

**BANK OF IRELAND
MORTGAGE BANK
ANNUAL REPORT
31 December 2017**

BANK OF IRELAND MORTGAGE BANK
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BANK OF IRELAND MORTGAGE BANK
DIRECTORS AND OTHER INFORMATION

Directors at date of signing

Harry Lorton
John O'Beirne
Stephen Mason
Neil Corcoran
Sean Crowe
Geraldine Kelly
Richard Milliken

Registered Office and number

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

Cover Assets Monitor

Mazars
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Dublin 2

Independent Auditors

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

Secretary

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

BANK OF IRELAND MORTGAGE BANK

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 2017.

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”). A corporate reorganisation of the Bank of Ireland Group was implemented by Scheme of Arrangement under the Companies Act 2014, which became effective on 7 July 2017 and which resulted in Bank of Ireland Group plc becoming the holding company of the Bank of Ireland Group (together the “Group”) and the ultimate holding company of the Bank.

The underlying performance of the Bank has been strong in 2017 and among the highlights were:

- underlying net interest income¹ of €305 million, an increase of 13% over the prior year (31 December 2016: €271 million);
- growth in the Irish new mortgage market of more than 29% to €7.3 billion², with the Bank increasing its new lending market share to 27% up from 25% in the prior year;
- 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;
- an improvement in asset quality with a reduction in non-performing exposures of 17% to €1.8 billion and impairment provisions decreasing by 31% to €0.5 billion; and
- an upgrade in the Bank’s Asset Covered Securities (“ACS”) rating by Dominion Bond Rating Service, Inc. (“DBRS”) from AA (high) to AAA.

The outlook for the Irish economy remains positive with strong domestic activity and robust exports during 2017. The strong labour market performance in 2016 has carried forward into 2017 with unemployment declining to a rate of 6.2%, with c.26,900 jobs (net) being created in 2017. This increase in employment levels is having a positive impact on incomes and consumer spending continues to increase.

The improving economic conditions coupled with a growing population have resulted in increased demand for property. The number of residential transactions in the market was up 11% in 2017 while house price inflation also continues to grow, increasing by 12.3% in 2017. New mortgage lending was up 29% year on year and while there are signs that house building activity is also picking up, there continue to be supply constraints in the housing market, particularly in the greater Dublin and other urban areas.

Sale of Portfolio of Performing Mortgages

In November 2017, the Bank sold €4.0 billion performing tracker mortgages to Bank of Ireland, resulting in a loss on sale amounting to €0.4 billion. The transaction, carried out at arm’s length, was part of a capital optimisation exercise with the Group and will benefit both the Bank’s return on equity and net interest margin. The transaction had no impact from a customer perspective, with all customer interaction remaining with the Bank. Although the sale reduces net interest income in future periods, the Bank’s three-year forecast indicates that the Bank will continue to grow its loan book and generate sustainable profits and capital over that period. To facilitate the sale, €3.6 billion of these tracker mortgages were removed from the cover assets pool and replaced with higher-yielding fixed rate and standard variable rate mortgages. The Bank’s ACS rating by DBRS was upgraded in October 2017 from AA (high) to AAA.

Tracker Mortgage Examination Review

In December 2015, the Central Bank of Ireland (“CBI”) notified the Group of an industry-wide examination of tracker mortgages. The examination has required the Group, which includes the Bank, to identify any accounts where a right to, or the option of, a tracker rate of interest was not provided to the customer in accordance with their loan agreement.

At 31 December 2016, the Bank had provided €19 million in respect of redress, compensation and costs to customers deemed impacted under the examination.

On 9 November 2017, in ensuring that fair outcomes were delivered to all customers, the Bank agreed to include an additional 4,348 mortgage accounts within the scope of the compensation scheme. A charge of €135 million has been recognised in the income statement to provide principally for the redress, compensation and costs relating to these additional accounts.

Resolving the Tracker Mortgage Examination Review remains a key priority for the Bank. Good progress has been made to identify and contact all impacted customers. Additionally, the level of resources allocated to manage customer engagement on a tailored basis, increased significantly during the period. At 31 December 2017, 100% of impacted accounts which are still active had been returned to a tracker rate. Offers of redress and compensation have been made by the Bank to 9 out of 10 impacted account holders. The Bank expects to complete all payments to the remaining account holders, subject to their agreement, by the end of March 2018.

¹ Underlying net interest income is net interest income excluding the impact of the Tracker Mortgage Examination Review and comprises underlying interest income of €505 million (see note 2) (year ended 31 December 2016: €525 million) less interest expense €200 million (see note 3) (year ended 31 December 2016: €254 million).

² BPF1 new mortgage data.

BANK OF IRELAND MORTGAGE BANK

REPORT OF THE DIRECTORS (continued)

REVIEW OF BUSINESS (continued)

Asset Quality

Loans and advances to customers (before impairment provisions) amounted to €15.4 billion at 31 December 2017 (31 December 2016: €19.2 billion) reflecting the sale of performing tracker mortgages to Bank of Ireland during the year as noted on the previous page.

The Bank has revised its asset quality reporting methodology to align with European Banking Authority (“EBA”) guidance on non-performing and forborne classifications. The Bank now reports ‘non-performing exposures’ and ‘impaired’ loans replacing the previous classification of ‘non-performing’ loans which comprised ‘probationary residential mortgages’ and ‘defaulted’ loans. Previously the Bank did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance. Further detail of the revised approach is set out in note 23 Risk Management and Control.

