2019

Bank of Ireland Mortgage Bank
Annual Report

Bank of Ireland

Contents

Directors and other information

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

Registered Office and Number
Bank of Ireland
40 Mespil Road
Dublin 4
Registered Number 386415

Cover Assets Monitor
Mazars
Harcourt Centre
Block 3
Harcourt Road
Dublin 2

Independent Auditor
KPMG
1 Harbourmaster Place
IFSC
Dublin 1

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

Report of the Directors

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the 'Bank'), for the financial year ended 31 December 2019.

Review of business

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

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

The Bank generated profit before taxation in 2019 of €212 million (2018: €342 million):

- net interest income grew to €320 million (2018: €302 million);
- there was an increase in the tracker provision of €47 million in the year (2018: €nil);
- an impairment charge of €44 million arose in the year. This represented a more normalised impairment level following a €43 million gain in 2018 (see notes 7, 12 and 24 (page 52)); and
- asset quality continues to improve with a reduction in non-performing exposures of 34% to €1.0 billion (2018: €1.5 billion) following the disposal of €0.4 billion of non-performing loans.

The outlook for the Irish economy remains positive with strong domestic activity and robust exports during 2019. The strong labour market performance in 2018 has carried forward into 2019 with an unemployment rate of 4.7%[1] at December 2019. This environment continues to have a positive impact on incomes and consumer spending. Strong economic conditions coupled with a growing population mean demand for property remains high.

The number of residential transactions in the market was up 6% in 2019 while house prices continue to grow, although at a slower pace in 2019. While housing completions have increased, there continues to be supply constraints in the housing market, particularly in the greater Dublin and other urban areas.

The Irish new mortgage market grew by 9% to €9.5 billion[2] in 2019 and there remains strong demand for fixed interest rate mortgages both by existing and new customers which provide value, certainty and stability for both our customers and the Bank.

Tracker Mortgage Examination Review

At 31 December 2018, the Bank held a provision of €38 million in respect of the industry wide Tracker Mortgage Examination. The provision represented the Bank's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Bank in connection with the examination.

The Bank has determined in 2019 that a further €47 million provision is required to cover the additional redress and compensation costs for a number of customers, operational costs associated with the length and nature of the review and costs of closing out the Tracker Mortgage Examination review (see notes 1.19(c), 2, 6 and 18).

Considerable progress has been made in 2019 in contacting and remediating remaining impacted customers. Since 31 December 2018, €24 million of the provision has been utilised covering redress, compensation and related costs leaving a residual provision of €61 million at 31 December 2019.

While the Tracker Mortgage review by the Central Bank of Ireland has concluded, the provision covers the estimated costs of remediation of any remaining impacted customers, addressing customer appeals and closing out all other outstanding costs of the exercise in particular any sanction that may be incurred as a result of Central Bank of Ireland enforcement actions. With respect to the latter, the Bank considers that there is a range of potential sanction outcomes based on general and specific circumstances and the amount of any sanction imposed may differ from the amount provided at 31 December 2019.

Asset quality

Loans and advances to customers (before impairment loss allowances) at amortised cost amounted to €16.2 billion at 31 December 2019 (2018: €16.0 billion).

The Bank's non-performing exposure (NPE) resolution strategy involves restructuring and sales activity supplemented with portfolio level initiatives. In April 2019, the Bank of Ireland Group executed a securitisation of predominantly Buy to let non-performing exposures of which €230 million related to the Bank. In August 2019, the Bank of Ireland Group also disposed of a loan portfolio consisting predominantly of Buy to let non-performing exposures of which €138 million related to the Bank. The Bank continues to keep its NPE resolution strategies under review for 2020 and beyond, while responding to the associated and evolving Regulatory framework.

As a consequence of its strategies, non-performing exposures have reduced by 34% to €1.0 billion at 31 December 2019 (2018: €1.5 billion). Impairment loss allowances measured under IFRS 9 are €0.3 billion (2018: €0.3 billion).

Owner occupied non-performing exposures were €0.7 billion at 31 December 2019, a reduction of 15% since 31 December 2018. This reduction is reflective of the improvement in economic conditions during the year and the ongoing progress being made by the Bank in effecting its mortgage arrears resolution strategies. At 31 December 2019, 98% of the Owner occupied mortgage book was on a 'full principal and interest' repayment basis (2018: 97%).

Buy to let non-performing exposures were €0.3 billion at 31 December 2019, a reduction of 56% since 31 December 2018. This reduction reflects the portfolio resolution activity referred to above and the continued progress made by the Bank in the ongoing restructuring of customer mortgages, supported by improved rental market conditions, particularly evident in primary urban areas. At 31 December 2019, 90% of the Buy to let mortgage book was on a 'full principal and interest' repayment basis (2018: 79%).

[1] *Source: Central Statistics Office - monthly unemployment statistical release.*
[2] *Source: Banking and Payments Federation Ireland (BPFI) new mortgage data.*

Capital
At 31 December 2019, the common equity tier 1 (CET 1) ratio on both a regulatory and a fully loaded basis was 22.4% (2018: 18.9%). The total capital ratio on both a regulatory and a fully loaded basis was 28.6% (2018: 24.5%). The movement in the Bank's capital ratios is primarily due to profits in year and the sale of non-performing loans partially offset by a distribution to its immediate parent.

The distribution was facilitated by a reduction of €250 million of ordinary share capital in the Bank by means of the cancellation of 250 million of ordinary shares at par of €1 each. This was completed on 30 January 2019.

The leverage ratio at 31 December 2019 was 6.9% on a regulatory basis (2018: 6.7%) and 6.9% on a fully loaded basis (2018: 6.7%). The Bank expects to remain above the European Commission future leverage ratio requirement of 3% which will be applicable from 2021.

The Bank has been required to maintain a Countercyclical Buffer (CCyB) since 5 July 2019. See the section on 'Capital management' in note 24 on page 62 for further details.

Principal risks and uncertainties
The principal risks that the Bank is exposed to are Credit Risk, Market Risk, Funding and Liquidity Risk, Operational Risk, Regulatory Risk, Conduct Risk, Business and Strategic Risk, Reputation Risk and Capital Adequacy Risk. The financial risk management objectives and policies of the Bank, including the policy for hedging, and the exposure of the Bank to these key risks is set out in note 24 Risk management and control.

Brexit
Ongoing uncertainty following the UK exit from the EU, relating to the nature and impact of withdrawal, could impact the markets in which the Bank operates. This includes pricing, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations. This, in turn, could have an impact on the Bank's financial performance, balance sheet, capital and dividend capacity.

Other effects may include changes in official interest rate policy in the Eurozone, which can impact the Bank's revenues. The Bank continues to closely monitor the impact on the Irish economy and the Bank, and manage that change, and the specific risks and challenges associated with same.

Results
The profit before taxation for 2019 amounted to €212 million (2018: €342 million), as set out in the income statement on page 12.

Net interest income increased to €320 million for 2019, from €302 million in 2018. The increase is primarily driven by lower funding costs.

Fee and commission income amounted to €2 million for 2019 (2018: €2 million).

Operating expenses increased to €77 million for 2019 (2018: €27 million) driven primarily by an increase in costs associated with the Tracker Mortgage Examination Review. Excluding the impact of this Review, operating expenses were €37 million (2018: €38 million).

The net impairment losses of €44 million for 2019 (2018: gain €43 million) reflect:
- updates to model factors notwithstanding improved economic conditions; and
- our actions to manage non-performing exposures.

Details of updated impairment measurement and assumptions for the loan portfolio, including property valuation assumptions are set out on page 52.

Net trading income for the year was €11 million (2018: €22 million), which reflects the impact of fair value movements on Life Loans classified at fair value through profit or loss. Net trading income also includes fair value movements on both derivatives and debt securities in a fair value hedge relationship and interest flows and fair value movements on derivatives which do not qualify for hedge accounting 2019 €nil (2018: €7 million). The Bank enters into derivative transactions only for the hedging of interest rates.

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

Covered bonds are a key element of the Bank's long term funding strategy. During 2019, €0.8 billion of securities in issue matured and the Bank repurchased an additional €0.1 billion of bonds.

The Bank obtains a rating for the covered bonds from Moody's Investor Services, 2019: Aaa (2018: Aaa).

At 31 December 2019, the Bank had a customer loan portfolio of €16.2 billion (net of impairment loss allowances and including Life Loans) funded through debt securities in issue: €7.4 billion (46%); equity and subordinated debt: €1.7 billion (10%) and net Group borrowings: €7.1 billion (44%). Of the €7.4 billion debt securities in issue, €3.2 billion is held by Bank of Ireland. The remaining €4.2 billion is issued to other external bondholders with a range of maturities out to 2043.

Full details of debt securities in issue are contained in note 16 to the financial statements.

At 31 December 2019, the Bank had €140 million of subordinated loan borrowings from its immediate parent company (2018: €140 million).

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

Disclosure of information to auditors
The Directors in office at the date of this report have confirmed that, as far as they are aware:
- there is no relevant audit information of which the Bank's auditor is unaware; and
- they have taken all the steps that ought to be taken, as Directors, in order to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Dividends
No dividends were paid during 2019 (2018: €nil). The Directors do not recommend the payment of a dividend.

Audit committee
The Bank's Audit Committee, which comprises a majority of independent non-executive Directors, assists the Board of Directors (the 'Board') in fulfilling its responsibilities relating to:
- the integrity of the financial statements;
- the relationship between the Bank and its external auditors;
- the Bank's internal controls, internal audit and IT systems; and
- compliance functions.

Outlook
Notwithstanding Brexit uncertainties, the positive economic environment in Ireland is expected to continue and forward looking indicators suggest that we will see continued growth in mortgage lending in 2020. Forecasts out to 2022 indicate that the Bank will continue to grow its loan book and generate profits and capital over the period.

Directors and Secretary
Harry Lorton
Independent Non-executive Chairman

John O'Beirne
Managing Director

Neil Corcoran
Executive Director

Tony McMahon
Executive Director

Aine McCleary
Group Non-executive Director
(Appointed 14 January 2019)

Tony Morley
Group Non-executive Director
(Appointed 14 January 2019)

Sean Crowe
Group Non-executive Director
(Resigned 22 February 2019)

Geraldine Kelly
Independent Non-executive Director

Richard Milliken
Independent Non-executive Director
(Resigned 25 July 2019)

Paul Raleigh
Independent Non-executive Director
(Appointed 25 July 2019)

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

Political donations
Political donations are required to be disclosed under the Electoral Acts 1992 to 2014. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2019 (2018: €nil).

Corporate governance
The Corporate governance statement on page 8 forms part of the Report of the Directors.

Going concern
The Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern over the period of assessment. The considerations assessed are set out on page 17 in the going concern disclosure within the accounting policies in note 1 to the financial statements.

Post balance sheet events
On 29 January 2020, the Bank redeemed the €50 million subordinated loan issued on 29 August 2014 to its immediate parent, The Governor and Company of the Bank of Ireland. The loan was refinanced with a new issue to its immediate parent of €50 million with a ten year maturity and bearing a coupon of 2.128%.

Independent auditor
The auditor, KPMG, Chartered Accountants was appointed statutory auditor on 16 July 2018 and has indicated their willingness to continue in office in accordance with Section 383(2) of the Companies Act 2014.

Harry Lorton *Chairman*	**John O'Beirne** *Managing Director*	**Neil Corcoran** *Director*	**Hill Wilson** **Secretarial Limited**

21 February 2020

Statement of Directors' responsibilities

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

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

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

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

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

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

Harry Lorton	**John O'Beirne**	**Neil Corcoran**
Chairman	*Managing Director*	*Director*

21 February 2020

Corporate governance statement

Introduction
A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements. The Bank is subject to the Central Bank of Ireland Corporate Governance Requirements for Credit Institutions 2015 with effect from 11 January 2016 (the 'Code'). The Bank is also subject to the additional requirements of Appendix 1 of the Code for High Impact designated credit institutions.

The Bank is compliant with the provisions of the Code throughout 2019. (The Code is available at www.centralbank.ie).

Financial reporting process
The Board, supported by the Audit Committee, is responsible for establishing and maintaining adequate internal control and risk management systems of the Bank in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Bank's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. The Bank's overall control system around the financial reporting process includes:
- clearly defined organisation structure and authority levels with reporting mechanisms to the Board;
- a comprehensive set of policies and procedures, in line with the Group, relating to the controls around financial reporting and the process of preparing the financial statements; and
- ensuring the integrity of the financial statements and the accounting policies therein.

The Board evaluates and discusses significant accounting and reporting issues as the need arises.

Risk assessment
The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Bank's financial statements.

