# 2023

Bank of Ireland Mortgage Bank Unlimited Company
Annual Report

Bank of Ireland

## Inside this report

# Directors and other information

**Directors at date of signing**
Harry Lorton
Alan Hartley
Kevin Kingston
Aine McCleary
Tony McMahon
Tony Morley
Steve Pateman

**Registered Office with effect from 8 February 2024)**
Bank of Ireland,
2 College Green,
Dublin 2,
D02 VR66

**Registered Office (up to 7 February 2024)**
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,
2 College Green,
Dublin 2,
D02 VR66

# 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 2023.

### 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 2023 of €26 million (2022: €26 million):

- net interest income reduced to €169 million (2022: €299 million) due to increased funding costs reflecting the higher interest rate environment;
- operating expenses decreased to €130 million (2022: €300 million) largely as a result of the reduction in transfer pricing charge of €80 million (2022: €256 million);
- loans and advances to customers at amortised cost (before impairment loss allowances) amounted to €17.5 billion (31 December 2022: €16.2 billion);
- a net impairment loss of €19 million arose in the year (2022: net impairment gain of €25 million) (see notes 2, 8 and 13); and
- the return on assets is 12 basis points (2022: 11 basis points) (see note 29).

### Financial results

The profit before taxation for 2023 amounted to €26 million (2022: €26 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 Organisation for Economic Co-operation and Development (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 €80 million in 2023 (2022: €256 million) and attributes an arm's length profit to the Bank of €26 million for the current year (2022: €26 million).

Net interest income decreased to €169 million for 2023, from €299 million in 2022. The reduction is driven by increased funding costs €624 million (2022: €253 million), which reflect the higher interest rate environment, partly offset by higher interest income of €793 million (2022: €552 million).

Net trading income for the year was €6 million (2022: €2 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 decreased to €130 million for 2023 (2022: €300 million). The transfer pricing charge decreased to €80 million in 2023 (2022: €256 million), primarily driven by higher funding costs. Other operating costs increased to €50 million (2022: €44 million), primarily driven by higher origination and servicing costs.

The net impairment loss of €19 million for 2023 (2022: net impairment gain of €25 million) reflects portfolio activity including case specific loss emergence and non-performing exposure (NPE) portfolio disposals (€9 million loss), impairment model updates incorporating current macroeconomic outlook (€5 million net loss) (see note 2 for further information), and the application of a management adjustment at 31 December 2023 (€5 million net loss).

### Irish mortgage market performance

In 2023, the Irish new mortgage market decreased by 14% to €12.1 billion (2022: €14.1 billion)[1] driven primarily by a fall in re-mortgaging transactions. Underlying housing market activity remained strong with residential transactions in the market up 1% in 2023 and housing completions up 10%. House prices also continued to grow by 4.4% nationally, with 2.7% growth in the Dublin area and 5.7% growth outside Dublin.

[1] *Source: Banking and Payments Federation Ireland (BPFI) Mortgage Drawdowns Report Q4 2023.*

The Bank delivered strong business performance in 2023 and material momentum in attracting new customers. The Bank continues to play a leading role in the Irish residential mortgage market, providing €3.0 billion of new mortgage lending in 2023, up 11% on 2022 while maintaining both risk and pricing discipline. New lending increased by 11%, loans and advances to customers at amortised cost (before impairment loss allowances) increased to €17.5 billion (31 December 2022: €16.2 billion).

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. Demand from existing and new customers for fixed interest rate mortgages remains strong due to the value, certainty and stability of payments that fixed rate tenors provide both for customers and for the Bank.

### Asset quality

Loans and advances to customers (before impairment loss allowances) at amortised cost amounted to €17.5 billion at 31 December 2023 (31 December 2022: €16.2 billion). Impairment loss allowances are €0.1 billion (31 December 2022: €0.1 billion).

The Bank's NPE resolution strategies involve restructuring and sales activity supplemented with portfolio level initiatives.

During 2023, the Bank disposed of one NPE portfolio (comprising owner occupied and Buy to let (BTL) NPEs), with a total gross carrying value of €23 million. 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 stood at €0.2 billion at 31 December 2023 (31 December 2022: €0.2 billion).

# Report of the Directors *(continued)*

## Capital
At 31 December 2023, the common equity tier 1 ('CET 1') ratio on both a regulatory and a fully loaded basis was 25.4% (2022: 27.0%). The total capital ratio on a regulatory basis was 30.2% (2022: 32.2%) and fully loaded basis was also 30.2% (2022: 32.1%). The movement in the Bank's CET1 and total capital ratios is primarily due to profits in the year offset by an increase in risk weighted assets.

The leverage ratio at 31 December 2023 on both a regulatory and a fully loaded basis was 6.9% (2022: 6.9%). The Bank expects to remain above the regulatory leverage ratio requirement of 3%. See the section on 'Capital Adequacy Risk' in note 25 on page 62 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 2023, the Bank had a customer loan portfolio of €17.7 billion (net of impairment loss allowances and including Life Loans of €0.2 billion) funded through debt securities in issue: €3.5 billion (20%); equity and subordinated debt: €1.6 billion (9%) and net Group borrowings: €12.6 billion (71%). Of the €3.5 billion debt securities in issue, €2.2 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, 2023: Aaa (2022: Aaa). During 2023, €0.5 billion of securities in issue matured (2022: €0.95 billion). Full details of debt securities in issue are contained in note 16 to the financial statements.

At 31 December 2023, the Bank had €51 million of subordinated loan borrowings from its immediate parent, Bank of Ireland (2022: €51 million).

## Accounting records
The measures taken by the Directors to secure compliance with the Bank's obligation to keep adequate accounting records are the use of appropriate systems, the implementation of robust controls and procedures and the employment of competent persons with relevant experience. The accounting records are kept at Baggot Plaza, 27-33 Upper Baggot Street, Dublin 4.

## 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 2023 (2022: €nil).

## Audit committee
Since the departure of two Independent Non-Executive Directors ('INEDs') in 2022, one of whom was also Audit Committee Chair, the Bank's Audit Committee responsibilities are discharged at Bank of Ireland Group level, pending reconstitution of the Bank's Audit Committee. Effective 20 December 2023, Kevin Kingston was appointed Chair of the Audit Committee. The Board awaits regulatory approval for an additional INED who, once approved, will also join the Audit Committee and the committee will be promptly reconstituted.

The members of the Bank of Ireland Group Audit Committee are as follows: Evelyn Bourke (Chair), Eileen Fitzpatrick, Richard Goulding, Steve Pateman, Michele Greene and Margaret Sweeney.

During 2023, 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.

## Outlook
The Bank has maintained a strong loan book with loans and advances to customers (before impairment allowances and excluding Life Loans) at €17.5 billion in 2023 (2022: €16.2 billion). Forecasts out to 2025 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 14 to 45) of the 2023 Annual Report of Bank of Ireland Group plc.

# Report of the Directors *(continued)*

### Directors

Harry Lorton
*Independent Non-Executive Chairman*

Alan Hartley
*Managing Director*

James Hayden
*Executive Director (Resigned 20 September 2023)*

Tony McMahon
*Executive Director*

Tony Morley
*Group Non-Executive Director*

Aine McCleary
*Group Non-Executive Director*

Kevin Kingston
*Independent Non-Executive Director (Appointed 20 December 2023)*

Steve Pateman
*Independent Non-Executive Director (Appointed 20 December 2023)*

### 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 2023 (2022: €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

On 29 January 2024, the Bank's immediate parent, Bank of Ireland, securitised c.€13.4 billion of its Irish residential mortgage portfolio held in Bank of Ireland (€12.9 billion) and the Bank (€0.5 billion). The beneficial interest in the mortgages was transferred to a securitisation vehicle, Luna Securities DAC (Luna). In order to fund the acquired mortgages, Luna issued two classes of notes to Bank of Ireland. The Bank was allocated a portion of these notes by Bank of Ireland in the same proportion as the securitised mortgages.

The mortgages transferred by the Bank have not been derecognised on the the Bank's balance Sheet as the Bank retains substantially all the risks and rewards of ownership, and continue to be reported in the Bank's 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.

Signed on behalf of the Board by:

| Alan Hartley | Tony Morley | Kevin Kingston | Hill Wilson Secretarial Limited |
|---|---|---|---|
| *Managing Director* | *Director* | *Director* | *Secretary* |

*23 February 2024*

# 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, they have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

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 all reasonable steps to ensure such records are kept which enable them to ensure that the financial statements of the Bank 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 also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are 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.

Signed on behalf of the Board by:

| Alan Hartley | Tony Morley | Kevin Kingston |
|---|---|---|
| *Managing Director* | *Director* | *Director* |

*23 February 2024*

# 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 INEDs in 2022, following the expiration of their respective terms in office, the Bank did not comply with Section 19.1 and 22 of the Requirements to establish an Audit Committee. For a period during 2023, the Bank did not comply with the requirements 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. The Bank returned to compliance with Sections 7.1 and 7.2 with the appointment of two INEDs on 20 December 2023. As outlined in the Report of the Directors, the Bank's Audit Committee responsibilities are discharged at Bank of Ireland Group level, pending regulatory approval of the appointment of an additional INED. Following such approval, the Bank will seek to promptly reconstitute the Audit Committee of the Board. These instances of non compliance were reported promptly to the CBI, including the steps being taken to address the situation and to bring the Bank back into full compliance with the Requirements.

## 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. As outlined in the Report of the Directors, the Bank's Audit Committee responsibilities are discharged at Bank of Ireland Group level, pending reconstitution of the Bank's Audit Committee.

## 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 2023 set out on pages 14 to 70, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the summary of material 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 at 31 December 2023 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 six years ended 31 December 2023. 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 (the 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 (the Parent auditors). Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- 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 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;

# Independent Auditor's Report *(continued)*

- reading minutes of meetings of the Board of Directors and the Audit Committee; and
- performing planning analytical procedures to identify any unusual 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 the Company's Impairment Loss Allowance under IFRS 9 – Post model adjustment.

Further detail in respect of Impairment Loss Allowance under IFRS 9 – Post Model Adjustment 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 (unchanged from 2022):

## Impairment loss allowance under IFRS 9 - €82 million (2022: €74 million)

***Refer to page 22 and 23 (accounting policy) and note 25 (financial disclosures)***

**The key audit matter**

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

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

**Accuracy of Probability of Default (PD) model**

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.

**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 associated with the completeness, as well as a significant risk of error and fraud associated with the valuation of those PMAs with the greatest degree of management judgement. There is a possibility that management could increase or decrease PMAs to meet market expectations for the Company's results.

**Economic Scenarios**

Economic scenarios have a direct impact on the loan staging classification and the resultant Expected Credit Loss ('ECL'). Significant management judgement is applied to the determination of the economic scenarios and the weightings applied to them.

# Independent Auditor's Report *(continued)*

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 material 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 model**

- We performed end-to-end process walkthroughs to identify the key systems, applications and key controls used in the ECL processes.
- In conjunction with our credit modelling specialists, we tested the design, implementation and operating effectiveness of key controls including:
  - model validation, implementation and model monitoring for the PD 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.
- We tested the completeness and accuracy of identified critical data elements used within the PD model;
- In conjunction with our credit modelling specialists, we performed reperformance testing 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 of the IFRS 9 PD model;
  - 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 adjustment**

- We performed end to end process walkthroughs and tested the design, implementation and operating effectiveness of the key controls over the identification calculation, review and authorisation of the PMA.
- In conjunction with our credit modelling specialists, we evaluated the conceptual soundness of the PMA by critically assessing management's methodology, including the limitation and/or risk that the PMA is seeking to address, and the PMA's compliance with the requirements of IFRS 9.
- We inspected the PMA calculation methodology and tested the completeness and accuracy of key data inputs into the PMA calculation.
- We tested the completeness and accuracy of the PMA having regard for the risk profile of the loan book, as well as known model limitations and by challenging management on their assumptions relating to the credit risk impact of prevailing macroeconomic uncertainty such as the interest rates, inflation and performance of the mortgage portfolio.
- We challenged the overall reasonableness of the post model adjustment by comparing the PMA recognised by management to the various risks and model limitations that we considered to exist in the portfolio.
- We assessed whether the PMA identified for testing is indicative of fraud / management bias or other deficiencies.

