BANK OF IRELAND MORTGAGE BANK ANNUAL REPORT

31 December 2015

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors at 19 February 2016

John Clifford
Gavin Kelly
Stephen Mason
Danny Buckley
Sean Crowe
Paul Flynn
Liam McLoughlin
Brian McConnell
Richard Milliken
Harry Lorton

Registered Office and number

Bank of Ireland Mortgage Bank
New Century House
Mayor Street Lower
I.F.S.C
Dublin 1
Registered Number 386415

Cover-Assets Monitor

Mazars
Harcourt Centre
Block 3
Harcourt Road
Dublin 2

Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1

Secretary

Hill Wilson Secretarial Limited

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the "Bank"), for the financial year ended 31 December 2015.

REVIEW OF BUSINESS

The Bank's principal activities are the provision of Irish residential mortgages and the issuance of securities in accordance with the Asset Covered Securities Acts, 2001 to 2007 (the "ACS Acts").

The Bank is a wholly owned subsidiary of the Governor & Company of the Bank of Ireland ("Bank of Ireland").

The Bank had a very positive year with key highlights being:

- an increase in pre-impairment operating profit of 42% to €165 million;
- profit before tax of €0.2 billion (2014: €0.2 billion) contributing to an improvement in the total capital ratio[1] from 16.9% to 21.6%;
- further upgrades to the Bank's asset covered bond ratings (Moody's Investor Services from A1 to Aa1 and DBRS from A to AA low) and the successful issue of €2.7 billion of asset covered securities with high quality, diverse investor demand;
- strong take up of fixed interest rate mortgages by both existing and new customers;
- growth in the Irish market of more than 26% to €4.9 billion[2], with the Bank accounting for 3 out of 10 new mortgages; and
- a reduction in both non-performing loans of 11% to €2.2 billion and tracker mortgages of 10% to €9.7 billion.

The Irish economy grew strongly in 2015. Unemployment has declined from 10.2% at end 2014 to 8.8% at end 2015 with c.2,400 jobs being created per month. There has been an increase in property transactions of 24% year on year, albeit from a low base. The value of residential property has also continued to recover during 2015 (an increase of 6.6%), albeit at a more moderate rate than the prior year (an increase of 16.3%).

The improving economic and property market conditions have resulted in increased demand for property. New mortgage lending has been tempered by a shortage of housing stock for sale in the Dublin market and the continuing impact of a high proportion of cash purchases. In addition, in February 2015 the Central Bank of Ireland ("CBI") introduced new regulations which include macro prudential limits for new mortgage lending incorporating both Loan to Value ("LTV") and Loan to Income ("LTI") thresholds.

In relation to funding, the Bank continues to build upon the significant progress made during 2014. The Bank issued a total of €2.7 billion in Asset Covered Securities ("ACS"). This included a €750 million 5 year bond priced at 20 basis points over mid swaps, a €1 billion 7 year bond priced at 5 basis points over mid swaps, and a €750 million 5.5 year bond priced at 33 basis points over mid swaps. The Bank's ACS were upgraded by both Moody's Investor Services from A1 to Aa1 in May 2015 and DBRS from A to AA low in October 2015.

Asset Quality:

Loans and advances to customers (before impairment provisions) amounted to €19.5 billion at 31 December 2015 (31 December 2014: €19.9 billion).

The Bank has expanded its risk disclosures for mortgage loans. In addition to the traditional disclosure of 'defaulted' and 'non-defaulted' loans, the Bank has provided additional information on probationary residential mortgages – primarily mortgages that were previously 'defaulted' but which are no longer 'defaulted' at the reporting date; the mortgages are awaiting the successful completion of a 12 month probation period. The Bank has also provided additional information on Non-performing loans which comprises both defaulted loans and the additional category of probationary mortgages (as defined on page 39).

Overall, there has been a significant reduction in non-performing loans of 22% to €2.2 billion at 31 December 2015 (31 December 2014: €2.8 billion). Impairment provisions decreased to €0.9 billion at 31 December 2015 from €1.1 billion at 31 December 2014. Total provisions as a percentage of non-performing loans amount to 41% (31 December 2014: 39%).

Owner occupied non-performing loans were €1.2 billion at 31 December 2015, a reduction of 23% since 31 December 2014. This reduction is reflective of the further improvement in economic conditions during the year and the ongoing progress being made by the Bank in effecting its mortgage arrears resolution strategies. The level of Owner occupied arrears (past due greater than 90 days) for the Bank remains at less than half the level of the industry as published on a quarterly basis by CBI[3] (latest industry statistics are as at 30 September 2015).

Buy to let non-performing loans were €1.0 billion at 31 December 2015, a reduction of 21% since 31 December 2014. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

[1] Following clarification issued by the European Banking Authority during 2015, the Basel I floor adjustment is no longer included in risk weighted assets (RWAs) which reduces RWAs by c.€1.8 billion. The December 2014 transitional total capital ratio was reported in the prior year financial statements as 13.5% and has been restated to 16.9% to reflect this change. The impact of the Basel I floor is now reflected in the minimum total capital requirement which has increased from 8% to 10.8% at December 2015.

[2] 31 December 2015 BPFI new mortgage lending data.

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

REVIEW OF BUSINESS (continued)

Asset Quality (continued)

The level of Buy to let arrears (past due greater than 90 days) for the Bank remains below the level of the industry as published on a quarterly basis by the CBI (latest industry statistics are as at 30 September 2015). At 31 December 2015, 78% of the Buy to let mortgage book was on a 'full principal and interest' repayment basis (31 December 2014: 74%).

The Bank's progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties has contributed to the significant reduction in the stock of non-performing loans and lower impairment charges in 2015. Application of a twelve month probation period continues to apply for cases to be eligible for inclusion in collective provisioning model cure rate calculations.

The Bank continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments in order to arrange, where viable, sustainable repayment solutions as appropriate. Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan, ("forbearance measure"), for reasons relating to the actual or apparent financial stress or distress of that borrower.

Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place. The Bank has continued to formally modify a significant number of customer loans which are deemed to be sustainable, with accounts representing 11% (17,340 accounts) of total mortgage accounts, now with a formal forbearance measure in place (31 December 2014: 10% or 15,783 accounts).

Capital

There were no changes to share capital or subordinated loans during the year to 31 December 2015. At 31 December 2015, the Bank's total capital ratio was 21.6% (31 December 2014: 16.9%[1]). The leverage ratio[2] at 31 December 2015 is 4.4% on a Capital Requirements Directive IV (CRD IV) transitional basis (31 December 2014: 3.5%); 4.1% on a pro forma fully loaded basis (31 December 2014: 3.2 %). The Bank expects to remain above the Basel committee indicated minimum level leverage ratio of 3%.

Principal Risks and Uncertainties

The principal risks that the Bank is exposed to are Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Business / Strategic Risk, Capital Adequacy Risk, Pension Risk, Reputation Risk and Regulatory 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 21 – Risk Management and Control.

RESULTS

The profit before tax for the year ended 31 December 2015 amounted to €199.9 million, as set out in the income statement on page 12, compared to €217.0 million for the year ended 31 December 2014.

Net Interest Income ("NII") increased to €215.1 million for the year ended 31 December 2015, from €170.0 million for the year ended 31 December 2014. The improvement in NII is due largely to lower funding costs which have decreased by €44.5 million year on year as the funding position of the Bank continues to improve. The net impact of these factors has resulted in an increase in the net interest margin to 1.06%[3] (31 December 2014: 0.81%).

Fee and commission income amounted to €0.5 million for the year ended 31 December 2015 which was in line with the year ended 31 December 2014.

Operating expenses were €60.6 million for the year ended 31 December 2015 (year ended 31 December 2014: €57.7 million).

The impairment reversal on the Bank's mortgage portfolio of €35.4 million for the year ended 31 December 2015 compares to a reversal of €101.3 million in the previous year. The impairment reversal on the Bank's mortgage portfolio in 2014 reflected a range of considerations which continued through 2015 including:

- improved performance within the portfolio (lower default rates and higher cure rates);
- the improved economic conditions such as lower unemployment and higher property prices; and
- the impact of updated mortgage collective provisioning assumptions.

Details of updated collective provisioning model factors and assumptions for the loan portfolio, including property valuation assumptions and cure rates, are set out on page 36.

[1] *Following clarification issued by the European Banking Authority during 2015, the Basel I floor adjustment is no longer included in risk weighted assets (RWAs) which reduces RWAs by c.€1.8 billion. The December 2014 transitional total capital ratio was reported in the prior year financial statements as 13.5% and has been restated to 16.9% to reflect this change. The impact of the Basel I floor is now reflected in the minimum total capital requirement which has increased from 8% to 10.8% at December 2015.*

[2] *The leverage ratio reflects the delegated act implemented on 18 January 2015.*

[3] *This includes interest income on derivative financial instruments of €10.8 million which is reported in net trading income as it no longer qualifies for hedge accounting.*

REVIEW OF BUSINESS (continued)

RESULTS (continued)

The Bank enters into derivative transactions for interest rate hedging purposes only. Net trading income includes fair value movements on both derivatives and debt securities in a fair value hedge relationship and interest flows and fair value movements on derivatives which do not qualify for hedge accounting. For the year ended 31 December 2015, there was a net trading gain of €9.5 million compared to €2.9 million for the year ended 31 December 2014. This increase was largely due to interest flows on a now matured derivative which no longer qualified for hedge accounting. The increase in trading income is offset by a decrease in net interest income.

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 Bank of Ireland Group (the "Group"). The Bank also has the ability to access secured funding through the tendering operations of the ECB. The Bank repaid ECB funding of €0.8 billion during the year on maturity.

Covered bonds are a key element of the Bank's long term funding strategy. During the year ended 31 December 2015, the Bank successfully issued €2.7 billion in asset covered securities. No debt was repurchased and there were €4.3 billion of maturities during the year ended 31 December 2015.

The Bank obtains a rating for the covered bonds from Moody's Investor Services and Dominion Bond Rating Service, Inc. ("DBRS").

	31 December 2015	31 December 2014
Rating Agency		
Moody's Investor Services	Aa1	A1
DBRS	AA(low)	A

At 31 December 2015, the Bank had a €18.7 billion customer loan portfolio (net of impairment provisions) funded through debt securities in issue: €7.4 billion (40%); Capital and subordinated debt; €1.1 billion (6%) and net Group borrowings €10.2 billion (54%). Of the €7.4 billion debt securities in issue, €1.5 billion is held by Bank of Ireland. The remaining €5.9 billion is issued to external bondholders with a range of maturities out to 2048.

Full details of debt securities in issue are contained in note 15 to the accounts.

At 31 December 2015, the Bank had €140.4 million of subordinated loan borrowings from its parent company (31 December 2014: €140.4 million).

ACCOUNTING RECORDS

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

ADOPTION OF FRS 101 - REDUCED DISCLOSURE FRAMEWORK

For periods up to and including the year ended 31 December 2014, the Bank prepared its financial statements in accordance with the then extant Irish generally accepted accounting practice (Irish GAAP). In 2015, the Bank adopted FRS 101 – Reduced Disclosure Framework ("FRS 101") which means, in preparing these financial statements, the Bank applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2014. While there are some changes to disclosures, there were no differences between the recognition and measurement bases applied under previous Irish GAAP at 1 January 2014 and FRS 101 (see the accounting policy basis of preparation and note 26 for further information).

DIVIDENDS

No dividends were paid during the year ended 31 December 2015 (year ended 31 December 2014: €nil). The directors do not recommend the payment of a dividend.

AUDIT COMMITTEE

The Bank's Audit Committee, which comprises only independent non-executive Directors, assists the Board of Directors (the "Board") in fulfilling its responsibilities relating to:

- the integrity of the financial statements;
- the relationship between the Bank and its external auditors;
- the Bank's internal controls, internal audit and IT systems; and
- Compliance functions.

DIRECTORS AND SECRETARY

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2015 and up to the date of the approval of the financial statements are set out below. Except where indicated, they served as directors for the entire period.

Directors

J Clifford	Non-Executive Chairman	
G Kelly	Managing Director	
S Mason	Executive Director	
D Buckley	Executive Director	
S Crowe	Group Non-Executive Director	
P Flynn	Group Non-Executive Director	
L McLoughlin	Group Non-Executive Director	
B McConnell	Independent Non-Executive Director	
R Milliken	Independent Non-Executive Director	
H Lorton	Independent Non-Executive Director	Appointed 19th May 2015

DIRECTORS' AND SECRETARY'S INTERESTS

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

POLITICAL DONATIONS

Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2015 (31 December 2014: €nil).

CORPORATE GOVERNANCE

The statement on Corporate Governance as outlined in the Corporate Governance section on page 9, forms part of the Report of the Directors.

GOING CONCERN

The Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern over the period of assessment. See the accounting policy for further information.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

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

AUDITORS

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

Harry Lorton	**Gavin Kelly**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Director	**Managing Director**	**Director**	

19 February 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business; and
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101.

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

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

The Directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors confirm that they have considered, and have satisfied, the above requirements in preparing the financial statements.

On behalf of the board

Harry Lorton **Director**	**Gavin Kelly** **Managing Director**	**Danny Buckley** **Director**

19 February 2016

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 ("the Code", formerly Code for Credit Institutions and Insurance Undertakings 2013). For the year ended 31 December 2015, the Additional Requirements applicable to "High-Impact" institutions set out in Appendix 1 of the Code did not apply to the Bank. The Additional Requirements of the Code will apply to the Bank for the year ended 31 December 2016 and the Directors are taking action to secure compliance with the additional Code requirements therein.

The Bank submitted an application to the Central Bank for approval of the appointment of a person to the role of Chief Risk Officer of the Bank and as at 31 December 2015 the matter was under review with the Central Bank. Subject to this matter, the Directors confirm that, as at 31 December 2015, the Bank was in material compliance with the relevant sections of the Code. (The Code is available at www.centralbank.ie).

In 2015, the Board completed a review of the ongoing fitness and probity of persons in 'pre-approval controlled functions' whereby Directors were asked to confirm any changes in circumstances in respect of their compliance with the Fitness and Probity Standards issued by the Central Bank of Ireland ("the Standards"). All changes in circumstance disclosed were assessed and their materiality determined. Time commitments of Directors were considered as part of this review process and Directors confirmed that they continue to have sufficient time to perform their role. The Board concluded that each of the Directors of the Board has the requisite standard of fitness, probity and financial soundness to perform their functions with reference to the Standards and provided the required confirmation to that effect to the Central Bank of Ireland.

Financial reporting process

The Board, supported by the Audit Committee, is responsible for establishing and maintaining adequate internal control and risk management systems of the Bank in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Bank's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. The Bank's overall control system around the financial reporting process includes:

- clearly defined organisation structure and authority levels with reporting mechanisms to the Board;
- a comprehensive set of policies and procedures, in line with Bank of Ireland, relating to the controls around financial reporting and the process of preparing the financial statements;
- 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, plus Group consolidation returns that are required to be submitted within defined timetables. These control structures include appropriate division of responsibilities and specific control activities, with the objective of detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Bank's annual report.

The Audit Committee monitors the effectiveness and adequacy of the Bank's internal control, internal audit and IT systems, and reviews the effectiveness and adequacy of the Bank's risk assurance compliance plan with the objective of maintaining an effective system of internal control. The composition and responsibilities of the Audit Committee are also outlined in the Report of the Directors.

Monitoring

The Board ensures that appropriate measures are taken to consider and address any shortcomings identified and measures recommended by the independent auditors.