Control activities
The Board is responsible for establishing and maintaining the design and implementation of control structures to manage the risks which they judge to be significant for internal control over financial reporting. Appropriate reconciliations support the prompt production of management accounts and Board reports and inputs to Group consolidation returns that are required to be submitted within defined timetables. These control structures include appropriate division of responsibilities and specific control activities, with the objective of detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Bank's annual report.

The Audit Committee monitors the effectiveness and adequacy of the Bank's internal control, internal audit and IT systems, monitoring and reviewing the quality and integrity of the financial statements, liaising with the external auditor particularly in relation to their audit findings, and reviews the effectiveness and adequacy of the Bank's regulatory compliance plan with the objective of maintaining an effective system of internal control. The composition and responsibilities of the Audit Committee are also outlined in the Report of the Directors.

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

Group Internal Audit (GIA) provides independent, reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering the Bank's business and functions (including outsourcing providers- subject to the right to audit), with ratings assigned as appropriate.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank of Ireland Mortgage Bank Public Unlimited Company (the 'Company') for the year ended 31 December 2019 set out on pages 12 to 70, which comprise of the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and related notes, including the summary of significant accounting policies, set out in note 1. The financial reporting framework that has been applied in the preparation are Irish Law and FRS 101 Reduced Disclosure Framework.

In our opinion, the accompanying financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

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

We were appointed as auditor by the directors on 17 July 2018. The period of total uninterrupted engagement is therefore two years for the year ended 31 December 2019. We have fulfilled our ethical responsibilities and have remained independent of the Company, in accordance with the ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities. Any non-audit services prohibited by this standard were not provided.

Key audit matters: our assessment of risks of material misstatement

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

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2018):

Impairment loss allowance under IFRS 9

Refer to pages 21 to 22 (accounting policy) and note 24 (financial disclosures)

The key audit matter

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

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

Accuracy of Expected Credit Loss (ECL) models: The calculation of ECL uses complex and inherently judgemental modelling techniques. The models used in the loan portfolios are the key drivers of the Company's ECL results and are therefore the most significant judgemental aspect of the Company's ECL modelling approach.

Significant Increase in Credit Risk (SICR): The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation. The application of the criteria relies on a significant number of data elements, which form the basis of modelling of ECL. The application of the appropriate criteria and accuracy of the key data elements used in the loan processes are significant in determining the ECL allowances.

Forward looking macroeconomic scenarios: IFRS 9 requires the Company to measure ECL on a forward-looking basis reflecting future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them.

Management adjustments: Adjustments to the model-driven ECL results are applied by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved.

How the matter was addressed in our audit

- We performed an end-to-end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the design and operating effectiveness of the key controls over the completeness and accuracy of the key data inputs into the impairment models.
- We tested SICR criteria relating to the authorisation of the criteria, the validation metrics, and the application of the criteria in the models.
- In conjunction with our modelling specialists, we tested the design and implementation of key controls over the modelling process and methodologies, including model monitoring, validation and approval, as well as testing the design of controls over model outputs and recognition and approval of post model adjustments.
- We tested the design and implementation of key controls relating to the selection and implementation of material economic variables and the controls over the associated scenario selection and probability weightings applied to them.

- We re-performed key aspects of the Company's SICR calculations and selected samples of financial instruments to determine whether a SICR was appropriately identified.
- We assessed the appropriateness of the key judgements in the ECL models and tested the key controls over the loss rate ECL calculations.
- We compared the Forward Looking Information against industry forecasts and the inputs used by management in order to determine the base case and upside and downside scenarios.
- We assessed the adequacy of post model adjustments having regard for the risk profile of loan books, recent loss history and performance of the relevant portfolios. We challenged whether the modelled collective impairment provision already appropriately reflected the assumptions underpinning the adjustments or if a management adjustment was required.

We found the judgements used by management in determining the ECL charge and provision recognised to be reasonable.

Conduct Risk – specifically, the Tracker Mortgage Examination (TME) provision of €61 million (2018: €38 million)

Refer to page 25 (accounting policy) and to note 18 (financial disclosures)

The key audit matter
At 31 December 2019, the Company's provision in respect of the tracker mortgage examination (TME) was €61 million, primarily relating to remaining unpaid customer remediation and appeals costs, enforcement action costs and other remaining programme costs.

The primary development during the year relates to the increase in the amount provided to cover the estimated costs of closing out the Tracker Mortgage Examination review, including any potential CBI sanction.

As a result of the level of uncertainty associated with the ultimate financial outcome of this issue remaining high we consider this to be a key audit matter.

How the matter was addressed in our audit
- We read relevant correspondence between the CBI and the Company in relation to the TME and discussed the key matters with senior management and with those charged with governance. We also considered the Group Internal Audit findings in respect of the matter.
- We obtained an understanding of the methodology used by management in the determination of the provision and tested the design and implementation of key controls relating to the provision calculation at year end.
- For key assumptions inherent in the provision at year end, we challenged the judgements made by management to determine whether they were reasonable.
- We reviewed the adequacy of disclosures in respect of the TME provision to determine whether they were consistent with our understanding and in line with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Based on the evidence obtained we found that the provision and disclosures provided in respect of the TME were appropriate in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Revenue recognition – Effective Interest Rate (EIR) adjustments

Refer to pages 18 to 19 (accounting policy) and note 2 (financial disclosures)

The key audit matter
The recognition of interest income for mortgage loans involves determining the EIR which requires a high degree of management judgement.

There is also a risk that management or staff may perpetrate fraud due to incentives or pressures.

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

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

Based on the evidence obtained we found the key assumptions used in the calculation of the EIR to be appropriate.

Our application of materiality and an overview of the scope of our audit
The materiality for the financial statements, as a whole, was set at €10.6 million (2018: €14.6 million). This has been calculated as 5% (2018: 4.3%) of the benchmark of profit before taxation of €212 million (2018: €342 million), which we consider to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.

We reported to the Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of our posting threshold of €0.5 million (2018: €0.7 million) in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Company's office in Dublin.

We have nothing to report on going concern
We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 1.2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

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

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

Other corporate governance disclosures
As required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Statement on page 8 that:
- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/EC) Regulations 2016 and specified for our consideration, is consistent with the financial statements and has been prepared in accordance with the Act; and
- based on our knowledge and understanding of the Company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information.

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

Our opinions on other matters prescribed by the Companies Act 2014 are unmodified
We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

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

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

Respective responsibilities and restrictions on use

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

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

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

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

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

21 February 2020

Income statement
for the year ended 31 December 2019

	Note	2019 €m	2018 €m
Interest income calculated using the effective interest method	2	432	424
Interest expense	3	(112)	(122)
Net interest income		**320**	**302**
Fee and commission income		2	2
Net trading income	4	11	22
Total operating income		**333**	**326**
Operating expenses	6	(77)	(27)
Total operating profit before net impairment (losses) / gains on financial instruments		**256**	**299**
Net impairment (losses) / gains on financial instruments	7	(44)	43
Profit before taxation		**212**	**342**
Taxation charge	8	(28)	(41)
Profit for the financial year		**184**	**301**

Statement of comprehensive income
for the year ended 31 December 2019

	2019 €m	2018 €m
Profit for the financial year	184	301
Other comprehensive income, net of tax		
Items that may be reclassified to profit or loss in subsequent years:		
Cash flow hedge reserve, net of tax		
- Changes in fair value	38	35
- Transfer to income statement	(15)	(18)
Net change in cash flow hedge	**23**	**17**
Total other comprehensive income, net of tax	**23**	**17**
Total comprehensive income for the year, net of tax	**207**	**318**

The tax effect of these transactions is included in note 8

Balance sheet
as at 31 December 2019

	Note	2019 €m	2018 €m
Assets			
Derivative financial instruments	9	109	109
Other financial assets at fair value through profit or loss	10	246	262
Loans and advances to banks	11	3,533	3,620
Loans and advances to customers at amortised cost	12	15,934	15,644
Current tax asset		-	6
Other assets		1	2
Total assets		**19,823**	**19,643**
Liabilities			
Deposits from banks	15	10,541	9,473
Debt securities in issue	16	7,444	8,328
Derivative financial instruments	9	22	41
Other liabilities	17	27	21
Deferred tax liability	14	11	9
Current tax liability		27	-
Provisions	18	61	38
Loss allowance provision on loan commitments		-	-
Subordinated liabilities	19	140	140
Total liabilities		**18,273**	**18,050**
Equity			
Called up share capital presented as equity	20	488	738
Share premium	20	661	661
Reserves		201	(6)
Shareholders' equity		**1,350**	**1,393**
Other equity instruments	21	200	200
Total equity		**1,550**	**1,593**
Total equity and liabilities		**19,823**	**19,643**

Harry Lorton	**John O'Beirne**	**Neil Corcoran**	**Hill Wilson**
Chairman	*Managing Director*	*Director*	**Secretarial Limited**

21 February 2020

Statement of changes in equity
for the year ended 31 December 2019

	Share capital €m	Share premium €m	Reserves: Retained earnings €m	Reserves: Cash flow hedge reserve €m	Total shareholders' equity €m	Other equity instruments €m	Total equity €m
At 1 January 2018	**738**	**661**	**(340)**	**16**	**1,075**	**200**	**1,275**
Comprehensive income							
Profit for the year	-	-	301	-	301	-	301
Other comprehensive income	-	-	-	17	17	-	17
Total comprehensive income	**-**	**-**	**301**	**17**	**318**	**-**	**318**
Balance at 31 December 2018	**738**	**661**	**(39)**	**33**	**1,393**	**200**	**1,593**
Transactions with owners							
Cancellation of share capital (note 20)	(250)	-	-	-	(250)	-	(250)
Comprehensive income							
Profit for the year	-	-	184	-	184	-	184
Other comprehensive income	-	-	-	23	23	-	23
Total comprehensive income	**-**	**-**	**184**	**23**	**207**	**-**	**207**
At 31 December 2019	**488**	**661**	**145**	**56**	**1,350**	**200**	**1,550**

Notes to the financial statements

1 Accounting policies

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

1.1 Basis of preparation

The financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the notes to the financial statements on pages 16 to 70.

The financial statements of the Bank have been prepared under the historical cost convention, modified to include the fair valuation of certain financial instruments, in accordance with the Companies Act 2014, the Asset Covered Securities Acts 2001 to 2007 (the 'ACS Acts') and Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

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

The Bank's ultimate parent company, Bank of Ireland Group plc, is a public limited company incorporated and registered in Ireland. The consolidated financial statements for the Bank of Ireland Group (the 'Group') are available to the public and may be obtained from the Bank of Ireland Head Office, 40 Mespil Road, Dublin 4.

In these financial statements, the Bank has applied the exemptions available under FRS 101 in respect of the following disclosures:
- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries of the Group;
- the effects of new but not yet effective IFRS; and
- disclosures in respect of the compensation of key management personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The financial statements have been prepared in euro and are rounded to the nearest million except where otherwise indicated.

1.2 Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for 2019 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, profit after taxation in 2019, profitability projections, funding and capital plans together with a range of other factors such as the outlook for the Irish economy and the availability of collateral to access the Eurosystem. In addition, the Directors are satisfied that the Bank, through the existence of the Liquidity Management Agreement with its immediate parent company, has sufficient liquidity to meet obligations as they fall due throughout the period of assessment.

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

1.3 Comparatives

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

1 Accounting policies *(continued)*

1.4 Adoption of new and amended accounting standards

The following new amendments to standards have been adopted by the Bank during the year ended 31 December 2019:

- 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IFRS 7 and IAS 39)'.
- Annual improvements 2015-2017 - These amendments include minor changes to IAS 12 'Income Taxes'.

The Bank's accounting policies have been updated for the application of the above amended accounting standards from 1 January 2019. The updates together with the accounting policies for the comparative year up to 31 December 2018 are detailed below.

'Interest Rate Benchmark Reform (Amendments to IFRS 9, IFRS 7 and IAS 39)'
The International Accounting Standards Board (IASB) has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain temporary reliefs from applying specific hedge accounting requirements in connection with the ongoing reform of the interbank offered rate (IBOR). The temporary reliefs relate to issues affecting financial reporting in the period before the replacement of an existing IBOR with an alternative interest rate (pre-replacement issues) and have the effect that IBOR reform should not generally cause hedge accounting relationships to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement under both IAS 39 and IFRS 9.

The main exceptions relate to:

- The highly probable requirement and reclassifying the cumulative gain or loss recognised in other comprehensive income (OCI).
- Prospective assessments.
- Separately identifiable risk components.