Non-performing exposures have reduced by 17% to €1.8 billion at 31 December 2017 (31 December 2016: €2.2 billion). Impairment provisions decreased to €0.5 billion at 31 December 2017 from €0.7 billion at 31 December 2016.

The Bank’s good progress in effecting sustainable restructure and resolution strategies for customers in financial difficulties has contributed to a significant reduction in the stock of non-performing exposures and lower impairment charges in 2017. Application of a twelve month probation period continues to apply for cases to be eligible for inclusion in collective provisioning model cure rate calculations.

The Bank continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments in order to arrange, where viable, sustainable repayment solutions. Forbearance occurs when a borrower is granted an agreed change (“forbearance measure”) to the contractual terms of a mortgage loan for reasons relating to the actual or apparent financial stress or distress of that borrower. An exposure continues to be classified as forborne until such time as it satisfies conditions to exit forbearance in line with EBA guidance. Loans that have never been forborne or loans that no longer require to be reported as ‘forborne’ are classified as ‘non-forborne loans’.

Owner occupied non-performing exposures were €1.0 billion at 31 December 2017, a reduction of 16% since 31 December 2016. 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.

The level of Owner occupied arrears (past due greater than 90 days) for the Bank remains at less than half the level of the rest of the industry as published on a quarterly basis by the CBI¹ (latest industry statistics are as at 30 September 2017). At 31 December 2017, 97% of the Owner occupied mortgage book was on a ‘full principal and interest’ repayment basis (31 December 2016: 96%).

Buy to let non-performing exposures were €0.8 billion at 31 December 2017, a reduction of 19% since 31 December 2016. This reduction reflects the continued progress made by the Bank in the ongoing restructuring of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas. The level of Buy to let arrears (past due greater than 90 days) for the Bank has reduced to less than half of the level of the rest of the industry as published on a quarterly basis by the CBI¹ (latest industry statistics are as at 30 September 2017). At 31 December 2017, 77% of the Buy to let mortgage book was on a ‘full principal and interest’ repayment basis (31 December 2016: 80%). The proportionate reduction year on year is due to the sale of performing tracker mortgages to Bank of Ireland as noted above.

Introduction of IFRS 9

The implementation of IFRS 9 is effective from 1 January 2018. IFRS 9 introduces a forward-looking ‘expected credit loss’ model which may lead to more volatile impairment charges in the future with a consequent potential impact on capital ratios. The quantitative impact on initial adoption of IFRS 9 will be disclosed in the 2018 annual report.

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

BANK OF IRELAND MORTGAGE BANK

REPORT OF THE DIRECTORS (continued)

REVIEW OF BUSINESS (continued)

Capital

During the year, the Bank exercised an option to redeem a €90 million interest bearing subordinated loan which was due to mature on 30 December 2021. The loan was replaced with a new €90 million interest bearing subordinated loan from the Bank's immediate parent with a maturity of 10 years. Further details are set out in note 18.

As part of a capital efficiency programme, the Bank also issued Additional tier 1 notes with a par value of €200 million to its immediate parent. These notes have no fixed redemption date and the note holder will have no right to require the Bank to redeem or purchase the notes at any time. Further details are set out in note 20.

As previously mentioned on page 4, in November 2017, the Bank sold €4.0 billion of performing tracker mortgages to Bank of Ireland. This transaction resulted in a decrease in risk weighted assets of approximately €0.9 billion.

The common equity tier 1 ("CET 1") ratio on a regulatory basis was 20.2% (31 December 2016: 19.0%) and on a fully loaded basis was 19.8% (31 December 2016: 18.8%). The leverage ratio at 31 December 2017 was 6.8% on a regulatory basis (31 December 2016: 5.7%) and 6.7% on a fully loaded basis (31 December 2016: 5.6%). The Bank expects to remain above the European Commission proposed leverage ratio requirement of 3% which is expected to be applicable from 2019.

The Bank's capital ratio position continues to improve. At 31 December 2017, the total capital ratio on a regulatory basis was 27.0% (31 December 2016: 21.8%).

The Group, which includes the Bank, is continuing to engage with the European Central Bank ("ECB") as part of the targeted review of internal models process in respect of the regulatory capital obligations for its Irish mortgage portfolio. While this process remains ongoing, any requirement to amend models could reduce the benefit of projected capital growth in 2018.

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 23 Risk Management and Control.

The Bank continues to closely monitor the impact on the Irish Economy, and consequently the financial performance of the Bank, of the UK's decision to trigger Article 50 and leave the EU.

Results

The loss before taxation for the year ended 31 December 2017 amounted to €227 million, as set out in the income statement on page 16, compared to a profit before taxation of €303 million for the year ended 31 December 2016.

As set out in the Tracker Mortgage Examination Review section above, a charge of €135 million has been recognised in the income statement to provide principally for the redress, compensation and costs associated with the industry-wide examination of tracker mortgages, of which €74 million was charged to interest income and €61 million was charged to operating expenses.

Excluding the impact of the Tracker Mortgage Examination Review, the underlying Net Interest Income¹ ("NII") increased to €305 million for the year ended 31 December 2017, from €271 million in 2016. The increase in underlying NII is primarily driven by lower funding costs.

Fee and commission income amounted to €1 million for the year ended 31 December 2017 (year ended 31 December 2016: €1 million).

