the Central Bank of Ireland under its administrative sanctions procedure, with €35 million of this payment being recognised in the Bank's financial statements in October 2022.

Since 31 December 2021, €46 million of the provision has been utilised to cover payment of this fine, customer redress and compensation, and related costs. During 2022, the Bank has set aside a further €2 million provision to cover the operational costs associated with the length and nature of the review and for the estimated costs of closing out the Tracker Mortgage examination review.

## 19 Deferred tax

	2022 €m	2021 €m
<i>The movement on the deferred tax account is as follows:</i>		
Opening deferred tax liability	(7)	(10)
Cash flow hedges	15	2
Credit to income statement	1	1
<b>Closing deferred tax asset / (liability)</b>	<b>9</b>	<b>(7)</b>
<i>Deferred tax assets / (liabilities) are attributable to the following items:</i>		
<b>Deferred tax asset / (liability)</b>		
Cash flow hedges	9	(6)
IFRS 9 transition adjustment	-	(1)
<b>Closing deferred tax asset / (liability)</b>	<b>9</b>	<b>(7)</b>
<i>Represented on the balance sheet as follows:</i>		
<b>Deferred tax asset / (liability)</b>	<b>9</b>	<b>(7)</b>

The Group's Annual Report for the year ended 31 December 2021 noted that the Organisation for Economic Co-operation and Development (OECD) had released the 15% minimum effective tax rate Model Rules in December 2021 with the new rules expected to be effective from 1 January 2023. On 15 December 2022, the European Council confirmed that the EU Directive had been endorsed and EU Member States have until 31 December 2023 to transpose the provisions of the Directive

into their national laws with the provisions generally applying for fiscal years beginning on or after 31 December 2023. The legislation has not been substantively enacted at the balance sheet date and the Group will continue to monitor the evolving national legislation including any disclosures required under IAS 12 in the year ended 31 December 2023, as it is currently too early to indicate the possible quantitative effects.

## 20 Subordinated liabilities

On 27 October 2022, the Bank redeemed a €90 million interest bearing subordinated loan issued from its immediate parent, Bank of Ireland, having received prior supervisory approval to do so. The loan was issued in 2017 with an interest rate of 2.25%. At 31 December 2022, total subordinated loans and accrued interest were €51 million (2021: €141 million).

The balance remaining at 31 December 2022 relates to €50 million interest bearing subordinated notes which were issued by the Bank on 29 January 2020 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.

## 21 Share capital and share premium

<b>Authorised</b>	2022 '000 Units	2021 '000 Units
Units of €1 of ordinary shares	1,000,000	1,000,000

	2022 €m	2021 €m
<b>Allotted, called up and fully paid - presented as equity</b>		
Units of €1 of ordinary shares	488	488
Share premium	661	661

## 22 Other equity instruments

	2022 €m	2021 €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 bore a fixed rate of interest of 5.01% until the first call date on 27 October 2022. Since this initial call date, the AT1 notes bear interest of 7.73% (fixed at five year mid-swap rate two business days prior to the call date +4.8%). In the event the notes are not redeemed interest is 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 (2021: 1 employee). The remaining 2 employees are members of the BIGPF (2021: 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 2022 and 2021 (see note 7 for details of amounts recharged). At 31 December 2022, the Bank had €nil outstanding amounts payable to the scheme (2021: €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 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 customer or 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:

- **Debt underwriting risk:** the risk of loss arising from movements in credit spreads or other changes in market conditions in respect of debt underwriting transactions;
- **Loan origination risk:** the risk of loss from originating credit exposures where asset quality is outside risk appetite;
- **Credit concentration risk:** the risk of loss due to exposures to a single name, product, industry or geography engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions;
- **Default risk:** the risk that counterparties will be unable to meet the required payment on their debt obligations;
- **Collateral valuation risk:** the risk of loss arising from a change in the value of security or an inability to enforce security held due to errors in the nature, quantity, pricing, or characteristics of security held in respect of a transaction with credit risk;
- **Credit quality deterioration risk:** the potential for loss due to an internal ratings downgrade which signals a change in the credit quality of the loan exposure.

### 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.

### Credit risk management

The core values and principles governing the provision of credit are contained in Group Credit Policy, which is approved by the Board. Exposures are approved by dedicated underwriting units which operate under the Group's credit risk management system through a hierarchy of tiered individual authorities which reflect credit competence, proven judgement and experience.

The Group's credit risk management systems operate through a hierarchy of tiered individual authorities which reflect credit competence, proven judgement and experience.

The Bank's approach to the management of credit risk is focussed on 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

## 25 Risk management and control *(continued)*

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. An analysis of the Bank's impairment loss allowances at 31 December 2022 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 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 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

A forbearance measure is a concession to a borrower for reasons relating to the actual or apparent financial difficulties of that borrower.