The amendments apply for annual reporting periods beginning on or after 1 January 2020, and earlier application is permitted. The amendments were endorsed by the EU in January 2020. Having made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39, the Bank has elected to early adopt the interest rate benchmark reform amendments to IFRS 7 and IAS 39. The adoption of these amendments did not result in any adjustment to the amounts presented in the financial statements.

Annual improvements 2015-2017 - Amendment to IAS 12 'Income Taxes'
This amendment clarifies that the income tax consequences of dividends on a financial instrument classified as equity should be recognised according to where the previous transactions or events that generated distributable profits were recognised. As a result, the Bank now recognises the income tax effect of the Additional tier 1 (AT1) dividend within the income statement. The impact of this amendment is not material.

1.5 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for financial instruments measured at amortised cost. Interest income and expense from derivative financial instruments designated as hedging instruments are accounted for in net interest income, in line with the underlying hedged asset or liability. Interest in relation to derivatives not designated as a hedging instrument is included in trading income.

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or liability and in the allocation and recognition of interest revenue or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses (except, in accordance with IFRS 9 in the case of purchased or originated credit-impaired financial assets where expected credit losses are included in the calculation of a 'credit adjusted effective interest rate'). The calculation includes all fees, broker commissions, transaction costs, points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

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

1.5 Interest income and expense *(continued)*

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

Interest income and expense excludes interest on financial instruments at fair value through profit or loss which is instead included within the fair value movements recognised within net trading income.

1.6 Fee and commission income

The Bank accounts for fee and commission income when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable that the Bank will collect the consideration to which it is entitled. Fee and commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control of a product or service to a customer.

1.7 Financial assets

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

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

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

   (a) **Financial assets at amortised cost.**
   Debt instruments
   A debt instrument is measured, subsequent to initial recognition, at amortised cost where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:
   - the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
   - the financial asset is held within a business model whose objective is achieved by holding financial assets to collect contractual cash flows.

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

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

1 Accounting policies *(continued)*

1.7 Financial assets *(continued)*

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

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

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

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

These classifications are not in use by the Bank.

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

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

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

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

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

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

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

1 Accounting policies *(continued)*

1.8 Impairment of financial instruments

Scope
The Bank recognises impairment loss allowances for expected credit losses (ECL) on the following categories of financial instruments unless measured at fair value through profit or loss:
- financial assets that are debt instruments; and
- loan commitments.

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

Stage 1: 12-month expected credit losses (not credit-impaired)
These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime expected credit losses (not credit-impaired)
These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime expected credit losses (credit-impaired)
These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

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

With the exception of purchased or originated credit-impaired financial assets, a financial instrument may migrate between stages from one reporting date to the next.

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

Credit-impaired
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

Measurement of expected credit losses and presentation of impairment loss allowances
ECL are measured in a way that reflects:
(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where the following conditions are met:
- selling the loan is one of the recovery methods that the Bank expects to pursue in a default scenario;
- the Bank is neither legally nor practically prevented from realising the loan using that recovery method; and
- the Bank has reasonable and supportable information upon which to base its expectations and assumptions.

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

1 Accounting policies *(continued)*

1.8 Impairment of financial instruments *(continued)*

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

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

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

Prior to any decision to grant forbearance, the Bank performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to stage 3 (unless a purchased or originated credit-impaired financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms. Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally allocated to stage 2. Where the cash flows from a forborne loan are considered to have expired, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition is recognised in the income statement. The new financial asset may be initially allocated to stage 1 or, if credit-impaired, be categorised as a purchased or originated credit-impaired financial asset.

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

1.9 Financial liabilities

The Bank classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities mandatorily at fair value through profit or loss such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

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

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

1.10 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No impairment loss allowance for expected credit losses is recognised on a financial asset, or portion thereof, which has been offset.

1 Accounting policies *(continued)*

1.11 Valuation of financial instruments

The Bank recognises certain financial assets and financial liabilities (including derivative financial instruments) at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. If an active market does not exist, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow (DCF) analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount.

Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

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

1.12 Derivative financial instruments and hedge accounting

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

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

Certain derivatives embedded in other financial instruments that are not financial assets are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the entire host contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

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

Hedge accounting is applied to these derivatives provided certain criteria are met. The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cash flow of the hedged items within a range of 80% to 125%.

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

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

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

1 Accounting policies *(continued)*

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

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

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

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

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

1.13 Issued debt and equity securities

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

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

1.14 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.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax 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. Deferred tax assets and liabilities are not discounted.

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

1 Accounting policies *(continued)*

1.15 Pensions

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

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

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

Further information on the Group's pension schemes is available in note 46 of the Group's Annual Report for the year ended 31 December 2019.

1.16 Share capital and reserves

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

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

(c) Other equity instruments
Other equity instruments represent the issuance of Additional tier 1 notes by the Bank to its immediate parent. See note 21 for details.

1.17 Collateral

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

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

The Bank also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

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

1.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

1 Accounting policies *(continued)*

1.19 Critical accounting estimates and judgements

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

(a) Impairment loss allowance on financial assets

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

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

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

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

In the next financial year the Bank will, subject to regulatory approval, implement a new definition of default to comply with EBA guidelines that are effective from no later than 1 January 2021. The introduction of a new definition of default policy may result in a change in the Bank's classification of stage 3 assets and / or the amount of impairment loss allowances.

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

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

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

The Bank's approach to measurement of impairment loss allowances and associated methodologies, including the key macroeconomic variables applied at 31 December 2019, is set out in the credit risk methodologies section on pages 50 to 52.

The quantum of impairment loss allowance is impacted by the application of three probability weighted future macroeconomic scenarios.

The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2019, excluding management adjustments, was increased by virtue of applying multiple scenarios rather than only a central scenario.

Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance Impact €m	Additional impairment loss allowance Impact %	Additional impairment loss allowance on stage 1 and 2 financial instruments Impact €m	Additional impairment loss allowance on stage 1 and 2 financial instruments Impact %
2019	**7**	**3%**	**4**	**24%**

1 Accounting policies *(continued)*

1.19 Critical accounting estimates and judgements *(continued)*

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

Impact of applying only an upside or downside scenario rather than applying multiple probability - weighted scenarios	Impact of applying a 100% weighting to the upside scenario		Impact of applying a 100% weighting to the downside scenario	
	€m	%	€m	%
2019	**(58)**	**(26%)**	**86**	**38%**

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

Impact of an immediate change in property collateral valuations compared to central scenario impairment loss allowances	Impairment loss allowance - central scenario €m	Impact €m	Impact %
Property collateral valuation reduction of 10%	219	37	17%
Property collateral valuation reduction of 5%	219	17	8%
Property collateral valuation increase of 5%	219	(16)	(7%)
Property collateral valuation increase of 10%	219	(30)	(14%)

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of stage 1 balances at 31 December 2019 to stage 2 would increase the Bank's impairment loss allowance by approximately €2 million.

At 31 December 2019, the impairment loss allowance of €261 million (2018: €324 million) includes a management adjustment of €36 million (2018: €50 million).

The management adjustment primarily reflects the concentration of stage 3 assets which are longer in default, where utilisation of alternative recovery strategies to achieve realisation may require higher impairment coverage on disposal that currently cannot be reasonably be reflected in IFRS 9 impairment model methodology. The management adjustment reflects the size and profile of stage 3 population at 31 December 2019 and has been calculated and applied through increases to the 'loss given default' component of modelled impairment loss allowances for stage 3 residential mortgages that have been in default for more than 5 years.

The requirement for the application of a management adjustment is reviewed at each financial reporting date to assess if the situation requiring an adjustment in the previous reporting date pertains and whether additional conditions have been identified that may require the application of a new management adjustment. At each financial reporting date, the adequacy of the Bank's quantum of impairment loss allowance (including, if required, any management adjustment) is reviewed and considered by the Audit Committee.

(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.

Judgements

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, broker commissions, transaction costs, points paid or received between parties to the contract and all other premia or discounts that are an integral part of the effective interest rate.

Sources of estimation uncertainty

- the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life;
- economic factors such as unemployment levels, consumer confidence and economic and fiscal stability were considered; along with
- mortgage market specific factors such as house price levels, switcher activity and consumer demand.

1.19 Critical accounting estimates and judgements *(continued)*

It is estimated that a one year move in the expected life would have an impact of c.€31.7 million in the income statement. There has been no change to the average life assumption in 2019.

(c) Tracker Mortgage Examination Review
At 31 December 2019 the Bank holds a provision of €61 million (2018: €38 million) in respect of the industry wide Tracker Mortgage Examination. While the supervisory phase of the examination was concluded by the Central Bank of Ireland in July 2019, the provision covers the estimated costs of remediation of any remaining impacted customers, addressing customer appeals and closing out all other outstanding costs of the exercise, and in particular, any sanction that may be incurred as a result of Central Bank of Ireland enforcement actions.

Judgements
The Group has exercised judgement in particular in determining the level of potential appeals and the impact of any potential administrative sanction. With respect to the latter, the Group considers that there is a range of potential sanction outcomes based on general and specific circumstances and the amount of any sanction imposed may differ from the amount provided at 31 December 2019.

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

2 Interest income calculated using the effective interest method

	2019 €m	2018 €m
Loans and advances to banks	18	18
Loans and advances to customers at amortised cost	421	417
Underlying interest income on financial assets measured at amortised cost	**439**	**435**
Impact of Tracker Mortgage Examination Review	(7)	(11)
Total interest income calculated at the effective interest method	**432**	**424**
Of which receivable from Bank of Ireland (including swap interest)	34	33

There was a further charge to interest income in 2019 of €7 million in respect of redress under the Tracker Mortgage Examination Review. In 2018, the charge was €nil. However, in 2018, there was a reallocation of €11 million charged to interest income from operating expenses.

Interest income recognised on loans and advances to customers
In 2019, €16.5 million of interest was recognised on credit impaired loans and advances to customers at the year end (2018: €26.6 million).

In 2019, €11.4 million of interest income was received on credit impaired loans and advances to customers at the year end (2018: €20.9 million).

Transferred from cash flow hedge reserve
Interest income also includes a charge of €16 million (2018: €14 million) transferred from the cash flow hedge reserve (see note 9).

3 Interest expense

	2019 €m	2018 €m
Debt securities in issue	59	73
Other interest payable	49	45
Interest on subordinated liabilities	4	4
Interest expense from financial liabilities measured at amortised cost	**112**	**122**
Of which payable to Bank of Ireland	56	50

4 Net trading income

	2019 €m	2018 €m
Net income from other financial assets mandatorily measured at fair value through profit or loss	11	15
Purchase of own debt	-	-
Interest rate contracts	-	7
Net trading income	**11**	**22**

In 2019, net trading income was €11 million (2018: €22 million). Net income from other financial assets mandatorily measured at fair value through profit or loss includes interest income from Life Loans and realised and unrealised gains and losses.

Interest rate contracts include 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.

5 Auditor's remuneration (excluding VAT)

	2019 €'000	2018 €'000
Audit and assurance services		
Statutory audit[1]	150	45
Assurance services	70	25
	220	**70**
Other services		
Taxation services	-	-
Other non-audit services	-	-
Total auditor's remuneration	**220**	**70**

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

[1] *In the current year there was a reallocation to the Bank's statutory audit fee from the total Group fee for the parent, to better align with actual audit effort for this entity.*

6 Operating expenses

	2019 €m	2018 €m
Cost of Tracker Mortgage Examination Review	40	(11)
Other operating expenses	37	38
Total operating expenses	**77**	**27**

Staff costs	2019 €'000	2018 €'000
Wages and salaries	570	511
Social security costs	41	55
Pension costs	60	93
Total staff costs recognised in the income statement	**671**	**659**

There was a further charge in 2019 of €40 million in respect of the Tracker Mortgage Examination Review to cover additional compensation costs for a number of customers, operational costs associated with the length and nature of the review and costs of closing out the Tracker Mortgage Examination review. In 2018, the charge was €nil. However, in 2018, there was a reallocation of €11 million charged to interest income from operating expenses.

Operating expenses also include recharges from Bank of Ireland for support service costs. The Bank's day to day operations are almost fully outsourced to the Group under a number of service level agreements which are reviewed annually.

During 2019, the average number of employees was 4 (2018: 5 employees).

7 Net impairment (losses) / gains on financial instruments

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

	2019 €m	2018 €m
Loans and advances to customers at amortised cost	(44)	43
- Cash recoveries	*1*	*4*
- Movement in impairment (losses) / gains	*(45)*	*39*
Loans and advances to banks	-	-
Loan commitments	-	-
Net impairment (losses) / gains on financial instruments	**(44)**	**43**

The Bank recognised a net impairment loss of €44 million compared to a net impairment gain of €43 million in 2018. Net impairment losses reflect increased coverage on non-performing exposures, partially offset by further reduction in management overlay and positive outcomes on individual non-performing case resolutions.