**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) of the Parent and inspected related documentation to assess whether the basis for significant management assumptions are reasonable and consistent with independent consensus forecasts;
- We challenged the reasonableness of management's forward-looking information (FLI) upside / downside scenario weightings, having regard to relevant available information at year-end;
- In conjunction with our economics specialist, we challenged and assessed the reasonableness of the significant assumptions underpinning management's economic scenarios which we determined to be Gross Domestic Product (GDP) and Gross National Product (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 charge and provision, including the completeness and accuracy of the PD model, application of the PMA and economic scenarios, to be reasonable.

## 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 (2022: €13.0 million) determined with reference to a benchmark of net assets (of which it represents 0.8% (2022: 0.9%)). 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.

# Independent Auditor's Report *(continued)*

Performance materiality was set at 75% (2022: 75%) of materiality for the financial statements as a whole which equates to €9.75 million (2022: €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.

In applying our judgement in determining performance materiality, we considered a number of factors including; the number and value of misstatements detected and the number and severity of deficiencies in control activities identified in the prior year financial statements audit.

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding €0.65 million (2022: €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 for 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 other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report, the corporate governance statement, the glossary and abbreviations.

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, that:

- based on the work undertaken for our audit, in our opinion:
  - the description of the main features of internal control and risk management systems in relation to the financial reporting process 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.

# Independent Auditor's Report *(continued)*

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*
*Ireland*

*23 February 2024*

# Income statement *(for the year ended 31 December 2023)*

| | Note | 2023 €m | 2022 €m |
|---|---|---|---|
| Interest income calculated using the effective interest method | 3 | 583 | 458 |
| Other interest income | 3 | 210 | 94 |
| **Interest income** | | **793** | **552** |
| Interest expense | 4 | (624) | (253) |
| **Net interest income** | | **169** | **299** |
| Net trading income | 5 | 6 | 2 |
| **Total operating income** | | **175** | **301** |
| Operating expenses | 7 | (130) | (300) |
| *Transfer pricing charge* | | *(80)* | *(256)* |
| *Other operating costs* | | *(50)* | *(44)* |
| **Total operating profit before impairment (losses) / gains on financial instruments** | | **45** | **1** |
| Net impairment (losses) / gains on financial instruments | 8 | (19) | 25 |
| **Profit before taxation** | | **26** | **26** |
| Taxation charge | 9 | (3) | (3) |
| **Profit for the year** | | **23** | **23** |

# Statement of comprehensive income *(for the year ended 31 December 2023)*

| | 2023 €m | 2022 €m |
|---|---|---|
| **Profit for the year** | **23** | **23** |
| | | |
| **Other comprehensive income / (expense), net of tax** | | |
| **Items that may be reclassified to profit or loss in subsequent years** | | |
| ***Cash flow hedge reserve, net of tax*** | | |
| Changes in fair value | (15) | (100) |
| Transfer to income statement | 25 | (2) |
| **Net change in cash flow hedge reserve** | **10** | **(102)** |
| | | |
| **Other comprehensive income / (expense) for the year, net of tax** | **10** | **(102)** |
| | | |
| **Total comprehensive income / (expense) for the year, net of tax** | **33** | **(79)** |

The effect of tax on these items is shown in note 9.

# Balance sheet *(for the year ended 31 December 2023)*

| | Note | 2023 €m | 2022 €m |
|---|---|---|---|
| **Assets** | | | |
| Derivative financial instruments | 10 | 178 | 283 |
| Other financial assets at fair value through profit or loss | 11 | 205 | 217 |
| Loans and advances to banks | 12 | 1,670 | 3,676 |
| Loans and advances to customers at amortised cost | 13 | 17,459 | 16,086 |
| Deferred tax asset | 19 | 8 | 9 |
| Other assets | | 14 | 1 |
| **Total assets** | | **19,534** | **20,272** |
| | | | |
| **Liabilities** | | | |
| Deposits from banks | 15 | 14,219 | 14,291 |
| Derivative financial instruments | 10 | 235 | 350 |
| Debt securities in issue | 16 | 3,471 | 3,972 |
| Other liabilities | 17 | 15 | 93 |
| Provisions | 18 | 7 | 12 |
| Subordinated liabilities | 20 | 51 | 51 |
| **Total liabilities** | | **17,998** | **18,769** |
| | | | |
| **Equity** | | | |
| Called up share capital presented as equity | 21 | 488 | 488 |
| Share premium | 21 | 661 | 661 |
| Retained earnings | | 241 | 218 |
| Other reserves | | (54) | (64) |
| **Shareholders' equity** | | **1,336** | **1,303** |
| Other equity instruments - Additional Tier 1 | 22 | 200 | 200 |
| **Total equity** | | **1,536** | **1,503** |
| | | | |
| **Total equity and liabilities** | | **19,534** | **20,272** |

| | | | |
|---|---|---|---|
| **Alan Hartley** | **Tony Morley** | **Kevin Kingston** | **Hill Wilson Secretarial Limited** |
| *Managing Director* | *Director* | *Director* | |

# Statement of changes in equity *(for the year ended 31 December 2023)*

| | Share capital €m | Share premium €m | Retained earnings €m | Cash flow hedge reserve €m | Total shareholders' equity €m | Other equity instruments €m | Total equity €m |
|---|---|---|---|---|---|---|---|
| **At 1 January 2023** | **488** | **661** | **218** | **(64)** | **1,303** | **200** | **1,503** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | 23 | – | 23 | – | 23 |
| Other comprehensive income | – | – | – | 10 | 10 | – | 10 |
| **Total comprehensive income** | **–** | **–** | **23** | **10** | **33** | **–** | **33** |
| **Balance at 31 December 2023** | **488** | **661** | **241** | **(54)** | **1,336** | **200** | **1,536** |

| | Share capital €m | Share premium €m | Retained earnings €m | Cash flow hedge reserve €m | Total shareholders' equity €m | Other equity instruments €m | Total equity €m |
|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | **488** | **661** | **195** | **38** | **1,382** | **200** | **1,582** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | 23 | – | 23 | – | 23 |
| Other comprehensive expense | – | – | – | (102) | (102) | – | (102) |
| **Total comprehensive expense** | **–** | **–** | **23** | **(102)** | **(79)** | **–** | **(79)** |
| **Balance at 31 December 2022** | **488** | **661** | **218** | **(64)** | **1,303** | **200** | **1,503** |

# Notes to the financial statements

# 1 Accounting policies

Bank of Ireland Mortgage Bank Unlimited Company is a public unlimited company, incorporated and domiciled in Ireland. The significant accounting policies adopted by the Bank of Ireland Mortgage Bank Unlimited Company (the 'Bank') are as follows:

## 1.1 Basis of preparation

The financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the notes to the financial statements on pages 18 to 70.

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'), 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, 2 College Green, Dublin 2, D02 VR66.

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 2023 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

The following new standards and amendments to standards have been adopted by the Bank during the year ended 31 December 2023. There have been no other new standards or amendments to standards adopted by the Bank during the year which have had a material impact on the Bank.

**Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2: 'Disclosure of Accounting Policies'.**
This amendment requires that an entity discloses its material accounting policies instead of its significant accounting policies. Further amendments are made to explain how an entity can identify a material accounting policy to support the amendments, the IASB have also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

**Amendment to IAS 12 'Income taxes': Internal Tax Reform - Pillar Two Model Rules**
The Bank has availed of the exemption under FRS 101 paragraph 8(i) from disclosing the impact that the IAS 12 Pillar 2 amendment will have on the financial statements of the Bank.

The Accounting polices set out below are the Bank's material accounting policies.

# 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, 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 portfolio 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.

## 1.5 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 Accounting policies *(continued)*

## 1.6 Financial assets

### 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.

### 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.

### 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:

- 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.

### 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.

### 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 Accounting policies *(continued)*

## 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.

### 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.

# 1 Accounting policies *(continued)*

Impairment loss allowances for ECL are presented in the financial statements as follows:
- financial assets at amortised cost: as a deduction from the gross carrying amount in the balance sheet; and
- loan commitments: as a provision in the balance sheet.

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

### Forbearance
Forbearance occurs when a borrower is granted an agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance, the Bank performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to Stage 3 (unless a POCI financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forborne classifications. Forborne financial assets which are not credit- impaired are generally classified as Stage 2. A financial asset can only be reclassified from Stage 3 when certain conditions are met over a pre-defined period of time or probation period, in line with regulatory requirements.

Where the cash flows from a forborne loan are considered to have expired, due to the loan being restructured in such a way that results in a substantial modification, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition is recognised in the income statement. The new financial asset may be initially allocated to Stage 1 or, if credit-impaired, be categorised as a POCI financial asset.

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

## 1.8 Financial liabilities

The Bank classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at FVTPL 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 Accounting policies *(continued)*

## 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.

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 Risk management 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%.

### 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.

# 1 Accounting policies *(continued)*

### Cash flow hedge

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

## 1.12 Issued debt and equity securities

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

Where the Bank has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in net trading income, net of any costs or fees incurred.

## 1.13 Income taxes

### 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.

The Bank has determined that the global minimum top-up tax - which it is required to pay under Pillar 2 legislation - is an income tax within the scope of IAS 12. The Bank has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred. The consolidated financial statements for the Group contain the required disclosures, and the Bank has therefore availed of the exemption within FRS 101 from making further disclosures in this Annual Report.

### Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax on items taken to other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity except for the income tax consequences of dividends on a financial instrument classified as equity, which are recognised according to where the previous transactions or events that generated distributable profits were recognised.

## 1.14 Pensions

The Group operates various pension schemes, certain of which employees of the Bank are members: Bank of Ireland Retirement Savings Plan (also known as RetireWell) and Bank of Ireland Group Pensions Fund (BIGPF). RetireWell is a defined contribution scheme. The BIGPF is a hybrid scheme which includes elements of both defined benefit and defined contribution arrangements. Under IAS 19, the BIGPF is accounted for as a defined benefit scheme.

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

Further information on the Group's pension schemes is available in note 41 of the Group's Annual Report for the year ended 31 December 2023.

# 1 Accounting policies *(continued)*

## 1.15 Share capital and reserves

**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.

**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.

**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.

### 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 / data 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 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 51 to 54.

**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 2023, comprising 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 2023 is based on internal and external information and management judgement and follows the same process as used in prior periods.

The alternative FLI scenarios for the year ending 31 December 2023, comprising one upside and two downside scenarios, are narrative driven and have been constructed incorporating all available reasonable and supportable information. This follows the same process as used in prior periods.

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, with increased weight assigned to the central and downside 1 scenarios, with an offsetting decrease in the upside scenario.

External forward-looking information (e.g. external forecasts and equity market indicators) informed the application of this management judgement, and reflected economic uncertainty at 31 December 2023 associated with a combination of factors including the potential impact of geopolitical risk and elevated inflation and interest rates. The estimated ECL impact of this judgement was a c.€3 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 2024 to 2028, together with the scenario weightings.