The key objective of granting forbearance measures is to prevent performing borrowers entering arrears, from reaching a non-performing status or to pave the way for non-performing borrowers to return to performing status. Forbearance measures should always aim to return the exposure to a sustainable repayment situation.

A request for forbearance will always be a trigger event for the Bank to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a 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.

Further information on the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in the Credit risk methodologies section.

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 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.

## 25 Risk management and control *(continued)*

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

Risk Profile of loans and advances to customers at amortised cost - NPEs	2022 €m	2021 €m
Credit-impaired	174	699
Not credit-impaired	-	-
<b>Total</b>	<b>174</b>	<b>699</b>

As at 31 December 2022, NPEs are all credit-impaired and decreased to €0.2 billion (2021: €0.7 billion).

### Composition and impairment

The table below summarises the composition, NPEs 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.

The table excludes €217 million of loans and advances to customers at 31 December 2022 (2021: €225 million) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.

Composition and impairment	Advances (pre-impairment loss allowance) €m	NPEs €m	NPEs as % of advances %	Impairment loss allowance on NPEs €m	Impairment loss allowance NPEs as % of NPEs %
<b>At 31 December 2022</b>					
Owner occupied mortgages	15,357	119	1%	26	22%
Buy to let mortgages	788	55	7%	26	47%
<b>Total loans and advances to customers at amortised cost</b>	<b>16,145</b>	<b>174</b>	<b>1%</b>	<b>52</b>	<b>30%</b>
<b>At 31 December 2021</b>					
Owner occupied mortgages	15,149	491	3%	144	29%
Buy to let mortgages	1,053	208	20%	104	50%
<b>Total loans and advances to customers at amortised cost</b>	<b>16,202</b>	<b>699</b>	<b>4%</b>	<b>248</b>	<b>35%</b>

At 31 December 2022, loans and advances to customers (pre-impairment loss allowance and excluding accrued interest) of €16.1 billion were €57 million less than 31 December 2021, as a result of the asset disposals referred to in note 13, partly offset by net new lending.

Credit-impaired loans decreased by €0.5 billion or 75% to €0.2 billion or 1% of customer loans at 31 December 2022 (2021: €0.7 billion or 4%). The NPE portfolio disposals of €0.5 billion had an associated €7 million impairment gain in 2022, net of impairment loss allowance utilisation of c.€0.2 billion.

The stock of impairment loss allowance on credit-impaired loans reduced to €52 million at 31 December 2022 (2021: €248 million).

The net decrease incorporates impairment loss allowance utilisation of €0.2 billion, primarily relating to NPE portfolio disposals.

The total impairment loss allowance as at 31 December 2022 does not include a management adjustment (2021: includes a are provided in note 2(a).

Impairment loss allowance cover for credit-impaired loans reduced to 30% at 31 December 2022 (2021: 35%), reflecting lower impairment requirements for the residual stage 3 books following the completion of NPE disposals.

### Credit risk methodologies

The Bank's credit risk methodologies encompass internal credit rating models and scoring tools and impairment models.

#### Internal credit rating models

The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Bank. The primary model measures used are:

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

The Bank has adopted the Retail Internal Rating Based (IRB) 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.

## 25 Risk management and control *(continued)*

### 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 in the ECL model framework was reviewed in 2022 and enhanced to improve the ability of the model to calibrate LGD estimates for variances between indexed property values and individual property values for distressed sales. The enhanced approach also utilises observed data with respect to alternative resolution strategies such as portfolio sales. The enhancements to the LGD component of the impairment model, resulted in an increase in impairment loss allowance of c.€20 million. Following these enhancements, the management adjustment for LGD recognised at 31 December 2021 is no longer considered to be required.

#### 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;
- the exposure is a forbore loan or a NPE.

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

In this regard, the Bank has assessed the impact of elevated inflation and rising interest rates on asset quality. Credit risk assessments on the impact of elevated inflation and rising interest rates on debt affordability were completed across the portfolio. Where appropriate, outputs have been utilised to identify significant increases in credit risk and the classification of assets in stage 2. These credit risk assessments, which leveraged qualitative information not already captured in impairment models, resulted in a credit management decision to classify c.€0.8 billion of assets as stage 2 at the reporting date, with an associated €3 million increase in impairment loss allowance.

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).

## 25 Risk management and control *(continued)*

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

### Credit risk associated with Russia's invasion of Ukraine, cost of living, inflation and interest rates

The Bank has no direct exposure to Russia or Ukraine.