Operating expenses increased to €107 million for the year ended 31 December 2017 from €51 million for the year ended 31 December 2016 driven primarily by an increase in costs associated with the Tracker Mortgage Examination Review during the year.

The impairment reversal of €98 million for the year ended 31 December 2017 (year ended 31 December 2016: €98 million) reflects improved economic conditions, the continued improvement in the credit quality of our loan book and our actions to manage non-performing exposures. Details of updated collective provisioning model factors and assumptions for the loan portfolio, including property valuation assumptions and cure rates, are set out on page 43.

The Bank incurred a loss before taxation of €447 million on the sale of performing tracker mortgages which were sold to Bank of Ireland during the year.

The Bank enters into derivative transactions only for the hedging of interest rates. Net trading expense 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. Net trading expense for the year was €3 million (year ended 31 December 2016: €1 million), which reflects the increased expense arising from the purchase of own debt during the year.

¹ Underlying net interest income is net interest income excluding the impact of the Tracker Mortgage Examination Review and comprises underlying interest income of €505 million (see note 2) (year ended 31 December 2016: €525 million) less interest expense €200 million (see note 3) (year ended 31 December 2016: €254 million).

BANK OF IRELAND MORTGAGE BANK

REPORT OF THE DIRECTORS (continued)

REVIEW OF BUSINESS (continued)

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 the year ended 31 December 2017, the Bank issued no asset covered securities and €1 billion of securities in issue matured.

The Bank obtains a rating for the covered bonds from Moody's Investor Services and DBRS:

Rating Agency	31 December 2017	31 December 2016
Moody's Investor Services	Aa1	Aa1
DBRS	AAA	AA(high)

At 31 December 2017, the Bank had a €15.0 billion customer loan portfolio (net of impairment provisions) funded through debt securities in issue: €7.0 billion (48%); capital and subordinated debt: €1.4 billion (10%) and net Group borrowings: €6.6 billion (42%). Of the €7.0 billion debt securities in issue, €2.2 billion is held by Bank of Ireland. The remaining €4.8 billion is issued to external bondholders with a range of maturities out to 2048.

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

At 31 December 2017, the Bank had €141 million of subordinated loan borrowings from its immediate parent company (31 December 2016: €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 the year ended 31 December 2017 (year ended 31 December 2016: €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

There has been a significant reduction in loans and advances to customers during the year arising from the sale of performing tracker mortgages to Bank of Ireland. Loans and advances to customers have reduced to €15.0 billion at 31 December 2017 (31 December 2016: €18.5 billion) which will result in a decrease in net interest income in future periods. However, forecasts out to 2020 indicate the Bank will continue to grow its loan book and generate sustainable profits and capital over the period.

BANK OF IRELAND MORTGAGE BANK
REPORT OF THE DIRECTORS (continued)

Directors and Secretary

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2017 and up to the date of the approval of the financial statements are set out below. Except where indicated, they served as directors for the entire period.

Directors

Harry Lorton	Independent Non-Executive Chairman	
John O'Beirne	Managing Director	
Stephen Mason	Executive Director	
Neil Corcoran	Executive Director	Appointed 09 June 2017
Danny Buckley	Executive Director	Resigned 09 June 2017
Sean Crowe	Group Non-Executive Director	
Liam McLoughlin	Group Non-Executive Director	Resigned 31 January 2018
Geraldine Kelly	Independent Non-Executive Director	
Richard Milliken	Independent Non-Executive Director	

Directors' and Secretary's interests

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

Political donations

Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2017 (31 December 2016: €nil).

Corporate governance

The Corporate Governance Statement on page 10 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 21 in the Going concern disclosure within the Accounting policies in note 1 to the financial statements.

Post balance sheet events

On 22 January 2018, Moody's upgraded the rating assigned to the Bank's covered bonds in issue to Aaa from Aa1. There are no other post balance sheet events that require disclosure in the financial statements.

Independent Auditors

The appointment of KPMG as the Bank's External Auditors will be recommended for approval at the Bank's 2018 Annual General Meeting, subject to which KPMG will conduct the Bank's audit for the year ended 31 December 2018.

Harry Lorton
Chairman

John O'Beirne
Managing Director

Neil Corcoran
Director

Hill Wilson Secretarial Limited

23 February 2018

BANK OF IRELAND MORTGAGE BANK
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

On behalf of the Board

Harry Lorton
Chairman

John O'Beirne
Managing Director

Neil Corcoran
Director

23 February 2018

BANK OF IRELAND MORTGAGE BANK

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 Institutions, and Credit Institutions.

The Directors believe that the Bank complied with the provisions of the Code throughout 2017. (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, 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.

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

Report on the audit of the financial statements

Opinion

In our opinion, Bank of Ireland Mortgage Bank's financial statements:

- give a true and fair view of the Bank's assets, liabilities and financial position as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework", and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the annual report, which comprise:

- the Balance Sheet as at 31 December 2017;
- the Income Statement for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the Bank.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Bank in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



Materiality

- Our materiality was €17.75 million which represents 5% of the profit before taxes of the Bank, excluding certain non-recurring items.

Audit scope

- We performed a full scope audit of the Bank’s financial statements, based on materiality levels.