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Downside | | | | Downside | |
| | Central scenario | Upside scenario | Scenario 1 | Scenario 2 | Central scenario | Upside scenario | Scenario 1 | Scenario 2 |
| **Scenario probability weighting** | **45%** | **20%** | **25%** | **10%** | **45%** | **15%** | **25%** | **15%** |
| Gross Domestic Product (GDP) - annual growth rate | 3.6% | 4.2% | 2.8% | 1.8% | 3.5% | 3.9% | 2.8% | 1.9% |
| Gross National Product (GNP) - annual growth rate | 3.8% | 4.2% | 2.8% | 1.7% | 3.1% | 3.6% | 2.5% | 1.5% |
| Unemployment - average yearly rate | 4.4% | 3.8% | 6.2% | 8.3% | 4.8% | 4.4% | 6.4% | 8.5% |
| Residential property price growth - year end figures | 1.0% | 2.4% | (2.8%) | (4.8%) | 1.2% | 1.6% | (3.0%) | (5.6%) |

The tables below sets out the forecast values for 2024 and 2025 and the average forecast values for the period 2026 to 2028 for the key macroeconomic variables which underpin the above mean average values.

| | 2024 | 2025 | 2026-2028 |
|---|---|---|---|
| **Central scenario - 45% weighting** | | | |
| Gross Domestic Product - (GDP) - annual growth rate | 3.3% | 4.0% | 3.6% |
| Gross National Product - (GNP) - annual growth rate | 4.2% | 4.0% | 3.5% |
| Unemployment - average yearly rate | 4.2% | 4.3% | 4.5% |
| Residential property price growth - year end figures | — % | — % | 1.7% |
| | | | |
| **Upside scenario - 20% weighting** | | | |
| Gross Domestic Product - (GDP) - annual growth rate | 4.4% | 5.0% | 3.9% |
| Gross National Product - (GNP) - annual growth rate | 5.0% | 4.7% | 3.7% |
| Unemployment - average yearly rate | 3.9% | 3.8% | 3.8% |
| Residential property price growth - year end figures | 1.0% | 2.0% | 3.0% |
| | | | |
| **Downside scenario 1 - 25% weighting** | | | |
| Gross Domestic Product - (GDP) - annual growth rate | 2.1% | 2.6% | 3.1% |
| Gross National Product - (GNP) - annual growth rate | 2.7% | 2.3% | 2.9% |
| Unemployment - average yearly rate | 5.1% | 6.3% | 6.6% |
| Residential property price growth - year end figures | (12.0%) | (4.0%) | 0.7% |
| | | | |
| **Downside scenario 2 - 10% weighting** | | | |
| Gross Domestic Product - (GDP) - annual growth rate | (0.2%) | 1.3% | 2.6% |
| Gross National Product - (GNP) - annual growth rate | 0.4% | 1.0% | 2.4% |
| Unemployment - average yearly rate | 6.3% | 8.1% | 9.0% |
| Residential property price growth - year end figures | (16.0%) | (6.0%) | (0.7%) |

The central, upside and downside scenarios are described below:

**Central scenario**
GDP growth has slowed sharply in 2023, mainly reflecting a decline in output growth in the multinational-dominated exporting sector from the rapid rates recorded over recent years. The domestic economy is faring better, though the post-Covid bounce in activity has inevitably given way to more moderate growth, while capacity constraints, still relatively high albeit declining inflation, tighter monetary policy and a weak external environment are also weighing on economic activity. The Central Scenario envisages a pick-up in GDP growth in 2024-2025, supported by rising real incomes as inflation falls further, as well as some strengthening in investment and exports, while unemployment is expected to remain relatively low over the forecast period. The ECB is expected to ease monetary policy slightly as inflation declines. Residential property prices are projected to remain flat in 2024 and 2025 and returning to moderate growth thereafter.

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

**Upside scenario**
In the Upside Scenario, geopolitical tensions ease, leading to lower global energy prices. This contributes to a more pronounced fall in inflation, boosting household incomes, confidence and spending. A similar effect is seen in Ireland's main trading partners, with global growth picking up. Receding uncertainty and initially lower interest rates support business investment, while the improvement in global demand contributes to a pick-up in exports.

Stronger growth momentum sees unemployment edge down in 2024 and 2025 and remain low in subsequent years, and this in turn eventually leads to a pick-up in inflation pressures and a tightening of monetary policy by the ECB. In this stronger growth environment residential property prices perform better than is the case in the Central Scenario.

**Downside scenario 1**
In Downside Scenario 1, heightened geopolitical tensions result in rising global energy prices, increased uncertainty and a further slowdown in world growth. Higher inflation and uncertainty weighs on confidence in Ireland, which together with tighter monetary and financial conditions (as the ECB initially keeps interest rates higher for longer than previously anticipated, and strains in financial markets emerge) depresses consumer and business spending, while weaker global demand is a headwind for exporting sectors. GDP growth slows in 2024-2025. Unemployment increases and stays relatively high out the forecast horizon. Eventually, as the inflationary shock fades, monetary policy is eased by the ECB and growth resumes. In this weak macroeconomic environment Irish residential property prices remain under significant pressure in 2024 and, to a lesser extent, in 2025 as well – with prices levelling off in 2026. As output growth picks up and monetary policy is eased prices rebound slightly later in the forecast horizon.

**Downside scenario 2**
In Downside Scenario 2, escalating and more severe geopolitical tensions leads to a sharp rise in global energy prices. This in turn triggers major disruption in financial markets and a sharp deterioration in global growth, though central banks initially keep interest rates elevated in response to higher inflation. Furthermore, in Ireland the multinational exporting sectors slow, and this leads to a decline in corporate tax revenue.

Amid heightened uncertainty, a collapse in consumer and business confidence, tighter monetary, financial and credit conditions, and significantly weaker global demand, the Irish economy goes into recession in 2024 (and exits recession in late 2024), while unemployment moves up sharply and remains high over the entire forecast period. In this weak economic environment inflation eventually falls back quite sharply and monetary policy is eased significantly by the ECB. Residential property prices decline sharply in 2024, with further more moderate declines in 2025 and 2026 as well. Property values stabilise thereafter on foot of a significant easing of monetary policy and gradually improving macroeconomic conditions.

**Property price growth, all scenarios**
In the central scenario, after stalling in 2023, residential prices remain flat with growth of 0% in 2024 and 2025. From 2026 on we see a return to modest growth. Between 2026 and 2028 growth per annum is 1-2%.

In the upside scenario after stalled price growth in 2023 prices start to pick up in 2024, with growth of 1% in that year, 2% per annum in both 2025 and 2026 and growth of between 3-4% per annum thereafter.

In the Downside 1 scenario prices are expected to stay in negative growth for the next few years before eventually recovering. Prices fall 12% in 2024.

Reduced negativity occurs in 2025 with prices falling 4%, before a further improvement in 2026 with negative growth of -1%. By 2027 positive growth has returned with prices growing 1% in 2027 and 2% in 2028.

In the Downside 2 scenario negative price growth is deeper than in Downside 1, and the recovery is slower. Negative growth peaks in 2024 (-16%), and while there is some recovery in 2025 this is less pronounced than in Downside 1 (-6%). Negative growth persists in 2026 (-3%) before finally ending in 2027 with no growth. By 2028 positive growth returns with growth of 1%.

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 2023 was increased by virtue of applying multiple scenarios rather than only a central scenario.

This analysis excludes post-model management adjustments, as such adjustments to impairment loss allowance are applied using management judgement outside of the macroeconomic conditioned ECL model framework (refer to the Management Judgement in Impairment Measurement section below). The scenarios outlined in the following tables are based on the FLI weightings outlined on the previous page.

Comparative figures at 31 December 2022 are also outlined below (and in subsequent tables in this section). Changes in the figures at 31 December 2023 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 portfolio at the respective reporting dates.

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

| 2023<br>Impact of applying multiple scenarios rather than only central scenario | Additional impairment loss allowance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
| | Impact €m | Impact % | Impact €m | Impact % | Impact €m | Impact % | Impact €m | Impact % |
| Residential mortgages | 1 | 6% | 8 | 74% | 2 | 4% | 11 | 16% |

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

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:

| 2023<br>Impact of applying only a central, upside or downside scenarios rather than multiple probability weighted scenarios | Multiple scenarios | Central scenario | | Upside scenario | | Downside scenario 1 | | Downside scenario 2 | |
|---|---|---|---|---|---|---|---|---|---|
| | Impairment loss allowance €m | Impairment loss allowance €m | Impact % | Impairment loss allowance €m | Impact % | Impairment loss allowance €m | Impact % | Impairment loss allowance €m | Impact % |
| Residential mortgages | 78 | (11) | (16%) | (15) | (19%) | 52 | 66% | 97 | 124% |

| 2022<br>Impact of applying only a central, upside or downside scenarios rather than multiple probability weighted scenarios | Multiple scenarios | Central scenario | | Upside scenario | | Downside scenario 1 | | Downside scenario 2 | |
|---|---|---|---|---|---|---|---|---|---|
| | Impairment loss allowance €m | Impairment loss allowance €m | Impact % | Impairment loss allowance €m | Impact % | Impairment loss allowance €m | Impact % | Impairment loss allowance €m | Impact % |
| Residential mortgages | 74 | (11) | (17%) | (12) | (16%) | 26 | 35% | 55 | 74% |

The following table indicates the approximate extent to which impairment loss allowance, excluding post model management adjustments, would be higher or lower than the application of a central scenario if there was an immediate change in residential property prices at the reporting date.

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.

| 2023<br>Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances | Impairment loss allowance - central scenario €m | Residential property price reduction of 10% | | Residential property price reduction of 5% | | Residential property price increase of 5% | | Residential property price increase of 10% | |
|---|---|---|---|---|---|---|---|---|---|
| | | Impact €m | Impact % | Impact €m | Impact % | Impact €m | Impact % | Impact €m | Impact % |
| Residential mortgages | 67 | 7 | 11% | 3 | 5% | (3) | (4%) | (5) | (7%) |

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

| 2022<br>Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances | Impairment loss allowance - central scenario €m | Residential property price reduction of 10% Impact €m | Residential property price reduction of 10% Impact % | Residential property price reduction of 5% Impact €m | Residential property price reduction of 5% Impact % | Residential property price increase of 5% Impact €m | Residential property price increase of 5% Impact % | Residential property price increase of 10% Impact €m | Residential property price increase of 10% Impact % |
|---|---|---|---|---|---|---|---|---|---|
| Residential mortgages | 63 | 6 | 9% | 3 | 4% | (2) | (4%) | (5) | (7%) |

The sensitivity of impairment loss allowances to stage allocation is such that, based on the respective impairment cover ratios, a transfer of 1% of Stage 1 balances at 31 December 2023 to Stage 2 would increase the Bank's impairment loss allowance by c.€2 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 52 and 53 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 2023, the Bank has assessed the impact of elevated inflation and interest rates on asset quality.

Credit risk assessments on the impact of elevated inflation rates and interest rates on debt affordability were implemented 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 management decision to classify c.€1.1 billion of stage 1 assets as stage 2 at the reporting date (2022: c. €0.8 billion), with an associated €6 million (2022: €3 million) increase in impairment loss allowance.

**Management judgement in impairment model parameters**
As outlined on page 52 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 calibration of the Lifetime PD at initial recognition for residential mortgages. This change resulted in c.€0.5 billion of assets migrating to stage 1 from stage 2 and a decrease in impairment loss allowance of c.€4 million.

As also outlined on page 52 of the Risk Management note, the ECL model framework was also updated in the period to reflect an enhanced approach to Loss Given Default (LGD) components of the impairment models.

The ECL model framework was updated with model factor updates to reflect recent observed information. This included the application of updated portfolio disposal data within the LGD model, resulting in an increase in impairment loss allowance of c.€9 million.

In addition an enhanced approach to estimating cure rates within the LGD component of the impairment models was implemented. The changes to this aspect of the LGD component of the impairment models results in an increase in impairment loss allowance of c.€6 million.

**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 / data limitation or late breaking event.

At 31 December 2023, the Bank's stock of impairment loss allowance of €82 million (2022: €74 million) includes a post model management adjustment of €4 million (2022: no post - model adjustment), reflecting the estimated impact of enhancements to the residential mortgage impairment models planned in 2024. Accordingly, the Bank considers that it is appropriate to recognise the estimated impact of these enhancements at 31 December 2023. The requirement for this adjustment will expire upon completion of impairment model updates in 2024.

The Bank completed a disposal of NPEs in the second half of 2023. Accordingly a PMA of €1 million in place at 30 June 2023 associated with this transaction was utilised in full.

**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.

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

**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 (2022: €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 (2022: €0.3 million) on profit before tax.

### 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, 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 €45 million (2022: €41 million) in the income statement. There has been no change to the average life assumption in 2023 or 2022.

## 3 Interest income

### Interest income recognised on loans and advances to customers
In 2023, €4.5 million of interest was recognised and €2.7 million of interest was received on credit-impaired loans and advances to customers (2022: €4.6 million recognised and €2.7 million received).