The Bank has assessed the impact of elevated inflation and rising interest rates on asset quality. Credit risk assessments were completed across the portfolio and, where appropriate, outputs have been utilised to identify significant increases in credit risk and the classification of assets in stage 2. These credit risk assessments, which leveraged qualitative information not already captured in impairment models, resulted in a credit management decision to classify c.€0.8 billion of assets as stage 2 at the reporting date, with an associated €3 million increase in impairment loss allowance.

Furthermore, the final set of probability weightings applied FLI scenarios utilised in the Group's impairment models incorporated the application of management judgement to the initial probability weightings to reflect economic uncertainty associated with factors including Russia's invasion of Ukraine; elevated inflation rates; supply chain disruption; and interest rate expectations in the Bank's key economies. The estimated impact of this judgement was a c.€2 million increase in impairment loss allowance.

The majority of government supports for COVID-19 ceased in Q2 2022. Consequently, potential latent COVID-19 risk in the portfolio has diminished in the prior year and management is satisfied that underlying customer specific risk can be identified in risk management models and credit metrics. Therefore, the €11 million post-model adjustment that was recognised at 31 December 2021 is no longer considered to be required.



## 25 Risk management and control *(continued)*

Further details on the selected FLI scenarios for the reporting period, management adjustments in the prior year and management judgement incorporated into impairment model parameters are provided in the Critical Accounting Estimates and Judgements on pages 28 to 33.

### 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.

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

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

Forecasts of residential property price growth are incorporated, as appropriate, into the LGD component of the ECL calculation. The application of property price growth forecasts for the estimation of stage 3 impairment loss allowances ensures 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.

The development of climate risk modelling capabilities is a key objective of the Group's Climate Risk Action Plan. Methodology development is in the early stages across the industry. Initial implementation has focused on development of scenario analysis capabilities which is expected to be followed by integration into impairment models and internal credit ratings models in the medium term.

### 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.

During 2022, the stock of impairment loss allowances decreased by €0.2 billion to €75 million. This was primarily due to impairment loss allowance utilisation of €0.2 billion, primarily relating to NPE portfolio disposals

The Bank's asset quality remains robust despite the impact of the Russia's invasion of Ukraine, elevated inflation and rising interest rates, with limited evidence to date of adverse impacts on credit quality.

2022	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
<b>Financial assets exposure by stage (before impairment loss allowance)</b>				
<b>Financial assets measured at amortised cost</b>				
Loans and advances to customers <sup>1</sup>	14,168	1,803	174	16,145
Loans and advances to banks	3,677	-	-	3,677
Other financial assets	1	-	-	1
<b>Total financial assets measured at amortised cost<sup>2</sup></b>	<b>17,846</b>	<b>1,803</b>	<b>174</b>	<b>19,823</b>

2022	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
<b>Impairment loss allowance on financial assets</b>				
<b>Financial assets measured at amortised cost</b>				
Loans and advances to customers <sup>1</sup>	6	16	52	74
Loans and advances to banks	1	-	-	1
Other financial assets	-	-	-	-
<b>Total financial assets measured at amortised cost<sup>2</sup></b>	<b>7</b>	<b>16</b>	<b>52</b>	<b>75</b>

The Bank had no POCI loans in 2022 or 2021.

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

<sup>1</sup> 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).

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

## 25 Risk management and control *(continued)*

2021	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
<b>Impairment loss allowance on financial assets</b>				
<b>Financial assets measured at amortised cost</b>				
Loans and advances to customers <sup>1</sup>	12	32	248	292
Loans and advances to banks	1	-	-	1
Other financial assets	-	-	-	-
<b>Total financial assets measured at amortised cost<sup>2</sup></b>	<b>13</b>	<b>32</b>	<b>248</b>	<b>293</b>

The Bank had no POCI loans in 2022 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.

Loans and advances to customers Composition and risk profile (before impairment loss allowance)	2022				2021			
	Not credit- impaired €m	Credit- impaired €m	Total		Not credit- impaired €m	Credit- impaired €m	Total	
			€m	%			€m	%
Owner occupied mortgages	15,238	119	15,357	95%	14,658	491	15,149	94%
Buy to let mortgages	733	55	788	5%	845	208	1,053	6%
<b>Total</b>	<b>15,971</b>	<b>174</b>	<b>16,145</b>	<b>100%</b>	<b>15,503</b>	<b>699</b>	<b>16,202</b>	<b>100%</b>
<b>Impairment loss allowance on loans and advances to customers</b>	<b>22</b>	<b>52</b>	<b>74</b>	<b>-</b>	<b>44</b>	<b>248</b>	<b>292</b>	<b>2%</b>

### 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

2022	Stage 1				Stage 2			
	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %
<b>Total mortgages</b>								
Owner occupied mortgages	13,466	83%	5	-	1,772	11%	15	1%
Buy to let mortgages	702	4%	1	-	31	-	1	3%
<b>Total</b>	<b>14,168</b>	<b>88%</b>	<b>6</b>	<b>-</b>	<b>1,803</b>	<b>11%</b>	<b>16</b>	<b>1%</b>

<sup>1</sup> 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).