Group Internal Audit function performs a review of controls and procedures employed by the Bank. This enables the Board to perform effective monitoring and oversight of the internal control and risk management systems of the Bank in relation to the financial reporting process. The Board ensures that appropriate measures are taken to consider and address any shortcomings identified and measures recommended by these internal audits.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF IRELAND MORTGAGE BANK

Report on the financial statements

Our opinion

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

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

What we have audited

The financial statements comprise:

- the balance sheet as at 31 December 2015;
- the income statement the year then ended;
- the statement of comprehensive income;
- the statement of changes in equity;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the information described as an integral part of the audited financial statements as set out in the Basis of Preparation in note 1.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), including FRS 101 "Reduced Disclosure Framework"

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

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

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

Matter on which we are required to report by exception

Directors' remuneration and transactions

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ronan Doyle
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
19 February 2016

INCOME STATEMENT

	Notes	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Interest income	2	523,940	523,261
Interest expense	3	(308,806)	(353,263)
Net interest income		215,134	169,998
Fee and commission income	4	474	515
Total operating income		215,608	170,513
Operating expenses	5	(60,571)	(57,747)
Net trading income	7	9,492	2,852
Total operating profit before impairment reversal		164,529	115,618
Impairment reversal	11	35,377	101,347
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		199,906	216,965
Taxation charge	8	(26,621)	(26,245)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		173,285	190,720

The notes on pages 16 to 53 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Profit for the financial year	173,285	190,720
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent years:		
Cash flow hedge reserve:		
change in fair value	(44,349)	75,578
income tax on reclassified items	5,544	(9,447)
Other comprehensive income for the year, net of tax	(38,805)	66,131
Total comprehensive income	134,480	256,851

BANK OF IRELAND MORTGAGE BANK
BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	31 December 2015 €'000	31 December 2014 €'000
ASSETS			
Loans and advances to banks	9	2,196,649	2,464,686
Loans and advances to customers	10	18,668,505	18,841,513
Derivative financial instruments	13	125,042	225,907
Deferred tax asset	12	52,741	73,948
Other assets		308	458
		21,043,245	21,606,512
LIABILITIES			
Deposits from banks	14	12,411,091	10,705,501
Debt securities in issue	15	7,404,402	9,854,585
Derivative financial instruments	13	30,224	19,623
Other liabilities	16	52,355	16,085
Subordinated liabilities	17	140,414	140,439
		20,038,486	20,736,233
SHAREHOLDERS' EQUITY			
Called up share capital presented as equity	18	738,375	738,375
Share premium	18	660,625	660,625
Reserves		(394,241)	(528,721)
		1,004,759	870,279
		21,043,245	21,606,512

The notes on pages 16 to 53 form an integral part of the financial statements.

Harry Lorton	**Gavin Kelly**	**Danny Buckley**	**Hill Wilson Secretarial Limited**
Director	**Managing Director**	**Director**	

19 February 2016

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share Capital €'000	Share Premium €'000	Retained Earnings €'000	Cash Flow Hedge Reserve €'000	Total Shareholders' Equity €'000	Total Equity €'000
As at 1 January 2015	738,375	660,625	(615,144)	86,423	870,279	870,279
Comprehensive income						
Profit for the year	-	-	173,285	-	173,285	173,285
Other comprehensive income	-	-	-	(38,805)	(38,805)	(38,805)
Total comprehensive income	-	-	173,285	(38,805)	134,480	134,480
As at 31 December 2015	738,375	660,625	(441,859)	47,618	1,004,759	1,004,759

Year ended 31 December 2014

	Share Capital €'000	Share Premium €'000	Retained Earnings €'000	Cash Flow Hedge Reserve €'000	Total Shareholders' Equity €'000	Total Equity €'000
As at 1 January 2014	738,375	660,625	(805,864)	20,292	613,428	613,428
Comprehensive income						
Profit for the year	-	-	190,720	-	190,720	190,720
Other comprehensive income	-	-	-	66,131	66,131	66,131
Total comprehensive income	-	-	190,720	66,131	256,851	256,851
As at 31 December 2014	738,375	660,625	(615,144)	86,423	870,279	870,279

The notes on pages 16 to 53 form an integral part of the financial statements.

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1 ACCOUNTING POLICIES

The significant accounting policies adopted by the Bank of Ireland Mortgage Bank (the "Bank") are as follows:

1.1 Basis of preparation

The financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the notes to the financial statements on pages 16 to 53. The financial statements also include the tables in the Supplementary Asset Quality Disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 55.

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

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

In the transition to FRS 101, the Bank has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. There were no differences between the recognition and measurement basis applied under previous Irish GAAP at 1 January 2014 and FRS 101. See note 26.

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

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

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the effects of new but not yet effective IFRS;
- an additional balance sheet for the beginning of the earliest comparative period following the transition to FRS 101; 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 and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101. The financial statements have been prepared in euro and are rounded to the nearest thousand except where otherwise indicated.

1.2 Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2015 is a period of twelve months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors considered the Bank's business, profitability projections, funding and capital plans together with a range of other factors such as the outlook for the Irish economy, taking due account of the impact of fiscal realignment measures and the availability of collateral to access the Eurosystem. In addition, the Directors considered the letter of support to the Bank from its parent covering any required capital and liquidity for the period of assessment.

On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern over the period of assessment.

1.3 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest income / expense from derivative financial instruments qualifying for hedge accounting are accounted for in net interest income, in line with the underlying hedged asset / liability. Interest in relation to derivatives not qualifying for hedge accounting is included in trading income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, repayment options) but does not consider future credit losses. The calculation includes all fees, broker commissions, transaction costs, points paid or received between parties to the contract and all other premia or discounts that are an integral part of the effective interest rate.

1 ACCOUNTING POLICIES (continued)

1.3 Interest income and expense (continued)

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss. Where the Bank revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying value of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

1.4 Fee and commission income / expense

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised as the related services are provided.

1.5 Income Taxes

a) Current income tax
Income tax payable on profits, based on applicable tax law, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

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

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

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

1.6 Financial assets

Classification, Recognition and Measurement
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The Bank determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception. A financial asset may be designated at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date: the date on which the Bank commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

Financial assets may not be transferred out of this category, except for non-derivative financial assets held for trading, which may be transferred out of this category where:

(i) in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the short term; or
(ii) they are no longer held for trading, they meet the definition of loans and receivables at the date of reclassification and the Bank has the intention and ability to hold the assets for the foreseeable future or until maturity.

1 ACCOUNTING POLICIES (continued)

1.6 Financial assets (continued)

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

1.7 Financial liabilities

The Bank has two categories of financial liabilities: those that are carried at amortised cost and those that are carried at fair value through profit or loss.

Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

A liability may be designated at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivative(s) that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

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

1.8 Impairment of financial assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or “events”) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- deterioration of the borrower’s competitive position;
- deterioration in the value of collateral;
- initiation of bankruptcy proceedings; and
- granting a concession to a borrower, for economic or legal reasons relating to the borrower’s financial difficulty that would otherwise not be considered.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

1 ACCOUNTING POLICIES (continued)

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less the cost of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. When a loan is deemed uncollectible, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent agreed change ("forbearance measure") to the contractual terms of a mortgage loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance, the Bank performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the mortgage loan. If the Bank determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms.

Assets to which forbearance has been applied continue to be reported as forborne until the forbearance measure expires or the asset is repaid.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition are recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

Where an agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance.

1.9 Valuation of financial instruments

The Bank recognises certain financial assets and financial liabilities (including derivative financial instruments) at fair value on the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

If an active market does not exist, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available.

1 ACCOUNTING POLICIES (continued)

1.9 Valuation of financial instruments (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

The fair values of the Bank's financial assets and liabilities are disclosed within note 22 together with a description of the valuation techniques used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

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

1.10 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. Fair value gains or losses on derivatives are normally recognised in the income statement in net trading income. However, where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Bank designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where a hedging instrument is novated to a clearing counterparty, the Bank does not discontinue hedge accounting where the following criteria are met:
- the novation arises due to laws or regulations, or the introduction of laws or regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

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

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

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

1 ACCOUNTING POLICIES (continued)

1.10 Derivative financial instruments and hedge accounting (continued)

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

1.11 Debt securities in issue

Issued debt securities, which comprise Mortgage Covered Securities, are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Issued debt securities are subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement using the effective interest method.

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

1.12 Pensions

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

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

1.13 Accrued interest

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

1.14 Offsetting

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

1.15 Share capital and reserves

(a) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank’s Board of Directors.

(b) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Bank’s profit or loss.

1.16 Collateral

The Bank enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

In certain circumstances, the Bank pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

1.17 Critical accounting estimates and judgements

In preparing the financial statements, the Bank makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Bank’s financial statements are set out below.

1 ACCOUNTING POLICIES (continued)

1.17 Critical accounting estimates and judgements (continued)

a) Impairment charges on financial assets

The Bank reviews its loan portfolio for impairment on an ongoing basis. The Bank first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of impairment losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss in the portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in the portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived from historical loss experience.

At 31 December 2015, the mortgage portfolio before impairment provisions amounted to €19.5 billion (31 December 2014: €19.9 billion), against which were held provisions for impairment of €0.9 billion (31 December 2014: €1.1 billion). A key assumption used in the calculation of the impairment charge for mortgages is the value of the underlying properties securing the loans (i.e. the “assumed value” for collective provisioning purposes). As set out on pages 36 to 37 at 31 December 2015, the assumption adopted by the Bank in respect of the value of properties for collective provisioning (i.e. collective specific and incurred but not reported (IBNR) provisioning) reflected the indexed value[1] discounted (i.e. adjusted downwards) by 10% for both Dublin and Non-Dublin properties. The discounted index value was then further adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The ‘Forced sale discount’ assumptions, segmented by both region and market segment, estimate the difference between the discounted indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Bank’s most recent property sales experience. The disposal costs assumptions reflect the estimated costs associated with selling the underlying residential properties.

Collective impairment charges, in addition to containing judgements in relation to the assumed value of properties, also contain key assumptions relating to ‘Forced sale discount’, ‘Time to sale’, ‘Loss emergence periods’ and ‘Weighted average cure rates’ and ‘weighted average repayment rates’. The collective impairment charges can be sensitive to movements in these assumptions as set out below. The assumptions relating to the assumed value of underlying properties securing the loans, together with all other key collective impairment provisioning model factors, continue to be reviewed as part of the Bank’s year-end and half year financial reporting cycle.

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

- A 1% decrease in the discounted index values would give rise to estimated additional collective impairment provisions of c.€7 million to €9 million;
- A 1% increase in the ‘forced sale discount’ assumptions would give rise to estimated additional collective impairment provisions of c.€4 million to €6 million;
- A 1% increase in the ‘disposal costs’ assumption would give rise to estimated additional collective impairment provisions of c.€4 million to €6 million;
- An increase of three months in the ‘time to sale’ assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would give rise to estimated additional collective impairment provisions of c.€3 million to €4 million;
- An increase of one month in the assumed ‘loss emergence period’ (i.e. the period of time between the occurrence and reporting of a loss event) would give rise to estimated additional collective impairment provisions of c.€1 million to €2 million;
- A 1% increase in the ‘weighted average cure rate’ assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would give rise to estimated reduced collective impairment provisions of c.€1.8 million to €2.4 million; and
- A 1% increase in the ‘weighted average repayment rate’ assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would give rise to estimated reduced collective impairment provisions of c.€6 million to €8 million.

[1] Indexed value with reference to end September 2015 CSO residential property price index for ‘Dublin – all residential properties’ and ‘National excluding Dublin – all residential properties’.

1 ACCOUNTING POLICIES (continued)

1.17 Critical accounting estimates and judgements (continued)

(a) Impairment charges on financial assets (continued)

The estimation of impairment charges is subject to uncertainty and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the credit risk methodologies section on pages 35 to 37 of Note 21.

(b) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, broker commissions, transaction costs, points paid or received between parties to the contract and all other premia or discounts that are an integral part of the effective interest rate.

In determining the effective interest rate, management exercise judgement on such matters as the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life. As part of this review, economic factors such as unemployment levels, consumer confidence and economic and fiscal stability were considered, along with mortgage market specific factors such as house price levels, switcher activity and consumer demand. It is estimated that a one year move in the expected life would have an impact of c.€16 million in the income statement. There has been no change to the average life assumption in 2015.

2 INTEREST INCOME

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Loans and advances to banks	10,522	11,093
Loans and advances to customers	513,418	512,168
	523,940	523,261
Of which receivable from Bank of Ireland	40,444	36,481

Included within interest income recognised on loans and advances to customers for the year ended 31 December 2015 is:

- €21.5 million (year ended 31 December 2014: €22.5 million) of interest arising on impaired loans and advances to customers on which a specific impairment provision has been recognised at year end. €11.6 million of this amount (year ended 31 December 2014: €10.7 million) relates to loans on which specific provisions have been individually assessed and €9.9 million (year ended 31 December 2014: €11.8 million) relates to loans on which specific provisions have been collectively assessed;
- €16.2 million (year ended 31 December 2014: €21.0 million) of interest arising on loans and advances to customers classified as non-performing but on which a specific provision has not been recognised; and
- €37.7 million (year ended 31 December 2014: €31.6 million) of interest recognised on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2015, interest arising on total forborne loans and advances to customers was €52.4 million (31 December 2014: €48.0 million).

2 INTEREST INCOME (continued)

Interest income received on loans and advances to customers for the year ended 31 December 2015 includes:

- €16.4 million (31 December 2014: €21.4 million) of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €14.8 million (year ended 31 December 2014: €19.1 million) of interest income received arising on loans and advances to customers classified as non-performing but on which a specific provision has not been recognised; and
- €37.5 million (year ended 31 December 2014: €31.4 million) of interest income received arising on loans and advances to customers classified as forborne and which are considered performing at the year end.

For the year ended 31 December 2015, interest income received on total forborne loans and advances to customers was €55.2 million (31 December 2014: €49.0 million).

3 INTEREST EXPENSE

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Debt securities in issue	142,776	162,204
Other interest payable	153,349	178,261
Interest on subordinated liabilities	12,681	12,798
	308,806	353,263
Of which payable to Bank of Ireland	160,615	131,541

4 FEE AND COMMISSION INCOME

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Other income	474	515
	474	515

5 OPERATING EXPENSES

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Staff costs:		
- wages and salaries	420	93
- social security costs	45	11
- pension costs	133	32
	598	136
Other operating expenses	59,973	57,611
Total operating expenses	60,571	57,747

Operating expenses include recharges from Bank of Ireland for support service costs. In addition, the Bank has continued to invest in the management of mortgage arrears. The Bank's day-to-day operations are almost fully outsourced to Group. There were no other compensation costs paid to staff during the year (31 December 2014: €nil). No staff costs were capitalised during the year ended 31 December 2015 (31 December 2014: €nil).

Employee information

For the year ended 31 December 2015, the average number of employees was 6 (year ended 31 December 2014: 2 employees).

6 AUDITORS' REMUNERATION

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Auditors' remuneration including expenses (excluding VAT)		
Audit of entity financial statements	55	58
Other assurance services	80	40
Taxation services	-	-
Other non-audit services	-	-
Total	135	98

7 NET TRADING INCOME

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Interest rate contracts	9,424	571
	9,424	571
Fair value hedges		
Fair value loss on derivative contracts in fair value hedge relationships	(20,626)	(63,113)
Fair value gain on liabilities in fair value hedge relationships	20,694	65,394
	68	2,281
	9,492	2,852

For the year ended 31 December 2015, there was a net trading gain of €9.5 million compared to €2.9 million for the year ended 31 December 2014. The increase in trading income was largely due to interest flows on a derivative which was de-designated during 2015 as it no longer qualified for hedge accounting. This derivative matured in 2015.

Interest rate contracts includes interest and fair value movements on derivative contracts that do not qualify for hedge accounting, including those that were originally in a fair value hedge relationship which no longer qualify for hedge accounting.