Key audit matters

- Impairment provisions on loans and advances to customers
- Sale of portfolio of performing mortgages
- Provision for Tracker Mortgage Examination

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment provisions on loans and advances to customers.</i></p> <p><i>Refer to note 1.8 (Impairment on financial assets carried at amortised cost on pages 23 & 24, note 1.19 (Critical accounting estimates and judgements) on pages 27 & 28, Note 11 (Impairment provisions) on page 32 and note 23 (Risk Management and Control) on pages 40 to 53 of the financial statements.</i></p> <p>The determination of impairment provisions requires a significant amount of management judgement and the calculations are reliant upon available reliable data.</p> <p>We focused in particular on the assumptions underlying the calculation of modelled provisions as these assumptions are often complex.</p>	<p>Provisions for mortgages are determined using internally generated models. Historical experience and management judgement are incorporated into the model assumptions. We assessed and tested the design and operating effectiveness of the controls over source data and calculations. This included controls over the identification of loans and advances classified as impaired and the calculation of the resulting impairment provision. We also tested the completeness and accuracy of the underlying data from the Bank’s source systems.</p> <p>Where changes were made to the model parameters and assumptions, we understood the rationale and considered the appropriateness of such changes. We used specialists from our Data Services team and Actuarial practice in the evaluation of the operation of the models. We also challenged key assumptions by comparison to externally available information.</p> <p>We critically assessed the rationalisation of the overall provision levels to consider in particular whether all relevant risks are reflected in the provisions. We also assessed the reasonableness of the total provisions having regard to available external data.</p> <p>Based on the procedures performed and evidence obtained, we concluded that:</p> <ul style="list-style-type: none"> • we could place reliance for the purposes of our audit on the key controls over the Bank’s processes for determining impairment provisions; and that • management’s assumptions, models and methodologies produced impairment provisions which fall within a range of reasonable best estimates.

BANK OF IRELAND MORTGAGE BANK

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Sale of portfolio of performing mortgages</i></p> <p><i>Refer to note 7 (Loss on sale of financial assets) on page 30 of the financial statements.</i></p> <p>During the year, the Bank sold its beneficial interests over a portfolio of mortgages with a carrying value of approximately €4.0 billion to its parent, the Governor and Company of the Bank of Ireland.</p> <p>We consider this a key audit matter as the sale of this portfolio generated a loss of €447 million to the Bank which is significant to the financial result for the year.</p>	<p>We independently recalculated the loss on sale arising from the transaction by reference to the executed agreements.</p> <p>There were no significant matters arising from our testing.</p>
<p><i>Provision for Tracker Mortgage Examination</i></p> <p><i>Refer to note 1.19 (Critical accounting judgements and estimates) on page 28 and note 17 (Provisions) on page 38 of the financial statements.</i></p> <p>In December 2015, the Central Bank of Ireland requested that the Bank conduct an examination of its Irish mortgage loan book to assess compliance with both the Bank's legal obligations and the applicable regulatory frameworks. Prior years' financial statements included provisions and contingent liabilities arising from the output of this examination at the time.</p> <p>In November 2017 and following intervention by the Central Bank and internal review, the Bank of Ireland Group announced that it had decided to include 5,400 additional accounts within the scope of its examination, a significant proportion of which related to the Bank.</p> <p>The financial statements reflect an incremental charge of €135m which includes the impact of the additional accounts and other matters.</p> <p>We consider this to be a key audit matter because of its materiality to the financial statements and the significant uncertainties and judgements inherent in its estimation.</p>	<p>We understood and tested the key controls and management's processes for the calculation and review of the Tracker Mortgage Examination charge and provision including governance processes and approvals of model assumptions and outputs.</p> <p>We found the key controls were implemented and operated effectively and therefore, we determined that we could place reliance on these key controls for the purposes of our audit.</p> <p>In addition:</p> <ul style="list-style-type: none">• We read the 2017 correspondence between the Central Bank and the Bank of Ireland Group in relation to the Tracker Mortgage Examination and discussed the principal matter arising with senior group management and, where necessary, those charged with governance at both the Bank of Ireland Group and Bank of Ireland Mortgage Bank.• We read the minutes of key governance meetings including those of the Group and Bank Board, and of various Group management committees as well as attending Audit Committee meetings at both Group and Bank level.• We updated our understanding and challenged the provisioning methodologies and underlying assumptions used by management. For example, we challenged the basis that management used for forecasting the number of appeals that will be received in the future. We also independently performed sensitivity analysis on the key assumptions. <p>In discussions with management, we challenged the judgements made in the calculation of the charge and provision for other matters.</p> <p>Given the inherent uncertainty in the calculation, we considered the residual risks and uncertainties relating to the determination of management's estimate of the total ultimate cost of redress and compensation and the adequacy of disclosures within the financial statements.</p> <p>We concluded that</p> <ul style="list-style-type: none">• the estimate of the additional charge recognised in the 2017 financial statements was reasonable given the information currently available.• the related disclosures in the financial statements including the description of the residual risks and uncertainties were reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	€17.75 million
How we determined it	5% of profit before taxes, excluding non-recurring items
Rationale for benchmark applied	We conclude that setting materiality based on a % of profit before taxes is the most appropriate benchmark taking account the circumstances of the Bank and the key users of the financial statements. In doing so, we exclude the effects of non-recurring transactions in order to obtain a more appropriate measure of the performance of the Bank. In 2017, these non-recurring items were the provision for tracker examination (€135m as set out in note 17) and the loss on sale of performing mortgages (€447m as set out in note 7).

We agreed with the Board of directors that we would report to them misstatements identified during our audit above €0.9m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for 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 to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

Report of the Directors

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified any material misstatements in the Report of the Directors.