### Transferred from cash flow hedge reserve
Interest income also includes a credit of €28 million (2022: €2 million charge) transferred from the cash flow hedge reserve (note 10).

| | 2023 €m | 2022 €m |
|---|---|---|
| Loans and advances to customers at amortised cost | 457 | 406 |
| Loans and advances to banks | 126 | 52 |
| **Interest income calculated using the effective interest method** | **583** | **458** |
| Interest on financial assets at FVTPL | 8 | 9 |
| Interest on non-trading derivatives | 202 | 85 |
| **Total interest income** | **793** | **552** |
| *of which:* | | |
| Receivable from Bank of Ireland | **299** | 138 |

# 4 Interest expense

| | 2023 €m | 2022 €m |
|---|---|---|
| Deposits from banks | 312 | 131 |
| Debt securities in issue | 106 | 33 |
| Subordinated liabilities | 1 | 2 |
| **Interest expense from financial liabilities measured at amortised cost** | **419** | **166** |
| Non-trading derivatives (not in hedge accounting relationships) | 205 | 87 |
| **Interest expense** | **624** | **253** |
| *of which:* | | |
| Payable to Bank of Ireland | **606** | 233 |

# 5 Net trading income

| | 2023 €m | 2022 €m |
|---|---|---|
| Fair value movements on other financial assets at FVTPL | 6 | 4 |
| Interest rate contracts | – | (2) |
| | **6** | **2** |
| **Fair value hedges** | | |
| Fair value gain on liabilities in fair value hedge relationships | (1) | 10 |
| Fair value loss on derivative contracts in fair value hedge relationships | 1 | (10) |
| | **–** | **–** |
| **Net trading income** | **6** | **2** |

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 Value Added Tax)

| | 2023 €'000 | 2022 €'000 |
|---|---|---|
| **Audit and assurance services** | | |
| Statutory audit | 168 | 150 |
| Assurance services | 23 | 48 |
| | **191** | **198** |
| **Other services** | | |
| Taxation services | – | – |
| Other non-audit services | – | – |
| **Total auditor’s remuneration** | **191** | **198** |

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

| | 2023 €m | 2022 €m |
|---|---|---|
| Transfer pricing agreement charge | 80 | 256 |
| Tracker Mortgage Examination Review | – | 2 |
| Other operating expenses | 50 | 42 |
| **Total operating expenses** | **130** | **300** |

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 €80 million in the year (2022: €256 million) and attributes an arm's length profit to the Bank of €26 million for the year (2022: €26 million).

| **Staff costs** | 2023 €'000 | 2022 €'000 |
|---|---|---|
| Wages and salaries | 294 | 319 |
| Social security costs | 33 | 36 |
| Pension costs | 52 | 48 |
| **Total staff costs** | **379** | **403** |
| | | |
| **Average number of employees** | **3** | **3** |

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

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

The net impairment loss of €19 million (2022: net impairment gain of €25 million) incorporates a number of impairment dynamics reflecting:

- net impairment loss associated with portfolio activities including case specific loss emergence and NPE resolution activity (c.€9 million net loss)
- the application of a management adjustment at 31 December 2023 (€5 million net loss in the year) reflecting the estimated impact of enhancements to impairment models planned in 2024 and the utilisation of a €1 million management adjustment in place at 30 June 2023 upon the completion of a NPE disposal in the second half of 2023 (refer to note 2, page 31); and
- impairment model updates incorporating the current macroeconomic outlook (c.€5 million net loss).

Model updates in 2023 included a number of changes to the PD and LGD models resulting in a net increase in impairment loss allowance of c.€13 million. Details on the model updates are outlined on page 52 of note 25.

During 2023, the Bank completed one transaction whereby it derecognised €8 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 transaction satisfied these conditions, the cash flows have been included in the impairment calculation.

As a result, net impairment (losses) / gains on financial instruments includes a net impairment gain of €4 million arising on the transaction. See note 13 for further information.

| | 2023 €m | 2022 €m |
|---|---|---|
| Loans and advances to customers at amortised cost | (19) | 25 |
| *Movement in impairment loss allowances (note 13)* | *(19)* | *25* |
| **Net impairment (losses) / gains on financial instruments** | **(19)** | **25** |

# 9 Taxation

| | 2023 €m | 2022 €m |
|---|---|---|
| **Current tax** | | |
| Current year | 3 | 4 |
| | | |
| **Deferred tax** | | |
| Current year | – | (1) |
| | | |
| **Taxation charge** | **3** | **3** |

| Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge | 2023 €m | 2022 €m |
|---|---|---|
| Profit before taxation | 26 | 26 |
| Profit @12.5% | 3 | 3 |
| **Taxation charge** | **3** | **3** |

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| **Cash flow hedge reserve** | Pre-tax €m | Tax €m | Net of Tax €m | Pre-tax €m | Tax €m | Net of Tax €m |
| Changes in fair value | (17) | 2 | (15) | (115) | 15 | (100) |
| Transfer to income statement | 28 | (3) | 25 | (2) | – | (2) |
| **Net change in cash flow hedge reserve** | **11** | **(1)** | **10** | **(117)** | **15** | **(102)** |

# 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 €178 million (2022: €283 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 2023, cash collateral of €252 million (2022: €329 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 derivative liability position of €235 million (2022: €350 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 following table sets out the interest rate swaps held by the Bank, including those held as hedging instruments.

# 10 Derivative financial instruments *(continued)*

| Interest rate swaps | 2023 Contract notional amounts €m | 2023 Fair values Assets €m | 2023 Fair values Liabilities €m | 2022 Contract notional amounts €m | 2022 Fair values Assets €m | 2022 Fair values Liabilities €m |
|---|---|---|---|---|---|---|
| Held for trading | 27,258 | 174 | (175) | 20,203 | 280 | (281) |
| Designated as fair value hedges | 40 | 4 | – | 40 | 3 | – |
| Designated as cash flow hedges | 945 | – | (60) | 945 | – | (69) |
| **Total derivative assets / (liabilities)** | | **178** | **(235)** | | **283** | **(350)** |

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 | 2023 Up to 1 year €m | 2023 1-2 years €m | 2023 2-5 years €m | 2023 >5 years €m | 2022 Up to 1 year €m | 2022 1-2 years €m | 2022 2-5 years €m | 2022 >5 years €m |
|---|---|---|---|---|---|---|---|---|
| **Fair value hedge** | | | | | | | | |
| ***Interest rate risk*** | | | | | | | | |
| Interest rate swap - notional amount | – | – | 10 | 30 | – | – | – | 40 |
| Average fixed interest rate | – | – | 5.4% | 5.5% | – | – | – | 5.5% |
| **Cash flow hedge** | | | | | | | | |
| ***Interest rate risk*** | | | | | | | | |
| Interest rate swap - notional amount | – | 760 | – | 185 | – | – | 760 | 185 |
| Average fixed interest rate | – | 0.02% | – | 1.4% | – | – | 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 are shown in the tables below.

All hedging instruments are included within derivative financial instruments on the balance sheet and ineffectiveness is included within net trading income on the income statement. There are no material causes of ineffectiveness in the Bank's fair value hedges.

| **2023 Items designated as hedging instruments and hedge ineffectiveness** Risk category | Hedging instrument | Nominal amount of the hedging instrument €m | Carrying amount of the hedging instrument Assets €m | Carrying amount of the hedging instrument Liabilities €m | Changes in value used to calculate hedge ineffectiveness €m | Ineffectiveness recognised in profit or loss €m |
|---|---|---|---|---|---|---|
| Interest rate risk | Interest rate swaps | 40 | 4 | – | (1) | – |

| **2022 Items designated as hedging instruments and hedge ineffectiveness** Risk category | Hedging instrument | Nominal amount of the hedging instrument €m | Carrying amount of the hedging instrument Assets €m | Carrying amount of the hedging instrument Liabilities €m | Changes in value used to calculate hedge ineffectiveness €m | Ineffectiveness recognised in profit or loss €m |
|---|---|---|---|---|---|---|
| Interest rate risk | Interest rate swaps | 40 | 3 | – | 10 | – |

# 10 Derivative financial instruments *(continued)*

| 2023<br>Line item on the balance sheet in which the hedged item is included | Carrying amount of the hedged item | Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item | Changes in value used for calculating hedge ineffectiveness €m | Remaining adjustments for discontinued hedges €m |
|---|---|---|---|---|
| **Interest rate risk** | | | | |
| Debt securities in issue | 44 | (3) | 1 | – |

| 2022<br>Line item on the balance sheet in which the hedged item is included | Carrying amount of the hedged item | Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item | Changes in value used for calculating hedge ineffectiveness €m | Remaining adjustments for discontinued hedges €m |
|---|---|---|---|---|
| **Interest rate risk** | | | | |
| Debt securities in issue | 43 | (2) | (10) | – |

## 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 are shown in the following tables.

All hedging instruments are included within derivative financial instruments on the balance sheet and ineffectiveness is included within net trading income on the income statement. There are no material causes of ineffectiveness in the Bank's cash flow hedges.

| 2023<br>Risk category and hedging instrument | 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 in profit or (loss) €m | Amount reclassified from the cash flow hedge reserve to profit or loss €m |
|---|---|---|---|---|---|---|---|
| | | Assets €m | Liabilities €m | | | | |
| Interest rate risk | 945 | – | (60) | (11) | 11 | – | 28 |

| 2022<br>Risk category and hedging instrument | 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 in profit or (loss) €m | Amount reclassified from the cash flow hedge reserve to profit or loss €m |
|---|---|---|---|---|---|---|---|
| | | Assets €m | Liabilities €m | | | | |
| Interest rate risk | 945 | – | (69) | 117 | (117) | – | (2) |

# 10 Derivative financial instruments *(continued)*

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| Risk category | Changes in the hedged risk used for calculating hedge ineffectiveness €m | Cash flow hedge reserve €m | Remaining adjustments for discontinued hedges €m | Changes in the hedged risk used for calculating hedge ineffectiveness €m | Cash flow hedge reserve €m | Remaining adjustments for discontinued hedges €m |
| Interest rate risk | 11 | 63 | (1) | (117) | 73 | (1) |

In 2023 and 2022, 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:

| | 2023 €m | 2022 €m |
|---|---|---|
| **Changes in fair value** | | |
| Interest rate risk | (17) | (115) |
| | | |
| **Transfer to income statement** | | |
| ***Interest income*** | | |
| Interest rate risk | 28 | (2) |
| | | |
| Deferred tax on reserve movements | (1) | 15 |
| **Net change in cash flow hedge reserve** | **10** | **(102)** |

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

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

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

The cash flows of the Life Loans are not considered to consist solely of payments of principal and interest, and as such are classified as FVTPL.

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

| Other financial assets at fair value through profit or loss | 2023 €m | 2022 €m |
|---|---|---|
| Life loans | 205 | 217 |

# 12 Loans and advances to banks

| | 2023 €m | 2022 €m |
|---|---|---|
| Funds placed with Bank of Ireland | 1,670 | 3,677 |
| Less impairment loss allowance on loans and advances to banks | – | (1) |
| **Total loans and advances to banks at amortised cost** | **1,670** | **3,676** |
| | | |
| **Loans and advances to banks by remaining maturity** | | |
| Repayable on demand | 27 | 34 |
| 3 months or less | 1,084 | 1,891 |
| 1 year or less but over 3 months | 174 | 1,319 |
| 5 years or less but over 1 year | 114 | 125 |
| Over 5 years | 271 | 308 |
| Less impairment loss allowance | – | (1) |
| **Total loans and advances to banks at amortised cost** | **1,670** | **3,676** |

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within financial assets at amortised cost in note 25 on page 55.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Movement in loans and advances to banks** | Gross carrying amount €m | Impairment loss allowance €m | Gross carrying amount €m | Impairment loss allowance €m |
| Opening balance | 3,677 | (1) | 3,404 | (1) |
| Net changes in exposure | (2,007) | 1 | 273 | – |
| **Closing balance** | **1,670** | **–** | **3,677** | **(1)** |

The table shows the movement in both the gross carrying amount and impairment loss allowance subject to 12 month expected credit losses (ECL) on loans and advances to banks. All balances are receivable from Group entities and are deemed, due to low credit risk, to be Stage 1 for the purposes of ECL measurement. See note 25 for more detail on risk management and control.