8 TAXATION

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Current Tax		
Reallocation from deferred tax	(349)	(177)
Adjustments in respect of prior year	219	(77)
	(130)	(254)
Deferred Tax		
Trading losses	26,325	27,069
Reallocation to current tax	349	177
Adjustments in respect of prior year	77	(747)
	26,751	26,499
Taxation charge	26,621	26,245

8 TAXATION (continued)

The reconciliation of tax on the profit before tax at the standard Irish corporation tax rate to the Bank's actual tax charge for the year ended 31 December 2015 and 31 December 2014 is as follows:

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Profit on ordinary activities before tax	199,906	216,965
Profit @12.5%	24,988	27,121
Effects of:		
Transfer pricing adjustment	1,337	(52)
Adjustments in respect of prior year	296	(824)
Taxation charge	26,621	26,245

9 LOANS AND ADVANCES TO BANKS

	31 December 2015 €'000	31 December 2014 €'000
Funds placed with Bank of Ireland	2,196,599	2,464,636
Funds placed with Central Bank of Ireland	50	50
Total loans and advances to banks	2,196,649	2,464,686
Loans and advances to banks by remaining maturity		
Repayable on demand	65,730	48,127
3 months or less	1,555,072	2,008,186
1 year or less but over 3 months	29,850	598
5 years or less but over 1 year	116,297	143,075
Over 5 years	429,700	264,700
	2,196,649	2,464,686

The Bank is required to maintain balances with the Central Bank of Ireland.

10 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2015 €'000	31 December 2014 €'000
Loan and advances to customers	19,535,330	19,898,539
Accrued interest receivable	16,007	18,850
Less impairment provisions (note 11)	(882,832)	(1,075,876)
Total loan and advances to customers	18,668,505	18,841,513
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	289,675	291,272
1 year or less but over 3 months	715,202	698,674
5 years or less but over 1 year	3,764,732	3,737,410
Over 5 years	14,781,728	15,190,033
Less impairment provisions (note 11)	(882,832)	(1,075,876)
	18,668,505	18,841,513

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

11 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	31 December 2015 €'000	31 December 2014 €'000
Opening balance	1,075,876	1,345,143
Reversal in income statement	(35,377)	(101,347)
Provisions utilised	(160,957)	(173,952)
Other movements	3,290	6,032
Closing balance	882,832	1,075,876

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not alter a borrower's obligations nor does it impact on the Bank's rights to take relevant enforcement action.

12 DEFERRED TAX ASSET

	31 December 2015 €'000	31 December 2014 €'000
Opening balance	73,948	109,894
Cash flow hedge	5,544	(9,447)
Charge to income statement	(26,751)	(26,499)
Closing balance	52,741	73,948

The deferred tax asset of €52.7 million (31 December 2014: €73.9 million) includes an amount of €59.5 million (31 December 2014: €86.3 million) in respect of tax losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it will be recovered, as the Directors are satisfied that it is probable that there will be sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already been reversed. Under current Irish tax legislation there is no time restriction on the utilisation of these losses.

13 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit risk. Derivatives are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow models which typically incorporate observable market data, principally interest rates. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relating to their terms. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives held for trading are derivatives entered into with economic hedging intent but which do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 21.

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

31 December 2015	Contract/ notional amount €'000	Fair Values Assets €'000	Liabilities €'000
Derivatives held for trading			
Interest rate swaps	24,959,577	17,528	(16,429)
Derivatives designated as fair value hedges			
Interest rate swaps	96,000	23,384	-
Derivatives designated as cash flow hedges			
Interest rate swaps	5,330,000	84,130	(13,795)
Total derivative assets / (liabilities)		**125,042**	**(30,224)**

13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2014	Contract/ notional amount €'000	Fair Values Assets €'000	Fair Values Liabilities €'000
Derivatives held for trading			
Interest rate swaps	30,530,428	23,123	(19,623)
Derivatives designated as fair value hedges			
Interest rate swaps	2,028,000	88,116	-
Derivatives designated as cash flow hedges			
Interest rate swaps	3,770,000	114,668	-
Total derivative assets / (liabilities)		**225,907**	**(19,623)**

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

The derivative assets of €125.0 million (31 December 2014: €225.9 million) are available in full 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 2015, cash collateral of €383.0 million (31 December 2014: €374.2 million) was held against these assets and is reported within deposits from banks (note 14).

There are no placements with other banks in respect of the net derivative liability position of €30.2 million (31 December 2014: €19.6 million).

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

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

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

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

	Up to 1 year €'000	1 to 2 years €'000	2 to 5 years €'000	Over 5 years €'000	Total €'000
31 December 2015					
Forecast receivable cash flows	2,699	2,606	8,316	33,809	47,430
Forecast payable cash flows	-	-	-	-	-
31 December 2014					
Forecast receivable cash flows	2,158	2,919	17,440	3,664	26,181
Forecast payable cash flows	-	-	-	-	-

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

	Up to 1 year €'000	1 to 2 years €'000	2 to 5 years €'000	Over 5 years €'000	Total €'000
31 December 2015					
Forecast receivable cash flows	2,869	2,648	8,322	33,591	47,430
Forecast payable cash flows	-	-	-	-	-
31 December 2014					
Forecast receivable cash flows	2,270	3,354	13,520	7,037	26,181
Forecast payable cash flows	-	-	-	-	-

14 DEPOSITS FROM BANKS

	31 December 2015 €'000	31 December 2014 €'000
Deposits from banks	12,411,091	10,705,501
Deposits by remaining maturity		
3 months or less	9,171,798	8,722,418
1 year or less but over 3 months	844,799	658,837
5 years or less but over 1 year	2,252,227	1,189,545
Greater than 5 years	142,267	134,701
Due to Bank of Ireland	12,411,091	10,705,501

15 DEBT SECURITIES IN ISSUE

	31 December 2015 €'000	31 December 2014 €'000
Debt securities in issue	7,404,402	9,854,585
Bonds and medium term notes by remaining maturity		
3 months or less	690,444	799,885
1 year or less but over 3 months	772,429	4,409,692
5 years or less but over 1 year	3,743,904	3,919,788
Greater than 5 years	2,197,625	725,220
	7,404,402	9,854,585
Of which is due to Bank of Ireland	1,546,243	2,946,771

Asset Covered Securities (ACS)

The Bank, as a registered designated mortgage credit institution under the Asset Covered Securities Act, 2001, established its asset covered securities programme (the "Programme") in 2004. Pursuant to the Programme, the Bank may from time to time issue asset covered securities denominated in any currency in accordance with the provisions of the ACS Acts. The Bank's ACS may be listed on the Main Market or the Alternative Securities Market of the Irish Stock Exchange Limited. ACS are 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 3 June 2015. In accordance with the ACS Acts the required disclosures are set out in note 15(a) – 15(h) below.

During the year ended 31 December 2015 the Bank issued €2.7 billion of securities and €4.3 billion of debt securities matured (year ended 31 December 2014: €0.9 billion and €1.7 billion respectively). No debt securities were repurchased during the year (year ended 31 December 2014: €250 million). This brought the total nominal value of asset covered securities in issue at 31 December 2015 to €7.4 billion (31 December 2014: €9.0 billion).

Mortgage Backed € Promissory Notes

The Bank participated in the ECB three year long term re-financing operation entering into a framework agreement on 28 February 2012 with the Central Bank of Ireland ("CBI") under which the Bank may issue mortgage backed € promissory notes to the CBI. An amendment agreement dated 15 May 2014 was entered into between the CBI and the Bank and is supplemental to this framework agreement making certain amendments to its terms. These obligations under the mortgage backed € promissory notes are secured by way of a first floating charge over all the Bank's right, title, interest and benefit, present and future, in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security.

The deed of floating charge ("Deed of Charge") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the CBI, the Bank shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge or any part thereof; or

15 DEBT SECURITIES IN ISSUE (continued)

Mortgage Backed € Promissory Notes (continued)

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

The Bank participated in the ECB three year Long Term Re-financing Operation ("LTRO") for €615 million on 1 March 2012. The Bank repaid these funds, which were secured by the mortgage backed € promissory notes, upon maturity on 28 February 2015. The Targeted Longer-Term Refinancing Operations ("TLTRO") replaced the LTRO in the final quarter of 2014. The Bank did not participate in the TLTRO.

The Bank continues to participate in the ECB short term Main Re-financing Operation ("MRO"). The Bank had no MRO funds outstanding at 31 December 2015 (31 December 2014: €150 million).

The Bank entered into a separate framework agreement on 5 July 2004 with the CBI under which the Bank may also issue short term mortgage backed € promissory notes to the CBI. These obligations are secured by way of a first floating charge over all the Bank's right, title, interest and benefit, present and future, in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security. This deed of floating charge ("Deed of Charge 2004") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge 2004, otherwise than with the prior written consent of the CBI, the Bank shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge 2004 or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge 2004 or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

For the years ended 31 December 2015 and 31 December 2014, the Bank has not utilised this short term facility.

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

Range		31 December 2015		31 December 2014	
From €'000	To €'000	Number of Accounts	Total Balances of Accounts €'000	Number of Accounts	Total Balances of Accounts €'000
0	100	46,456	1,981,990	47,797	2,063,357
100	200	28,734	4,193,409	30,239	4,431,059
200	500	15,684	4,259,607	17,792	4,867,663
Over 500		1,003	768,214	1,193	929,599
		91,877	11,203,220	97,021	12,291,678

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 79,343 properties in the Pool at 31 December 2015 (31 December 2014: 83,547). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2015 and 31 December 2014 respectively.

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

	31 December 2015		31 December 2014	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	22%	78%	22%	78%
Number of accounts	20,393	71,484	21,683	75,338
Number of properties	17,796	61,547	18,793	64,754

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2015 and 31 December 2014 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 2015 and 31 December 2014.

15 DEBT SECURITIES IN ISSUE (continued)

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

	31 December 2015	31 December 2014
Number of accounts in default	10	30
	€'000	€'000
Cumulative current balance on above accounts	2,070	5,425
of which arrears represent	52	101

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.

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

	For the year ended 31 December 2015	For the year ended 31 December 2014
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	344	754
	31 December 2015	31 December 2014
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	22	72

15(e) Replacement of non-performing assets in the cover assets pool

For the purpose of this disclosure the term 'non-performing assets' is as defined in the ACS Acts as 'relating to mortgage accounts that are in arrears for a period of three months or more'. During the year ended 31 December 2015, 453 accounts were non-performing (31 December 2014: 1,102 accounts) and were replaced with other mortgage credit assets.

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

The total amount in arrears (including principal and interest) in respect of mortgage credit assets that are in arrears for three months or more that had not been written off at 31 December 2015 was €52,397 (2014: €100,932). €17,501 of this represented non-payment of interest (2014: €24,162).

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

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Interest paid in respect of mortgage credit assets	280,929	314,840
Capital repaid in respect of mortgage credit assets	1,006,688	921,899

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

At 31 December 2015 there were no loan accounts in the Pool that were secured on commercial property (31 December 2014: nil).

16 OTHER LIABILITIES

	31 December 2015 €'000	31 December 2014 €'000
Amounts due to Bank of Ireland	42,116	13,728
Other liabilities	10,239	2,357
	52,355	16,085

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

17 SUBORDINATED LIABILITIES

On 23 December 2011, the Bank availed of a €90 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is based on the three-month EURIBOR rate plus a margin of 11.5%. The loan matures on 30 December 2021. The loan may be redeemed at the option of the Bank on the fifth anniversary and each subsequent anniversary of the issuance by giving prior notice to its parent and subject to prior approval by the Competent Authority.

On 29 August 2014, the Bank availed of a further €50 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is based on the three-month EURIBOR rate plus a margin of 4.3%. The loan matures on 31 August 2024. The loan may be redeemed in whole but not in part at the option of the parent on the fifth anniversary and each subsequent anniversary of the issuance by giving prior notice to the Bank. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event) or (ii) Tax reasons. Any redemption before the maturity date is subject to such approval by the Competent Authority as may be required by the Capital Requirements Regulation (CRR) and / or such other laws and regulations which are applicable to the Issuer.

At 31 December 2015, total subordinated loans and accrued interest was € 140.4 million (31 December 2014: €140.4 million).

18 SHARE CAPITAL AND PREMIUM

	31 December 2015 '000 Units	31 December 2014 '000 Units
Authorised		
Units of €1 of Ordinary Shares	1,000,000	1,000,000

	31 December 2015 €'000	31 December 2014 €'000
Allotted, called up and fully paid – presented as equity		
Units of €1 of Ordinary Shares	738,375	738,375
Share premium		
Balance at the beginning of the year	660,625	660,625
Premium in issue of ordinary shares	-	-
Balance at the end of the year	660,625	660,625

There was no share capital issued during the years ended 31 December 2015 or 31 December 2014.

19 SEGMENTAL INFORMATION

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

20 PENSION COSTS

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

The Bank is a participating employer in the ICS PP in respect of one employee (year ended 31 December 2014: 1 employee). The remaining employees (6) are members of the BIGPF. The ICS PP is a defined benefit scheme based on final pensionable pay and the BIGPF scheme is a hybrid scheme, commonly known as a cash balance scheme. The schemes are operated for eligible employees of Bank of Ireland (the "Principal Employer") and the Bank which are entities under common control.

The Principal Employer met the employer's contributions due for the Bank in 2015 and 2014 (see note 5 for details of amounts recharged). At 31 December 2015, the Bank had no outstanding amounts payable to the scheme (31 December 2014: €nil).

21 RISK MANAGEMENT AND CONTROL

Risk management

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

21 RISK MANAGEMENT AND CONTROL (continued)

Risk Management (continued)

The Bank's risk management and control policies comply with Group risk management policies, which include reviews on a regular basis. In addition, Bank of Ireland control functions (e.g. Credit, Group Internal Audit, etc.) independently review compliance with Bank of Ireland policies as part of their ongoing work in the Bank. The general framework of risk management, financial and operational controls is designed to safeguard the Bank's assets.

Credit risk

Credit risk is the risk of loss resulting from a counterparty failing to meet its contractual obligations to the Bank. Credit risk is one of the main types of risk to which the Bank's business is exposed. Apart from exposures to entities within Bank of Ireland Group (the "Group"), credit exposures arise principally from lending to customers to purchase residential property. The Bank's exposure to credit risk is governed by credit policy which is approved by the Board and Group Risk Policy Committee ("GRPC").

Credit risk management

The Bank has an established credit risk governance framework by which it executes its responsibilities in relation to credit risk management.

The credit risk function of Bank of Ireland is a key function responsible for proposing credit policy to the Board and the management and safety of lending in accordance with approved policies. Underwriting and Credit Management / Collections' activities are centralised within Bank of Ireland.

Lending officers are allocated lending limits according to credit competence, proven judgement, experience and the nature and scale of lending particular to the Bank. Existing credit risk is reviewed periodically and exposures which demonstrate adverse trends are subject to closer supervision and management.

In the Bank, the application of risk ratings is automatic through the use of risk rating models appropriate to the facilities at the time of application and monthly thereafter based on the account performance. Performance monitoring and management of all risk rating models is undertaken.

In addition, an independent control unit within Bank of Ireland, the Credit and Market Risk Division, undertakes periodic reviews of the appropriateness of the risk rating models that are used within the business and evaluates whether the models are compliant with regulatory requirements.

Bank of Ireland Credit Review undertakes periodic reviews of the quality and management of credit risk assets across the Group, including the Bank. Its reviews incorporate an examination of adherence to credit policies and procedures within the portfolio.

The Bank manages limits and controls concentrations of credit risk and structures the levels of credit risk it undertakes by placing limits on the amounts of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored appropriately.

Credit risk measurement

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Bank.

In measuring the credit risk of loans and advances to customers, the Bank considers three components:

- the "probability of default" ("PD") by the client;
- current exposure and its likely future development, from which the "exposure at default" ("EaD") is derived; and
- the likely loss ratio on the defaulted obligations – the "loss given default" ("LGD").

These credit risk measurements which reflect expected loss (the "expected loss model") are employed in the Bank's day to day management of credit.