Corporate governance statement

- In our opinion, based on the work undertaken in the course of the audit of the financial statements, the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement, is consistent with the financial statements and have been prepared in accordance with section 1373(2)(c).
- Based on our knowledge and understanding of the Bank and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

The directors are also responsible for 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.

In preparing the financial statements, the directors are responsible for assessing the Bank'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 the directors either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Bank were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Companies Act 2014 exception reporting

Directors' remuneration and transactions

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

Appointment

We were appointed by the directors on incorporation of the Bank in May 2004 to audit the financial statements for the period ended 31 March 2005 and for subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 31 March 2005 to 31 December 2017. Following a Group wide external audit tender, we will not be seeking reappointment at the forthcoming Annual General Meeting of the Bank.

Ronan Doyle
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
23 February 2018

BANK OF IRELAND MORTGAGE BANK
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	For the year ended 31 December 2017 €m	For the year ended 31 December 2016 €m
Interest income	2	431	510
Interest expense	3	(200)	(254)
Net interest income		231	256
Fee and commission income		1	1
Total operating income		232	257
Operating expenses	4	(107)	(51)
Net trading expense	6	(3)	(1)
Total operating profit before impairment reversal		122	205
Impairment reversal	11	98	98
Total operating profit		220	303
Loss on sale of financial assets	7	(447)	-
(Loss)/profit before taxation		(227)	303
Taxation credit/(charge)	8	28	(38)
(Loss)/profit for the financial year		(199)	265

The notes on pages 20 to 61 form an integral part of the financial statements.

BANK OF IRELAND MORTGAGE BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	For the year ended 31 December 2017 €m	For the year ended 31 December 2016 €m
(Loss)/profit for the financial year	(199)	265
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent years:		
Cash flow hedge reserve:		
change in fair value	(22)	(14)
income tax on reclassified items	3	1
Other comprehensive income for the year, net of tax	(19)	(13)
Total comprehensive income for the year, net of tax	<u>(218)</u>	<u>252</u>

The notes on pages 20 to 61 form an integral part of the financial statements.

BANK OF IRELAND MORTGAGE BANK**BALANCE SHEET****AS AT 31 DECEMBER 2017**

		31 December 2017	31 December 2016
	Note	€m	€m
ASSETS			
Loans and advances to banks	9	1,915	2,129
Loans and advances to customers	10	14,961	18,524
Derivative financial instruments	13	73	103
Deferred tax asset	12	34	16
Current tax asset	12	13	-
Other assets		3	1
Total assets		16,999	20,773
LIABILITIES			
Deposits from banks	14	8,458	11,363
Debt securities in issue	15	6,977	7,959
Derivative financial instruments	13	25	23
Other liabilities	16	36	12
Provisions	17	123	19
Subordinated liabilities	18	141	140
Total liabilities		15,760	19,516
EQUITY			
Called up share capital presented as equity	19	738	738
Share premium	19	661	661
Reserves		(360)	(142)
Shareholders' equity		1,039	1,257
Other equity instruments	20	200	-
Total equity		1,239	1,257
Total equity and liabilities		16,999	20,773

The notes on pages 20 to 61 form an integral part of the financial statements.

Harry Lorton
Chairman

John O'Beirne
Managing Director

Neil Corcoran
Director

Hill Wilson Secretarial Limited

23 February 2018

BANK OF IRELAND MORTGAGE BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital €m	Share Premium €m	Retained Earnings €m	Cash Flow Hedge Reserve €m	Total Shareholders' Equity €m	Other Equity Instruments €m	Total Equity €m
At 1 January 2016	738	661	(442)	48	1,005	-	1,005
Comprehensive income							
Profit for the year	-	-	265	-	265	-	265
Other comprehensive income	-	-	-	(13)	(13)	-	(13)
Total comprehensive income	-	-	265	(13)	252	-	252
At 31 December 2016	738	661	(177)	35	1,257	-	1,257
Comprehensive income							
Loss for the year	-	-	(199)	-	(199)	-	(199)
Other comprehensive income	-	-	-	(19)	(19)	-	(19)
Total comprehensive income	-	-	(199)	(19)	(218)	-	(218)
Issue of other equity instruments	-	-	-	-	-	200	200
At 31 December 2017	738	661	(376)	16	1,039	200	1,239

The notes on pages 20 to 61 form an integral part of the financial statements.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS

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BANK OF IRELAND MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES

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

1.1 Basis of preparation

The financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the notes to the financial statements on pages 20 to 61. The financial statements also include the tables in the Supplementary Asset Quality Disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 63.

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 holding undertaking, Bank of Ireland Group plc, includes the Bank in its consolidated financial statements. The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Bank of Ireland Head Office, 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;
- 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 the year ended 31 December 2017 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 loss after taxation in 2017, 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 Interest income and expense

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

1.3 Interest income and expense (continued)

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

1.4 Fee and commission income

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

1.5 Income taxes

(a) Current income tax

Income tax payable on profits, based on applicable tax law, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for utilisation by other Group companies are recognised as an asset when it is probable that taxable group profits will be available against which these losses can be utilised in the year.

(b) Deferred income tax

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences due to unused tax losses can be utilised. Deferred tax assets and liabilities are not discounted.

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

1.6 Financial assets

Classification, Recognition and Measurement

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception.

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

Derecognition

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

1.7 Financial liabilities

The Bank has two categories of financial liabilities: those that are carried at amortised cost and those that are carried at fair value through profit or loss. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

1.7 Financial liabilities (continued)

Derecognition

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

1.8 Impairment of financial assets carried at amortised cost

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

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

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

Forbearance

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

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

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

Assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications.