# 13 Loans and advances to customers at amortised cost

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

| | 2023 €m | 2022 €m |
|---|---|---|
| Loans and advances to customers at amortised cost | 17,523 | 16,145 |
| Accrued interest receivable | 18 | 15 |
| Less impairment loss allowance on loans and advances to customers at amortised cost | (82) | (74) |
| **Total loans and advances to customers at amortised cost** | **17,459** | **16,086** |
| | | |
| **Loans and advances to customers at amortised cost by remaining maturity** | | |
| 3 months or less | 221 | 217 |
| 1 year or less but over 3 months | 577 | 573 |
| 5 years or less but over 1 year | 3,135 | 3,068 |
| Over 5 years | 13,608 | 12,302 |
| Less impairment loss allowance on loans and advances to customers at amortised cost | (82) | (74) |
| | **17,459** | **16,086** |

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 2023.

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

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

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

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

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

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

| 2023<br>Gross carrying amount (before impairment loss allowance) | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Total gross carrying amount €m |
|---|---|---|---|---|
| **Opening balance 1 January 2023** | **14,168** | **1,803** | **174** | **16,145** |
| Total net transfers | (64) | (2) | 66 | – |
| *To 12 month ECL (not credit-impaired)* | *1,916* | *(1,916)* | *–* | *–* |
| *To lifetime ECL (not credit-impaired)* | *(1,968)* | *1,996* | *(28)* | *–* |
| *To lifetime ECL (credit-impaired)* | *(12)* | *(82)* | *94* | *–* |
| Net changes in exposure | 1,602 | (185) | (32) | 1,385 |
| Impairment loss allowances utilised | – | – | (13) | (13) |
| Other movements | 6 | – | – | 6 |
| **Gross carrying amount at 31 December 2023** | **15,712** | **1,616** | **195** | **17,523** |

Total gross loans and advances to customers (excluding accrued interest) increased during the period by €1.4 billion from €16.1 billion at 31 December 2022 to €17.5 billion at 31 December 2023.

During 2023, the Bank completed one transaction whereby it derecognised €8 million of loans and advances to customers (after impairment loss allowance). The portfolio derecognised had a gross carrying value of €23 million (before impairment loss allowance).

The Bank has recognised an impairment gain of €4 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 2023. Stage 1 loans have increased by €1.5 billion primarily reflecting net new lending partly offset by the impact of transfers to other risk stages.

Net transfers to other risk stages reflect the impact of elevated inflation rates and interest rates on the credit risk in the loan book.

Stage 2 loans have decreased by €0.2 billion, primarily due to net repayments.

Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2023 includes €0.8 million (2022: €7 million) of contractual amounts outstanding that are still subject to enforcement activity.

| 2023<br>Impairment loss allowance | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Total impairment loss allowance €m |
|---|---|---|---|---|
| **Opening balance 1 January 2023** | **(6)** | **(16)** | **(52)** | **(74)** |
| Total net transfers | (19) | 20 | (1) | – |
| *To 12 month ECL (not credit-impaired)* | *(20)* | *20* | *–* | *–* |
| *To lifetime ECL (not credit-impaired)* | *1* | *(4)* | *3* | *–* |
| *To lifetime ECL (credit-impaired)* | *–* | *4* | *(4)* | *–* |
| Net impairment (losses) / gains in income statement | 15 | (25) | (9) | (19) |
| *Re-measurement* | *18* | *(28)* | *(2)* | *(12)* |
| *Net changes in exposure* | *–* | *2* | *(1)* | *1* |
| *ECL model parameter and / or methodology changes* | *(3)* | *1* | *(6)* | *(8)* |
| Impairment loss allowances utilised | – | – | 13 | 13 |
| Measurement reclassification and other movements | – | – | (2) | (2) |
| **Impairment loss allowance at 31 December 2023** | **(10)** | **(21)** | **(51)** | **(82)** |

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

| 2022<br>**Gross carrying amount (before impairment loss allowance)** | **Stage 1 - 12 month ECL (not credit-impaired) €m** | **Stage 2 - Lifetime ECL (not credit-impaired) €m** | **Stage 3 - Lifetime ECL (credit-impaired) €m** | **Total gross carrying amount €m** |
|---|---|---|---|---|
| **Opening balance 1 January 2022** | **14,278** | **1,225** | **699** | **16,202** |
| 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 |
| **Gross carrying amount at 31 December 2022** | **14,168** | **1,803** | **174** | **16,145** |

Total gross loans and advances to customers (excluding accrued interest) decreased during the year ended 31 December 2022 by €0.1 billion from €16.2 billion at 31 December 2021 to €16.1 billion 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 recognised an impairment gain of €7 million relating to the disposal of these loans which was reported through net impairment losses on financial instruments.

The Bank had no POCI loans in 2022.

Stage 1 loans decreased by €0.1 billion during 2022 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 increased by €0.6 billion during 2022, with transfers from other stages of €0.8 billion partly offset by net changes in exposure.

The net increase in stage 2 loans during 2022 reflected 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 that 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 of contractual amounts outstanding that are still subject to enforcement activity.

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

| 2022<br>Impairment loss allowance | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Total gross carrying amount €m |
|---|---|---|---|---|
| **Opening balance 1 January 2022** | **(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) |
| **Impairment loss allowance at 31 December 2022** | **(6)** | **(16)** | **(52)** | **(74)** |

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 following table 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, 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 2023. Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.

| LTV ratio of total Mortgage loan book | 2023 Not credit-impaired €m | 2023 Credit-impaired €m | 2023 Total €m | 2022 Not credit-impaired €m | 2022 Credit-impaired €m | 2022 Total €m |
|---|---|---|---|---|---|---|
| Less than 50% | 7,356 | 81 | 7,437 | 7,329 | 55 | 7,384 |
| 51% to 70% | 5,650 | 46 | 5,696 | 5,537 | 33 | 5,570 |
| 71% to 80% | 2,015 | 14 | 2,029 | 1,815 | 14 | 1,829 |
| 81% to 90% | 2,152 | 8 | 2,160 | 1,128 | 11 | 1,139 |
| 91% to 100% | 135 | 7 | 142 | 132 | 6 | 138 |
| **Subtotal** | **17,308** | **156** | **17,464** | **15,941** | **119** | **16,060** |
| | | | | | | |
| 101% to 120% | 5 | 8 | 13 | 9 | 14 | 23 |
| 121% to 150% | 8 | 6 | 14 | 12 | 13 | 25 |
| Greater than 150% | 7 | 25 | 32 | 9 | 28 | 37 |
| **Subtotal** | **20** | **39** | **59** | **30** | **55** | **85** |
| **Total** | **17,328** | **195** | **17,523** | **15,971** | **174** | **16,145** |
| | | | | | | |
| **Weighted average LTV:** | | | | | | |
| Stock of mortgages at year end (%) | 54% | 74% | 54% | 52% | 91% | 52% |
| New mortgages during the year (%) | 73% | | 73% | 71% | | 71% |

## 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.

| | 2023 €m | 2022 €m |
|---|---|---|
| **Financial assets modified during the year** | | |
| Amortised cost before modification | 33 | 33 |
| Net modification gains (i.e. net of impairment gains impact) | – | – |
| **Financial assets modified since initial recognition** | | |
| Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the year | 878 | 746 |

## 15 Deposits from banks

| | 2023 €m | 2022 €m |
|---|---|---|
| **Deposits from banks** | **14,219** | **14,291** |
| **Deposits by remaining maturity** | | |
| 3 months or less | 1,296 | 1,501 |
| 1 year or less but over 3 months | 1,997 | 3,622 |
| 5 years or less but over 1 year | 9,902 | 8,233 |
| Greater than 5 years | 1,024 | 935 |
| **Total** | **14,219** | **14,291** |
| *of which:*<br>Due to Bank of Ireland | **14,219** | **14,291** |

## 16 Debt securities in issue

### 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 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.

# 16 Debt securities in issue *(continued)*

The total nominal value of mortgage covered securities in issue at 31 December 2023 amounted to €3.4 billion (2022: €4.0 billion).

In August 2023, the European Union (Covered Bonds) Regulations 2023 amended the ACS Act of 2001 by introducing a new requirement under Section 26B for the Bank to obtain permission from the Central Bank of Ireland to operate the programme. The Bank is in the process of obtaining the prerequisite permission.

| | 2023 €m | 2022 €m |
|---|---|---|
| **Debt securities in issue** | **3,471** | **3,972** |
| **Bonds and medium term notes by remaining maturity** | | |
| 3 months or less | 771 | 15 |
| 1 year or less but over 3 months | 502 | 502 |
| 5 years or less but over 1 year | 1,720 | 2,959 |
| Greater than 5 years | 478 | 496 |
| | **3,471** | **3,972** |
| *of which:*<br>Due to Bank of Ireland | **2,213** | **2,700** |

| | 2023 €m | 2022 €m |
|---|---|---|
| **Balance at beginning of the year** | **3,972** | **4,930** |
| Redemptions | (499) | (954) |
| Purchases | (10) | – |
| Other movements | 8 | (4) |
| **Balance at end of the year** | **3,471** | **3,972** |

### Mortgage-Backed Euro 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 euro 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:

- 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
- 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 euro 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:

- 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
- 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 2023 or 2022.

# 16 Debt securities in issue *(continued)*

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

| Range €'000 | 2023 Number of accounts | 2023 Total balances of accounts €m | 2022 Number of accounts | 2022 Total balances of accounts €m |
|---|---|---|---|---|
| 0-100 | 32,581 | 1,573 | 34,148 | 1,510 |
| 100-200 | 27,557 | 4,034 | 22,835 | 3,300 |
| 200-500 | 21,043 | 5,991 | 12,429 | 3,426 |
| Over 500 | 1,391 | 941 | 653 | 444 |
| | **82,572** | **12,539** | **70,065** | **8,680** |

There could be one or more accounts per mortgaged property giving rise to different figures for the number of accounts and the number of properties in the Pool at any point in time. There were 75,771 properties in the Pool at 31 December 2023 (2022: 63,193). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2023 and 2022 respectively.

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Dublin | Outside Dublin | Dublin | Outside Dublin |
| % of overall properties | 28% | 72% | 28% | 72% |
| Number of accounts | 23,390 | 59,182 | 19,494 | 50,571 |
| Number of properties | 21,487 | 54,284 | 17,621 | 45,572 |

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2023 and 2022 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 2023 and 31 December 2022.

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

| | 2023 | 2022 |
|---|---|---|
| Number of accounts in default | 2 | 32 |
| Cumulative current balance on above accounts (€'000) | 115 | 4,574 |
| *of which:*<br>Arrears represent (€'000) | 5 | 153 |

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

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

| | 2023 | 2022 |
|---|---|---|
| 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 | 228 | 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 | 20 | 38 |

# 16 Debt securities in issue *(continued)*

**(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 2023, 207 accounts were non-performing (2022: 146 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 2023 was €4,578 (2022: €153,178). €1,717 of this represented non-payment of interest (2022: €51,301).

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

| | 2023 €m | 2022 €m |
|---|---|---|
| Interest paid in respect of mortgage credit assets | 382 | 270 |
| Capital repaid in respect of mortgage credit assets | 1,252 | 1,621 |

**(h) Number and amount of mortgage accounts in the cover assets pool secured on commercial property**
At 31 December 2023 and 31 December 2022, there were no mortgage accounts in the Pool that were secured on commercial property.

# 17 Other liabilities

| | 2023 €m | 2022 €m |
|---|---|---|
| Amounts due to Bank of Ireland | 10 | 91 |
| Other liabilities | 5 | 2 |
| | **15** | **93** |

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 paid within 12 months.