The Bank assesses the probability of default of borrowers using internal rating tools. The use of credit risk rating models, which measure the degree of risk inherent in lending to specific counterparties, complemented by expert judgement, is central to credit risk management within the Bank.

The risk rating system is continuously refined and validated to ensure that the level of risk is acceptable to the Bank.

The results arising from the risk rating system are used in regulatory capital calculations, guiding economic capital allocation and strategic portfolio management.

Accounts are managed on the basis of performance with those past due measured by the amount and number of instalments in arrears.

21 RISK MANAGEMENT AND CONTROL (continued)

Credit risk measurement (continued)

Loan loss provisioning or impairment allowances required under IFRS (International Accounting Standard (IAS) 39) are based on losses that have been incurred at the balance sheet date and requires that there is objective evidence of impairment and that the loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

Credit risk mitigation and collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank's mortgage loan book property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the CSO. Equity / negative equity values are determined using the Residential Property Price Index published by the CSO for the year ended 31 December 2015. The weighted average indexed LTV for the total loan book was 74% at 31 December 2015 (31 December 2014: 82%).

The Bank's requirements around completion, valuation and management requirements for collateral / security are set out in appropriate policies and procedures. The Bank's credit risk processes are designed to ensure that mortgage charges are enforceable at the time the credit agreement is concluded and that mortgage charges are filed on a timely basis. The objective of this approach is to enable the Bank to realise the value of the protection within a reasonable timeframe, should that become necessary.

Credit reporting / monitoring

It is the Bank's policy to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Credit risk information is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book, and loan impairment provisions. The Bank allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

Credit risk methodologies

The use of internal credit rating models, which measure the degree of risk inherent in lending to customers, is central to the credit risk assessment and ongoing management processes within the Bank.

An independent unit annually validates internal credit risk models from a performance and compliance perspective.

Impairment provisions are recognised only with respect to losses that have been incurred at the balance sheet date, based on objective evidence of impairment, details of which are provided in the tables to this note.

The impairment provision shown on the balance sheet at the year end is driven by internal rating grades. In addition, individually significant accounts in default (90 days past due and / or impaired) are assessed for impairment and provisioning by evaluating the incurred loss at the balance sheet date. The assessment takes account of collateral held and anticipated future repayments for each such account.

At 31 December 2015, each of the following events required the completion of an impairment assessment to determine whether a loss event had occurred at the balance sheet date that may lead to recognition of impairment losses:

- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- notification of, or intended application for, bankruptcy proceedings, debt settlement or personal insolvency arrangement or similar; or
- offer of voluntary sale at possible shortfall or voluntary surrender of property security.

Where objective evidence of impairment exists as a result of one or more past events, the Bank is required to estimate the recoverable amount of the exposure or group of exposures. For financial reporting purposes, loans on the balance sheet that become impaired are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge in the income statement.

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

The Bank's impairment provisioning methodologies are compliant with IAS 39 which requires objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

21 RISK MANAGEMENT AND CONTROL (continued)

Methodology for individually assessing impairment

An individual impairment assessment is performed for any exposure for which there is objective evidence of impairment and where the exposure is above an agreed threshold. For residential mortgages a de-minimus total customer exposure level of €1 million applies for the mandatory completion of a discounted cash flow analysis for the assessment of impairment. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) is calculated using a discounted cashflow analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows include forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

An element of the Bank's credit exposures is assessed for impairment on an individual basis. An analysis of the Bank's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 38.

Methodology for collectively assessing impairment

Where exposures fall below the threshold for individual assessment of impairment by way of discounted cash flow analysis, such exposures are automatically included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics are pooled together and a provision is calculated by estimating the future cash flows of a group of exposures. In pooling exposures based on similar credit risk characteristics, consideration is given to features including: asset type; geographical location; collateral type; past due status and forbearance classification. The provision estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which are based on historical experience (i.e. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

The Bank's mortgage customers with exposures less than €1 million are provisioned for impairment on a collective basis. These mortgage exposures are pooled based on similar credit risk characteristics such as: asset type; geographical location; origination channel; and forbearance classification. The Bank's collective specific provisioning model parameters and assumptions have been updated in the current year, informed by the Bank's recent observed experience (including updated residential property sales data).

The updated assumptions included:
- refined assumptions for residential property valuations;
- enhanced and more granular assumptions regarding forced sale discounts; and
- updated cure rate and time to sale assumptions informed by the Bank's observed experience.

Some of the key factors used in the calculation of the portfolio specific provision for the Bank's mortgage portfolio include assumptions in relation to: residential property valuation (31 December 2015: 10% discount to indexed value for both Dublin and Non-Dublin properties); forced sale discount (31 December 2015: c.10% to c.42%); workout costs (31 December 2015: c.6%); weighted average cure rate (31 December 2015: c.13.76% over two and a half years, with cure assumptions segmented by: forbearance classification, LTV and type of residential property (for relevant cohorts)); weighted average repayment rate (31 December 2015: 4.64% over two and a half years), and time to sale (31 December 2015: two and a half year rolling average from the reporting date).

The provisioning model assumptions and parameters use historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflect the definition of cure per the CBI Impairment Provisioning and Disclosure Guidelines (May 2013) ("CBI guidelines") which requires satisfactory completion of a twelve month probation period, while being less than 30 days past due. All provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, if appropriate, based on recent observed experience.

The Bank's critical accounting estimates and judgements on pages 23 to 24 includes sensitivity analysis disclosure on some of the key judgmental areas in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision ("collective specific") in line with individually assessed loans. An analysis of the Bank's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 38.

Methodology for establishing incurred but not reported (IBNR) provisions

Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio / group of exposures at the date of assessment. These are described as incurred but not reported provisions. Statistical models are used to determine the appropriate level of IBNR provisions for a portfolio / group of exposures with similar credit risk characteristics (e.g. asset type, geographical location, forbearance status, etc.). These models estimate latent losses taking into account three observed and / or estimated factors:

- loss emergence rates (based on historic grade migration experience or probability of default, offset by cure expectations where appropriate);

21 RISK MANAGEMENT AND CONTROL (continued)

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

- the emergence period (historic experience, adjusted to reflect the current conditions and the credit management model); and
- loss given default rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

A key assumption used in the calculation of the IBNR impairment provisions for defaulted (but not impaired) mortgages is the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions have been reviewed during the year informed by the Bank's recent observed experience (including updated residential property sales data). The resulting updates, particularly in relation to the residential property value assumptions, the forced sale discounts and work-out costs used in the IBNR provisioning model, are the same as those outlined above in respect of the collective specific provisioning methodology. The default (but not impaired) model cure assumptions are segmented by a number of factors, including forbearance classification and LTV (for relevant cohorts), and have been updated for recent observed experience. At 31 December 2015 the cure assumptions reflect a weighted average cure rate of c.32.87% over a two and a half year period. At 31 December 2015 the weighted average repayment rate applied in the default (but not impaired) IBNR model is 8.33% over two and a half years.

Emergence period refers to the period of time between the occurrence and reporting of a loss event. For example, at 31 December 2015, emergence periods for mortgages are in the following ranges: forborne 7-13 months and non-forborne 8-14 months.

Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling. Given the economic environment over recent years, emergence periods reflect the more intensive credit management model in place. Emergence periods are reviewed and back tested half-yearly and updated as appropriate.

The LGD is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of any changes in the property sector, discounted collateral values and repayment prospects, etc.).

While loss emergence rates have been assessed in light of the Bank's recent grade migration experience and current probability of default grades, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2014. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, as appropriate, based on recent observed experience. Increasing the emergence period or LGD factors in the IBNR model would give rise to an increase in the level of IBNR provisions for a portfolio.

The Bank's critical accounting estimates and judgements on pages 22 to 24 include sensitivity analysis disclosure on some of the key judgemental areas.

Methodology for loan loss provisioning & forbearance

Forbearance will always be a trigger event for the Bank to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed and, where impairment is deemed to have occurred, will result in a specific provision.

Individually Assessing Impairment & Forbearance
The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis). The underlying credit risk rating of the exposure, and ultimately the individual impairment assessment, takes into account the specific credit risk characteristics of the exposure.

Collectively assessing impairment and forbearance
Forborne exposures are pooled together for collective impairment provisioning, including IBNR provision calculations, as detailed above. Assumptions and parameters used to create the portfolio provision(s) take into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period etc.), adjusted where appropriate to reflect current conditions, and require the satisfactory completion of a twelve month probation period, while being less than 30 days past due. Impairment provisioning methodologies and provisioning model factors and assumptions applied to forborne loan pools are reviewed regularly, and revised as necessary, to ensure that they remain reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This includes a comparison of actual experience to expected outcome.

Provisioning and forbearance
Mortgages which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision cover (total provision expressed as a percentage of total loans) which is subject to forbearance is higher (typically c.3 times higher) than that of the similar portfolio of exposures which are not subject to forbearance. The higher provision cover is reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and / or re-default.

21 RISK MANAGEMENT AND CONTROL (continued)

Impaired loans review

It is Bank policy to review impaired loans above agreed thresholds half yearly, with the review including a reassessment of the recovery strategy and the adequacy of the impairment provision.

An impaired loan is restored to unimpaired status when the contractual amount of full principal and interest is deemed to be fully collectible. Typically, a loan is deemed to be fully collectible based on an updated assessment by the Bank of the borrower's financial circumstances. The assessment includes a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may be agreed with the Bank as part of a sustainable forbearance arrangement.

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

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Specific provisions - individually assessed	73,486	128,586
Specific provisions - collectively assessed	(73,940)	(97,664)
Incurred but not reported	(34,923)	(132,269)
	(35,377)	**(101,347)**

Impairment provision by nature of impairment provision

	31 December 2015 €'000	31 December 2014 €'000
Specific provisions - individually assessed	448,433	492,563
Specific provisions - collectively assessed	231,273	345,264
Incurred but not reported	203,126	238,049
	882,832	**1,075,876**

The impairment reversal for the year ended 31 December 2015 includes a credit of €71.3 million (31 December 2014: €45.3 million) on forborne loans and the impairment provision at 31 December 2015 includes €287 million (31 December 2014: €292 million) for forborne loans as set out in the tables on page 74 and 75 of the supplementary asset quality disclosures. These reflect the increase in the stock of 'impaired' forborne mortgage loans.

Asset quality

Loans and advances to banks (note 9), Loans and advances to customers (note 10) and Derivative financial instruments (note 13) are the main classes of financial assets to which the Bank is exposed from a credit risk perspective.

Loans and advances to banks

For both the year ended 31 December 2015 and year ended 31 December 2014, all loans and advances to banks were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland.

Derivative financial instruments

Derivative contracts are only entered into with counterparties who are considered reputable and have been approved by the Board in conjunction with recommendations by Group Risk Policy Committee. There are no amounts past due or impaired at 31 December 2015 (31 December 2014: €nil).

Loans and advances to customers

The tables following provide further details in relation to total loans and advances to customers. For an analysis of loans and advances to customers between forborne and non-forborne see pages 73 to 75 of the Supplementary asset quality and forbearance disclosures.

21 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Loans and advances to customers (continued)

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

‘Neither past due nor impaired’ ratings are summarised as set out below:

- high quality ratings apply to loans to customers with whom the Bank has excellent repayment experience, and which are not in active forbearance. High quality ratings are derived from grades 1 and 2 on the seven point grade scale;
- satisfactory quality ratings apply to good quality loans that are performing as expected. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grade 3 on the seven point grade scale. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage forbearance arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings are derived from grade 4 on the seven point grade scale. In addition, acceptable quality ratings can also apply to ‘Self-cure’ probationary residential mortgages (as defined below) and to certain temporary mortgage forbearance arrangements that are neither past due nor impaired; and
- the lower quality but neither past due nor impaired rating applies to those loans that are neither in arrears nor impaired but where the Bank is required to work closely with the borrower regarding restructure and / or resolution. For both forborne and non-forborne loans, lower quality ratings are derived from grade 5 on the seven point grade scale. In addition, the lower quality but neither past due nor impaired rating can apply to ‘Forborne’ probationary residential mortgages (as defined below) and to certain temporary mortgage forbearance arrangements that are neither past due nor impaired.

‘Past due but not impaired’ loans, whether forborne or not, are defined as follows:

- loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

‘Impaired’ loans are defined as follows:

- loans with a specific impairment provision attaching to them. Forborne mortgage loans with a specific provision attaching to them are reported as both forborne and impaired.

‘Defaulted’ loans are defined as follows:

- impaired loans together with loans which are greater than 90 days in arrears. Defaulted loans are derived from grades 5 and 6 on the seven point grade scale.

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

- ‘Self-cure’ probationary residential mortgages are non-forborne mortgages which were previously defaulted, did not require forbearance to exit default, and are now, or will be, subject to the successful completion of a 12 month probation period prior to returning to performing status.
- ‘Forborne’ probationary residential mortgages are mortgages which were previously defaulted, required forbearance to exit default, and are now, or will be, subject to the successful completion of a 12 month probation period prior to returning to performing status. ‘Forborne’ probationary residential mortgages also includes mortgages which were previously defaulted, are in a “full interest” forbearance arrangement and, despite having successfully completed a 12 month probation period, will not return to performing status.

‘Non-performing’ loans are defined as

- defaulted loans together with probationary residential mortgages.

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

Loans and advances to customers (before impairment provisions) reduced from €19.9 billion at 31 December 2014 to €19.5 billion at 31 December 2015. For an analysis of the Bank’s risk profile of loans and advances to customers past due and / or impaired between ‘non-forborne’ and ‘forborne’ see pages 73 to 75 in the supplementary asset quality and forbearance disclosures.

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

21 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Total loans and advances	**31 December 2015**	**31 December 2014**[1]
	€'000	**€'000**
High quality	15,608,898	15,591,233
Satisfactory quality	891,324	678,959
Acceptable quality	658,980	584,473
Lower quality but neither past due nor impaired	314,149	284,041
Neither past due nor impaired	**17,473,351**	**17,138,706**
Past due up to 30 days	249,868	286,453
Past due 31 - 60 days	87,375	105,944
Past due 61- 90 days	44,178	80,790
Past due more than 90 days	254,244	461,299
Past due[2] but not impaired	**635,665**	**934,486**
Impaired	1,426,314	1,825,347
Total past due and impaired	**2,061,979**	**2,759,833**
Total loans and advances to customers	**19,535,330**	**19,898,539**

Loans and advances to customers (before impairment provisions) reduced €0.4 billion to €19.5 billion at 31 December 2015. Loans 'neither past due nor impaired' increased by €0.4 billion to 17.5 billion at 31 December 2015 from €17.1 million at 31 December 2014. Loans 'past due and impaired' reduced by €0.7 billion to €2.1 billion at 31 December 2015 reflecting the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies. (31 December 2014: €2.8 billion).

Non-performing loans

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

	31 December 2015	**31 December 2014**
	€'000	**€'000**
Total loans and advances to customers: non-performing		
Probationary mortgages		
Self-cure	117,864	144,196
Forborne	356,191	332,387
Total probationary mortgages	474,055	476,583
Defaulted		
Past due greater than 90 days but not impaired	254,244	461,299
Impaired	1,426,314	1,825,347
Total defaulted mortgages	1,680,558	2,286,646
Total	**2,154,613**	**2,763,229**

Non-performing loans have reduced by €0.6 billion to €2.2 billion at 31 December 2015. Non-performing loans comprise defaulted loans of €1.7 billion (down from €2.3 billion at 31 December 2014) and probationary residential mortgages of €0.5 billion (31 December 2014: €0.5 billion).