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

1.9 Valuation of financial instruments

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

If an active market does not exist, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm’s length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm’s length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

The fair values of the Bank’s financial assets and liabilities are disclosed within note 24 together with a description of the valuation techniques used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

1.10 Derivative financial instruments and hedge accounting

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

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

The Bank designates certain derivatives as either:

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

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

Where a hedging instrument is novated to a clearing counterparty, the Bank does not discontinue hedge accounting where the following criteria are met:

- the novation arises due to laws or regulations, or the introduction of laws or regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

(a) Fair value hedge

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

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges 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 reserves 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.

1.11 Issued debt and equity securities

The classification of instruments as a financial liability or 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 repayment of the 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 value and consideration paid, net of any costs or fees incurred, is included in net trading income.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

1.12 Pensions

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

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

1.13 Accrued interest

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

1.14 Offsetting

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

1.15 Share capital and reserves

(a) Dividends on ordinary shares

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

(b) Cash flow hedge reserve

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

(c) Other equity instruments

Other equity instruments represent the issuance of Additional tier 1 notes by the Bank to its immediate parent. See note 20 for details.

1.16 Collateral

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

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

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

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

1.17 New accounting pronouncements

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on 1 January 2017 have had a material impact on the Bank.

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.

BANK OF IRELAND MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

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. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Bank's financial statements are set out below.

a) Impairment charges on financial assets

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

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

At 31 December 2017, the mortgage portfolio before impairment provisions amounted to €15.4 billion (31 December 2016: €19.2 billion), against which were held provisions for impairment of €0.5 billion (31 December 2016: €0.7 billion). A key assumption used in the calculation of the impairment charge for mortgages is the value of the underlying properties securing the loans (i.e. the "assumed value" for collective provisioning purposes). As set out on pages 43 to 44, at 31 December 2017, the assumption adopted by the Bank in respect of the value of properties for collective provisioning (i.e. collective specific and incurred but not reported ("IBNR") provisioning) reflected the indexed value of the property using the Central Statistics Office ("CSO") Residential Property Price Index ("RPPI") adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The 'forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Bank's most recent property sales experience. The disposal cost assumptions reflect the estimated costs associated with selling the underlying residential properties.

In addition to containing judgements in relation to the assumed value of properties for provisioning, collective impairment charges also contain key assumptions relating to: 'time to sale'; 'loss emergence periods'; 'weighted average cure rates'; and 'weighted average repayment rates'. The assumptions relating to the assumed value of underlying properties securing the loans, together with all other key collective impairment provisioning model factors, continue to be reviewed as part of the Bank's year-end and half year financial reporting cycle.

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

- A 1% increase in the 'forced sale discount' assumptions would give rise to estimated additional collective impairment provisions of c.€4 million to €233 million;
- A 1% increase in the 'disposal cost' assumptions would give rise to estimated additional collective impairment provisions of c.€3 million to €232 million;
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would give rise to estimated additional collective impairment provisions of c.€2 million to €231 million;
- An increase of one month in the assumed 'loss emergence period' (i.e. the period of time between the occurrence and reporting of a loss event) would give rise to estimated additional collective impairment provisions of c.€0.1 million;
- A 1% increase in the 'weighted average cure rate' assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would give rise to estimated reduced collective impairment provisions of c.€0.5 million; and
- A 1% increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would give rise to estimated reduced collective impairment provisions of c.€1 million to €228 million.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

1.19 Critical accounting estimates and judgements (continued)

a) Impairment charges on financial assets (continued)

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the credit risk methodologies section on pages 42 to 44 of Note 23.

b) Effective interest method

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

In determining the effective interest rate, management exercises judgement on such matters as the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life. As part of this review, economic factors such as unemployment levels, consumer confidence and economic and fiscal stability were considered, along with mortgage market specific factors such as house price levels, switcher activity and consumer demand. It is estimated that a one year move in the expected life would have an impact of c.€20 million in the income statement. There has been no change to the average life assumption in 2017.

c) Tracker Mortgage Examination Review

At 31 December 2017, the Bank has recognised a provision of €123 million in connection with the ongoing industry-wide examination of tracker mortgages. The provision represents the Bank's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Bank in connection with the examination.

The CBI examination is still ongoing. There are still a number of uncertainties as to the eventual total cost of the examination. Management has therefore exercised judgement to determine appropriate provision assumptions which include estimates of the level of appeals, appeal success rates and the level of administrative costs to be incurred by the Bank in concluding the examination.

Given the uncertainties outlined above, it is possible that the eventual outcome may differ from the current estimate with a corresponding impact on profit or loss in future periods.