# 18 Provisions

| | 2023 €m | 2022 €m |
|---|---|---|
| Opening balance | 12 | 56 |
| Charge to income statement | – | 2 |
| Provision utilised | (5) | (46) |
| **Closing balance** | **7** | **12** |

At 31 December 2023, the Bank held a provision of €6 million (2022: €10 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.

## 19 Deferred tax

The Bank is within the scope of the Organisation for Economic Co-operation and Development (OECD) 15% minimum effective tax rate Model Rules (Pillar 2) which have been enacted into Irish legislation as part of Finance (No.2) Act 2023 in December 2023. The Pillar 2 rules are effective for financial periods beginning on or after 31 December 2023, in the Bank's case the financial period ending 31 December 2024.

The Bank has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred. The consolidated financial statements for the Group contain the required disclosures, and the Bank has therefore availed of the exemption within FRS 101 from making further disclosures in this Annual Report.

| | 2023 €m | 2022 €m |
|---|---|---|
| **The movement on the deferred tax account is as follows:** | | |
| Opening deferred tax asset/ (liability) | 9 | (7) |
| Cash flow hedges | (1) | 15 |
| Credit to income statement | – | 1 |
| **Closing deferred tax asset** | **8** | **9** |
| | | |
| **Deferred tax assets / (liabilities) are attributable to the following items:** | | |
| **Deferred tax asset** | | |
| Cash flow hedges | 8 | 9 |
| **Closing deferred tax asset** | **8** | **9** |
| | | |
| Represented on the balance sheet as follows: | | |
| **Deferred tax asset** | **8** | **9** |

## 20 Subordinated liabilities

At 31 December 2023, total subordinated loans and accrued interest were €51 million (2022: €51 million). The balance at 31 December 2023 and 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

| **Authorised** | 2023 €m | 2022 €m |
|---|---|---|
| 1 billion ordinary shares of €1 each | 1,000 | 1,000 |

| **Allotted, called up and fully paid - presented as equity** | 2023 €m | 2022 €m |
|---|---|---|
| 488 million ordinary shares of €1 each | 488 | 488 |
| Share premium | 661 | 661 |

## 22 Other equity instruments - Additional Tier 1

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.

| | 2023<br>€m | 2022<br>€m |
|---|---|---|
| **Additional tier 1 notes issued** | **200** | **200** |

## 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 Pension Fund (BIGPF).

The Bank is a participating employer in the RetireWell plan in respect of 1 employee (2022: 1 employee). The remaining 2 employees are members of the BIGPF (2022: 2 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 2023 and 2022 (see note 7 for details of amounts recharged). The Bank had no outstanding amounts payable to the scheme at 31 December 2023 or 31 December 2022.

## 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.

# 25 Risk management and control *(continued)*

### Definition of credit risk
Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Bank in respect of loans or other financial transactions or any other deterioration in a counterparty's creditworthiness. 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 excessive exposures to a single entity or group of entities 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;
- **Credit quality deterioration risk:** the potential loss due to a ratings downgrade (e.g. PD or IFRS9 staging migration);
- **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 or enforceability of security held due to errors in the nature, quantity, pricing, or characteristics of security held in respect of a transaction with credit risk.

Environmental, Social and Governance (ESG) factors, including climate change represent a common driver across the Bank's principal risk types, including credit risk and its sub risks. ESG risk factors are managed as part of credit risk and its sub risks including in policies, risk appetite, risk monitoring and reporting.

### Credit risk statement
The Bank's credit strategy is to underwrite credit risk within a clearly-defined risk appetite. This is done 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 Board approved risk parameters.

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 oversight of credit risk in accordance with Board / Group Credit Risk Committee (GCRC) 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 Risk 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 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 57.

Credit risk information is reported on a monthly / quarterly basis to senior management. Reporting includes information and detailed commentary on loan book composition and asset quality (credit grade, PD profiles, impairment loss allowances and RWAs).

An independent control unit within the Risk Division of the Group undertakes periodic reviews of the appropriateness of the risk rating models that are used within the business and evaluates whether the models are compliant with regulatory requirements.

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

### Credit risk measurement
All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a pre-defined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific borrowers, is central to the credit risk assessment and ongoing management processes within the Bank.

The Bank measures impairment loss allowances for expected credit losses on essentially all credit risk exposures not measured at FVTPL. The Bank's impairment modelling methodologies are approved by the Group's Model Risk Committee (MRC) and / or Risk Measurement Committee (RMC) and the quantum of the Bank's impairment gain or loss, 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 51 and 52. An analysis of the Bank's impairment loss allowances at 31 December 2023 is set out on page 55.

### 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, loan origination standards and credit risk procedures.

# 25 Risk management and control *(continued)*

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 NPEs 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.

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 43. Information on repossessed collateral is set out in the table on page 57.

### 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 objectives of granting forbearance measures are 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 are intended 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 estimated 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 estimated 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. POCI obligations remain outside of the normal stage allocation process for the lifetime of the obligation.

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 continue 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:

- **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
- **other loans** meeting NPE criteria as aligned with regulatory requirements.

### 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.

# 25 Risk management and control *(continued)*

Under this approach, the Bank uses its own estimates of PD, LGD and credit conversion factors when calculating regulatory capital requirements.

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

## Methodology for loan loss provisioning

**Approach to measurement of impairment loss allowances**

Impairment is measured in a way that reflects:
- 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.

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.

The calibration of the Lifetime PD at initial recognition for the Bank's impairment models was refined in 2023.

This was required to address an unintended dynamic which resulted in a proportion of newly originated loans migrating to stage 2 due to differences in the PD calibration approach for newly originated loans (<6 months on book) versus seasoned loans (>=6 months on book). This resulted in loans migrating from stage 1 to stage 2 despite analysis demonstrating there was no underlying increase in credit risk. The impact of this change was a decrease in impairment loss allowance of c.€4 million.

**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 Loss Given Default (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 starting point for individual components of the calculation is historical data. Cure rate is incorporated as appropriate into the calculation and represents the expected propensity of borrowers to return to the non-defaulted book without a loss having been realised. FLI is also incorporated into LGD as appropriate where property collateral is held. IFRS 9 LGD may differ from regulatory LGD as conservatism and downward assumptions are generally removed.

The ECL model framework was updated in 2023 with model factor updates to reflect recent observed information. This included the application of updated portfolio disposal data within the Bank's LGD model, resulting in an increase in impairment loss allowance of c.€9 million. In addition the LGD model was updated in the period to reflect an updated approach to estimating cure rates to ensure these are representative of future borrower behaviour. The revised methodology applies a prudent approach to accounts that cured from default while availing of Covid related payment breaks. This change results in an increase in impairment loss allowance of c.€6 million.

## 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 forborne 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.

# 25 Risk management and control *(continued)*

In this regard, the Bank has assessed the impact of elevated inflation and interest rates on asset quality. Credit risk assessments on the impact of elevated inflation and 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 €1.1 billion of stage 1 assets as stage 2 at the reporting date (31 December 2022: €0.8 billion), with an associated €6 million increase in impairment loss allowance (31 December 2022: €3 million.

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

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

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

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

### Identifying defaulted assets and credit-impaired assets

The Bank's population of credit-impaired financial assets are consistent with its population of defaulted financial assets and closely 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;
- a forbearance arrangement is put in place and that arrangement involves debt forgiveness or reduction in interest rate / margin;
- 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 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 geopolitical risk, inflation and interest rates

In 2023 the Bank conducted a number of assessments in relation to credit risk associated with the impact of elevated inflation and interest rates on asset quality. Credit risk assessments were implemented across the portfolio and, where appropriate, outputs have been utilised to identify significant increases in credit risk and the classification of stage 1 assets as stage 2.

# 25 Risk management and control *(continued)*

These credit risk assessments, which leveraged qualitative information not already captured in impairment models, resulted in a credit management decision to classify €1.1 billion of stage 1 assets as stage 2 at the reporting date (31 December 2022: €0.8 billion) with a corresponding €6 million increase in impairment loss allowance (31 December 2022: €3 million).

Furthermore, the final set of probability weightings applied FLI scenarios utilised in the Bank's impairment models incorporated the application of management judgement to the initial probability weightings to reflect economic uncertainty associated with factors including geopolitical risk, elevated inflation and interest rates. The estimated impact of this judgement was a c.€3 million increase in impairment loss allowance (31 December 2022 c.€2 million).

Further details on the selected FLI scenarios for the reporting period, management adjustments and management judgement incorporated into impairment model parameters are provided in the Critical Accounting Estimates and Judgements on pages 27 to 31.

### Forward Looking Information (FLI)

FLI refers to probability-weighted future macroeconomic scenarios used in the measurement of impairment loss allowances under IFRS 9 and is approved semi-annually by the Group's ERC. Further information is set out in note 2.

The overall ECL for an exposure is determined as a probability-weighted average of the ECL calculated for each scenario, weighted by the probability of each scenario occurring. Beyond the forecast period, default rates are assumed to revert over time to an observed long run average and the value of property collateral for LGD purposes is assumed to grow at an observed long-run rate. Typically, one or two macroeconomic variables are incorporated into each impairment model, being those determined through macro regression techniques 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 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 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.

### 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 |

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

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).

During 2023, the stock of impairment loss allowances increased by €7 million to €82 million.

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

# 25 Risk management and control *(continued)*

| 2023<br>Financial assets exposure by stage<br>(before impairment loss allowance) | Stage 1 -<br>12 month ECL<br>(not credit-impaired)<br>€m | Stage 2 -<br>Lifetime ECL<br>(not credit-impaired)<br>€m | Stage 3 -<br>Lifetime ECL<br>(credit-impaired)<br>€m | Total<br>€m |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and advances to customers | 15,712 | 1,616 | 195 | 17,523 |
| Loans and advances to banks | 1,670 | – | – | 1,670 |
| Other financial assets | 14 | – | – | 14 |
| **Total financial assets measured at amortised cost** | **17,396** | **1,616** | **195** | **19,207** |

| 2023<br>Impairment loss allowance on financial assets | Stage 1 -<br>12 month ECL<br>(not credit-impaired)<br>€m | Stage 2 -<br>Lifetime ECL<br>(not credit-impaired)<br>€m | Stage 3 -<br>Lifetime ECL<br>(credit-impaired)<br>€m | Total<br>€m |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and advances to customers | 10 | 21 | 51 | 82 |
| Loans and advances to banks | – | – | – | – |
| Other financial assets | – | – | – | – |
| **Total financial assets measured at amortised cost** | **10** | **21** | **51** | **82** |

| 2022<br>Financial assets exposure by stage<br>(before impairment loss allowance) | Stage 1 -<br>12 month ECL<br>(not credit-impaired)<br>€m | Stage 2 -<br>Lifetime ECL<br>(not credit-impaired)<br>€m | Stage 3 -<br>Lifetime ECL<br>(credit-impaired)<br>€m | Total<br>€m |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and advances to customers | 14,168 | 1,803 | 174 | 16,145 |
| Loans and advances to banks | 3,677 | – | – | 3,677 |
| Other financial assets | 1 | – | – | 1 |
| **Total financial assets measured at amortised cost** | **17,846** | **1,803** | **174** | **19,823** |

| 2022<br>Impairment loss allowance on financial assets | Stage 1 -<br>12 month ECL<br>(not credit-impaired)<br>€m | Stage 2 -<br>Lifetime ECL<br>(not credit-impaired)<br>€m | Stage 3 -<br>Lifetime ECL<br>(credit-impaired)<br>€m | Total<br>€m |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and advances to customers | 6 | 16 | 52 | 74 |
| Loans and advances to banks | 1 | – | – | 1 |
| Other financial assets | – | – | – | – |
| **Total financial assets measured at amortised cost** | **7** | **16** | **52** | **75** |

The Bank had no POCI loans in 2023 or 2022.

# 25 Risk management and control *(continued)*

### Loans and advances to customers at amortised cost

**Composition and risk profile**

The following table excludes €205 million of loans and advances to customers at 31 December 2023 (2022: €217 million) that are measured at FVTPL and are therefore not subject to impairment under IFRS 9. At 31 December 2023, loans and advances to customers (pre-impairment loss allowance and excluding accrued interest) of €17.5 billion were €1.4 billion higher than 31 December 2022, primarily due to net new lending.