[1] *In line with the revised asset quality definitions set out on page 39, certain comparative figures have been restated.*
[2] *The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.*

21 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Composition and impairment

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

	Advances (pre-impairment)	Non performing loans[1]	Non performing loans as a % of advances	Impairment provisions	Impairment provisions as a % of Non performng loans
	€m	€m	%	€m	%
31 December 2015					
Owner occupied mortgages	15,915	1,177	7.4%	390	33%
Buy to let mortgages	3,620	978	27.0%	493	50%
Total	**19,535**	**2,155**	**11.0%**	**883**	**41%**
31 December 2014					
Owner occupied mortgages	15,819	1,528	9.7%	480	31%
Buy to let mortgages	4,080	1,236	30.3%	596	48%
Total	**19,899**	**2,764**	**13.9%**	**1,076**	**39%**

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

	Advances (pre-impairment)	Defaulted loans	Defaulted loans as a % of advances	Impairment provisions	Impairment provisions as a % of defaulted loans
	€m	€m	%	€m	%
31 December 2015					
Owner occupied mortgages	15,915	888	5.6%	390	44%
Buy to let mortgages	3,620	793	21.9%	493	62%
Total	**19,535**	**1,681**	**8.6%**	**883**	**53%**
31 December 2014					
Owner occupied mortgages	15,819	1,199	7.6%	480	40%
Buy to let mortgages	4,080	1,088	26.7%	596	55%
Total	**19,899**	**2,287**	**11.5%**	**1,076**	**47%**

Repossessed collateral

At 31 December 2015, the Bank had 123 properties in possession (31 December 2014: 142 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	31 December 2015	31 December 2014
	€'000	€'000
Residential mortgages	13,599	15,990

[1] *'Non-performing' loans includes probationary residential mortgages of €474 million at 31 December 2015 (31 December 2014: €477 million) comprising €118 million 'Self-cure' and €356 million 'Forborne' probationary residential mortgages (31 December 2014: €145 million and €332 million respectively).*

21 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

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

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

	Maximum Exposure	
	31 December 2015	31 December 2014
	€'000	€'000
Loans and advances to banks	2,196,649	2,464,686
Loans and advances to customers	18,551,947	18,733,727
Derivative financial instruments	125,042	225,907
Commitments	1,200,464	1,295,118
Total	**22,074,102**	**22,719,438**

The loans and advances to customers in the table above relate to residential mortgages. The loans and advances to banks and derivative financial instruments relate to Bank of Ireland and entities which have been approved by the Board of Directors in conjunction with recommendations by Group Risk Policy Committee.

Concentration of risks of financial assets with credit risk exposure

(i) Geographical sectors

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

	31 December 2015	31 December 2014
	€'000	€'000
Loans and advances to customers		
- Dublin	6,807,919	6,765,503
- Rest of Ireland	12,727,411	13,133,036
Total	**19,535,330**	**19,898,539**

(ii) Industry Sectors

All loans and advances to banks and derivative financial instruments are categorised as financial assets. Loans and advances to customers are all categorised as Personal (residential mortgages).

Market risk

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises naturally through customer lending and wholesale funding.

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

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

The current interest rate risk strategy aims to provide the Bank with protection against material adverse changes in interest and related funding rates by undertaking controlled management of the interest rate structure in the Bank's mortgage and funding products. The Bank has entered into a range of service level agreements with Bank of Ireland to support its overall risk management and control processes. The Group Treasury Unit has responsibility for day-to-day monitoring of market and liquidity risks. The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

21 RISK MANAGEMENT AND CONTROL (continued)

Market risk (continued)

Loans and Advances to Customers

At 31 December 2015, the Bank had €16.0 billion (31 December 2014: €17.8 billion) of floating-rate loans and advances to customers, where the interest rate is either linked to the ECB Base rate or the Bank's standard variable rate.

The Bank enters into interest rate swaps to hedge the interest rate exposure on floating rate mortgages against which asset covered securities are issued. These interest rate swaps and related floating rate mortgages qualify for cash flow hedge accounting. At 31 December 2015, the nominal value of swaps qualifying for hedge accounting is €5.3 billion (31 December 2014: €3.8 billion). Further details are provided in note 13.

At 31 December 2015, the Bank had €3.2 billion (31 December 2014: €1.8 billion) of loans and advances to customers, where the rate is typically fixed for periods of 1, 2, 3, 5 and 10 years. The interest rate exposure of the Bank relating to its Irish residential loans is managed through maturity matched borrowing from the Group resulting in no material sensitivity to changes in interest rates.

At 31 December 2015, the Bank had €0.3 billion (31 December 2014: €0.3 billion) of 'Life-loan' (equity release) loans and advances to customers, where the rate was initially fixed for 15 years and customers do not make any periodic repayments. The outstanding loan balance increases through the life of the loan as the interest due is capitalised on a quarterly basis. The mortgage is typically repaid out of the proceeds of the sale of the property. The interest rate exposure of the Bank is hedged on a behavioural basis through a mix of short term variable and longer term fixed rate funding in line with the expected 'Life-loan' mortgage redemption profile.

Asset Covered Securities

At 31 December 2015, the Bank had (nominal) €7.4 billion in issued asset covered securities (31 December 2014: €9.0 billion). €5.8 billion of the issued asset covered securities are at fixed rates (31 December 2014: €6.0 billion) and the remaining €1.6 billion have an interest rate that resets based on short-dated EURIBOR (31 December 2014: €3.0 billion).

The Bank also enters into interest rate swaps to hedge the interest rate exposure on its fixed rate asset covered securities in issue. The majority of these interest rate swaps and related fixed rate issued asset covered securities qualify for fair value hedge accounting. At 31 December 2015, the nominal value of swaps qualifying for hedge accounting is €0.1 billion (31 December 2014: €2.0 billion) Further details are provided in note 13.

Additionally, market risk arises where the rate charged on variable rate mortgage lending re-sets with changes in ECB rates, but the related funding is at short-dated EURIBOR. The Bank enters into interest rate swaps to economically hedge this risk. These interest rate swaps do not qualify for hedge accounting and the Bank is exposed to potential income statement volatility of c.€0.12 million for a one basis point movement in rates.

The Bank measures its interest rate risk in terms of the sensitivity of its fixed rate mortgage assets and related funding, in Net Present Value ("NPV") terms, to a 1% parallel shift in the yield curve. The Bank is required to ensure that this sensitivity remains within a low operational hedging limit of €0.8 million. At 31 December 2015, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.067 million (31 December 2014: €0.6 million), with an average of €0.264 million for the year ended 31 December 2015 (31 December 2014: €0.143 million).

Additionally to comply with ACS Acts, the Bank is required to manage the interest rate sensitivity of all of its assets and liabilities to a 10% of own funds limit (Equity, Tier 1 and 2). This is monitored by the Cover-Asset Monitor on behalf of the Central Bank of Ireland.

Currency risk

The Bank is not exposed to currency risk as all financial assets and liabilities are denominated in Euro.

Liquidity risk

Liquidity risk is the risk that the Bank will experience difficulty in financing its assets and / or meeting its contractual payment obligations as and when they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven, among other things, by the maturity structure of loans and investments held by the Bank, while cash outflows are driven, inter alia, by the term of the debt issued by the Bank. Liquidity distress is almost invariably associated with a severe deterioration in financial performance, but it can also result from unexpected adverse events or systemic difficulties. The Bank has in place a risk management framework to manage that risk.

The Bank's Board has approved a funding policy for the business that permits funding through the use of asset covered securities, residential Mortgage Backed Promissory Note programmes and borrowings from the Group. It is the Bank's policy to ensure that resources are at all times available to meet the Bank's obligations arising from mortgage products, asset covered securities, capital and expenditure. The management of liquidity is the responsibility of the Bank, supported by Group Treasury.

21 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

The Bank has outsourced the responsibility for the day to day monitoring and management of liquidity risk to Group Treasury. Group Treasury consolidates the Bank's cash flows into the Bank of Ireland liquidity centre, where a cash flow liquidity reporting tool provides daily liquidity risk information by designated cash flow buckets, which is used to manage liquidity risk. This system captures the cash flows from both balance sheet and off-balance sheet transactions. In the case of specific products such as mortgage repayments and off-balance sheet commitments, behavioural adjustments are applied to reflect the Bank's experience of these cash flows based on historical trends.

The Bank is also required to report regularly to its parent, Bank of Ireland, all relevant balance sheet and off-balance sheet items to ensure compliance with Bank of Ireland liquidity procedures.

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. The balances will not agree directly to the balance sheet as the table incorporates all cash flows on an undiscounted basis related to both the principal and interest payments.

31 December 2015 Liabilities	Demand €'000	Within 3 months €'000	After 3 months but within 1 year €'000	After 1 year but within 5 years €'000	After 5 years €'000	Total €'000
Deposits from banks	-	9,166,845	871,909	2,257,169	152,045	12,447,968
Debt securities in issue	-	671,673	832,239	4,014,551	2,411,213	7,929,676
Subordinated liabilities	-	3,116	9,447	52,256	162,475	227,294
Commitments	1,200,464	-	-	-	-	1,200,464
Total liabilities	**1,200,464**	**9,841,634**	**1,713,595**	**6,323,976**	**2,725,733**	**21,805,402**

31 December 2014 Liabilities	Demand €'000	Within 3 months €'000	After 3 months but within 1 year €'000	After 1 year but within 5 years €'000	After 5 years €'000	Total €'000
Deposits from banks	-	8,714,706	683,422	1,218,872	145,835	10,762,835
Debt securities in issue	-	809,844	4,482,352	4,173,075	845,406	10,310,677
Subordinated liabilities	-	3,160	9,620	52,205	175,653	240,638
Commitments	1,295,118	-	-	-	-	1,295,118
Total liabilities	**1,295,118**	**9,527,710**	**5,175,394**	**5,444,152**	**1,166,894**	**22,609,268**

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

The tables on the next page analyse cash flows on derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. Cash flows associated with derivatives are undiscounted cash flows anticipated over the life of the derivatives based on expected interest rates at year end. Derivative cash flows are included for the pay and receive legs of net settled contracts with negative fair values.

21 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

31 December 2015	**Within 3 months €'000**	**After 3 months but within 1 year €'000**	**After 1 year but within 5 years €'000**	**After 5 years €'000**	**Total €'000**
Net cash outflows on derivative financial instruments	2,269	5,287	4,364	19,644	31,564

31 December 2014	**Within 3 months €'000**	**After 3 months but within 1 year €'000**	**After 1 year but within 5 years €'000**	**After 5 years €'000**	**Total €'000**
Net cash outflows on derivative financial instruments	2,627	6,128	8,076	2,867	19,698

Operational risk

The Bank faces operational risk in the normal pursuit of its business objectives. Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank operates systems of risk identification, assessment and monitoring designed to ensure that operational risk management is consistent with the approach, aims and strategic goals of the Bank and the Group. Operational risk is managed in compliance with the Group Operational Risk policy which has been adopted by the Board of the Bank. The Bank manages operational risk through accountable executives overseen by the Bank's Audit Committee. In addition, there is oversight by the Group Regulatory Compliance and Operational Risk Committee, supported by the Group Operational Risk function. Potential risk exposures are assessed on a regular basis and appropriate controls are put in place or adapted as considered necessary. Recognising that operational risk cannot be entirely eliminated, the Bank implements risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms, such as insurance, where appropriate.

Regulatory risk

Regulatory risk is defined as the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. It also includes the risk to capital, liquidity and profitability from the impact of future legislative and regulatory changes. Non-compliance would have adverse reputational implications and could lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Regulatory risk and compliance risk in the Bank is managed in accordance with Group policy which has been adopted by the Board. This requires the conduct of business in accordance with applicable regulations and an awareness of regulatory risk by all employees.

The effective management of regulatory compliance is the responsibility of the management of the Bank. At an overall level, the Bank reassesses its regulatory risk profile on a regular basis, monitors compliance and reports findings to the Board and separately to Group Regulatory Compliance and Operational Risk function.

Business and strategic risk

Business risk is defined as the risk to the Bank (i.e. income, net worth or reputation) which could be associated with:
- a change in the operational economics of the Bank; and / or
- exposure to an event which cause reputational damage to the Bank.

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

Strategic risk is defined as the risk to the Bank (i.e. income, net worth or reputation) which could be associated with:
- failure to develop a strategy, leaving the Bank exposed to developments that could have been foreseen including adverse macroeconomic or market changes;
- poor execution of a chosen strategy, whatever the cause, including investments not aligned with strategic direction; and / or
- failing to realign a strategy, when one or several of the fundamental assumptions underpinning that strategy have changed, making that strategy inappropriate.

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

21 RISK MANAGEMENT AND CONTROL (continued)

Business and strategic risk (continued)

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

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

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

Reputation risk

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

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

Capital management

The objectives of the Bank's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Bank has sufficient capital to cover the risks of its business and support its strategy. The capital adequacy requirements set by the CBI are used by the Bank as the basis for its capital management. These requirements set a floor under which capital levels must not fall. The Bank and the Group are committed to maintain sufficient capital to ensure that even under stressed conditions these requirements are met.

The Bank's capital includes the Bank's shareholders' funds (subject to regulatory adjustments) together with dated subordinated debt. Regulatory capital requirements are determined by risk asset levels. The Bank meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the CBI.

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

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

	31 December 2015 €'000	31 December 2014 €'000
Total shareholders' equity	1,004,759	870,279
Dated subordinated debt	140,414	140,439
	1,145,173	1,010,718

22 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where possible, the Bank calculates fair value using observable market prices. Where market prices are not available fair values are determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available. The fair values of financial instruments are measured according to the following fair value hierarchy:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 comprises financial assets and liabilities which are valued using techniques incorporating significant non-observable market data. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

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

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

31 December 2015		**Carrying amount in balance sheet**					**Fair Value hierarchy**			
		At fair value through profit and loss		**At fair value**						
		Held for Trading	**Fair value hedge derivative**	**Cash flow hedge derivative**	**Held at amortised cost**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Financial assets not measured at fair value										
Loans and advances to banks	(1)	-	-	-	2,196,649	2,196,649	-	2,272,932	-	2,272,932
Loans and advances to customers	(2)	-	-	-	18,668,505	18,668,505	-	-	16,494,229	16,494,229
Financial assets measured at fair value										
Derivatives financial instruments	(5)	17,528	23,384	84,130	-	125,042	-	125,042	-	125,042
		17,528	**23,384**	**84,130**	**20,865,154**	**20,990,196**	**-**	**2,397,974**	**16,494,229**	**18,892,203**
Financial liabilities not measured at fair value										
Deposits by banks	(3)	-	-	-	12,411,091	12,411,091	-	12,457,280	-	12,457,280
Debt securities in issue	(4)	-	-	-	7,404,402	7,404,402	5,538,853	-	2,006,947	7,545,800
Subordinated Liabilities	(4)	-	-	-	140,414	140,414	-	150,790	-	150,790
Financial liabilities measured at fair value										
Derivative financial instruments	(5)	16,429	-	13,795	-	30,224	-	30,224	-	30,224
		16,429	**-**	**13,795**	**19,955,907**	**19,986,131**	**5,538,853**	**12,638,294**	**2,006,947**	**20,184,094**

31 December 2014		**Carrying amount in balance sheet**					**Fair Value hierarchy**			
		At fair value through profit and loss		**At fair value**						
		Held for Trading	**Fair value hedge derivative**	**Cash flow hedge derivative**	**Held at amortised cost**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Financial assets not measured at fair value										
Loans and advances to banks	(1)	-	-	-	2,464,686	2,464,686	-	2,529,337	-	2,529,337
Loans and advances to customers	(2)	-	-	-	18,841,513	18,841,513	-	-	15,797,803	15,797,803
Financial assets measured at fair value										
Derivatives financial instruments	(5)	23,123	88,116	114,668	-	225,907	-	225,907	-	225,907
		23,123	**88,116**	**114,668**	**21,306,199**	**21,532,106**	**-**	**2,755,244**	**15,797,803**	**18,553,047**
Financial liabilities not measured at fair value										
Deposits by banks	(3)	-	-	-	10,705,501	10,705,501	-	10,765,857	-	10,765,857
Debt securities in issue	(4)	-	-	-	9,854,585	9,854,585	6,240,218	773,953	3,142,105	10,156,276
Subordinated Liabilities	(4)	-	-	-	140,439	140,439	-	155,683	-	155,683
Financial liabilities measured at fair value										
Derivative financial instruments	(5)	19,623	-	-	-	19,623	-	19,623	-	19,623
		19,623	**-**	**-**	**20,700,525**	**20,720,148**	**6,240,218**	**11,715,116**	**3,142,105**	**21,097,439**

22 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 table on the previous page:

(1) Loans and advances to banks
The Bank places funds with Bank of Ireland. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans and advances. The carrying amount of variable rate loans is considered to be at market value. The fair value of fixed rate loans is calculated by discounting expected cash flows using market rates where practicable, or rates currently offered by other financial institutions with similar characteristics.