2 INTEREST INCOME

	For the year ended 31 December 2017	For the year ended 31 December 2016
	€m	€m
Loans and advances to banks	17	14
Loans and advances to customers	488	511
Underlying interest income	505	525
Impact of Tracker Mortgage Examination Review	(74)	(15)
	<u>431</u>	<u>510</u>
Of which receivable from Bank of Ireland	<u>39</u>	<u>41</u>

Interest income for the year ended 31 December 2017 includes a charge for €74 million (year ended 31 December 2016: €15 million) in respect of additional accounts that were included for redress under the Tracker Mortgage Examination Review undertaken by the CBI.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 INTEREST INCOME (continued)

Included within interest income recognised on loans and advances to customers¹ for the year ended 31 December 2017 is:

- €18.4 million (year ended 31 December 2016: €20.0 million) of interest arising on impaired loans and advances to customers on which a specific impairment provision has been recognised at year end. €10.5 million of this amount (year ended 31 December 2016: €11.7 million) relates to loans on which specific provisions have been individually assessed and €7.9 million (year ended 31 December 2016: €8.3 million) relates to loans on which specific provisions have been collectively assessed;
- €21.5 million (year ended 31 December 2016: €24.7 million) of interest arising on loans and advances to customers classified as non-performing exposures¹ but on which a specific provision has not been recognised;
- €16.1 million (year ended 31 December 2016: €22.2 million) of interest recognised on loans and advances to customers classified as forborne¹ and which are considered performing at the year end; and
- €39.9 million (year ended 31 December 2016: €49.5 million) on total forborne¹ loans and advances to customers.

Interest income received on loans and advances to customers¹ for the year ended 31 December 2017 includes:

- €9.3 million (year ended 31 December 2016: €11.3 million) of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €20.2 million (year ended 31 December 2016: €23.3 million) of interest income received arising on loans and advances to customers classified as non-performing exposures¹ but on which a specific provision has not been recognised;
- €15.9 million (year ended 31 December 2016: €22.0 million) of interest income received arising on loans and advances to customers classified as forborne¹ and which are considered performing at the year end; and
- €47.4 million (year ended 31 December 2016: €58.7 million) on total forborne¹ loans and advances to customers.

3 INTEREST EXPENSE

	For the year ended 31 December 2017	For the year ended 31 December 2016
	€m	€m
Debt securities in issue	85	99
Other interest payable	104	143
Interest on subordinated liabilities	11	12
	<u>200</u>	<u>254</u>
Of which payable to Bank of Ireland	<u>115</u>	<u>155</u>

4 OPERATING EXPENSES

	For the year ended 31 December 2017	For the year ended 31 December 2016
	€m	€m
Cost of Tracker Mortgage Examination Review	61	4
Other operating expenses	46	47
Total operating expenses	<u>107</u>	<u>51</u>

Total operating expenses for the year ended 31 December 2017 include €61 million (year ended 31 December 2016: €4 million) in respect of costs associated with additional accounts that were included under the Tracker Mortgage Examination Review during the year. 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.

Staff costs and employee information

	For the year ended 31 December 2017	For the year ended 31 December 2016
	€'000	€'000
Staff costs: - wages and salaries	417	491
- social security costs	45	52
- pension costs	82	109
	<u>544</u>	<u>652</u>

There were no other compensation costs paid to staff during the year (31 December 2016: €nil). No staff costs were capitalised during the year ended 31 December 2017 (year ended 31 December 2016: €nil). For the year ended 31 December 2017, the average number of employees was 4 (year ended 31 December 2016: 6 employees).

¹ As described on page 46, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. As a result, the 2016 interest income recognised has been restated as follows:

- Loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end restated from €11.7 million to €24.7 million;
 - Loans and advances to customers classified as forborne and which are considered performing at the year end restated from €41.6 million to €22.2 million; and
 - Loans and advances to customers classified as forborne restated from €53.2 million to €49.5 million.
- In addition, the 2016 interest income received has been restated as follows:
- Loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end restated from €10.6 million to €23.3 million;
 - Loans and advances to customers classified as forborne and which are considered performing at the year end restated from €41.3 million to €22.0 million; and
 - Loans and advances to customers classified as forborne restated from €55.0 million to €58.7 million.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

5 AUDITORS' REMUNERATION

	For the year ended 31 December 2017 €'000	For the year ended 31 December 2016 €'000
Auditors' remuneration including expenses (excluding VAT)		
Audit of entity financial statements	48	49
Other assurance services	20	20
Taxation services	-	-
Other non-audit services	-	-
Total	<u>68</u>	<u>69</u>

6 NET TRADING EXPENSE

	For the year ended 31 December 2017 €m	For the year ended 31 December 2016 €m
Purchase of own debt	(2)	-
Interest rate contracts	<u>(1)</u>	<u>(1)</u>
	(3)	(1)
Fair value hedges		
Fair value loss on derivative contracts in fair value hedge relationships	(4)	-
Fair value gain on liabilities in fair value hedge relationships	<u>4</u>	<u>-</u>
	-	-
	<u>(3)</u>	<u>(1)</u>

For the year ended 31 December 2017, net trading expense was €3 million (year ended 31 December 2016: €1 million) which principally reflects the expense arising from own debt purchased in the year.

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.

7 LOSS ON SALE OF FINANCIAL ASSETS

In November 2017, the Bank sold €4.0 billion performing tracker mortgages to Bank of Ireland, resulting in a loss on sale before taxation of €447 million (year ended 31 December 2016: €nil). The transaction, carried out at arm's length, was part of a capital optimisation exercise with the Group. To facilitate the sale, €3.6 billion of these tracker mortgages were removed from the cover assets pool and replaced with higher-yielding fixed rate and standard variable rate mortgages. The Bank's ACS rating by DBRS was upgraded in October 2017 from AA (high) to AAA.

The loss incurred on the sale gave rise to a taxation credit of €56 million, which resulted in the Bank recognising a loss after taxation of €391 million on the transaction during the year.