Credit-impaired loans increased by €21 million or 12% to €195 million or 1% of customer loans at 31 December 2023 (2022: €174 million or 1%).

The stock of impairment loss allowance on credit-impaired loans was broadly in line with the prior year and stood at €51 million at 31 December 2023 (2022: €52 million).

The total impairment loss allowance at 31 December 2023 includes a management adjustment of €4 million (31 December 2022 €nil.)

Impairment loss allowance cover for credit-impaired loans reduced to 26% at 31 December 2023 (2022: 30%), reflecting lower impairment requirements for the stage 3 population following the completion of NPE disposals and changes to the composition of residual stage 3 assets with a lower proportion of the population comprising of buy to let assets.

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) | 2023 Not credit-impaired €m | 2023 Credit-impaired €m | 2023 Total €m | 2023 Total % | 2022 Not credit-impaired €m | 2022 Credit-impaired €m | 2022 Total €m | 2022 Total % |
|---|---|---|---|---|---|---|---|---|
| Owner occupied mortgages | 16,682 | 156 | 16,838 | 96% | 15,238 | 119 | 15,357 | 95% |
| Buy to let mortgages | 646 | 39 | 685 | 4% | 733 | 55 | 788 | 5% |
| **Total** | **17,328** | **195** | **17,523** | **100%** | **15,971** | **174** | **16,145** | **100%** |
| **Impairment loss allowance on loans and advances to customers** | **31** | **51** | **82** | **–** | **22** | **52** | **74** | **–** |

### 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.

| 2023 Not credit-impaired loans and advances to customers Composition and impairment loss allowance | Stage 1 Loans €m | Stage 1 Loans as % of total advances % | Stage 1 ILA €m | ILA % of Stage 1 loans % | Stage 2 Loans €m | Stage 2 Loans as % of advances % | Stage 2 ILA €m | ILA % of Stage 2 loans % |
|---|---|---|---|---|---|---|---|---|
| **Total mortgages** | | | | | | | | |
| Owner occupied mortgages | 15,083 | 86% | 9 | – | 1,599 | 9% | 21 | 1% |
| Buy to let mortgages | 629 | 4% | 1 | – | 17 | – | – | – |
| **Total** | **15,712** | **90%** | **10** | **–** | **1,616** | **9%** | **21** | **1%** |

| 2022 Not credit-impaired loans and advances to customers Composition and impairment loss allowance | Stage 1 Loans €m | Stage 1 Loans as % of total advances % | Stage 1 ILA €m | ILA % of Stage 1 loans % | Stage 2 Loans €m | Stage 2 Loans as % of advances % | Stage 2 ILA €m | ILA % of Stage 2 loans % |
|---|---|---|---|---|---|---|---|---|
| **Total mortgages** | | | | | | | | |
| Owner occupied mortgages | 13,466 | 84% | 5 | – | 1,772 | 11% | 15 | 1% |
| Buy to let mortgages | 702 | 4% | 1 | – | 31 | – | 1 | 3% |
| **Total** | **14,168** | **88%** | **6** | **–** | **1,803** | **11%** | **16** | **1%** |

# 25 Risk management and control *(continued)*

The following 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 54.

| Not credit-impaired loans and advances to customers (before impairment loss allowance) | 2023 | | | | | | 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Total | | Stage 1 | | Stage 2 | | Total | |
| Asset quality | €m | % | €m | % | €m | % | €m | % | €m | % | €m | % |
| **PD Grade** | | | | | | | | | | | | |
| 1-4 | 4,475 | 28% | 370 | 23% | 4,845 | 28% | 4,816 | 34% | 306 | 17% | 5,122 | 32% |
| 5-7 | 10,346 | 66% | 817 | 51% | 11,163 | 64% | 8,529 | 60% | 1,002 | 55% | 9,531 | 60% |
| 8-9 | 591 | 4% | 118 | 7% | 709 | 4% | 560 | 4% | 136 | 8% | 696 | 4% |
| 10-11 | 300 | 2% | 311 | 19% | 611 | 4% | 263 | 2% | 359 | 20% | 622 | 4% |
| **Total not credit-impaired** | **15,712** | **100%** | **1,616** | **100%** | **17,328** | **100%** | **14,168** | **100%** | **1,803** | **100%** | **15,971** | **100%** |

## Asset quality – credit-impaired

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

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

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| Credit-impaired (CI) loans and advances to customers Composition and impairment loss allowance (ILA) | Credit-impaired (CI) loans €m | CI Loans as % of total advances % | CI Impairment loss allowance €m | CI ILA as % of CI loans % | Credit-impaired (CI) loans €m | CI Loans as % of total advances % | CI Impairment loss allowance €m | CI ILA as % of CI loans % |
| Owner occupied mortgages | 156 | 1% | 33 | 21% | 119 | 1% | 26 | 22% |
| Buy to let mortgages | 39 | – | 18 | 46% | 55 | – | 26 | 47% |
| **Total credit-impaired** | **195** | **1%** | **51** | **26%** | **174** | **1%** | **52** | **30%** |

## Concentration of risks of financial assets with credit risk exposure

### 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.

### 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 | 2023 €m | 2022 €m |
|---|---|---|
| Dublin | 6,855 | 6,372 |
| Rest of Republic of Ireland | 10,668 | 9,773 |
| **Total** | **17,523** | **16,145** |

### Repossessed collateral

At 31 December 2023, the Bank had 9 properties in possession with a value of €2 million (2022: 9 properties with a value of €3 million). Repossessed 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 2023 is €0.2 million (2022: €0.6 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 (2022: A-).

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

# 25 Risk management and control *(continued)*

### Financial instruments at fair value through profit or loss

Financial instruments at FVTPL include derivatives and Life Loans. The table below 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: | 2023 €m | 2023 % | 2022 €m | 2022 % |
|---|---|---|---|---|
| AAA to AA- | – | – | – | – |
| A+ to A- | 178 | 47% | 283 | 57% |
| BBB+ to BBB- | 39 | 10% | – | – |
| BB+ to BB- | 13 | 3% | – | – |
| B+ to B- | 121 | 32% | 187 | 37% |
| Lower than B- | 32 | 8% | 30 | 6% |
| **Total** | **383** | **100%** | **500** | **100%** |

### Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents a worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or other credit enhancements attached. The exposures are based on net carrying amounts, net of impairment loss allowances, as reported in the balance sheet, adjusted for deferred acquisition costs.

| Maximum exposure | 2023 €m | 2022 €m |
|---|---|---|
| Loans and advances to banks | 1,670 | 3,676 |
| Loans and advances to customers at amortised cost | 17,198 | 15,832 |
| Other financial assets at fair value through profit or loss | 205 | 217 |
| Derivative financial instruments | 178 | 283 |
| Loan commitments | 1,129 | 1,054 |
| **Total** | **20,380** | **21,062** |

### Market risk

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates, equity, credit spreads 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 ensures 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 became a priority for global regulators. A formal Group-wide Benchmark Reform Programme was mobilised to manage the orderly transition to new regulatory compliant benchmarks and concluded during 2023. The Bank's primary exposure to benchmark rates is EURIBOR which has an amended calculation methodology and is now considered Benchmark Regulation compliant, therefore the Bank expects EURIBOR to continue as a benchmark interest rate for the foreseeable future.

**Loans and advances to customers at amortised cost**

At 31 December 2023, the Bank had €3.0 billion (2022: €3.2 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 2023, the nominal value of swaps qualifying for hedge accounting was €1.0 billion (2022: €1.0 billion). Further details are provided in note 10.

At 31 December 2023, the Bank had €14.5 billion (2022: €12.9 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 2023, the Bank had €0.2 billion (2022: €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 2023, the Bank had (nominal) €3.4 billion in issued asset covered securities (2022: €4.0 billion). €1.2 billion of the issued asset covered securities are at fixed rates (2022: €1.3 billion) and the remaining €2.2 billion have an interest rate that resets based on short-dated EURIBOR (2022: €2.7 billion).

# 25 Risk management and control *(continued)*

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 2023, the nominal value of swaps qualifying for fair value hedge accounting is €40 million (2022: €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 2023, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.2 million (2022: -€0.2 million). Additionally, to comply with the ACS Acts, the Bank is required to manage the interest rate sensitivity of all of its assets and liabilities to a 10% of own funds limit (Equity, Tier 1 and 2). This is monitored by the Cover Asset Monitor on behalf of the CBI.

### 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 following tables summarise the maturity profile of the Bank's financial liabilities at 31 December 2023 and 2022 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.

# 25 Risk management and control *(continued)*

| 2023<br>Contractual maturity | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Deposits from banks | – | 1,354 | 2,104 | 10,502 | 1,074 | 15,034 |
| Debt securities in issue | – | 783 | 541 | 1,792 | 579 | 3,695 |
| Subordinated liabilities | – | 1 | – | 51 | – | 52 |
| Other financial liabilities | 10 | – | – | – | – | 10 |
| Loan commitments | 1,124 | – | – | – | – | 1,124 |
| **Total** | **1,134** | **2,138** | **2,645** | **12,345** | **1,653** | **19,915** |

| 2022<br>Contractual maturity | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| 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 |
| **Total** | **1,145** | **1,550** | **4,265** | **11,670** | **1,588** | **20,218** |

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.

| | 2023 | | | | | 2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2023<br>Derivative financial instruments | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
| Net cash outflows / (inflows) on derivative financial instruments | 61 | 127 | 13 | 26 | 227 | 16 | 114 | 183 | 37 | 350 |

## Operational risk

Operational risk is the risk of loss resulting from suboptimal or failed internal processes, systems, human factors or from external events. It includes Information Technology, Change Management, Information Security and Cyber, Third Party Risk Management and Outsourcing (TPRM&O), Transaction Processing, People, Physical Security, Data, Model, Financial & Regulatory Reporting, Legal and Tax risks.

Operational risk arises as a direct or indirect consequence of the Bank's normal business activities 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.

Operational risk arises from the risk of cybersecurity attacks which remains material as their frequency, sophistication and severity continue to develop. Operational resilience works together with operational risk management to minimise operational disruptions and their effects. As the Group's resilience profile improves, it becomes less prone to incur untimely lapses in the provision of Important Business Service.

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

Operational risk also includes model risk which is the potential for adverse consequences due to model design or implementation errors or the inappropriate use of model output, 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 misuse or lack of protection of data in accordance with legal and regulatory requirements, impacting the competent running of the Group's operations.

**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.

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 risk includes ineffective regulatory change governance and ineffective regulatory engagement.

**Ineffective Regulatory Change Governance:** The risk that regulatory change is not identified and/or there is an inappropriate approach adopted to implement the regulatory changes required.

**Ineffective Regulatory Engagement:** 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 of judgement or failures of processes can and do lead to regulatory failings which we have limited tolerance for.

**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 existence of appropriate procedures in place 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 its business. These risks may materialise from failures to comply with regulatory requirements or expectations, 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 staff, contractors and 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 systems, products and/or services are used by customers, employees or third parties to facilitate or attempt to facilitate financial crime.

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

# 25 Risk management and control *(continued)*

**Risk management and measurement**
From an ESG perspective, 'Green Washing', or misrepresenting the environmental benefits of green financial products or investments, is an emerging risk within conduct risk. The Bank has updated its product approval policy and process to scrutinise green products with this risk in mind.

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 has no tolerance for knowingly causing harm to customers, clients, and markets, arising from the delivery of its products and services. However, it recognises that mistakes and errors of judgement or failures of processes can and do lead to customer harm which it has limited tolerance for. It mitigates this risk through its conduct risk policies.

**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 conduct policies, of standard mitigating requirements throughout the business. The standards of behaviour are detailed in the Group Code of Conduct policy 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. A training schedule is in place across the Bank to support staff and management in this regard.