(2) Loans and advances to customers
Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques which include:

- The discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of credit losses over the life of the loans; and
- Recent arm's length transactions in similar assets.

(3) Deposits by banks
The carrying amount of variable rate deposits is considered to be at market value. The fair value of fixed rate deposits is calculated by discounting expected cash flows using market rates where practicable, or rates currently offered by other financial institutions with similar characteristics.

(4) Debt securities in issue and subordinated liabilities
The fair values of these instruments are calculated based on quoted market prices where available. For those notes, where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the Bank for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Bank's own credit spread.

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

23 CONTINGENT LIABILITIES AND COMMITMENTS

The Bank has €1.2 billion of approved mortgage loan applications that had not been drawn down at 31 December 2015. Undrawn mortgage loan applications at 31 December 2014 calculated on the same basis were €1.3 billion.

At 31 December 2015, the Bank is assessing an emerging industry-wide mortgage review with respect to compliance with certain contractual and regulatory requirements. In accordance with IAS 37.92, the Bank has not provided further information on this issue.

24 RELATED PARTY TRANSACTIONS

The Bank's immediate and ultimate parent undertaking is the Governor and Company of the Bank of Ireland, a company incorporated by royal charter in Ireland. The financial statements for the Bank of Ireland Group are available at the Bank of Ireland, Head Office, Mespil Road, Dublin 4.

(a) Irish Government

The Bank considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

(i) Ordinary Stock
At 31 December 2015 the State held, through the Ireland Strategic Investment Fund (ISIF), 13.95% of the ordinary stock of Bank of Ireland (31 December 2014: 13.95%).

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

(b) Transactions with Directors and Key Management Personnel

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

For the purposes of the Companies Act disclosures, "Directors" means the Board of Directors of the Bank, any past Directors who were Directors during the relevant period and Directors of the parent company, Bank of Ireland.

Directors' emoluments and details of compensation paid to key management personnel are provided within this note.

24 RELATED PARTY TRANSACTIONS (continued)

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

(i) Loans to Directors - Companies Act Disclosures

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

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Repayments include principal and interest.

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

Directors at 31 December 2014	**Balance as at 1 January 2014** [1] **€'000**	**Balance as at 31 December 2014** [1] **€'000**	**Aggregate maximum amount outstanding during the year ended** [2] **31 December 2014 €'000**	**Repayments** [3] **during the year ended 31 December 2014 €'000**
P Flynn				
Mortgages total	516	432	516	90
S Mason				
Mortgages total	1,310	1,259	1,310	62
L McLoughlin				
Mortgages total	69	13	69	57

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Repayments include principal and interest.

J Clifford, D Buckley, S Crowe, G Kelly, B McConnell and R Milliken had no loans with the Bank during the year ended 31 December 2014. No advances were made during the year.

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

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Bank and of similar financial standing and do not involve more than the normal risk of collectability.

Loans relate to mortgages secured on residential property.

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

24 RELATED PARTY TRANSACTIONS (continued)

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

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

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

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Repayments include principal and interest.

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

	Balance as at [1] 1 January 2014 €'000	Balance as at [1] 31 December 2014 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2014 €'000	Repayments [3] during the year ended 31 December 2014 €'000
Directors of parent company at 31 December 2014				
R Boucher				
Mortgages Total	113	81	113	33
P Kennedy				
Mortgages Total	2,823	2,823	2,823	22
F Muldoon				
Mortgages Total	347	195	347	163

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Repayments include principal and interest.

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, D Marston, B Martin, P Mulvihill, P O'Sullivan, W Ross and J Walsh had no loans with the Bank during the year ended 31 December 2014. No advances were made during the year to any director of the parent company.

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

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Bank and of similar financial standing and do not involve more than the normal risk of collectability.

Loans relate to mortgages secured on residential property.

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

24 RELATED PARTY TRANSACTIONS (continued)

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

(iii) Loans to connected persons on favourable terms

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

2014 Connected persons[3] of the following Director	Balance as at [1] 31 December 2014 €'000	Maximum amount outstanding during the year ended [2] 31 December 2014 €'000	Number of persons as at 31 December 2014	Maximum number of persons during the year ended 31 December 2014
Persons connected to P Flynn	16	18	1	1

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Connected persons of Directors are defined by Section 220 of the Companies Act.

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

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

Loans relate to mortgages secured on residential property.

(iv) Loans to connected persons[3] - Central Bank of Ireland licence condition disclosures

All loans to Connected Persons are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons and do not involve more than the normal risk of collectability.

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:
(a) the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
(b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

Disclosure is subject to certain *de minimis* exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition:

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

2014 Connected person of the following Director	Balance as at [1] 31 December 2014 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2014 €'000	Number of persons as at 31 December 2014	Maximum number of persons during the year ended 31 December 2014
K O'Sullivan	138	141	1	1
J Clifford	267	278	1	1

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3.] Connected persons of Directors are defined by Section 220 of the Companies Act 2014.

24 RELATED PARTY TRANSACTIONS (continued)

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

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

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

For the purposes of IAS 24: Related Party Disclosures, key management personnel ("KMP") comprise the Directors of the Bank and key management personnel ("Head of Credit (Mortgage Arrears Resolution Strategy", "Head of Mortgage and Consumer Credit" and "Head of Mortgages"). Key management personnel also comprise KMP of the parent company, Bank of Ireland.

Key management personnel including Directors hold mortgages with the Bank in the ordinary course of business. All loans to Non-Executive Directors are made in the ordinary course of business on normal commercial terms. Loans to key management personnel other than Non-Executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank, its key management personnel as defined above, including members of their close families and entities influenced by them, and key management personnel of the parent, Bank of Ireland, are shown in the table below.

IAS 24 Disclosures

Key Management Personnel **2015**	**Balance as at 1 January [1] 2015 €'000**	**Balance as at 31 December [1] 2015 €'000**	**Maximum amounts outstanding during the year ended [2] 31 December 2015 €'000**	**Number of KMP as at 1 January 2015**	**Number of KMP as at 31 December 2015**
Loans [3]	7,436	8,711	9,218	13	13

Key Management Personnel **2014**	**Balance as at 1 January [1] 2014 €'000**	**Balance as at 31 December [1] 2014 €'000**	**Maximum amounts outstanding during the year ended [2] 31 December 2014 €'000**	**Number of KMP as at 1 January 2014**	**Number of KMP as at 31 December 2014**
Loans	7,909	7,436	8,021	13	13

[1] *Balances include principal and interest.*
[2] *The maximum amount outstanding during the year is calculated using the highest balance on each account. The highest maximum outstanding liability in respect of a loan or mortgage during the year ended 31 December 2015 for any member of key management personnel and their close family did not exceed €2.8 million (31 December 2014: €2.8 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.*
[3] *The opening balance includes balances and transactions with KMP who have retired during 2014 and are not related parties during the current year. Therefore these KMP's are not included in the maximum amounts outstanding.*

Loans relate to mortgages secured on residential property.

The IAS 24 loan disclosure above includes no loans to key management personnel on preferential staff rates (31 December 2014: €0.4 million).

There are no specific provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

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

24 RELATED PARTY TRANSACTIONS (continued)

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

(vi) Directors' remuneration

	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Fees	125	105
Other emoluments	174	180
Other - Pension	22	21
Total remuneration	**321**	**306**

No other fees or bonuses were paid to directors during the year ended 31 December 2015 (year ended 31 December 2014: €nil). There was no stock issue awarded under the Employee Stock Issue Scheme in 2015 (2014: €nil).

The Bank has availed of the exemption under FRS 101 not to disclose KMP remuneration.

25 EVENTS SINCE THE END OF THE FINANCIAL YEAR

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

26 IMPACT OF TRANSITION TO FRS 101

For periods up to and including the year ended 31 December 2014, the Bank prepared its financial statements in accordance with previously extant Irish generally accepted accounting practice (Irish GAAP). These financial statements, for the year ended 31 December 2015, are the first the Bank has prepared in accordance with FRS 101.

Accordingly, the Bank has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2015 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements the Bank has started from an opening balance sheet at 1 January 2014, the Bank's date of transition to FRS 101. There were no differences between the recognition and measurement basis applied under previous Irish GAAP at 1 January 2014 and FRS 101. As a result, the Bank has not presented the following reconciliations:

1) A reconciliation of its equity reported in accordance with previous Irish GAAP to its equity in accordance with EU adopted IFRS for both the following dates:
   - date of transition to FRS 101 being 1 January 2014
   - the end of the latest period presented in the Bank's most recent annual report in accordance with previous Irish GAAP being 31 December 2014.
2) A reconciliation to the Bank's total comprehensive income in accordance with EU-adopted IFRS for the latest period in the entity's most recent annual financial statements (prepared in accordance with previous Irish GAAP), being the year ended 31 December 2014.

27 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 19 February 2016.

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The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 17. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.

The Bank, as part of the Bank of Ireland Group, has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2015, lending criteria for the Bank's mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value ("LTV") limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book Composition

Table 1

Mortgage loan book - volumes (before impairment provisions)	**31 December 2015**	**31 December 2014**
	€m	**€m**
Owner occupied mortgages	15,915	15,819
Buy to let mortgages	3,620	4,080
Total	**19,535**	**19,899**

Mortgage loan book - volumes (before impairment provisions) by interest rate type	**31 December 2015**		**31 December 2014**	
	€m	**%**	**€m**	**%**
Tracker	9,664	49%	10,755	54%
Variable Rate	6,391	33%	7,043	35%
Fixed Rate	3,480	18%	2,101	11%
Total	**19,535**	**100%**	**19,899**	**100%**

Total mortgages were €19.5 billion at 31 December 2015 compared to €19.9 billion at 31 December 2014, a decrease of €0.4 billion or 2%. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments and resolution activity. Tracker mortgages have reduced by €1.1 billion (10%) in 2015 and are now less than 50% of the mortgage book. Fixed rate mortgages have increased significantly in 2015, by €1.4 billion or 66%, due to strong take up by both existing and new customers.

The proportion of the portfolio on a 'full principal and interest'[1] repayment basis at 31 December 2015 was 93% (31 December 2014: 90%) with the balance of 7% on an 'interest only'[2] repayment basis (31 December 2014: 10%). Of the Owner occupied mortgages of €15.9 billion, 96% were on a 'full principal and interest' repayment basis (31 December 2014: 95%), while 78% of the Buy to let mortgages of €3.6 billion were on a 'full principal and interest' repayment basis (31 December 2014: 74%). It is the Bank's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

The tables on the following page illustrate that at 31 December 2015, €5.0 billion or 26% of the mortgage loan book originated before 2006, €8.0 billion or 41% between 2006 and 2008 and €6.5 billion or 33% in the years since 2008.

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

At 31 December 2015, total non-performing loans were €2.2 billion (31 December 2014: €2.8 billion) or 11.0% of the mortgage loan book, of which €1.4 billion originated between 2006 and 2008. There has been a significant decrease in total non-performing loans in the year ended 31 December 2015 reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions. At 31 December 2015, impairment provisions were €0.9 billion equating to 41% of non-performing balances on the mortgage book.

[1] 'Full Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.
[2] 'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. 'Interest only' periods typically range between 3 and 5 years.

Book composition (continued)

Origination[1] profile

Table 2

Origination of mortgage loan book (before impairment provisions)

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

31 December 2014	Total mortgage loan book		Non performing loans	
	Balance €m	Number of accounts[2]	Balance €m	Number of accounts[2]
2000 and before	348	12,508	40	960
2001	268	4,838	24	355
2002	464	6,695	53	511
2003	813	9,411	120	914
2004	1,426	12,934	205	1,307
2005	2,309	17,295	373	2,004
2006	3,418	21,227	731	3,054
2007	3,106	17,925	709	2,734
2008	2,185	13,417	392	1,639
2009	1,181	8,647	90	547
2010	925	6,300	20	111
2011	820	5,568	5	36
2012	774	5,211	1	14
2013	749	4,739	1	6
2014	1,113	6,554	-	-
Total	**19,899**	**153,269**	**2,764**	**14,192**

[1] The lending originated in each year is net of related redemptions. For phased drawdowns the year of initial drawdown is classified as the year of origination.
[2] The number of accounts does not equate to either the number of customers or the number of properties.

Book composition (continued)

Risk Profile

Table 3a

Risk profile of mortgage loan book (before impairment provisions)

31 December 2015

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

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Total loans and advances						
Neither past due nor impaired	14,263	90%	2,876	70%	17,139	86%
1 - 90 days past due but not impaired	357	2%	116	3%	473	2%
Past due greater than 90 days but not impaired	290	2%	171	4%	461	2%
Impaired	909	6%	917	23%	1,826	10%
Total	**15,819**	**100%**	**4,080**	**100%**	**19,899**	**100%**
Non performing loans						
Probationary mortgages						
Self-cure	101	7%	44	4%	145	5%
Forborne	228	15%	104	8%	332	12%
Total probationary mortgages	329	22%	148	12%	477	17%
Defaulted						
Past due greater than 90 days but not impaired	290	19%	171	14%	461	17%
Impaired	909	59%	917	74%	1,826	66%
Total defaulted loans	1,199	78%	1,088	88%	2,287	83%
Total	**1,528**	**100%**	**1,236**	**100%**	**2,764**	**100%**

The tables above illustrate that €17.5 billion or 90% of the total mortgage loan book at 31 December 2015 was classified as ‘neither past due nor impaired’ compared to €17.1 billion or 86% at 31 December 2014.

The ‘1 – 90 days past due but not impaired’ category amounted to €0.4 billion or 2% of the total mortgage loan book at 31 December 2015 compared to €0.5 billion or 2% at 31 December 2014.

Book composition (continued)

Risk Profile (continued)

Table 3a (continued)

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

The ‘past due greater than 90 days but not impaired’ category amounted to €0.3 billion or 1% of the total mortgage book at 31 December 2015 compared to €0.5 billion or 2% at 31 December 2014.

‘Impaired’ loans reduced by €0.4 billion to €1.4 billion or 7% of the total mortgage book at 31 December 2015 from €1.8 billion or 10% of the total mortgage book at 31 December 2014.

Total non-performing mortgages reduced significantly by €0.6 billion or 22.0% to €2.2 billion at 31 December 2015. Within this, probationary mortgages were €0.5 billion at 31 December 2015 (31 December 2014: €0.5 billion) and defaulted loans reduced by €0.6 billion or 26% to €1.7 billion at 31 December 2015 (31 December 2014: €2.3 billion), reflecting the effectiveness of the Bank’s operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

There has been a reduction in Owner occupied non-performing loans in the year ended 31 December 2015, decreasing by €0.3 billion or 23.0% to €1.2 billion at 31 December 2015 (31 December 2014: €1.5 billion). This reduction further reflects the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies.

This progress is further evident in the reduction of non-performing Buy to let mortgages by €0.2 billion or 20.9% to €1.0 billion at 31 December 2015 from €1.2 billion at 31 December 2014. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

The Buy to let mortgage loan portfolio reduced by €0.5 billion or 11.3% in 2015 and the percentage of the Buy to let portfolio on a ‘full principal and interest’ repayment basis increased from 74% at 31 December 2014 to 78% at 31 December 2015.