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

## 25 Risk management and control *(continued)*

2021	Stage 1				Stage 2			
	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %
<b>Not credit-impaired loans and advances to customers - Composition and impairment loss allowance</b>								
<b>Total mortgages</b>								
Owner occupied mortgages	13,568	84%	10	-	1,090	7%	26	2%
Buy to let mortgages	710	4%	2	-	135	1%	6	4%
<b>Total</b>	<b>14,278</b>	<b>88%</b>	<b>12</b>	<b>-</b>	<b>1,225</b>	<b>8%</b>	<b>32</b>	<b>3%</b>

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.

2022	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
<b>Not credit-impaired loans and advances to customers (before impairment loss allowance)</b>						
<b>Asset quality</b>						
<b>PD Grade</b>						
1-4	4,816	34%	306	17%	5,122	32%
5-7	8,529	60%	1,002	55%	9,531	60%
8-9	560	4%	136	8%	696	4%
10-11	263	2%	359	20%	622	4%
<b>Total not credit-impaired</b>	<b>14,168</b>	<b>100%</b>	<b>1,803</b>	<b>100%</b>	<b>15,971</b>	<b>100%</b>

2021	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
<b>Not credit-impaired loans and advances to customers (before impairment loss allowance)</b>						
<b>Asset quality</b>						
<b>PD Grade</b>						
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%
<b>Total not credit-impaired</b>	<b>14,278</b>	<b>100%</b>	<b>1,225</b>	<b>100%</b>	<b>15,503</b>	<b>100%</b>

## 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).

2022	Credit-impaired loans €m	Credit-impaired loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of credit-impaired loans %
<b>Credit-impaired loans and advances to customers Composition and impairment loss allowance</b>				
Owner occupied mortgages	119	1%	26	22%
Buy to let mortgages	55	-	26	47%
<b>Total credit-impaired</b>	<b>174</b>	<b>1%</b>	<b>52</b>	<b>30%</b>

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

### 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	2022 €m	2021 €m
Dublin	6,372	6,451
Rest of Republic of Ireland	9,773	9,751
<b>Total</b>	<b>16,145</b>	<b>16,202</b>

## 25 Risk management and control *(continued)*

### Reposessed collateral

At 31 December 2022, the Bank had 9 properties in possession with a value of €3 million (2021: 33 properties with a value of €6 million). Reposessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness.

### 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 2022 is €1 million (2021: €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 A- (2021: 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.

Financial instruments at FVTPL with ratings equivalent to:	2022		2021	
	€m	%	€m	%
AAA to AA-	-	-	-	-
A+ to A-	283	57%	-	-
BBB+ to BBB-	-	-	85	27%
BB+ to BB-	-	-	-	-
B+ to B-	187	37%	196	64%
Lower than B-	30	6%	29	9%
<b>Total</b>	<b>500</b>	<b>100%</b>	<b>310</b>	<b>100%</b>

### 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	2022 €m	2021 €m
Loans and advances to banks	3,676	3,403
Loans and advances to customers at amortised cost	15,832	15,691
Other financial assets at fair value through profit or loss	217	225
Derivative financial instruments	283	85
Loan commitments	1,054	1,006
<b>Total</b>	<b>21,062</b>	<b>20,410</b>

## 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 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.

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

### 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 2022, the Bank had €3.2 billion (2021: €4.6 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 2022, the nominal value of swaps qualifying for hedge accounting was €1.0 billion (2021: €1.9 billion). Further details are provided in note 10.

At 31 December 2022, the Bank had €12.9 billion (2021: €11.6 billion) of loans and advances to customers at amortised cost, where the rate is typically fixed for periods of 1, 2, 3, 4, 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 2022, the Bank had €0.2 billion (2021: €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 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 2022, the Bank had (nominal) €4.0 billion in issued asset covered securities (2021: €4.9 billion). €1.3 billion of the issued asset covered securities are at fixed rates (2021: €2.2 billion) and the remaining €2.7 billion have an interest rate that resets based on short-dated EURIBOR (2021: €2.7 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 2022, the nominal value of swaps qualifying for fair value hedge accounting is €40 million (2021: €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 2022, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was -€0.2 million (2021: €0.1 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 Capital Requirements Regulation (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 2022 and 2021 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.