The loss during the year is due to the combination of updated impairment model parameters (including updated forward looking information and refreshed cure rates) and the impact of the disposal of a non-performing portfolio in the year. Credit-impaired and non-performing mortgages were each reduced by 34% in 2019 with reductions achieved in both the owner occupied and buy to let (BTL) market segments, albeit weighted to BTL reflecting the disposal of non-performing portfolios in this segment.

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

As outlined in the Accounting Policies on page 21, expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where certain conditions are met.

Each disposal met the conditions set out in the Accounting Policies on page 21, and at the time of each transaction, the expected net sale proceeds, including costs of sale, were included in the IFRS 9 Expected Credit Loss (ECL) calculation.

8 Taxation

	2019 €m	2018 €m
Current tax		
Current year	27	-
Adjustment in respect of prior years	2	-
Reallocation to deferred tax	-	6
	29	**6**
Deferred tax		
Current year (credit) / charge	(1)	41
Reallocation from current tax	-	(6)
	(1)	**35**
Taxation charge	**28**	**41**

Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to the Bank's actual taxation charge	2019 €m	2018 €m
Profit before taxation	212	342
Profit @12.5%	27	43
Adjustment in respect of prior years	1	-
Other	-	(2)
Taxation charge	**28**	**41**

	2019			2018		
	Pre-tax €m	Tax €m	Net of Tax €m	Pre-tax €m	Tax €m	Net of Tax €m
Cash flow hedge reserve						
Changes in fair value	44	(6)	38	40	(5)	35
Transfer to income statement	(17)	2	(15)	(20)	2	(18)
Net change in cash flow hedge reserve	**27**	**(4)**	**23**	**20**	**(3)**	**17**

9 Derivative financial instruments

The Bank's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in note 24 Risk management and control. The notional amounts of certain types of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit risk. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Bank are set out in the table below. Derivatives held for trading comprise derivatives entered into with economic hedging intent to which the Bank does not apply hedge accounting. Derivatives classified as held for hedging in the table below comprise only those derivatives to which the Bank applies hedge accounting.

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. All of the derivative assets €109 million (2018: €109 million) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

At 31 December 2019, cash collateral of €295 million (2018: €264 million) was held against these assets and is reported within deposits from banks (note 15).

	2019			2018		
	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m	Contract notional amounts €m	Fair values Assets €m	Fair values Liabilities €m
Interest rate swaps						
- Held for trading	24,069	30	(22)	23,479	47	(41)
- Designated as fair value hedges	40	15	-	85	16	-
- Designated as cash flow hedges	3,874	64	-	3,900	46	-
Total derivative assets / (liabilities)		**109**	**(22)**		**109**	**(41)**

There are no placements with other banks in respect of the net derivative liability position of €22 million (2018: €41 million). For further information on hedging risk management, see note 24. The Bank designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships. The Bank held the following interest rate swaps as hedging instruments.

At 31 December 2019, EURIBOR represented the most significant IBOR interest rate benchmarks to which the Bank’s fair value and cash flow hedge relationships of interest rate risk are exposed.

As EURIBOR has been reformed and complies with the EU Benchmarks Regulation under a new hybrid methodology, the Bank expects EURIBOR to continue as a benchmark interest rate for the foreseeable future and, therefore, does not consider interest rate hedge relationships of EURIBOR to be directly affected by IBOR reform as at 31 December 2019.

	2019				2018			
Hedging strategy	Up to 1 year €m	1-2 years €m	2-5 years €m	>5 years €m	Up to 1 year €m	1-2 years €m	2-5 years €m	>5 years €m
Fair value hedge								
Interest rate risk								
- Interest rate swap - notional amount	-	-	-	40	45	-	-	40
- Average fixed interest rate (%)	-	-	-	5.5%	5.1%	-	-	5.5%
Cash flow hedge								
Interest rate risk								
- Interest rate swap - notional amount	1,250	724	955	945	-	1,250	1,705	945
- Average fixed interest rate (%)	0.6%	0.1%	0.1%	0.8%	-	0.6%	0.1%	0.8%

9 Derivative financial instruments *(continued)*

Fair value hedges
Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Bank's issued debt portfolios. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows:

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

Items designated as hedging instruments and hedge ineffectiveness 2018 Risk category	Hedging instrument[1]	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument Assets €m	Carrying amount of the hedging instrument Liabilities €m	Changes in value used to calculate hedge ineffectiveness[2,3] €m	Ineffectiveness recognised in profit or loss[3] €m
Interest rate risk	Interest rate swaps	85	16	-	2	-

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

2018 Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item €m	Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item €m	Changes in value used for calculating hedge ineffectiveness €m	Remaining adjustments for discontinued hedges €m
Interest rate risk				
Debt securities in issue	100	(15)	(2)	-

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income on the income statement.*
[3] *There are no material causes of ineffectiveness in the Bank's fair value hedges.*

9 Derivative financial instruments *(continued)*

Cash flow hedges
The Bank designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets. The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

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

2018 Risk category and hedging instrument[1]	Nominal amount of the hedging instrument €m	Carrying amount of the hedging instrument Assets €m	 Liabilities €m	Changes in value used for calculating hedge ineffectiveness €m	Changes in the value of the hedging instrument recognised in other comprehensive income €m	Ineffectiveness recognised profit or loss[2,3] €m	Amount reclassified from the cash flow hedge reserve to profit or loss[3] €m
Interest rate risk							
Interest rate swaps	3,900	46	-	(20)	20	-	(20)

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

	2019			2018		
Risk category	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discontinued hedges €m	Changes in the hedged risk used for calculating hedge ineffectiveness €m	Cash flow hedge reserve €m	Remaining adjustments for discontinued hedges €m
Interest rate risk	27	(63)	(1)	20	(36)	(2)

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income on the income statement.*
[3] *There are no material causes of ineffectiveness in the Bank's fair value hedges.*

9 Derivative financial instruments *(continued)*

In 2019 and 2018, there were no forecast transactions to which the Bank had applied hedge accounting which were no longer expected to occur. Movements in the cash flow hedge reserve are shown in the statement of changes in equity (page 15). A reconciliation of the movements in the cash flow hedge reserve is shown in the table below.

	2019 €m	2018 €m
Changes in fair value		
- Interest rate risk	43	40
Transfer to income statement		
Interest income		
- Interest rate risk	(16)	(14)
Net trading income / (expense)		
- Interest rate risk	(1)	(6)
Deferred tax on reserve movements	(3)	(3)
Net change in cash flow hedge reserve	**23**	**17**

10 Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit or loss	2019 €m	2018 €m
Life Loans	246	262
	246	**262**

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

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

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

Other financial assets at fair value through profit or loss are not subject to impairment under IFRS 9. For further information on the calculation of fair value, see note 25.

11 Loans and advances to banks

	2019 €m	2018 €m
Funds placed with Bank of Ireland	3,534	3,621
Less impairment loss allowance on loans and advances to banks	(1)	(1)
Total loans and advances to banks at amortised cost	**3,533**	**3,620**
Loans and advances to banks by remaining maturity		
Repayable on demand	44	49
3 months or less	2,640	3,031
1 year or less but over 3 months	238	50
5 years or less but over 1 year	300	401
Over 5 years	312	90
Less impairment allowance	(1)	(1)
Total loans and advances to banks at amortised cost	**3,533**	**3,620**

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial assets at amortised cost in note 24 on page 57.

	2019		2018	
Movement in loans and advances to banks	Gross carrying amount €m	Impairment loss allowance €m	Gross carrying amount €m	Impairment loss allowance €m
Opening balance	**3,621**	**(1)**	**1,915**	**(1)**
Net changes in exposure	(87)	-	1,706	-
Closing balance	**3,534**	**(1)**	**3,621**	**(1)**

The table shows the movement in both the gross carrying amount and impairment loss allowance subject to 12 month Expected Credit Losses (ECL) on loans and advances to banks. All balances are receivable from Group entities and are deemed, due to low credit risk, to be stage 1 for the purposes of ECL measurement. See note 24 for more detail on risk management and control.

12 Loans and advances to customers at amortised cost

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

	2019 €m	2018 €m
Loans and advances to customers at amortised cost	16,180	15,955
Accrued interest receivable	15	13
Less allowance for impairment charges on loans and advances to customers at amortised cost	(261)	(324)
Total loans and advances to customers at amortised cost	**15,934**	**15,644**
Loans and advances to customers at amortised cost by remaining maturity		
3 months or less	237	243
1 year or less but over 3 months	581	570
5 years or less but over 1 year	3,105	3,034
Over 5 years	12,272	12,121
Less allowance for impairment charges on loans and advances to customers at amortised cost	(261)	(324)
	15,934	**15,644**

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost.

Net transfers between stages represent the movements of loans from Stage 1 to Stage 2 following a 'significant increase in credit risk', or to Stage 3 as loans move into default. Conversely, improvement in credit quality and loans exiting default result in loans moving to a lower stage. The criteria for each stage and approach to identifying a 'significant increase in credit risk' and identifying credit-impaired assets is outlined in the credit risk section of note 24 and accounting policy 1.8 on page 21.

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

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

'Net impairment (losses) / gains in income statement' does not include the impact of cash recoveries which are recognised directly in the income statement (note 7).

'Re-measurements' includes both the impact of re-measurement on stage transfers noted above and re-measurement due to changes in asset quality that did not result in a transfer to another stage.

'ECL model parameter and/or methodology changes' represents the impact on impairment loss allowances of semi-annual updates to the Forward Looking Information used in the measurement of impairment loss allowances, changes in management adjustments and other model and parameter updates.

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

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

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

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

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

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

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

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

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

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

In 2019, the impairment loss allowance reduced primarily due to the disposal of non-performing loans. However, this reduction was offset in part by an increase in impairment losses arising from changes to the forward looking information which reflect a reduction in the rate of residential property price growth. Further detail on forward looking information is given on page 51.

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

[1] *Loss allowance utilised on loans and advances to customers at amortised cost during 2019 included €17 million (2018: €48 million) of contractual amounts outstanding that are still subject to enforcement activity.*

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

2018 Gross carrying amount (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit impaired) €m	Stage 2 - Lifetime ECL (not credit impaired) €m	Stage 3 - Lifetime ECL (credit impaired) €m	Total gross carrying amount €m
Opening balance 1 January 2018	**12,397**	**1,118**	**1,614**	**15,129**
Total net transfers	211	(164)	(47)	-
- to 12 month ECL not credit impaired	*701*	*(701)*	*-*	*-*
- to lifetime ECL not credit impaired	*(477)*	*637*	*(160)*	*-*
- to lifetime ECL credit impaired	*(13)*	*(100)*	*113*	*-*
Net changes in exposure	1,089	(79)	(164)	846
Impairment loss allowances utilised[1]	-	-	(53)	(53)
Other movements	33	-	-	33
Gross carrying amount at 31 December 2018	**13,730**	**875**	**1,350**	**15,955**

2018 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired) €m	Total impairment loss allowance €m
Opening balance 1 January 2018	**(2)**	**(11)**	**(397)**	**(410)**
Total net transfers	(4)	(11)	15	-
- to 12 month ECL not credit impaired	*(5)*	*5*	*-*	*-*
- to lifetime ECL not credit impaired	*1*	*(19)*	*18*	*-*
- to lifetime ECL credit impaired	*-*	*3*	*(3)*	*-*
Net impairment gains / (losses) in income statement	3	12	24	39
- Re-measurement	*5*	*13*	*36*	*54*
- Net changes in exposure	*-*	*1*	*12*	*13*
- ECL model parameter changes	*(2)*	*(2)*	*(24)*	*(28)*
Impairment loss allowances utilised[1]	-	-	53	53
Other movements	-	-	(6)	(6)
Impairment loss allowance at 31 December 2018	**(3)**	**(10)**	**(311)**	**(324)**

The Bank held no purchased or originated credit-impaired loans in 2018.

[1] *Loss allowance utilised on loans and advances to customers at amortised cost during 2019 included €17 million (2018: €48 million) of contractual amounts outstanding that are still subject to enforcement activity.*

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

The Bank takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed. The table below sets out the weighted average indexed Loan to Value (LTV) for the mortgage loan book at amortised cost which showed positive movements during 2019 and was, on average, 60% at 31 December 2019 (2018: 61%).

Property values are determined by reference to the latest property valuations held[1], indexed to the Residential Property Price Index (RPPI) published by the CSO. The indexed LTV profile of the mortgage loan book in the table is based on the CSO RPPI at October 2019.