Book composition (continued)

Arrears profile

Table 3b – ***Unaudited***

Mortgage Arrears - Greater than 90 days past due (number of accounts)	**31 December 2015**	**30 June 2015**	**31 December 2014**
Owner occupied mortgages	3.50%	4.34%	4.95%
Industry[1] Owner occupied (number of accounts)	Not available	10.33%	11.47%
Buy to let mortgages	9.13%	11.35%	12.77%
Industry[1] Buy to let (number of accounts)	Not available	20.61%	22.42%

Mortgage Arrears - Greater than 90 days past due (value)	**31 December 2015**	**30 June 2015**	**31 December 2014**
Owner occupied mortgages	4.85%	6.00%	6.85%
Industry[1] Owner occupied (value)	Not available	14.70%	16.20%
Buy to let mortgages	17.88%	20.72%	22.52%
Industry[1] Buy to let (value)	Not available	28.15%	30.57%

The latest information published by CBI is for the quarter ended 30 September 2015. This information indicates that the proportion (by number of accounts) of the mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (40% of industry average) and Buy to let (54% of industry average) mortgages. At 30 September 2015, 3.89% and 10.64% of the Bank's Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 9.75%[1] and 19.59%[1] respectively for the industry.

Mortgage Arrears - 720 days past due (number of accounts)	**31 December 2015**	**30 June 2015**	**31 December 2014**
Owner occupied mortgages	1.80%	2.04%	2.14%
Industry[1] Owner occupied (number of accounts)	Not available	5.66%	5.56%
Buy to let mortgages	4.88%	5.38%	5.56%
Industry[1] Buy to let (number of accounts)	Not available	12.34%	12.05%

Mortgage Arrears - 720 days past due (value)	**31 December 2015**	**30 June 2015**	**31 December 2014**
Owner occupied mortgages	2.79%	3.20%	3.29%
Industry[1] Owner occupied (value)	Not available	8.90%	8.66%
Buy to let mortgages	9.43%	9.61%	9.82%
Industry[1] Buy to let (value)	Not available	18.50%	18.34%

The latest information published by the CBI is for the quarter ended 30 September 2015. This information indicates that the proportion (by number of accounts) of the mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (34% of industry average) and Buy to let (44% of industry average) mortgages. At 30 September 2015, 1.93% and 5.35% of the Bank's Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than 720 days past due compared to 5.60%[1] and 12.27%[1] respectively for the industry.

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

Book composition (continued)

Table 3c

Loan to value profiles – total loans

31 December 2015

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	3,762	24%	565	16%	4,327	22%
51% to 70%	4,000	25%	564	15%	4,564	24%
71% to 80%	2,395	15%	316	8%	2,711	14%
81% to 90%	2,032	13%	565	16%	2,597	13%
91% to 100%	1,154	7%	418	12%	1,572	8%
Subtotal	**13,343**	**84%**	**2,428**	**67%**	**15,771**	**81%**
101% to 120%	1,801	11%	660	18%	2,461	13%
121% to 150%	703	4%	357	10%	1,060	5%
Greater than 150%	68	1%	175	5%	243	1%
Subtotal	**2,572**	**16%**	**1,192**	**33%**	**3,764**	**19%**
Total	**15,915**	**100%**	**3,620**	**100%**	**19,535**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**71%**		**88%**		**74%**
New mortgages during the year		**71%**		**49%**		**70%**

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	3,199	20%	468	12%	3,667	18%
51% to 70%	3,349	21%	478	12%	3,827	19%
71% to 80%	1,950	12%	294	7%	2,244	11%
81% to 90%	1,978	13%	540	13%	2,518	13%
91% to 100%	1,320	8%	408	10%	1,728	9%
Subtotal	**11,796**	**74%**	**2,188**	**54%**	**13,984**	**70%**
101% to 120%	2,077	13%	862	21%	2,939	15%
121% to 150%	1,669	11%	723	18%	2,392	12%
Greater than 150%	277	2%	307	7%	584	3%
Subtotal	**4,023**	**26%**	**1,892**	**46%**	**5,915**	**30%**
Total	**15,819**	**100%**	**4,080**	**100%**	**19,899**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**78%**		**98%**		**82%**
New mortgages during the year		**70%**		**50%**		**69%**

The tables above set out the weighted average indexed LTV for the total mortgage loan book which was, on average, 74% at 31 December 2015 (31 December 2014: 82%), 71% for Owner occupied mortgages and 88% for Buy to let mortgages. The weighted average indexed LTV for new mortgages written during 2015 was 70%, being 71% for Owner occupied mortgages and 49% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the CSO. The indexed LTV profile of the mortgage loan book contained in Table 3c is based on the CSO Residential Property Price Index at the applicable reporting date.

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

Book composition (continued)

Loan to value profiles – total loans (continued)

The CSO index for December 2015 reported that average national residential property prices were 34% below peak (December 2014: 38% below peak), with Dublin residential prices and outside of Dublin residential prices 36% and 35% below peak respectively (December 2014: 38% and 41% below peak respectively). In the year ended 31 December 2015, residential property prices at a national level increased by 6.6%.

At 31 December 2015, €15.8 billion or 81% of the Bank's mortgages were classified as being in positive equity, 84% for Owner occupied mortgages and 67% for Buy to let mortgages.

At 31 December 2015, the total calculated negative equity in the mortgage loan book was €0.6 billion (31 December 2014: €1.0 billion). The majority of mortgage borrowers in negative equity continue to meet their mortgage repayments with €0.4 billion negative equity related to loans that were 'neither past due nor impaired' at 31 December 2015.

Table 3d

Loan to value profiles – non-performing loans

31 December 2015

	Owner occupied		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgages - non- performing loans						
Less than 50%	135	11%	32	3%	167	8%
51% to 70%	163	14%	63	7%	226	10%
71% to 80%	102	9%	51	5%	153	7%
81% to 90%	121	10%	151	16%	272	13%
91% to 100%	126	11%	102	10%	228	11%
Subtotal	**647**	**55%**	**399**	**41%**	**1,046**	**49%**
101% to 120%	262	22%	262	27%	524	24%
121% to 150%	219	19%	199	20%	418	19%
Greater than 150%	49	4%	118	12%	167	8%
Subtotal	**530**	**45%**	**579**	**59%**	**1,109**	**51%**
Total	**1,177**	**100%**	**978**	**100%**	**2,155**	**100%**

31 December 2014

	Owner occupied		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Loan to value (LTV) ratio of total mortgages - non-performing loans						
Less than 50%	148	10%	37	3%	185	6%
51% to 70%	173	11%	53	4%	226	8%
71% to 80%	110	7%	55	4%	165	6%
81% to 90%	134	9%	138	11%	272	10%
91% to 100%	135	9%	105	9%	240	9%
Subtotal	**700**	**46%**	**388**	**31%**	**1,088**	**39%**
101% to 120%	304	20%	287	23%	591	21%
121% to 150%	373	24%	383	31%	756	28%
Greater than 150%	151	10%	178	15%	329	12%
Subtotal	**828**	**54%**	**848**	**69%**	**1,676**	**61%**
Total	**1,528**	**100%**	**1,236**	**100%**	**2,764**	**100%**

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

Book composition (continued)

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

Of the non-performing mortgages €1.0 billion or 49% were classified as being in positive equity (31 December 2014: €1.1 billion or 39%) while €1.1 billion or 51% were classified as being in negative equity at 31 December 2015 (31 December 2014: €1.7 billion or 61%).

For the non-performing category, 55% of Owner occupied mortgages (31 December 2014: 46%) and 41% of Buy to let mortgages (31 December 2014: 31%) were classified as being in positive equity at 31 December 2015.

Asset quality

Composition and impairment

The risk profile of the Bank's loans and advances to customers at both 31 December 2015 and 31 December 2014 is outlined in the following tables.

Table 4a

	Loan Volumes €m	Non-performing Loans[1] €m	Non-performing Loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of non-performing loans %
31 December 2015					
Total mortgages					
Owner occupied mortgages	15,915	1,177	7.4%	390	33%
Buy to let mortgages	3,620	978	27.0%	493	50%
Total	**19,535**	**2,155**	**11.0%**	**883**	**41%**
Of which - forborne					
Owner occupied mortgages	1,597	480	30.1%	157	33%
Buy to let mortgages	786	318	40.5%	130	41%
Total	**2,383**	**798**	**33.5%**	**287**	**36%**
31 December 2014					
Total mortgages					
Owner occupied mortgages	15,819	1,528	9.7%	480	31%
Buy to let mortgages	4,080	1,236	30.3%	596	48%
Total	**19,899**	**2,764**	**13.9%**	**1,076**	**39%**
Of which - forborne					
Owner occupied mortgages	1,536	584	38.0%	177	30%
Buy to let mortgages	628	308	49.0%	115	37%
Total	**2,164**	**892**	**41.2%**	**292**	**33%**

Non-performing mortgages at 31 December 2015 were €2.2 billion or 11.0% of advances compared to €2.8 billion or 13.9% of advances at 31 December 2014. Total non-performing mortgages reduced significantly by €0.6 billion or 22.0% to €2.2 billion at 31 December 2015, reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

There has been a reduction in Owner occupied non-performing loans in the year ended 31 December 2015, decreasing by €0.3 billion or 23.0% to €1.2 billion at 31 December 2015 (31 December 2014: €1.5 billion). This reduction further reflects the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies.

This progress is further evident in the reduction of non-performing Buy to let mortgages reducing by €0.2 billion or 20.9% to €1.0 billion at 31 December 2015 from €1.2 billion at 31 December 2014. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages on a sustainable basis, resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

[1]The NPL classification does not indicate that the terms of the forbearance measure are not being met.

Asset quality

Composition and impairment (continued)

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

Table 4b

	Loan Volumes €m	Defaulted loans[1] €m	Defaulted loans as a % of advances %	Impairment provisions €m	Impairment provisions as a % of defaulted loans %
31 December 2015					
Total mortgages					
Owner occupied mortgages	15,915	888	5.6%	390	44%
Buy to let mortgages	3,620	793	21.9%	493	62%
Total	**19,535**	**1,681**	**8.6%**	**883**	**53%**
Of which - forborne					
Owner occupied mortgages	1,597	267	16.7%	157	59%
Buy to let mortgages	786	176	22.4%	130	74%
Total	**2,383**	**443**	**18.6%**	**287**	**65%**
31 December 2014					
Total mortgages					
Owner occupied mortgages	15,819	1,199	7.6%	480	40%
Buy to let mortgages	4,080	1,088	26.7%	596	55%
Total	**19,899**	**2,287**	**11.5%**	**1,076**	**47%**
Of which - forborne					
Owner occupied mortgages	1,536	357	23.2%	177	50%
Buy to let mortgages	628	203	32.3%	115	57%
Total	**2,164**	**560**	**25.9%**	**292**	**52%**

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

Asset quality (continued)

Properties in possession

At 31 December 2015, the Bank had possession of properties held as security as follows:

Table 5a

	31 December 2015		31 December 2014	
	Number of repossessions at balance sheet date	Balance[1] outstanding before impairment provisions €m	Number of repossessions at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied mortgages	85	22	98	29
Buy to let mortgages	38	11	44	13
Total residential properties in possession	**123**	**33**	**142**	**42**

Disposals of properties in possession

Table 5b

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

31 December 2014	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied mortgages	98	12
Buy to let mortgages	74	8
Total disposals of properties in possession	**172**	**20**

During the year ended 31 December 2015 the Bank disposed of 143 repossessed properties (31 December 2014: 172 repossessed properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the year ended 31 December 2015, the proceeds from disposals of Owner occupied repossessed properties were €15 million (31 December 2014: €12 million).

For the year ended 31 December 2015, the proceeds from disposals of Buy to let repossessed properties before value of additional collateral applied were €3 million (31 December 2014: €8 million).

In addition, a further 389 Buy to let properties were disposed of by fixed charge receivers during the year (year ended 31 December 2014: 769).

[1] *Gross balance outstanding before value of additional collateral held.*

Asset quality (continued)

Forbearance measures

The Bank continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan (”forbearance measure”), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active ‘forbearance measure’ is a ‘forborne’ mortgage.

The Bank, as part of the Group, has an established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

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

A forbearance request by the borrower will always be a trigger event for the Bank to undertake an assessment of the customer’s financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Bank’s policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Bank and the customer.

The effectiveness of forbearance is considered taking account of:

- the strategy that is being followed with a view to maximising recovery for the Bank and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:

- full interest: (step up to full principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to full principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2015.

Table 6a

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

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

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2015, this mortgage loan is not included in the stock of active forbearance measures.
[2] The NPL classification does not indicate that the terms of the forbearance measure are not being met.
[3] Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 39 in the credit risk note.
[4] The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

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

Table 6a (continued)

	Performing loans		Non performing loans[2,3]		All loans	
31 December 2014	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**	**Balance €m**	**Number of accounts[4]**
Owner occupied						
Full interest	87	678	45	321	132	999
Reduced payment (greater than full interest)	159	1,348	188	1,202	347	2,550
Term extension	280	3,332	84	671	364	4,003
Capitalisation of arrears	169	1,234	80	490	249	1,724
Hybrids	243	1,892	178	1,183	421	3,075
Other	14	102	9	59	23	161
Total	**952**	**8,586**	**584**	**3,926**	**1,536**	**12,512**
Buy to let						
Full interest	43	230	49	170	92	400
Reduced payment (greater than full interest)	58	388	92	379	150	767
Term extension	102	749	26	174	128	923
Capitalisation of arrears	34	188	36	144	70	332
Hybrids	83	417	105	427	188	844
Other	-	4	-	1	-	5
Total	**320**	**1,976**	**308**	**1,295**	**628**	**3,271**
Total						
Full interest	130	908	94	491	224	1,399
Reduced payment (greater than full interest)	217	1,736	280	1,581	497	3,317
Term extension	382	4,081	110	845	492	4,926
Capitalisation of arrears	203	1,422	116	634	319	2,056
Hybrids	326	2,309	283	1,610	609	3,919
Other	14	106	9	60	23	166
Total	**1,272**	**10,562**	**892**	**5,221**	**2,164**	**15,783**

The total number of accounts in forbearance has increased from 15,783 at 31 December 2014 to 17,340 accounts at 31 December 2015. The balances on accounts in forbearance increased from €2.2 billion at 31 December 2014 to €2.4 billion at 31 December 2015. This overall increase reflects the Bank's progress in implementing restructure and resolution strategies.

For Owner occupied mortgages, 13,406 accounts or €1.6 billion are in forbearance at 31 December 2015 (31 December 2014: 12,512 accounts or €1.5 billion). For Buy to let mortgages, 3,934 accounts or €0.8 billion are in forbearance at 31 December 2015 (31 December 2014: 3,271 accounts or €0.6 billion).

At 31 December 2015, there were a further 431 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2014: 733 accounts).

[1] *Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2014, this mortgage loan is not included in the stock of active forbearance measures.*
[2] *The NPL classification does not indicate that the terms of the forbearance measure are not being met.*
[3] *Non-performing loans comprise defaulted loans together with probationary mortgages as described on page 39 in the credit risk note.*
[4] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Hybrids are the largest forbearance category by number of accounts with 4,965 accounts at 31 December 2015 (31 December 2014: 3,919 accounts), followed by term extension forbearance treatments with 4,888 accounts at 31 December 2015 (31 December 2014: 4,926 accounts).

Hybrids increased to 4,965 accounts or €0.8 billion at 31 December 2015 from 3,919 accounts or €0.6 billion at 31 December 2014. A total of 618 accounts or €0.1 billion new hybrid measures were put in place during the year. 979 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 416 accounts or €80 million changed to another forbearance measure. A reduction of 135 accounts relates to redeemed accounts; a reduction of €34 million was due to those redeemed accounts and principal repayments made during the year.