2022	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Liabilities</b>						
Deposits from banks	-	1,524	3,691	8,516	978	14,709
Debt securities in issue	-	25	574	3,102	610	4,311
Subordinated liabilities	-	1	-	52	-	53
Other financial liabilities	91	-	-	-	-	91
Loan commitments	1,054	-	-	-	-	1,054
<b>Total</b>	<b>1,145</b>	<b>1,550</b>	<b>4,265</b>	<b>11,670</b>	<b>1,588</b>	<b>20,218</b>

2021	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Liabilities</b>						
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
<b>Total</b>	<b>1,024</b>	<b>1,469</b>	<b>4,191</b>	<b>11,377</b>	<b>1,096</b>	<b>19,157</b>



## 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.

Liabilities	2022					2021				
	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	16	114	183	37	350	7	16	-	(2)	21

### Operational risk

Operational risk is defined as the risk of loss resulting from suboptimal or failed internal processes, systems, human factors or from external events.

This risk includes information technology, change management, information security and cyber, sourcing, business continuity management, operational resilience, people, physical infrastructure, legal (a component being litigation and regulatory proceedings), data, model, financial and regulatory reporting and tax risks.

The Bank faces operational risk in the normal pursuit of its business objectives, through the day-to-day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and third party suppliers. This also includes the risks associated with major change and the failure to deliver on the Group's multi-year transformation agenda. It includes people risks such as challenges attracting and retaining talent due to increased competition in the employment market for certain skills and experience, along with colleague wellbeing and health and safety. Operational risk includes the risk of damage to physical infrastructure due to suboptimal physical infrastructure management.

The risk of cybersecurity 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. Operational risk also includes model risk which is the risk of not having the required models, or the right models, with the right accuracy, appropriately calibrated, and validated / assessed with the right frequency; whilst data risk is the risk of negative outcomes in the event of the unavailability of data, poor data quality, inadequate data retention and destruction management, the use or protection of data in accordance with legal and regulatory requirements, impacting the competent running of the Group's operations.

In addition, preparing for management of internal and external business disruption events through business continuity planning and management and monitoring of third party suppliers

continues as part of operational risk management. Russia's invasion of Ukraine and the worldwide COVID-19 pandemic are examples of external events to which the Group must respond and manage. The 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 external events and the legacy of changes, to ways of working for our customers and colleagues, is kept under continuous review by the Bank.

Operational risk includes the risk of inaccurate or delayed financial and regulatory reporting due to misinterpretation of requirements, preparation errors or omissions. It includes tax risk which is the risk that the Group fails to comply with all applicable tax laws and regulations including reporting and filing obligations, or is unaware of a tax liability, and legal risk which is the risk of loss or imposition of penalties, damages or fines from the failure of the firm to meet its legal obligations, including regulatory or contractual requirements.

### Risk Management

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's operational risk policies which have 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.

### Risk Mitigation and transfer

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 measures including contingency planning, incident management and crisis management, enabling resilience, swift response and recovery from external events. 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.

## 25 Risk management and control *(continued)*

Formal management of SLAs facilitates the identification and management of risks ensuring that services are delivered to requirements and agreed standards, as documented in the SLAs, and according to predetermined key performance indicators.

### Regulatory Risk

Regulatory risk is the risk that the Bank does not identify legal or regulatory change or appropriately manage its relationships with its regulators. The Bank is exposed to regulatory risk as a direct and indirect consequence from all the activities that the Bank engages in during its normal conduct of its business activities. Regulatory risk may materialise from failure to identify new or existing regulatory and / or legislative requirements or deadlines, ensure appropriate governance is in place to embed regulatory requirements into processes, or the failure to appropriately manage the Bank's regulatory relationships.

**Regulatory Change Risk:** The risk that regulatory change is not identified and there is inappropriate governance in place to govern regulatory change programmes.

**Regulatory Engagement Risk:** The risk of inappropriate or unprofessional interaction with our regulators.

### Risk management and measurement

The Bank manages regulatory risk under the Group Risk Management Framework. The framework establishes the common principles for the risk management process of identifying, assessing, monitoring and mitigating risks to the Bank. This is implemented by accountable executives and monitored by the Board in line with the overall Bank risk governance structure. The effective management of regulatory risk is primarily the responsibility of business management and is supported by Group Compliance.

The Bank has no tolerance for knowingly failing to meet regulatory expectations. However, we recognise that mistakes and errors or judgement or failures of processes can and do lead to regulatory failings which we have limited tolerance for. Where residual risk remains above prescribed levels, it should be managed and tracked through risk reduction plans.

### Risk mitigation

Risk mitigants include the early identification, appropriate assessment and monitoring and reporting of risks. The primary risk mitigants for regulatory risk are the establishment, through Bank regulatory policies, of standardised mitigating requirements throughout the business.