LTV ratio of total	**2019**			**2018**		
Mortgage loan book	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**	**Not credit-impaired €m**	**Credit-impaired €m**	**Total €m**
Less than 50%	5,746	123	5,869	5,572	142	5,714
51% to 70%	5,069	139	5,208	5,188	176	5,364
71% to 80%	2,166	78	2,244	1,982	113	2,095
81% to 90%	1,844	99	1,943	1,379	184	1,563
91% to 100%	270	74	344	266	129	395
Subtotal	**15,095**	**513**	**15,608**	**14,387**	**744**	**15,131**
101% to 120%	95	100	195	124	174	298
121% to 150%	43	84	127	44	141	185
Greater than 150%	62	188	250	50	291	341
Subtotal	**200**	**372**	**572**	**218**	**606**	**824**
Total	**15,295**	**885**	**16,180**	**14,605**	**1,350**	**15,955**
Weighted average LTV[1]:						
Stock of mortgages at year end (%)	57%	110%	60%	56%	113%	61%
New mortgages during the year (%)	73%	-	73%	71%	-	71%

13 Modified financial assets

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

	2019 €m	**2018 €m**
Financial assets modified during the year		
Amortised cost before modification	73	95
Net modification gains / (losses) on modified financial assets (net of impairment gain / (loss) impact)	-	-
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the year	**233**	383

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

14 Deferred tax liability

	2019 €m	2018 €m
The movement on the deferred tax account is as follows:		
Opening deferred tax (liability) / asset	(9)	29
Cash flow hedge	(3)	(3)
Credit / (charge) credit to income statement	1	(35)
Closing deferred tax liability	**(11)**	**(9)**
Deferred tax liabilities are attributable to the following items:		
Deferred tax liability		
Cash flow hedges	(8)	(4)
IFRS 9 transition adjustment	(3)	(5)
Total deferred tax liability	**(11)**	**(9)**
Represented on the balance sheet as follows:		
Deferred tax liability	**(11)**	**(9)**

15 Deposits from banks

	2019 €m	2018 €m
Deposits from banks	**10,541**	**9,473**
Deposits by remaining maturity		
3 months or less	987	1,425
1 year or less but over 3 months	2,232	1,325
5 years or less but over 1 year	6,270	6,391
Greater than 5 years	1,052	332
Total	**10,541**	**9,473**

All deposits from banks are due to Bank of Ireland.

16 Debt securities in issue

	2019 €m	2018 €m
Debt securities in issue	**7,444**	**8,328**
Bonds and medium term notes by remaining maturity		
3 months or less	768	779
1 year or less but over 3 months	505	53
5 years or less but over 1 year	3,923	3,948
Greater than 5 years	2,248	3,548
	7,444	**8,328**
Of which is due to Bank of Ireland	**3,201**	**3,201**

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

	2019 €m	2018 €m
Opening balance	8,328	6,977
Issued during the year	-	2,071
Redemptions	(795)	(716)
Purchases	(80)	-
Other movements	(9)	(4)
Closing balance	**7,444**	**8,328**

Asset Covered Securities (ACS)
The Bank, as a registered designated mortgage credit institution under the Asset Covered Securities Act, 2001, established its mortgage covered securities programme (the 'Programme') in 2004. Pursuant to the Programme, the Bank may from time to time issue mortgage covered securities denominated in any currency in accordance with the provisions of the ACS Acts. ACS issued by the Bank may be listed on the Main Securities Market or the Global Exchange Market of the Irish Stock Exchange plc. ACS is secured by a statutory preference over a pool of prescribed assets known as a cover assets pool (the 'Pool'). The ACS Acts restrict and regulate the activities in which ACS issuers may engage. The Programme's most recent annual update was completed on 7 October 2019. In accordance with the ACS Acts the required disclosures are set out in note 16 (a) – 16 (h) below.

The total nominal value of mortgage covered securities in issue at 31 December 2019 amounted to €7.4 billion (2018: €8.3 billion).

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

A deed of floating charge ('Deed of Charge') entered into by the Bank at the time contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the CBI, the Bank shall:
(i) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge or any part thereof; or
(ii) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

In the past the Bank has participated in Targeted Longer-Term Refinancing Operations (TLTRO) and currently has €nil outstanding. In 2019, the Bank repaid €1 billion of TLTRO borrowings in line with the conditions of the TLTRO facility.

The Bank continued to have an option to participate in the ECB short term Main Refinancing Operations (MRO). The Bank had no MRO funds at any time during 2019 (2018: €nil).

16 Debt securities in issue *(continued)*

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

	2019		2018	
Range €'000	**Number of accounts**	**Total balances of accounts €m**	**Number of accounts**	**Total balances of accounts €m**
0-100	37,793	1,734	40,722	1,820
100-200	25,725	3,733	27,641	4,029
200-500	14,890	4,170	16,937	4,767
Over 500	1,095	743	1,343	922
	79,503	**10,380**	**86,643**	**11,538**

	2019		2018	
(b) Geographic location of mortgage properties in the cover assets pool	**Dublin**	**Outside Dublin**	**Dublin**	**Outside Dublin**
% of overall properties	28%	72%	28%	72%
Number of accounts	22,163	57,340	24,347	62,296
Number of properties	19,694	50,660	21,525	54,849

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 70,355 properties in the Pool at 31 December 2019 (2018: 76,375). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2019 and 2018 respectively.

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2019 and 2018 respectively.

(c) Mortgage accounts in default in the cover assets pool at year end	**2019**	**2018**
Number of accounts in default	16	107
Cumulative current balance on above accounts (€m)	2	16
- of which arrears represent (€m)	-	-

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

16 Debt securities in issue *(continued)*

(d) Mortgage accounts in default in the cover assets pool with arrears of more than €1,000	2019	2018
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	321	363
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	26	143

(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 2019, 395 accounts were non-performing (2018: 310 accounts) and were replaced with other mortgage credit assets.

(f) Amount of interest in arrears on mortgage accounts in the cover assets pool not written off
The total amount in arrears (including principal and interest) in respect of mortgage credit assets that are in arrears for three months or more that had not been written off at 31 December 2019 was €53,249 (2018: €472,747). €12,165 of this represented non-payment of interest (2018: €142,737).

(g) Total mortgage principal and interest repayments on mortgage accounts in the cover assets pool	2019 €m	2018 €m
Interest paid in respect of mortgage credit assets	316	316
Capital repaid in respect of mortgage credit assets	1,155	1,012

(h) Number and amount of mortgage accounts in the cover assets pool secured on commercial property
At 31 December 2019 there were no mortgage accounts in the Pool that were secured on commercial property (2018: nil).

17 Other liabilities

	2019 €m	2018 €m
Amounts due to Bank of Ireland	24	17
Other liabilities	3	4
	27	**21**

Amounts owed to Bank of Ireland 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 and are expected to be repaid within 12 months.

18 Provisions

	2019 €m	2018 €m
Opening balance	38	123
Charge to income statement	47	-
Provision utilised	(24)	(85)
Closing balance	**61**	**38**

At 31 December 2018, the Bank held a provision of €38 million in respect of the industry wide Tracker Mortgage Examination.

The Bank has determined in 2019 that a further €47 million provision is required to cover the additional redress and compensation costs for a small number of additional customers, operational costs associated with the length and nature of the review and estimated costs of closing out the Tracker Mortgage Examination review.

Considerable progress has been made in 2019 in contacting and remediating remaining impacted customers. Since 31 December 2018, €24 million of the provision has been utilised covering redress, compensation and related costs leaving a residual provision of €61 million at 31 December 2019. The Bank expects that the majority of the remaining €61 million provision will be fully utilised within 12 months of the balance sheet date.

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

- appeals: customers can pursue certain other options in respect of the determination as to whether they are impacted and the quantum of redress and compensation offered by the Bank including lodging appeals to an independent appeals panel in the 12 months after receiving their letter offering redress and compensation. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals; and
- programme costs: in determining the provision in respect of the examination, management has had to consider a range of costs associated with bringing the examination to an ultimate conclusion. This includes costs associated with various oversight and governance processes, and in particular any potential fine relating to the conclusion of the ongoing CBI administrative sanctions proceedings and the running of the appeals panel, tax liabilities that the Bank will settle on behalf of customers, data system costs and tracing agents.

19 Subordinated liabilities

On 29 August 2014, the Bank availed of a €50 million interest bearing subordinated loan from its immediate parent, The Governor and Company of the 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 was redeemed on 29 January 2020 and refinanced with a new issue of €50 million of Tier 2 notes with a ten year maturity, callable at the issuer's discretion after five years. See note 28 for further details.

On 27 October 2017, the Bank availed of a €90 million interest bearing subordinated loan from its immediate parent, The Governor and Company of the Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is based on the three-month EURIBOR rate plus a margin of 2.05%. The loan matures on 27 October 2027. The loan may be redeemed at the option of the Bank on the fifth anniversary and each subsequent anniversary of the issuance by giving prior notice to its immediate parent and subject to prior approval by the Competent Authority.

At 31 December 2019, total subordinated loans and accrued interest were €140 million (2018: €140 million).

20 Share capital and share premium

Authorised	2019 '000 Units	2018 '000 Units
Units of €1 of ordinary shares	1,000,000	1,000,000

Allotted, called up and fully paid – presented as equity	2019 €m	2018 €m
Opening balance	738	738
Cancellation of shares	(250)	-
Closing balance	**488**	**738**
Share premium	661	661

On 30 January 2019, following ECB approval, the Bank completed a reduction of €250 million of ordinary share capital by means of the cancellation of 250 million of ordinary shares at par of €1 each. The reduction in share capital was carried out under Section 1252 of the Companies Act 2014 and was effected by means of Shareholders' Resolution.

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

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

21 Other equity instruments

	2019 €m	2018 €m
Additional tier 1 notes issued	200	200

On 27 October 2017, the Bank issued Additional tier 1 (AT1) notes with a par value of €200 million to its immediate parent.

The principal terms of the AT1 notes are as follows:

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

22 Pension costs

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

The Bank is a participating employer in the RetireWell plan in respect of 1 employee (2018: 0 employees). The remaining 4 employees are members of the BIGPF (2018: 3 employees). RetireWell is a defined contribution scheme and the BIGPF scheme is a hybrid scheme, commonly known as a cash balance scheme. The schemes are operated for eligible employees of Bank of Ireland (the 'Principal Employer') and the Bank which are entities under common control.

The Principal Employer met the employer's contributions due for the Bank in 2019 and 2018 (see note 6 for details of amounts recharged). At 31 December 2019, the Bank had €nil outstanding amounts payable to the scheme (2018: €nil).

23 Segmental information

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

24 Risk management and control

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

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

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

Credit risk includes but is not limited to:

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

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

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

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

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

The Bank manages, limits and controls concentrations of credit risk by placing limits on the amounts of risk accepted in relation to one borrower or groups of borrowers. Concentrations of credit risk by geographical and industry sector are provided in a table on page 57.

24 Risk management and control *(continued)*

Credit risk information is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book, impairment loss allowances and compliance with approved risk limits.

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

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

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

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

The Bank's credit risk rating systems and impairment models and methodologies play a key role in quantifying the appropriate level of impairment loss allowance. Further details are provided in the section on credit risk methodologies on page 50.

Analysis of the Bank's impairment loss allowances at 31 December 2019 is set out on page 54.

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

In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank's credit risk processes are designed to ensure that mortgage charges are enforceable from the outset of the loan. The market value at 31 December 2019 of properties held as security for the Bank's loan book are determined by reference to the original or latest property valuations held, indexed to the October 2019 Residential Property Price Index (RPPI) published by the CSO. Typically, more frequent valuations are required for properties held as security for non-performing exposures, with an annual valuation required for non-performing exposures in excess of €300,000. The Bank applies Forward Looking Information (FLI) to collateral values for the purposes of measuring the impairment loss allowance. This is described on page 51.

The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Bank's residential mortgage portfolio is set out on page 40. Information on repossessed collateral is set out in the table on page 57.

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

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

A request for forbearance is a trigger event for the Bank to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a deterioration in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed. This assessment may also result in a loan being considered to have experienced a 'significant increase in credit risk' or becoming classified as credit-impaired.

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

Asset quality - loans and advances to customers
Asset quality methodology
The Bank has allocated financial instruments into one of the following categories at the reporting date:

Stage 1 – 12 month Expected Credit Loss (ECL) (not credit-impaired):
Loans which have not experienced a significant increase in credit risk since initial recognition and are not credit-impaired. An impairment loss allowance equal to 12-month ECL is recognised, which is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2 – Lifetime ECL (not credit-impaired):
Loans which have experienced a 'significant increase in credit risk since initial recognition' and are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised, being the ECL resulting from all possible default events over the expected life of the loan. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the loan.