**Risk reporting**
The current status of conduct risk, including risk dashboards and risk appetite compliance, is reported 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. The Israel-Palestinian conflict, coupled with the continued fallout from Russia's invasion of Ukraine, has the potential to create further inflationary pressures, in particular on oil prices, and create supply chain issues that could impact the global economy;
- 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; and
- 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 8.0% on a regulatory basis. This includes a Pillar 1 requirement of 4.5%, a Capital Conservation Buffer (CCB) of 2.5% and a Countercyclical (CCyb) Buffer of 1.0%.

In June 2022 the CBI announced the phased reintroduction of the Republic of Ireland (RoI) CCyB at 0.5% from June 2023. In November 2023 the CBI confirmed the projected CCyB increase to 1% from November 2023 and to 1.5% from June 2024.

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

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 possible, the Bank calculates fair value using observable market prices. 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 following tables 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.

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

| 2023 | FVTPL Mandatorily €m | FVTPL Fair value hedge derivative €m | Cash flow hedge derivative at FVOCI €m | Held at amortised cost €m | Total €m | Fair value hierarchy Level 1 €m | Fair value hierarchy Level 2 €m | Fair value hierarchy Level 3 €m | Fair value hierarchy Total €m |
|---|---|---|---|---|---|---|---|---|---|
| **Fair value of financial assets held at amortised cost** | | | | | | | | | |
| Loans and advances to banks | – | – | – | 1,670 | **1,670** | – | 1,654 | – | **1,654** |
| Loans and advances to customers | – | – | – | 17,459 | **17,459** | – | – | 18,488 | **18,488** |
| Other assets | – | – | – | 14 | **14** | – | – | 14 | **14** |
| **Financial assets held at fair value** | | | | | | | | | |
| Derivative financial instruments | 174 | 4 | – | – | **178** | – | 178 | – | **178** |
| Other financial assets at FVTPL | 205 | – | – | – | **205** | – | – | 205 | **205** |
| | **379** | **4** | **–** | **19,143** | **19,526** | **–** | **1,832** | **18,707** | **20,539** |
| **Fair value of financial liabilities held at amortised cost** | | | | | | | | | |
| Deposits from banks | – | – | – | 14,219 | **14,219** | – | 14,073 | – | **14,073** |
| Debt securities in issue | – | – | – | 3,471 | **3,471** | 897 | 404 | 2,164 | **3,465** |
| Subordinated liabilities | – | – | – | 51 | **51** | – | 51 | – | **51** |
| Other financial liabilities | – | – | – | 10 | **10** | – | – | 10 | **10** |
| **Financial liabilities held at fair value** | | | | | | | | | |
| Derivative financial instruments | 175 | – | 60 | – | **235** | – | 200 | 35 | **235** |
| | **175** | **–** | **60** | **17,751** | **17,986** | **897** | **14,728** | **2,209** | **17,834** |

| 2022 | FVTPL Mandatorily €m | FVTPL Fair value hedge derivative €m | Cash flow hedge derivative at FVOCI €m | Held at amortised cost €m | Total €m | Fair value hierarchy Level 1 €m | Fair value hierarchy Level 2 €m | Fair value hierarchy Level 3 €m | Fair value hierarchy Total €m |
|---|---|---|---|---|---|---|---|---|---|
| **Fair value of financial assets held at amortised cost** | | | | | | | | | |
| 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** |
| **Financial assets held at fair value** | | | | | | | | | |
| Derivative financial instruments | 280 | 3 | – | – | **283** | – | 283 | – | **283** |
| Other financial assets at FVTPL | 217 | – | – | – | **217** | – | – | 217 | **217** |
| | **497** | **3** | **–** | **19,763** | **20,263** | **–** | **3,912** | **15,515** | **19,427** |
| **Fair value of financial liabilities held at amortised cost** | | | | | | | | | |
| 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** |
| **Financial liabilities held at fair value** | | | | | | | | | |
| Derivative financial instruments | 281 | – | 69 | – | **350** | – | 281 | 69 | **350** |
| | **281** | **–** | **69** | **18,405** | **18,755** | **896** | **14,233** | **2,887** | **18,016** |

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

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

### 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).

### 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 the fair value 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 years.

**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 2023 would result in a decrease / increase of €25 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 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.

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

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Derivative financial instruments €m | Other financial assets at FVTPL €m | Total €m | Derivative financial instruments €m | Other financial assets at FVTPL €m | Total €m |
| **Movement in level 3 assets measured at fair value** | | | | | | |
| **Opening balance** | **–** | **217** | **217** | **50** | **225** | **275** |
| Net interest (expense) / income | – | 8 | 8 | (50) | 9 | (41) |
| Net trading income | – | 6 | 6 | – | 4 | 4 |
| Repayments | – | (26) | (26) | – | (21) | (21) |
| **Closing balance** | **–** | **205** | **205** | **–** | **217** | **217** |
| **Total unrealised gains / (losses) for the year included in profit or loss for level 3 assets at the end of the year** | **–** | **14** | **14** | **(50)** | **12** | **(38)** |
| **Movement in level 3 liabilities measured at fair value** | | | | | | |
| **Opening balance** | **69** | **–** | **69** | **1** | **–** | **1** |
| Net trading income | 3 | – | 3 | 68 | – | 68 |
| Redemptions and maturities | (37) | | (37) | – | – | – |
| **Closing balance** | **35** | **–** | **35** | **69** | **–** | **69** |
| **Total unrealised gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the year** | **(3)** | **–** | **(3)** | **(69)** | **–** | **(69)** |

The following table provides quantitative information about fair value measurements using significant unobservable inputs.

| | | | Fair value | | Range | |
|---|---|---|---|---|---|---|
| **Level 3 assets/liabilities** | **Valuation technique** | **Unobservable input** | **2023 €m** | **2022 €m** | **2023 %** | **2022 %** |
| Other financial assets at fair value through profit or loss | Discounted Cash Flow | Discount on market rate | 205 | 217 | 4.50%-7.25% | 4.50%-5.25% |
| | Collateral values | Collateral changes | | | 0%-5.60% | 0%-6.70% |
| Derivative financial instruments - liabilities | Discounted Cash Flow | Forecasted central bank rates | 35 | 69 | 2.80% - 3.02% | 2.80% - 3.08% |

# 27 Contingent liabilities and commitments

The Bank has €1.1 billion of approved mortgage loan applications that had not been drawn down at 31 December 2023 (2022: €1.1 billion). Loss allowance provisions of €0.3 million (2022: €0.4 million) were recognised on mortgage loan commitments.

Loan commitments are classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments on a 12 month or lifetime ECL approach. The loan commitments are mainly classified as Stage 1 for ECL measurement.

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

| Loans and advances to customers at amortised cost | 2023 | 2022 |
|---|---|---|
| Loan commitments (€bn) | 1.1 | 1.1 |
| Loss allowance provision on loan commitments (€'000) | 346 | 362 |

The Bank is currently reviewing the appropriateness and completeness of reporting in relation to the Central Credit Register (CCR) requirements in Ireland. It is not currently practicable to estimate the amount or timing of any impact from this review.

# 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 2023 are available at the Bank of Ireland, Head Office, 2 College Green, Dublin 2, D02 VR66.

### Transactions with Directors and Key Management Personnel

**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.

| Companies Act Disclosures Loans - Mortgages | Balance at 1 January 2023 €'000 | Balance at 31 December 2023 €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2023 €'000 | Repayments during the year ended 31 December 2023 €'000 |
|---|---|---|---|---|
| **Directors at 31 December 2023** | | | | |
| T McMahon | 296 | 272 | 296 | 37 |

During 2023, A Hartley, J Hayden, A McCleary, T Morley, K Kingston, S Pateman and H Lorton 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.

| Companies Act Disclosures Loans - Mortgages | 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 |
|---|---|---|---|---|
| **Directors at 31 December 2022** | | | | |
| T McMahon | 324 | 296 | 324 | 32 |
| **Directors no longer in office at 31 December 2022** | | | | |
| 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.

# 28 Related party transactions *(continued)*

**Loans to Directors of parent companies - 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 2023 and 2022 are The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

| Directors of parent companies Loans - Mortgages | Balance at 1 January 2023 €'000 | Balance at 31 December 2023 €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2023 €'000 | Repayments during the year ended 31 December 2023 €'000 |
|---|---|---|---|---|
| **Directors at 31 December 2023** | | | | |
| M Spain | 300 | 277 | 300 | 34 |

| Directors of parent companies Loans - Mortgages | 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 |
|---|---|---|---|---|
| **Directors at 31 December 2022** | | | | |
| M Spain | 322 | 300 | 322 | 31 |
| **Directors no longer in office at 31 December 2022** | | | | |
| F McDonagh | 748 | 722 | 748 | 46 |

G Andrews, E Bourke, I Buchanan, E Fitzpatrick, R Goulding, M Greene, G Kelly, P Kennedy, F Muldoon, M O'Grady, S Pateman and M Sweeney had no loans with the Bank during 2023. No amounts were waived during 2023.

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%.

**Loans to connected persons on favourable terms**
There were no loans to connected persons required to be disclosed at 31 December 2023 or 2022.

**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.

# 28 Related party transactions *(continued)*

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.

| Connected persons of the following Director | Balance at 31 December 2023 €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2023 €'000 | Number of persons at 31 December 2023 | Maximum number of persons during the year ended 31 December 2023 |
|---|---|---|---|---|
| T McMahon | 1,521 | 1,572 | 1 | 1 |

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

**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. 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 2023 for any member of KMP and their close family did not exceed €1.1 million (2022: €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.

| IAS 24 Disclosures 2023 Key management personnel | Balance at 1 January 2023 €'000 | Balance at 31 December 2023 €'000 | Maximum amounts outstanding during 2023 €'000 | Total number of relevant KMP at 1 January 2023 | Total number of relevant KMP at 31 December 2023 |
|---|---|---|---|---|---|
| Loans | 3,580 | 3,793 | 4,108 | 7 | 6 |

| IAS 24 Disclosures 2022 Key management personnel | Balance at 1 January 2022 €'000 | Balance at 31 December 2022 €'000 | Maximum amounts outstanding during 2022 €'000 | Total number of relevant KMP at 1 January 2022 | Total number of relevant KMP at 31 December 2022 |
|---|---|---|---|---|---|
| Loans | 6,080 | 3,580 | 5,375 | 10 | 7 |

# 28 Related party transactions *(continued)*

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 (2022: €nil). None of the loans were credit-impaired at 31 December 2023 or at 31 December 2022. There is no interest which having fallen due on the above loans has not been paid in 2023 (2022: €nil).

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.

**Directors' remuneration**
Other than those fees listed in the following table, there were no other fees or bonuses paid to Directors during 2023 (2022: €nil).

| | 2023 €'000 | 2022 €'000 |
|---|---|---|
| Fees | 67 | 141 |
| Other emoluments | 152 | 254 |
| Other - pension | 21 | 52 |
| Other - termination benefits | – | – |
| **Total remuneration** | **240** | **447** |

# 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.

| | Source | 2023 €m | 2022 €m |
|---|---|---|---|
| Profit for the year | Income statement | 23 | 23 |
| Total assets | Balance sheet | 19,534 | 20,272 |
| **Return on assets (bps)** | | **12** | **11** |

# 30 Post balance sheet events

**Retained Residential Mortgage-Backed Securitisation**
On 29 January 2024, the Bank's immediate parent, Bank of Ireland, securitised c.€13.4 billion of its Irish residential mortgage portfolio held in Bank of Ireland (€12.9 billion) and the Bank (€0.5 billion). The beneficial interest in the mortgages was transferred to a securitisation vehicle, Luna Securities DAC (Luna). In order to fund the acquired mortgages, Luna issued two classes of notes to Bank of Ireland. The Bank was allocated a portion of these notes by Bank of Ireland in the same proportion as the securitised mortgages.

The mortgages transferred by the Bank have not been derecognised on the the Bank's balance sheet as the Bank retains substantially all the risks and rewards of ownership, and continue to be reported in the Bank's financial statements.

# 31 Approval of financial statements

The Directors approved these financial statements on 23 February 2024.

# 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:
- 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
- other loans meeting NPE criteria as aligned with regulatory requirements.

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

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

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

# Abbreviations

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