### Risk reporting

The current status of regulatory risk is reported to the Board members through the Board Risk Report on a regular basis.

### Conduct Risk

Conduct risk is the risk of poor outcomes for, or harm to, customers, clients and markets, arising from the delivery of the Bank's products and services. The Bank is exposed to conduct risk as a direct and indirect consequence from all the activities that the Bank engages in during its normal conduct of business activities. These risks may materialise from failures to comply with regulatory requirements or expectations, in the day-to-day conduct of its business, as an outcome of risk events in other principal risk categories, from changes in external market

expectations or conditions, provision of products and services and the various activities performed by the Bank, its staff, contractors and by third party suppliers. The key conduct risk exposure areas managed by the Bank include the following:

**Market Integrity:** The risk that the Bank fails to ensure that business activities, and those carrying them out, are authorised and comply with regulatory requirements, manage conflicts of interest, observe proper standards of market conduct and enable employees to raise concerns without fear of retaliation.

**Customer Protection:** The risk that Bank sales (including advice), execution and remediation of our Products and Services fail to meet the expectations of our customers and regulators.

**Financial Crime:** The risk that the Bank's associated persons (employees or third parties) commit or facilitate financial crime, and/or the Bank's products and services are used to facilitate financial crime and therefore undermines the Bank's market integrity and may result in:

- detriment to clients, customers, counterparties or employees;
- diminished confidence in financial products and services;
- damage to the Bank's reputation;
- regulatory breaches and/or financial penalties.

**Data Privacy:** The Bank does not comply with relevant data protection and privacy laws and regulations.

### Risk management and measurement

The Bank manages conduct risk under the Group Risk Management Framework. The framework establishes the common principles for the risk management process of identifying, assessing, monitoring and mitigating risks to the Bank. This is implemented by accountable executives and monitored by the Board in line with the overall Bank risk governance structure. The effective management of conduct risk is primarily the responsibility of business management and is supported by Group Compliance.

The Bank acknowledges that a level of residual conduct risk arises from the provision of a full range of financial services across a range of systems and processes, and it is committed to continually reducing same. There is no appetite for the Bank and/or its staff conducting business in an inappropriate or negligent manner that leads to adverse outcomes for customers, colleagues and communities (including shareholders, suppliers and regulators). Where residual risk remains above prescribed levels, it should be managed and tracked through risk reduction plans.

### Risk mitigation

Risk mitigants include the early identification, appropriate assessment and measurement and reporting of risks. The primary risk mitigants for conduct risk are the establishment, through Bank regulatory policies, of standardised mitigating requirements throughout the business. The standards of behaviour are detailed in the Group Code of Conduct to which all management and staff must adhere and affirm annually. The Speak-Up Policy sets out the steps staff can take to raise any concerns they might have of wrongdoing, risk or malpractice in the Bank. The Bank has a training schedule across the Bank to support staff and management in this regard.

## 25 Risk management and control *(continued)*

### Risk reporting

The current status of conduct risk is reported to the Board members through the Board Risk Report on a monthly basis.

### 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 Group continues to monitor and mitigate risks associated with macroeconomic conditions and geopolitical uncertainties in particular the continued uncertainty

regarding Brexit and the Northern Ireland protocol and the implications for trade and relations between the EU and UK and the fallout from Russia's invasion of Ukraine leading to greater uncertainty, high global energy and non-energy commodity prices with potential changes in interest rates, impacting repayment capacity and demand for lending. The potential impacts of these macroeconomic and geopolitical dynamics represent a risk to the Group in its markets and could be seen in pricing, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations;

- the Group continues to develop its Responsible and Sustainable Business agenda which considers climate environment or climate related impacts across the Group's footprint and that of its stakeholders;
- the Group continues to monitor the changing bank model including changes in the competitive landscape, the impact of changing consumer and business behaviours, delivery on the Group's digital strategy and the ongoing enterprise change agenda. The Group has a strategy to transform which presents challenges and risks, as well as customer considerations: failure to transform successfully, or respond to the other risks above, could prevent the Group from realising its strategic priorities.

### Capital adequacy risk

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 June 2022 the CBI announced the phased reintroduction of the RoI CCyB at 0.5% from June 2023. The CBI stated its intention to increase the RoI CCyB to 1.5% in mid-2023 (effective mid-2024) provided the economic recovery continues. In November 2022, the CBI announced that it was continuing the gradual rebuilding of the CCyB and that it would increase from 0.5% to 1% in November 2023 reiterating the target rate of 1.5%.

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 Single Supervisory Mechanism (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.