Stage 3 – Lifetime ECL (credit-impaired):
Credit-impaired loans, other than Purchased or originated credit-impaired loans. An impairment loss allowance equal to lifetime ECL is recognised. This encompasses loans where: (i) the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security (including 'forborne collateral realisation' loans); and / or (ii) the borrower is greater than 90 days past due and the arrears amount is material.

24 Risk management and control *(continued)*

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

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

Forborne loans
Loans where a forbearance measure has been granted and where the criteria to exit a forborne classification, in line with European Banking Authority (EBA) guidance[1], are not yet met. Loans that have never been forborne or loans that are no longer required to be reported as 'forborne' are classified as 'non-forborne'.

'Forborne collateral realisation' loans (FCRs)
Loans which meet both of the following criteria:

(i) not greater than 90 days past due; and
(ii) forbearance is in place and future reliance on the realisation of collateral is expected for the repayment in full of the loan when such reliance was not originally envisaged. Such loans are considered credit-impaired and include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

'Non-performing exposures' (NPEs)
These are:
(i) **credit-impaired loans** which includes loans where the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security, including FCR cases, and loans where the borrower is greater than 90 days past due and the arrears amount is material; and
(ii) **other / probationary loans** that have yet to satisfy exit criteria in line with EBA guidance[1] to return to performing.

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

Risk Profile of loans and advances to customers at amortised cost - Non-performing exposures	2019 €m	2018 €m
Credit-impaired	885	1,350
Not credit-impaired	110	147
Total	**995**	**1,497**

As a consequence of the Bank's NPE resolution strategy, NPEs have reduced by 34% to €1.0 billion at 31 December 2019.

The tables below summarise the composition, non-performing exposures, credit-impaired loans and impairment loss allowance of the Bank's loans and advances to customers at amortised cost.

2019	Loans €m	Non-performing exposures (NPEs) €m	Non-performing exposures as a % of loans %	Credit impaired loans €m	Total Impairment loss allowance €m	Total Impairment loss allowance as a % of NPEs %	Total Impairment loss allowance as a % of loans %
Total mortgages							
Owner occupied mortgages	14,757	694	5%	617	158	23%	1%
Buy to let mortgages	1,423	301	21%	268	103	34%	7%
Total	**16,180**	**995**	**6%**	**885**	**261**	**26%**	**2%**

[1] *In particular the EBA's 'Implementing Technical Standards on supervisory reporting on forbearance and non-performing exposures'.*

24 Risk management and control *(continued)*

2018	Loans €m	Non-performing exposures (NPEs) €m	Non-performing exposures as a % of loans %	Credit impaired loans €m	Total Impairment loss allowance €m	Total Impairment loss allowance as a % of NPEs %	Total Impairment loss allowance as a % of loans %
Total mortgages							
Owner occupied mortgages	14,013	813	6%	706	140	17%	1%
Buy to let mortgages	1,942	684	35%	644	184	27%	9%
Total	**15,955**	**1,497**	**9%**	**1,350**	**324**	**22%**	**2%**

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

Internal credit rating models
The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Bank and to the calculation of regulatory capital requirements. The primary model measures used are:
- Probability of Default (PD): the probability of a given counterparty defaulting on any of its borrowings from the Bank within the next twelve months;
- Exposure at Default (EAD): the exposure the Bank has to a defaulting borrower at the time of default; and
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD.

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

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

Methodology for loan loss provisioning

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

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

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

ECL are calculated as the sum of the marginal losses for each time period from the balance sheet date. The key components of the ECL calculation are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD, which is expressed as a percentage of EAD) as described below. Other components include discount rate and maturity. The current contractual rate is generally used as the discount rate as it is considered a suitable approximation of the effective interest rate determined at initial recognition. While similar components are used for regulatory capital purposes, regulatory conservatism has not been applied in the impairment models in order to comply with the requirement under IFRS 9 to be unbiased.

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

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

IFRS 9 EAD
Current point-in-time EAD is the expected exposure at default were the borrower to default within the next 12 months. Future point-in-time EAD also incorporates expected contractual cash flows.

24 Risk management and control *(continued)*

IFRS 9 LGD
Current point-in-time LGD is the loss that would be incurred should default occur in the next 12 months. To facilitate the calculation of lifetime ECL, future point-in-time LGDs are calculated for each year from the start of year 2 to maturity of the exposure.

Identifying a significant increase in credit risk
The Bank's standard criteria to identify financial instruments which have had a 'significant increase in credit risk since initial recognition' are applied to loans and advances to customers at amortised cost. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the loan. Unless credit-impaired, a loan is generally allocated to stage 2 if any of the following criteria are met at the reporting date:
- remaining lifetime PD is more than double and >50bps higher than the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations);
- a contractual payment is greater than 30 days past due; and / or
- the exposure is a forborne loan or a non-performing exposure.

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

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

The Bank assesses the effectiveness of its staging criteria semi-annually, taking into account considerations such as the extent to which:
(i) exposures have moved directly from stage 1 to stage 3;
(ii) exposures have moved to stage 3, having spent only a short period in stage 2;
(iii) exposures have moved frequently between stages 1 and 2; and
(iv) there is potential over-reliance on backstop or qualitative criteria in identifying stage 2 exposures.

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

Identifying defaulted assets and credit-impaired assets
The Bank's definition of default for impairment purposes (i.e. for the purposes of allocating loans to 'stages' and for measuring impairment loss allowances under IFRS 9) is consistent with its application of the definition of default in Article 178 of the Capital Requirements Regulations (CRR) noting that IFRS 9 requires the Bank to use a definition which is consistent with that used for internal credit risk management purposes. The Bank considers certain events as resulting in mandatory default and credit-impaired classification without further assessment. These include:
- greater than 90 days past due and the past due amount is material;
- a forbearance arrangement is put in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged;
- legal action is underway by the Bank to enforce repayment or realise security;
- the Bank or a receiver takes security into possession; and
- the Bank has formally sought an insolvency arrangement in respect of the borrower.

Certain other events necessitate a lender assessment and, if the outcome of the lender assessment is that the contractual amount of principal and interest will not be fully repaid in what is assessed to be the most likely cash flow scenario, default and credit-impaired classification is mandatory.

The events include:
- a forbearance measure has been requested by a borrower and formally assessed;
- the contractual maturity date has passed without repayment in full;
- it becomes known that the borrower has formally sought an insolvency arrangement;
- offer of voluntary surrender of security or sale of security at a possible shortfall; or
- it becomes known that the borrower has become unemployed with no comparable new employment secured.

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

Forward Looking Information (FLI)
FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the GRPC and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Bank generally uses three Republic of Ireland FLI scenarios, being a central scenario, an upside scenario and a downside scenario, all extending over a five year forecast period. The central scenario is based on internal and external information and management judgement, with the other scenarios and the probability weightings generated by a model which additionally takes into account historical data and chosen severity percentiles.

24 Risk management and control *(continued)*

Typically, one or two macroeconomic variables are incorporated into each impairment model, being those determined to be most relevant to forecasting default. The lifetime PD expectation for an exposure generated under each of the scenarios, weighted by the probability of each scenario occurring, is used to generate the lifetime PD expectations used for the assessment of 'significant increase in credit risk'. Forecasts of residential property price growth are incorporated as appropriate into the LGD component of the ECL calculation. The overall ECL for an exposure is determined as a probability-weighted average of the ECL calculated for each scenario, weighted by the probability of each scenario occurring. Beyond the forecast period, default rates are assumed to revert over time to an observed long run average and the value of property collateral for LGD purposes is assumed to grow at an observed long-run rate.

The table below shows the mean average forecast values for some of the key macroeconomic variables under each scenario for the five year forecast period 2020-2024 together with the associated percentiles and probability weightings.

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

Republic of Ireland	Downside	Central	Upside	Downside	Central	Upside
Severity percentile	85th	50th	15th	85th	50th	15th
Scenario probability weighting	30%	39%	31%	30%	39%	31%
GDP growth	1.0%	2.7%	5.0%	1.6%	3.1%	5.6%
GNP growth	0.4%	2.2%	4.6%	1.1%	2.8%	5.2%
Unemployment rate	6.7%	5.3%	4.5%	6.4%	5.0%	4.3%
Residential property price growth	(4.3%)	1.3%	6.8%	(3.0%)	2.1%	8.1%

Management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a management adjustment to the outputs of the Bank's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late-breaking event. A management adjustment was applied at 31 December 2019 and is detailed on page 27.

Asset quality

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

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

24 Risk management and control *(continued)*

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

Financial assets

Composition and risk profile

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

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

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

The Bank had no Purchased or originated credit-impaired loans in 2018 or 2019.

[1] *Loans and advances to customers at amortised cost excludes loans mandatorily at fair value through profit or loss which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 10).*

[2] *The above tables exclude loan commitments that are subject to impairment (see note 26).*

24 Risk management and control *(continued)*

2018 Financial assets exposure by stage (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) €m	Stage 2 - Lifetime ECL (not credit-impaired) €m	Stage 3 - Lifetime ECL (credit-impaired €m	Total €m
Financial assets measured at amortised cost				
Loans and advances to customers[1]	13,730	875	1,350	15,955
Loans and advances to banks	3,621	-	-	3,621
Other financial assets	2	-	-	2
Total financial assets measured at amortised cost[2]	**17,353**	**875**	**1,350**	**19,578**

2018 Impairment loss allowance on financial assets	Stage 1 - (not credit-impaired) €m	Stage 2 - (not credit-impaired) €m	Stage 3 - (credit-impaired) €m	Total €m
Financial assets measured at amortised cost				
Loans and advances to customers[1]	3	10	311	324
Loans and advances to banks	1	-	-	1
Other financial assets	-	-	-	-
Total financial assets measured at amortised cost[2]	**4**	**10**	**311**	**325**

The Bank had no Purchased or originated credit-impaired loans in 2018 or 2019.

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

	2019				2018			
Loans and advances to customers Composition and risk profile (before impairment loss allowance)	Not credit-impaired €m	Credit-impaired €m	Total €m	Total %	Not credit-impaired €m	Credit-impaired €m	Total €m	Total %
Owner occupied mortgages	14,140	617	14,757	91%	13,307	706	14,013	88%
Buy to let mortgages	1,155	268	1,423	9%	1,298	644	1,942	12%
Total	**15,295**	**885**	**16,180**	**100%**	**14,605**	**1,350**	**15,955**	**100%**
Impairment loss allowance on loans and advances to customers	**19**	**242**	**261**	**2%**	**13**	**311**	**324**	**2%**

[1] *Loans and advances to customers at amortised cost excludes loans mandatorily at fair value through profit or loss which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 10).*
[2] *The above tables exclude loan commitments that are subject to impairment (see note 26).*

24 Risk management and control *(continued)*

Asset quality – not-credit impaired

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

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

2018	Stage 1				Stage 2			
Not-credit impaired loans and advances to customers - Composition and impairment loss allowance	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %	Loans €m	Loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of loans %
Total mortgages								
Owner occupied mortgages	12,613	79%	2	-	694	4%	6	1%
Buy to let mortgages	1,117	7%	1	-	181	1%	4	2%
Total	**13,730**	**86%**	**3**	**-**	**875**	**5%**	**10**	**1%**

The tables below provide analysis of the asset quality of loans and advances to customers at amortised cost that are not credit impaired based on mapping the IFRS 9 twelve month PD of each loan to a PD grade based in the table on page 52.