A total of 436 accounts or €53 million new term extensions were extended during the year. A further 269 accounts or €32 million changed to term extension from another forbearance measure, while 492 accounts or €70 million changed forbearance measure. A reduction of 251 accounts relates to redeemed accounts; a reduction of €38 million was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 3,599 accounts or €0.5 billion at 31 December 2015, compared to 3,317 accounts or €0.5 billion at 31 December 2014. A total of 1183 accounts or €0.2 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the year. A further 202 accounts or €30 million changed their forbearance measure to reduced payment (greater than full interest with step up to full capital and interest), while 443 accounts or €0.1 billion changed to another forbearance measure. A total of 577 accounts or €0.1 billion exited during the year. A reduction of 83 accounts relates to redeemed accounts; a reduction of €45 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisation of arrears increased to 2,844 accounts or €0.4 billion at 31 December 2015 from 2,056 accounts or €0.3 billion at 31 December 2014. A total of 676 accounts or €0.1 billion had capitalisation of arrears applied during the year. A further 301 accounts or €0.1 billion changed to capitalisation of arrears from another forbearance measure, while 123 accounts or €27 million changed to another forbearance measure. A reduction of 66 accounts relates to redeemed accounts; a reduction of €24 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2015, 883 accounts or €0.2 billion were subject to full interest forbearance compared to 1,399 accounts or €0.2 billion at 31 December 2014. A total of 437 accounts or €0.1 billion of new full interest forbearance measures were extended during the year, 36 accounts or €6 million changed to full interest, while 294 accounts or €0.1 billion changed from full interest to another forbearance measure. A total of 567 accounts or €0.1 billion exited forbearance during the year. A reduction of 128 accounts relates to redeemed accounts; a reduction of €15 million was due to those redeemed accounts and principal repayments made during the year.

‘Other’ forbearance measures decreased to 161 accounts or €26 million at 31 December 2015 from 166 accounts or €23 million at 31 December 2014.

Asset quality (continued)

The following table shows the movement in the stock of active forborne mortgages (before impairment provisions) during the year ended 31 December 2015.

Table 6b

Reconciliation of forborne loan stock by performing / non-performing status - mortgage loan book (before impairment provisions)	Owner Occupied		Buy to Let		All loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
All loans						
Opening balance at 1 January 2015 *	**1,536**	**12,512**	**628**	**3,271**	**2,164**	**15,783**
New forbearance extended	325	2,443	250	1,025	575	3,468
Exited forbearance						
- Improved to or remained in performing	(83)	(616)	(14)	(79)	(97)	(695)
- Improved / stabilised and remained in non-performing	(49)	(280)	(19)	(69)	(68)	(349)
- Redemptions, principal repayments and other	(107)	(490)	(50)	(179)	(157)	(669)
- Disimproved to or within non-performing	(25)	(163)	(9)	(35)	(34)	(198)
Transfers within forbearance between performing and non-performing loans	-	-	-	-	-	-
Closing balance at 31 December 2015	**1,597**	**13,406**	**786**	**3,934**	**2,383**	**17,340**
Performing loans						
Opening balance at 1 January 2015 *	**952**	**8,586**	**320**	**1,976**	**1,272**	**10,562**
New forbearance extended	146	1,123	105	469	251	1,592
Exited forbearance						
- Remained in performing	(80)	(599)	(13)	(75)	(93)	(674)
- Redemptions, principal repayments and other	(68)	(344)	(28)	(105)	(96)	(449)
- Disimproved to non-performing	(7)	(61)	(3)	(10)	(10)	(71)
Transfers within forbearance between performing and non-performing loans	174	1,318	87	402	261	1,720
Closing balance at 31 December 2015	**1,117**	**10,023**	**468**	**2,657**	**1,585**	**12,680**
Non-performing loans						
Opening balance at 1 January 2015 *	**584**	**3,926**	**308**	**1,295**	**892**	**5,221**
New forbearance extended	179	1,320	145	556	324	1,876
Exited forbearance						
- Improved to performing	(3)	(17)	(1)	(4)	(4)	(21)
- Improved / stabilised and remained in non-performing	(49)	(280)	(19)	(69)	(68)	(349)
- Redemptions, principal repayments and other	(39)	(146)	(22)	(74)	(61)	(220)
- Disimproved and remained in non-performing	(18)	(102)	(6)	(25)	(24)	(127)
Transfers within forbearance between performing and non-performing loans	(174)	(1,318)	(87)	(402)	(261)	(1,720)
Closing balance at 31 December 2015	**480**	**3,383**	**318**	**1,277**	**798**	**4,660**

The table above details the movement in forborne accounts and balances between 1 January 2015 and 31 December 2015 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
    - Improved to or remained in performing;
    - Improved / stabilised and remained in non-performing;
    - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2015 and remained in forbearance stock at 31 December 2015);
    - Disimproved to or within non-performing; and
- Those accounts and balances which transferred between performing loans and non-performing loans but remained in forbearance.

The non-performing loan classification does not indicate that the terms of the forbearance measure have not been met. The 'performing / non-performing' status of accounts which exited forbearance during the year is determined at the date of exit.

** in line with the revised asset quality definitions as set out on page 39, the table above has been prepared using 'performing' and 'non-performing' classifications Therefore, opening balances are not comparable with the Bank's Annual Report for the year ended 31 December 2014 which used a 'defaulted' classification.*

[1] The number of accounts does not equate to either the number of customers or the number of properties.

Asset quality (continued)

A total of 17,340 accounts or €2.4 billion of account balances were in forbearance at 31 December 2015, compared to 15,783 accounts or €2.1 billion at 31 December 2014. Of these, 3,468 accounts or €0.6 billion new forbearance measures were put in place during the year, of which 1,592 accounts or €0.3 billion were classified as 'performing loans' while 1,876 accounts or €0.3 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 695 accounts or €0.1 billion improved to or remained in performing, 349 accounts or €0.1 billion remained in non-performing with improved or stabilised arrears and 198 accounts or €34 million disimproved arrears to or within non-performing. A reduction in the forbearance stock of 669 accounts relates to redeemed accounts during the year; a reduction of €0.2 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 13,406 accounts or €1.6 billion of account balances were in forbearance at 31 December 2015 compared to 12,512 accounts or €1.5 billion at 31 December 2014. Of these, 2,443 accounts or €0.3 billion were new forbearance measures put in place during the year of which 1,123 accounts or €0.1 billion were classified as 'performing loans', while 1,320 accounts or €0.2 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 616 accounts or €0.1 billion improved to or remained in performing, 280 accounts or €49 million remained in non-performing with improved or stabilised arrears and 163 accounts or €25 million disimproved arrears to or within non-performing. A reduction of 490 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 3,934 accounts or €0.8 billion of account balances were in forbearance at 31 December 2015 compared to 3,271 accounts or €0.6 billion at 31 December 2014. Of these, 1,025 accounts or €0.2 billion were new forbearance measures put in place during the year of which 469 accounts or €0.1 billion were classified as 'performing loans' while 556 accounts or €0.1 billion were classified as 'non-performing loans'. Of those that exited forbearance during the year 79 accounts or €14 million improved to or remained in performing, 69 accounts or €19 million remained in non-performing with improved or stabilised arrears and 35 accounts or €9 million disimproved arrears to or within non-performing. A reduction of 179 accounts relates to redeemed accounts during the year; a reduction of €50 million was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears

The Bank has invested in its Mortgage Arrears Resolution Strategy (MARS) infrastructure and continues to implement restructuring and resolution options for customers. The increased level of forbearance treatments reflects the ongoing effectiveness of the Bank's MARS strategy in supporting customers encountering mortgage difficulties.

The Bank's defined MARS strategy, relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

Asset quality (continued)

Table 7a

Loan to value profiles – forborne loans

31 December 2015

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgages						
Less than 50%	285	18%	52	7%	337	14%
51% to 70%	294	18%	86	11%	380	16%
71% to 80%	180	11%	68	9%	248	10%
81% to 90%	169	11%	145	18%	314	13%
91% to 100%	176	11%	103	13%	279	12%
Subtotal	**1,104**	**69%**	**454**	**58%**	**1,558**	**65%**
101% to 120%	300	19%	202	25%	502	21%
121% to 150%	182	11%	100	13%	282	12%
Greater than 150%	11	1%	30	4%	41	2%
Subtotal	**493**	**31%**	**332**	**42%**	**825**	**35%**
Total	**1,597**	**100%**	**786**	**100%**	**2,383**	**100%**

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgages						
Less than 50%	225	15%	36	6%	261	12%
51% to 70%	239	16%	51	8%	290	13%
71% to 80%	145	9%	48	8%	193	9%
81% to 90%	160	10%	97	15%	257	12%
91% to 100%	147	10%	72	11%	219	10%
Subtotal	**916**	**60%**	**304**	**48%**	**1,220**	**56%**
101% to 120%	305	20%	144	23%	449	21%
121% to 150%	270	17%	149	24%	419	19%
Greater than 150%	45	3%	31	5%	76	4%
Subtotal	**620**	**40%**	**324**	**52%**	**944**	**44%**
Total	**1,536**	**100%**	**628**	**100%**	**2,164**	**100%**

The tables above illustrate the indexed loan to value ratios for total forborne mortgages which showed positive movements during 2015. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio.

Of the total mortgages with active forbearance measures in place €1.6 billion or 65% were classified as being in positive equity (31 December 2014: €1.2 billion or 56%) while €0.8 billion or 35% were classified as being in negative equity at 31 December 2015 (31 December 2014: €0.9 billion or 44%). 69% of forborne Owner occupied mortgages (31 December 2014: 60%) and 58% of forborne Buy to let mortgages (31 December 2014: 48%) are in positive equity at 31 December 2015.

Asset quality (continued)

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

Table 7b

31 December 2015

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgages- non-performing loans						
Less than 50%	55	12%	12	4%	67	9%
51% to 70%	77	16%	20	6%	97	12%
71% to 80%	40	8%	25	8%	65	8%
81% to 90%	49	10%	56	18%	105	13%
91% to 100%	53	11%	36	11%	89	11%
Subtotal	**274**	**57%**	**149**	**47%**	**423**	**53%**
101% to 120%	116	24%	98	31%	214	27%
121% to 150%	83	17%	54	17%	137	17%
Greater than 150%	7	2%	17	5%	24	3%
Subtotal	**206**	**43%**	**169**	**53%**	**375**	**47%**
Total	**480**	**100%**	**318**	**100%**	**798**	**100%**

31 December 2014

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Loan to value (LTV) ratio of forborne mortgages- non-performing loans						
Less than 50%	56	9%	10	3%	66	7%
51% to 70%	75	13%	15	5%	90	10%
71% to 80%	47	8%	19	6%	66	8%
81% to 90%	51	9%	46	15%	97	11%
91% to 100%	57	10%	34	11%	91	10%
Subtotal	**286**	**49%**	**124**	**40%**	**410**	**46%**
101% to 120%	133	23%	71	23%	204	23%
121% to 150%	133	23%	95	31%	228	25%
Greater than 150%	32	5%	18	6%	50	6%
Subtotal	**298**	**51%**	**184**	**60%**	**482**	**54%**
Total	**584**	**100%**	**308**	**100%**	**892**	**100%**

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

Of the non-performing mortgages with active forbearance measures in place, €0.4 billion or 53% were classified as being in positive equity (31 December 2014: €0.4 billion or 46%), while €0.4 billion or 47% were classified as being in negative equity at 31 December 2015 (31 December 2014: €0.5 billion or 54%). For the active forbearance measures non-performing category, 57% of Owner occupied mortgages (31 December 2014: 49%) and 47% of Buy to let mortgages (31 December 2014: 40%) were classified as being in positive equity at 31 December 2015.

Forbearance Disclosures

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

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

Table 1

Non-forborne loans and advances	31 December 2015 €'000	31 December 2014[1] €'000
High quality	15,608,898	15,591,233
Satisfactory quality	-	-
Acceptable quality	79,442	89,331
Lower quality but neither past due nor impaired	-	-
Neither past due nor impaired	**15,688,340**	**15,680,564**
Past due up to 30 days	157,132	204,005
Past due 31 - 60 days	47,074	70,210
Past due 61- 90 days	21,546	53,189
Past due more than 90 days	154,204	278,188
Past due[2] but not impaired	**379,956**	**605,592**
Impaired	1,084,246	1,448,060
Total past due and impaired	**1,464,202**	**2,053,652**
Total non-forborne loans and advances to customers	**17,152,542**	**17,734,216**

Forborne loans and advances	31 December 2015 €'000	31 December 2014[1] €'000
High quality	-	-
Satisfactory quality	891,324	678,959
Acceptable quality	579,538	495,142
Lower quality but neither past due nor impaired	314,149	284,041
Neither past due nor impaired	**1,785,011**	**1,458,142**
Past due up to 30 days	92,736	82,448
Past due 31 - 60 days	40,301	35,734
Past due 61- 90 days	22,632	27,601
Past due more than 90 days	100,039	183,111
Past due[2] but not impaired	**255,708**	**328,894**
Impaired	342,068	377,287
Total past due and impaired	**597,776**	**706,181**
Total forborne loans and advances to customers	**2,382,787**	**2,164,323**

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €1.8 billion at 31 December 2015 compared to €1.5 billion 31 December 2014. Forborne loans and advances to customer classified as 'past due but not impaired remained unchanged at €0.3 billion at 31 December. Forborne impaired loans have reduced to €0.3 billion at 31 December 2015 from €0.4 billion at 31 December 2014.

[1] In line with the revised asset quality definitions set out on pages 39, certain comparative figures have been restated.

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

Forbearance disclosures (continued)

Non-performing loans

Table 2

	31 December 2015 €'000	31 December 2014 €'000
Non-forborne loans and advances: non-performing		
Probationary mortgages		
Self-cure	117,864	144,196
Forborne	-	-
Total probationary mortgages	117,864	144,196
Defaulted		
Past due greater than 90 days but not impaired	154,204	278,188
Impaired	1,084,246	1,448,060
Total defaulted mortgages	1,238,450	1,726,248
Total	**1,356,314**	**1,870,444**
Forborne loans and advances: non performing		
Probationary mortgages		
Self-cure	-	-
Forborne	356,191	332,387
Total probationary mortgages	356,191	332,387
Defaulted		
Past due greater than 90 days but not impaired	100,039	183,111
Impaired	342,068	377,287
Total defaulted mortgage	442,107	560,398
Total	**798,298**	**892,785**

Impairment reversals on forborne loans and advances to customers - Composition

The total impairment reversal of €35.4 million for the year ended 31 December 2015 includes €71.3 million relating to loans which are classified as forborne at the balance sheet date (year ended 31 December 2014: €45.3 million).

Table 3

Impairment reversal on forborne loans and advances to customers	For the year ended 31 December 2015 €'000	For the year ended 31 December 2014 €'000
Specific reversal individually and collectively assessed	(29,459)	(13,822)
Incurred but not reported	(41,888)	(31,435)
	(71,347)	**(45,257)**

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

Forbearance disclosures (continued)

Impairment provision on forborne loans and advances - Composition

The total impairment provision of €883 million at 31 December 2015 (31 December 2014: €1.076 million) includes €287 million impairment provision on forborne loans (31 December 2014: €292 million) as set out in the table below.

Table 4

Impairment provision on forborne loans and advances composition	31 December 2015 €'000	31 December 2014 €'000
Advances	2,382,787	2,164,323
Non-performing loans	798,298	892,785
Specific provision individually and collectively assessed	135,534	141,724
Incurred but not reported	151,478	150,440
Total impairment provision on forborne loans	**287,012**	**292,164**
Impairment provisions as a % of non-performing loans	36%	33%

Specific and Incurred but not reported (IBNR) provisions held against forborne mortgages decreased during 2015. While the associated forborne loan balances have increased during the year as more customers enter into long-term sustainable forbearance solutions, the provision stock has decreased reflecting a reduction in the volume of non-performing forborne loans.