2022	At fair value through profit or loss		Cash flow hedge derivative at FVOCI €m	Held at amortised cost €m	Total €m	Fair value hierarchy				
	Mandatorily €m	Fair value hedge derivative €m				Level 1 €m	Level 2 €m	Level 3 €m	Total €m	
<b>(a) Fair value of financial assets held at amortised cost</b>										
Loans and advances to banks	-	-	-	3,676	3,676	-	3,629	-	-	3,629
Loans and advances to customers	-	-	-	16,086	16,086	-	-	15,297	-	15,297
Other assets	-	-	-	1	1	-	-	1	-	1
<b>(b) Financial assets held at fair value</b>										
Derivative financial instruments	280	3	-	-	283	-	283	-	-	283
Other financial assets at FVTPL	217	-	-	-	217	-	-	217	-	217
	<b>497</b>	<b>3</b>	<b>-</b>	<b>19,763</b>	<b>20,263</b>	<b>-</b>	<b>3,912</b>	<b>15,515</b>	<b>-</b>	<b>19,427</b>
<b>(a) Fair value of financial liabilities held at amortised cost</b>										
Deposits from banks	-	-	-	14,291	14,291	-	13,675	-	-	13,675
Debt securities in issue	-	-	-	3,972	3,972	896	226	2,727	-	3,849
Subordinated liabilities	-	-	-	51	51	-	51	-	-	51
Other financial liabilities	-	-	-	91	91	-	-	91	-	91
<b>(b) Financial liabilities held at fair value</b>										
Derivative financial instruments	281	-	69	-	350	-	281	69	-	350
	<b>281</b>	<b>-</b>	<b>69</b>	<b>18,405</b>	<b>18,755</b>	<b>896</b>	<b>14,233</b>	<b>2,887</b>	<b>-</b>	<b>18,016</b>

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

2021	At fair value through profit or loss		Cash flow hedge derivative at FVOCI €m	Held at amortised cost €m	Total €m	Fair value hierarchy			
	Mandatorily €m	Fair value hedge derivative €m				Level 1 €m	Level 2 €m	Level 3 €m	Total €m
<b>(a) Fair value of financial assets held at amortised cost</b>									
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>(b) Financial assets held at fair value</b>									
Derivative financial instruments	22	13	50	-	85	-	35	50	85
Other financial assets at FVTPL	225	-	-	-	225	-	-	225	225
	<b>247</b>	<b>13</b>	<b>50</b>	<b>19,334</b>	<b>19,644</b>	<b>-</b>	<b>3,519</b>	<b>15,307</b>	<b>18,826</b>
<b>(a) Fair value of financial liabilities held at amortised cost</b>									
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>(b) Financial liabilities held at fair value</b>									
Derivative financial instruments	21	-	-	-	21	-	20	1	21
	<b>21</b>	<b>-</b>	<b>-</b>	<b>17,970</b>	<b>17,991</b>	<b>1,993</b>	<b>13,329</b>	<b>2,740</b>	<b>18,062</b>

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 2022 would result in a decrease / increase of €42 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.

	2022			2021		
	Derivative financial instruments €m	Other financial assets at FVTPL €m	Total €m	Derivative financial instruments €m	Other financial assets at FVTPL €m	Total €m
<b>Movement in level 3 assets measured at fair value</b>						
Opening balance	50	225	275	70	239	309
Net interest (expense) / income	(50)	9	(41)	(20)	11	(9)
Net trading income	-	4	4	-	2	2
Repayments	-	(21)	(21)	-	(27)	(27)
<b>Closing balance</b>	<b>-</b>	<b>217</b>	<b>217</b>	<b>50</b>	<b>225</b>	<b>275</b>
<b>Total unrealised gains / (losses) for the year included in profit or loss for level 3 assets at the end of the year</b>	<b>(50)</b>	<b>12</b>	<b>62</b>	<b>20</b>	<b>11</b>	<b>31</b>
<b>Movement in level 3 liabilities measured at fair value</b>						
Opening balance	1	-	1	3	-	3
Net trading income	68	-	68	(2)	-	(2)
<b>Closing balance</b>	<b>69</b>	<b>-</b>	<b>69</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Total unrealised gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the year</b>	<b>(69)</b>	<b>-</b>	<b>69</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>

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

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

Level 3 assets / liabilities	Valuation technique	Unobservable input	Fair value		Range	
			2022 €m	2021 €m	2022 %	2021 %
Other financial assets at FVTPL	Discounted cash flow	Discount on market rate	217	225	4.50%-5.25%	2.75% - 4.50%
	Collateral values	Collateral changes			1.00%-6.70%	1.00% - 5.80%
Derivative financial instruments	Discounted cash flow	ECB forecast rates 2025-2043	69 liability	50 asset 1 liability	2.8% - 3.08%	1.00% - 5.80%

## 27 Contingent liabilities and commitments

Loans and advances to customers at amortised cost	2022	2021
Loan commitments (€bn)	1.1	1.0
Loss allowance provision on loan commitments (€'000)	362	89

The Bank has €1.1 billion of approved mortgage loan applications that had not been drawn down at 31 December 2022 (2021: €1.0 billion). Loss allowance provisions of €0.4 million (2021: €0.1 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.