2019 Not-credit impaired loans and advances to customers (before impairment loss allowance) Asset quality	Stage 1		Stage 2		Total	
	€m	%	€m	%	€m	%
PD Grade						
1-4	12,114	84%	53	7%	12,167	79%
5-7	1,923	13%	96	13%	2,019	13%
8-9	354	2%	184	24%	538	4%
10-11	142	1%	429	56%	571	4%
Total not credit impaired	**14,533**	**100%**	**762**	**100%**	**15,295**	**100%**

24 Risk management and control *(continued)*

2018

Not-credit impaired loans and advances to customers (before impairment loss allowance) Asset quality	Stage 1 €m	Stage 1 %	Stage 2 €m	Stage 2 %	Total €m	Total %
PD Grade						
1-4	10,549	77%	63	7%	10,612	73%
5-7	2,617	19%	106	12%	2,723	19%
8-9	391	3%	247	28%	638	4%
10-11	173	1%	459	53%	632	4%
Total not credit impaired	**13,730**	**100%**	**875**	**100%**	**14,605**	**100%**

Asset quality – credit-impaired

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

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

2019 Credit-impaired loans and advances to customers Composition and impairment loss allowance	Credit-impaired loans €m	Credit-impaired loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of credit-impaired loans %
Owner occupied mortgages	617	4%	145	24%
Buy to let mortgages	268	2%	97	36%
Total credit-impaired	**885**	**5%**	**242**	**27%**

2018 Credit-impaired loans and advances to customers Composition and impairment loss allowance	Credit-impaired loans €m	Credit-impaired loans as % of total advances %	Impairment loss allowance €m	Impairment loss allowance as % of credit-impaired loans %
Owner occupied mortgages	706	4%	132	19%
Buy to let mortgages	644	4%	179	28%
Total credit-impaired	**1,350**	**8%**	**311**	**23%**

24 Risk management and control *(continued)*

Concentration of risks of financial assets with credit risk exposure

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

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

Loans and advances to customers at amortised cost	2019 €m	2018 €m
Dublin	6,590	6,413
Rest of Republic of Ireland	9,590	9,542
Total	**16,180**	**15,955**

Repossessed collateral
At 31 December 2019, the Bank had 36 properties in possession (2018: 59 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

Repossessed collateral	2019 €m	2018 €m
Residential mortgages	6	13

Other financial assets at amortised cost
Asset quality
Other financial assets subject to impairment under IFRS 9 include loans and advances to banks and amounts receivable. The impairment loss allowance on other financial assets at amortised cost at 31 December 2019 is €1 million (2018: €1 million). None of the balance is credit-impaired. For both years, all other financial assets at amortised cost were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland which is rated A- (2018: BBB+).

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

24 Risk management and control *(continued)*

Financial instruments at fair value through profit or loss

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

	2019		2018	
Financial instruments at fair value through profit or loss with ratings equivalent to:	**€m**	**%**	**€m**	**%**
AAA to AA-	-	-	-	-
A+ to A-	109	31%	-	-
BBB+ to BBB-	-	-	109	29%
BB+ to BB-	-	-	-	-
B+ to B-	243	68%	258	70%
Lower than B-	3	1%	4	1%
Total	**355**	**100%**	**371**	**100%**

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

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

Maximum exposure	**2019 €m**	**2018 €m**
Loans and advances to banks	3,533	3,620
Loans and advances to customers at amortised cost	15,713	15,446
Other financial assets at fair value through profit or loss	246	262
Derivative financial instruments	109	109
Commitments	782	762
Total	**20,383**	**20,199**

Market risk

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

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

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

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

InterBank Offered Rate (IBOR) reform

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

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

Loans and advances to customers at amortised cost

At 31 December 2019, the Bank had €5.8 billion (2018: €7.3 billion) of floating-rate loans and advances to customers at amortised cost, where the interest rate is either linked to the ECB Base rate or the Bank's standard variable rate.

24 Risk management and control *(continued)*

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 2019, the nominal value of swaps qualifying for hedge accounting was €3.9 billion (2018: €4.0 billion). Further details are provided in note 9.

At 31 December 2019, the Bank had €10.3 billion (2018: €8.7 billion) of loans and advances to customers at amortised cost, where the rate is typically fixed for periods of 1, 2, 3, 5 and 10 years. The interest rate exposure of the Bank relating to its Irish residential loans is managed through maturity matched borrowing from the Group resulting in no material sensitivity to changes in interest rates.

Other financial assets at fair value through profit or loss
At 31 December 2019, the Bank had €0.2 billion (2018: €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 2019, the Bank had (nominal) €7.4 billion in issued asset covered securities (2018: €8.3 billion). €4.2 billion of the issued asset covered securities are at fixed rates (2018: €5.1 billion) and the remaining €3.2 billion have an interest rate that resets based on short-dated EURIBOR (2018: €3.2 billion).

The Bank also enters into interest rate swaps to hedge the interest rate exposure on its fixed rate asset covered securities in issue. The majority of these interest rate swaps and related fixed rate issued asset covered securities qualify for fair value hedge accounting. At 31 December 2019, the nominal value of swaps qualifying for fair value hedge accounting is €40 million (2018: €85 million). Further details are provided in note 9.

Additionally, market risk arises where the rate charged on variable rate mortgage lending resets with changes in ECB rates, but the related funding is at short-dated EURIBOR. The Bank enters into interest rate swaps to economically hedge this risk. These interest rate swaps do not qualify for hedge accounting and the Bank is exposed to potential income statement volatility of c.€0.1 million for a one basis point movement in rates.

The Bank measures its interest rate risk in terms of the sensitivity of its fixed rate mortgage assets and related funding, in net present value terms, to a 1% parallel shift in the yield curve. The Bank is required to ensure that this sensitivity remains within a low operational hedging limit of €1.4 million. At 31 December 2019, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.2 million (2018: €0.4 million). Additionally, to comply with the ACS Acts, the Bank is required to manage the interest rate sensitivity of all of its assets and liabilities to a 10% of own funds limit (Equity, Tier 1 and 2). This is monitored by the Cover Asset Monitor on behalf of the Central Bank of Ireland.

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

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

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

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

The Bank's Board has approved a funding policy for the business that permits funding through the use of asset covered securities, residential Mortgage-Backed Promissory Note programmes and borrowings from the Group. It is the Bank's policy to ensure that resources are at all times available to meet the Bank's obligations arising from mortgage products, asset covered securities, capital and expenditure. The management of liquidity is the responsibility of the Bank, supported by Group Treasury. The Bank has outsourced the responsibility for the day to day monitoring and management of liquidity risk to Group Treasury. The Bank of Ireland Group has been granted a liquidity waiver for a full derogation from the application of CRR Liquidity requirements on an individual basis for The Governor and Company of the Bank of Ireland (GovCo) and the Bank under CRR Article 8. Consequently, the Group manages funding and liquidity for GovCo and the Bank as a single liquidity centre. Group Treasury consolidates the Bank's cash flows into the Bank of Ireland liquidity centre, where a cash flow liquidity reporting tool provides daily liquidity risk information by designated cash flow buckets, which is used to manage liquidity risk. This system captures the cash flows from both balance sheet and off-balance sheet transactions. In the case of specific products such as mortgage repayments and off-balance sheet commitments, behavioural adjustments are applied to reflect the Bank's experience of these cash flows based on historical trends.

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

24 Risk management and control *(continued)*

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. The balances will not agree directly to the balance sheet as the tables incorporate all cash flows on an undiscounted basis related to both the principal and interest payments.

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

2018 Liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	-	1,436	1,320	6,434	336	9,526
Debt securities in issue	-	785	81	4,150	3,793	8,809
Subordinated liabilities	-	-	3	106	52	161
Other financial liabilities	17	-	-	-	-	17
Loan commitments	762	-	-	-	-	762
Total	**779**	**2,221**	**1,404**	**10,690**	**4,181**	**19,275**

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

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

	2019					2018				
Liabilities	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Net cash outflows / (inflows) on derivative financial instruments	3	8	11	-	22	6	16	20	(1)	41

24 Risk management and control *(continued)*

Operational risk
The Bank faces operational risk in the normal pursuit of its business objectives. Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank operates systems of risk identification, assessment and monitoring designed to ensure that operational risk management is consistent with the approach, aims and strategic goals of the Bank and the Group. Operational risk is managed in compliance with the Group Operational Risk policy which has been adopted by the Board of the Bank. The Bank manages operational risk through accountable executives overseen by the Bank's Audit Committee. In addition, there is oversight by the Group Operational Risk committee.

Potential risk exposures are assessed on a regular basis and appropriate controls are put in place or adapted as considered necessary. Recognising that operational risk cannot be entirely eliminated, the Bank implements risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms, such as insurance, where appropriate. There is a Master Service Agreement in place for the services being provided to the Bank by the Group underpinned by Service Level Agreements (SLAs) with Group service delivery units. Formal management of SLAs facilitates the identification and management of risks ensuring that services are delivered to requirements and agreed standards, as documented in the SLAs, and according to predetermined key performance indicators.

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

The Bank is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of its business, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions. Non-compliance would have adverse reputational implications and could lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

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

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

The Bank has no appetite to knowingly breach any of its regulatory obligations. However, it is recognised that the business will be exposed to a level of unintentional breaches that may occur in the normal course of business as a result of operational risk events in the provision of financial services.

Changes to laws and regulations present a material risk to the Bank and therefore the policy of the Bank is to implement appropriate control to minimise the risk of regulatory breaches as a result of changes in laws and regulations.

Conduct Risk
Conduct risk is the risk that the Bank, and / or its staff, conducts business in an inappropriate or negligent manner that leads to adverse customer outcomes. The key conduct risk exposure areas include the following:

Customer Focused Strategy
The risk of not delivering fair outcomes to customers.

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

Product & Service Lifecycle Management
The risk of the design and development of products and services that do not continue to be suitable over the lifetime of the product or respond to changing customer needs.

The Bank is committed to creating and maintaining suitable and appropriate products and services for customers as they are working towards their financial goals. This helps to ensure that the customer has a positive experience throughout the product and service lifecycle. The Bank has no appetite for the Bank and / or its staff conducting business in an inappropriate or negligent manner that leads to adverse outcomes for stakeholders including customers, colleagues and communities (including shareholders, suppliers and regulators). To this end, the failure to:

- design and develop products and services that continue to be suitable over their lifetime, or
- respond to changing customer needs[1]
  would be inconsistent with the Bank's Risk Appetite statement.

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

Behavioural Standards and Culture
The risk of staff not meeting set standards of behaviour that has a material negative outcome for stakeholders including customers, colleagues, communities (including shareholders, suppliers, and regulators).

[1] There may be instances where the Bank will not be made aware of changing customer needs and, as such, will not be able to respond to same.

24 Risk management and control *(continued)*

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

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

Business and strategic risk
Business risk is defined as the risk to the Bank's projected outcomes (i.e. income, net worth or reputation) which could be associated with:

- a change in the operational economics of the Bank; and / or
- exposure to an event which causes reputational damage to the Bank.

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

Strategic risk is defined as the risk to the Bank's projected outcomes (i.e. income, net worth or reputation) which could be associated with:

- failure to develop a strategy, leaving the Bank exposed to developments that could have been foreseen including adverse macroeconomic or market changes;
- poor execution of a chosen strategy, whatever the cause, including investments not aligned with strategic direction; and / or
- failing to realign a strategy, when one or several of the fundamental underpinning assumptions have changed, making that strategy inappropriate.

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

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

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

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

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

- The Group continues to prepare for Brexit, identifying, monitoring and mitigating risks associated with various outcomes. Notwithstanding ongoing uncertainties related to Brexit, economic growth in Ireland remains positive.
- The Group is undergoing significant transformation across Culture, Business and Systems with a number of programmes underway delivering against this strategy.
- Continued low levels of bond yields, official interest rates and discount rates, and a slower conversion of Irish economic activity into credit formation, causes challenges and risk.
- The Group continues to develop its Responsible and Sustainable Business agenda which considers climate related impacts across the Group's footprint and that of its stakeholders.

Reputation risk
Reputation risk is defined as the risk to earnings or franchise value arising from adverse perception of the Bank's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners. 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 Bank was required to maintain a CET 1 ratio of 7% on a regulatory basis from 1 January 2019, increasing to 8% from July 2019. This includes a Pillar 1 requirement of 4.5%, a Capital Conservation Buffer (CCB) of 2.50% and a RoI Countercyclical Buffer (CCyB) of 1% (from 5 July 2019).

The Bank's capital includes the Bank's shareholders' funds (subject to regulatory adjustments) together with dated subordinated debt and other equity instruments. The amount of regulatory capital required to be held is determined by RWA levels. The Bank meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the SSM and CBI.

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

25 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.

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

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

	At fair value through profit or loss					Fair value hierarchy			
2019	Mandatorily €m	Fair value hedge derivative €m	Cash flow hedge derivative at fair value through other comprehensive income €m	Held at amortised cost €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Fair value of financial assets held at amortised cost									
Loans and advances to banks (1)	-	-	-	3,533	3,533	-	3,638	-	3,638
Loans and advances to customers (2)	-	-	-	15,934	15,934	-	-	15,063	15,063
Other assets (2)	-	-	-	1	1	-	-	1	1
Financial assets held at fair value									
Derivative financial instruments (3)	30	15	64	-	109	-	44	65	109
Other financial assets at fair value through profit or loss (4)	246	-	-	-	246	-	-	246	246
	276	**15**	**64**	**19,468**	**19,823**	**-**	**3,682**	**15,375**	**19,057**
Fair value of financial liabilities held at amortised cost									
Deposits from banks (5)	-	-	-	10,541	10,541	-	10,615	-	10,615
Debt securities in issue (6)	-	-	-	7,444	7,444	4,030	316	3,280	7,626
Subordinated liabilities (6)	-	-	-	140	140	-	142	-	142
Other financial liabilities (5)	-	-	-	24	24	-	-	24	24
Financial liabilities held at fair value									
Derivative financial instruments (3)	22	-	-	-	22	-	20	2	22
	22	**-**	**-**	**18,149**	**18,171**	**4,030**	**11,093**	**3,306**	**18,429**

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

2018	At fair value through profit or loss: Mandatorily €m	At fair value through profit or loss: Fair value hedge derivative €m	Cash flow hedge derivative at fair value through other comprehensive income €m	Held at amortised cost €m	Total €m	Fair value hierarchy: Level 1 €m	Fair value hierarchy: Level 2 €m	Fair value hierarchy: Level 3 €m	Fair value hierarchy: Total €m
Fair value of financial assets held at amortised cost									
Loans and advances to banks (1)	-	-	-	3,620	3,620	-	3,705	-	3,705
Loans and advances to customers (2)	-	-	-	15,644	15,644	-	-	15,355	15,355
Other assets (2)	-	-	-	2	2	-	-	2	2
Financial assets held at fair value									
Derivative financial instruments (3)	47	16	46	-	109	-	77	32	109
Other financial assets at fair value through profit or loss (4)	262	-	-	-	262	-	-	262	262
	309	**16**	**46**	**19,266**	**19,637**	**-**	**3,782**	**15,651**	**19,433**
Fair value of financial liabilities held at amortised cost									
Deposits from banks (5)	-	-	-	9,473	9,473	-	9,521	-	9,521
Debt securities in issue (6)	-	-	-	8,328	8,328	4,798	360	3,267	8,425
Subordinated liabilities (6)	-	-	-	140	140	-	140	-	140
Other financial liabilities (5)	-	-	-	17	17	-	-	17	17
Financial liabilities held at fair value									
Derivative financial instruments (3)	41	-	-	-	41	-	40	1	41
	41	**-**	**-**	**17,958**	**17,999**	**4,798**	**10,061**	**3,285**	**18,144**

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

(1) Loans and advances to banks
The Bank places funds with Bank of Ireland. The carrying amount of variable rate loans is considered to be fair 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 at amortised cost and other assets
The fair value of both fixed and variable rate loans and advances to customers at amortised cost is estimated using valuation techniques which include:

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

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

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as ECB forecast rates, which are significant to their valuation. A 1% increase / decrease in the forecasted ECB rates within the EUR Base Rate curve for 2019 would result in a decrease of €1 million / increase of €1 million respectively in the fair value of the derivatives, with a corresponding impact on other comprehensive income. This sensitivity information assumes that all other factors, specifically, Eonia and LIBOR rates, remain constant.

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

(5) Deposits from banks and other financial liabilities
The carrying amount of variable rate deposits is considered to be fair 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.

(6) Debt securities in issue and subordinated liabilities
The fair values of these instruments are calculated based on quoted market prices in an active market where available. For those notes, where quoted market prices in an active market 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.

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

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

	2019			2018		
	Derivative financial instruments €m	**Other financial assets at FVTPL €m**	**Total €m**	**Derivative financial instruments €m**	**Other financial assets at FVTPL €m**	**Total €m**
Movement in level 3 assets measured at fair value						
Opening balance	32	262	294	-	270	270
Net trading income	34	11	45	-	15	15
Additions	-	-	-	26	-	26
Repayments	-	(27)	(27)	-	(23)	(23)
Transfers (to) / from level 2	(1)	-	(1)	6	-	6
Closing balance	**65**	**246**	**311**	**32**	**262**	**294**
Unrealised gain at year end	**34**	**10**	**44**	**30**	**14**	**44**
Movement in level 3 liabilities measured at fair value						
Opening balance	1	-	1	-	-	-
Net trading income	1	-	1	-	-	-
Transfers from level 2	-	-	-	1	-	1
Closing balance	2	-	2	1	-	1
Unrealised gain at year end	**(1)**	**-**	**(1)**	**7**	**-**	**7**

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these assets / liabilities.

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

			Fair value		Range	
Level 3 assets	**Valuation technique**	**Unobservable input**	**2019 €m**	**2018 €m**	**2019 %**	**2018 %**
Other financial assets at fair value through profit or loss	Discounted cash flow	Discount on market rate	246	262	2.75%-4.50%	2.75%-4.50%
	Collateral values	Collateral changes			0.50%-5.80%	1.50%-7.50%
Derivative financial instruments	Discounted cash flow	ECB forecast rates 2022-2043	65 asset 2 liability	32 asset 1 liability	0%-0.52%	0.02%-1.22%

26 Contingent liabilities and commitments

Loans and advances to customers at amortised cost	2019	2018
Loan commitments (€bn)	0.8	0.8
Loss allowance provision on loan commitments (€'000)	158	88

The Bank has €0.8 billion of approved mortgage loan applications that had not been drawn down at 31 December 2019 (2018: €0.8 billion). Loss allowance provisions of €0.2 million (2018: €0.1 million) were recognised on mortgage loan commitments.

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

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

27 Related party transactions

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

The Bank's ultimate parent undertaking, and controlling party, is Bank of Ireland Group plc, a public limited company incorporated and registered in Ireland. Copies of the consolidated financial statements of the Group for 2019 are available at the Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4.

(a) Irish Government

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

- *Ordinary Shares*
  At 31 December 2019, the State held, through the Ireland Strategic Investment Fund, 13.95% of the ordinary shares of Bank of Ireland Group plc (2018: 13.95%).

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

  Although the Bank has no guaranteed liabilities under the ELG Scheme, that scheme shall continue to exist until terminated by the Minister for Finance. Pending that termination, the Bank continues to be bound by the terms of the ELG Scheme including the provision of certain covenants and an indemnity for the costs of the ELG Scheme in favour of the Minister pursuant to the Scheme documents of the ELG Scheme. No fees were payable in respect of 2019 (2018: €nil).

(b) Transactions with Directors and Key Management Personnel

(i) Loans to Directors

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

For the purposes of the Companies Act disclosures, 'Directors' means the Board of Directors of the Bank, any past Directors who were Directors during the relevant period and Directors of the parent companies, The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

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

27 Related party transactions *(continued)*

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

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

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

2018 **Companies Act Disclosures** **Loans - Mortgages**	**Balance at 1 January 2018[1]** **€'000**	**Balance at 31 December 2018[1]** **€'000**	**Aggregate maximum amount outstanding during the year ended 31 December 2018[2]** **€'000**	**Repayments[3] during the year ended 31 December 2018** **€'000**
Directors at 31 December 2018				
N Corcoran	432	416	431	32
T McMahon	434	407	434	31
J O'Beirne	1,290	1,256	1,289	62
Directors no longer in office at 31 December 2018				
S Mason	1,102	1,049	1,102	61
L McLoughlin	322	316	321	20

During 2018, S Crowe, G Kelly, H Lorton and R Milliken had no loans with the Bank. No advances were made during the year. No amounts were waived during the year. None of the above loans were considered to be credit-impaired.

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

In 2018 and 2019, 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%.

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

27 Related party transactions *(continued)*

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

2019 Directors of parent companies[1] Loans - Mortgages	Balance at 1 January 2019[2] €'000	Balance at 31 December 2019[2] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2019[3] €'000	Repayments[4] during the year ended 31 December 2019 €'000
Directors at 31 December 2019				
F McDonagh	981	953	980	56
F Muldoon	103	82	103	24
Directors no longer in office at 31 December 2019				
None	-	-	-	-

2018 Directors of parent companies[1] Loans - Mortgages	Balance at 1 January 2018[2] €'000	Balance at 31 December 2018[2] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2018[3] €'000	Repayments[4] during the year ended 31 December 2018 €'000
Directors at 31 December 2018				
P Kennedy	2,823	-	2,822	2,829
F McDonagh	-	981	986	14
F Muldoon	135	103	134	36
Directors no longer in office at 31 December 2018				
None	-	-	-	-

K Atkinson (resigned 14 May 2019), E Bourke, I Buchanan, E Fitzpatrick, R Goulding, M Greene, P Haren, A Keating (resigned 18 October 2019), P Kennedy, P Mulvihill and S Pateman had no loans with the Bank during 2019. No amounts were waived during 2019.

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

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%.

(iii) Loans to connected persons on favourable terms
There were no loans to connected persons required to be disclosed as at 31 December 2019 or 2018.

(iv) Loans to connected persons - Central Bank of Ireland licence condition disclosures
Connected persons of Directors are defined by Section 220 of the Companies Act 2014. All loans to connected persons are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons and do not involve more than the normal risk of collectability (2018: one exception a loan to a connected person of T McMahon for €157,000).

[1] *Parent companies at 31 December 2019 and 2018 are The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.*
[2] *Balances include principal and interest.*
[3] *The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued is included in the closing balances.*
[4] *Repayments include principal and interest.*

27 Related party transactions *(continued)*

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

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

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

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

2018 Connected persons of the following Director	Balance at 31 December 2018 €'000	Aggregate maximum amount outstanding during the year ended 31 December 2018 €'000	Number of persons as at 31 December 2018	Maximum number of persons during the year ended 31 December 2018
T McMahon	1,775	2,239	1	1

(v) Key management personnel (KMP) - loans

The information in the table below is prepared in accordance with IAS 24: Related Party Disclosures.

For the purposes of IAS 24: Related Party Disclosures, key management personnel (KMP) comprise the Directors of the Bank and key management personnel ('Managing Director', 'Financial Director', 'Head of Customer Loan Solutions', 'Head of Mortgages', 'Chief Risk Officer', Head of Group Balance Sheet Management', Director - Distribution Channels' and 'Group CEO Markets and Treasury'. Key management personnel also comprise KMP of the parent companies, The Governor and Company of the Bank of Ireland and its parent Bank of Ireland Group plc.

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

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

2019 IAS 24 Disclosures Key Management Personnel	Balance at 1 January 2019[1] €'000	Balance at 31 December 2019[1] €'000	Maximum amounts outstanding during the year ended 31 December 2019[2] €'000	Number of KMP as at 1 January 2019	Number of KMP as at 31 December 2019
Loans[3]	11,155	7,515	8,879	19	14

[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 2019 for any member of KMP and their close family did not exceed €1.2 million (2018: €1.8 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 2018 and are not related parties during the current year. Therefore these KMP are not included in the maximum amounts outstanding.*

27 Related party transactions *(continued)*

2018 IAS 24 Disclosures Key Management Personnel	Balance at 1 January 2018[1] €'000	Balance at 31 December 2018[1] €'000	Maximum amounts outstanding during the year ended 31 December 2018[2] €'000	Number of KMP as at 1 January 2018	Number of KMP as at 31 December 2018
Loans[3]	11,249	11,155	14,977	18	19

Loans relate to mortgages secured on residential property.

The IAS 24 loan disclosure above includes loans to key management personnel on preferential staff rates amounting to €nil (2018: €0.41 million). Save as referred to in sub-section (iv) above, none of the loans in sub-section (i) to (v), are considered to be credit-impaired and there is no interest which having fallen due on the above loans has not been paid.

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

(vi) Directors' remuneration
No other fees or bonuses were paid to Directors during 2019 (2018: €nil).

	2019 €'000	2018 €'000
Fees	126	125
Other emoluments	249	181
Other - pension	53	32
Other - termination benefits	-	79
Total remuneration	**428**	**417**

28 Post balance sheet events

On 29 January 2020, the Bank redeemed the €50 million subordinated loan issued on 29 August 2014 to its immediate parent, The Governor and Company of the Bank of Ireland. The loan was refinanced with a new issue to its immediate parent of €50 million with a ten year maturity and bearing a coupon of 2.128%.

29 Approval of the financial statements

The Directors approved these financial statements on 21 February 2020.

[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 2018 for any member of KMP and their close family did not exceed €1.8 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 2017 and are not related parties during the current year. Therefore these KMP are not included in the maximum amounts outstanding.*

Glossary

Further information related to certain measures referred to in this Report

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

Forborne collateral realisation loans (FCRs) are loans that are not greater than 90 days past due and / or impaired, consist of loans where forbearance is in place and where future reliance on the realisation of collateral is expected, for the repayment in full of the relevant borrower loan. Such arrangements will include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

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

'Non-performing exposures' (NPEs) consist of:
(i) credit-impaired loans which includes loans where the borrower is considered unlikely to pay in full without recourse by the Bank to actions such as realising security, including FCR cases, and loans where the borrower is greater than 90 days past due and the arrears amount is material; and
(ii) other / probationary loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

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

Return on assets is calculated as being statutory net profit (being profit after tax) divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations 2014.

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

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

Abbreviations

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