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 2022 are available at the Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4 D04 C2N4.

### (a) Irish Government

The Bank no longer considers the State a related party under IAS 24 as it is no longer in a position to exercise significant influence over the Group after the State's shareholding in Bank of Ireland Group plc reduced to zero in September 2022.

### (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.

In the tables below, 'balances' and 'repayments' include principal and interest. The 'aggregate 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.

2022	Balance at 1 January 2022 €'000	Balance at 31 December 2022 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2022 €'000	Repayments during the year ended 31 December 2022 €'000
<b>Companies Act Disclosures</b>				
<b>Loans - Mortgages</b>				
<b>Directors at 31 December 2022</b>				
T McMahan	324	296	324	32
<b>Directors no longer in office at 31 December 2022</b>				
J O'Beirne	447	433	447	20

During 2022, A Hartley, J Hayden, A McCleary, T Morley, H Lorton, G Kelly 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.

2021	Balance at 1 January 2021 €'000	Balance at 31 December 2021 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2021 €'000	Repayments during the year ended 31 December 2021 €'000
<b>Companies Act Disclosures</b>				
<b>Loans - Mortgages</b>				
<b>Directors at 31 December 2021</b>				
T McMahan	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.



## 28 Related party transactions (continued)

### (ii) Loans to Directors of parent companies<sup>1</sup> - Companies Act Disclosures

In the tables below, 'balances' and 'repayments' include principal and interest. The 'aggregate 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.

Parent companies at 31 December 2022 and 2021 are The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

2022	Balance at 1 January 2022 €'000	Balance at 31 December 2022 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2022 €'000	Repayments during the year ended 31 December 2022 €'000
<b>Directors of parent companies Loans - Mortgages</b>				
<b>Directors at 31 December 2022</b>				
M Spain	322	300	322	31
<b>Directors no longer in office at 31 December 2022</b>				
F McDonagh	748	722	748	46
<hr/>				
2021	Balance at 1 January 2021 €'000	Balance at 31 December 2021 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2021 €'000	Repayments during the year ended 31 December 2021 €'000
<b>Directors of parent companies Loans - Mortgages</b>				
<b>Directors at 31 December 2021</b>				
F McDonagh	926	748	926	203
F Muldoon	50	-	50	50

G Andrews, E Bourke, I Buchanan, E Fitzpatrick, R Goulding, M Greene, G Kelly, P Kennedy, F Muldoon, M O'Grady and S Pateman had no loans with the Bank during 2022. No amounts were waived during 2022.

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%.

## 28 Related party transactions *(continued)*

(iii) *Loans to connected persons on favourable terms*

There were no loans to connected persons required to be disclosed as at 31 December 2022 or 2021.

(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.

In the tables below, 'balances' include principal and interest. The 'aggregate 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.

2022	Balance at 31 December 2022 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2022 €'000	Number of persons as at 31 December 2022	Maximum number of persons during the year ended 31 December 2022
Connected persons of the following Director				
T McMahan	1,572	1,628	1	1

2021	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
Connected persons of the following Director				
T McMahan	1,630	1,684	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 role of Chief Risk Officer of the Bank. 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)*

In the tables below, 'balances' include principal and interest.

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 2022 for any member of KMP and their close family did not exceed €1.1 million (2021: €1.1 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.

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.

2022					
IAS 24 Disclosures Key Management Personnel	Balance at 1 January 2022 €'000	Balance at 31 December 2022 €'000	Maximum amounts outstanding during the year ended 31 December 2022 €'000	Number of KMP as at 1 January 2022	Number of KMP as at 31 December 2022
Loans	6,080	3,580	5,375	10	7

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

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 (2021: €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 2022 (2021: €nil).

	2022 €'000	2021 €'000
Fees	141	125
Other emoluments	254	229
Other - pension	52	47
Other - termination benefits	-	-
<b>Total remuneration</b>	<b>447</b>	<b>401</b>

## 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	2022 €m	2021 €m
Profit for the year	Income statement	23	25
Total assets	Balance sheet	20,272	19,644
<b>Return on assets (bps)</b>		<b>11</b>	<b>13</b>

## 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 6 March 2023.

# 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.

**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

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