8 TAXATION

	For the year ended 31 December 2017 €m	For the year ended 31 December 2016 €m
Current tax		
Current year	<u>(13)</u>	<u>-</u>
	(13)	-
Deferred tax		
Trading losses	<u>(15)</u>	<u>38</u>
	(15)	38
Taxation (credit) / charge	<u>(28)</u>	<u>38</u>

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

8 TAXATION (continued)

The reconciliation of tax on the (loss) / profit before taxation at the standard Irish corporation tax rate to the Bank's actual taxation (credit) / charge for the year ended 31 December 2017 and 31 December 2016 is as follows:

	For the year ended 31 December 2017 €m	For the year ended 31 December 2016 €m
(Loss) / profit before taxation	(227)	303
(Loss) / profit @ 12.5%	(28)	38
Taxation (credit) / charge	(28)	38

9 LOANS AND ADVANCES TO BANKS

	31 December 2017 €m	31 December 2016 €m
Funds placed with Bank of Ireland	1,915	2,129
Total loans and advances to banks	1,915	2,129
Loans and advances to banks by remaining maturity		
Repayable on demand	24	34
3 months or less	1,356	1,517
1 year or less but over 3 months	54	21
5 years or less but over 1 year	391	168
Over 5 years	90	389
Total loans and advances to banks	1,915	2,129

10 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2017 €m	31 December 2016 €m
Loans and advances to customers	15,411	19,178
Accrued interest receivable	14	15
Less impairment provisions (note 11)	(464)	(669)
Total loan and advances to customers	14,961	18,524
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	214	275
1 year or less but over 3 months	552	723
5 years or less but over 1 year	2,837	3,732
Over 5 years	11,822	14,463
Less impairment provisions (note 11)	(464)	(669)
	14,961	18,524

During the year the Bank sold performing tracker mortgages with a carrying value of €4.0 billion to Bank of Ireland as set out in note 7.

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

11 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	31 December 2017	31 December 2016
	€m	€m
Opening balance	669	883
Reversal in income statement	(98)	(98)
Provisions utilised	(117)	(124)
Other movements	10	8
Closing balance	<u>464</u>	<u>669</u>

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

12 DEFERRED TAX ASSET

	31 December 2017	31 December 2016
	€m	€m
Opening balance	16	53
Cash flow hedge	3	1
Credit / (charge) to income statement	15	(38)
Closing balance	<u>34</u>	<u>16</u>

The deferred tax asset of €34 million (31 December 2016: €16 million) includes an amount of €36 million (31 December 2016: €21 million) in respect of tax losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it will be recovered, as the Directors are satisfied that it is probable that there will be sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already reversed. Under current Irish tax legislation there is no time restriction on the utilisation of these losses.

The current tax asset as at 31 December 2017 represents tax losses that have been surrendered to other Group companies. In these cases, payments equal to the value of the losses surrendered will be received from those companies.

13 DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives held for trading are derivatives entered into with economic hedging intent but which do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 23.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

31 December 2017	Contract/ notional amount €m	Fair Values	
		Assets €m	Liabilities €m
Derivatives held for trading			
Interest rate swaps	21,253	22	(18)
Derivatives designated as fair value hedges			
Interest rate swaps	96	19	-
Derivatives designated as cash flow hedges			
Interest rate swaps	3,775	32	(7)
Total derivative assets / (liabilities)		73	(25)

31 December 2016	Contract/ notional amount €m	Fair Values	
		Assets €m	Liabilities €m
Derivatives held for trading			
Interest rate swaps	22,699	15	(15)
Derivatives designated as fair value hedges			
Interest rate swaps	96	23	-
Derivatives designated as cash flow hedges			
Interest rate swaps	5,248	65	(8)
Total derivative assets / (liabilities)		103	(23)

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

The derivative assets of €73 million (31 December 2016: €103 million) are available in full for offset against derivative liabilities under master netting arrangements. However, these transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

At 31 December 2017, cash collateral of €250 million was held (31 December 2016: €334 million) and is reported within deposits from banks (note 14).

There are no placements with other banks in respect of the net derivative liability position of €25 million (31 December 2016: €23 million).

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

Fair value hedges

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

Cash flow hedges

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

13 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
31 December 2017					
Forecast receivable cash flows	-	4	15	12	31
Forecast payable cash flows	-	-	-	-	-
31 December 2016					
Forecast receivable cash flows	-	3	17	14	34
Forecast payable cash flows	-	-	-	-	-

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

	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
31 December 2017					
Forecast receivable cash flows	-	4	15	12	31
Forecast payable cash flows	-	-	-	-	-
31 December 2016					
Forecast receivable cash flows	-	3	17	14	34
Forecast payable cash flows	-	-	-	-	-

14 DEPOSITS FROM BANKS

	31 December 2017 €m	31 December 2016 €m
Deposits from banks	<u>8,458</u>	<u>11,363</u>
Deposits by remaining maturity		
3 months or less	2,371	6,985
1 year or less but over 3 months	1,365	1,086
5 years or less but over 1 year	4,582	3,168
Greater than 5 years	140	124
Due to Bank of Ireland	<u>8,458</u>	<u>11,363</u>

15 DEBT SECURITIES IN ISSUE

	31 December 2017 €m	31 December 2016 €m
Debt securities in issue	<u>6,977</u>	<u>7,959</u>
Bonds and medium term notes by remaining maturity		
3 months or less	730	35
1 year or less but over 3 months	18	980
5 years or less but over 1 year	4,246	3,996
Greater than 5 years	1,983	2,948
Of which is due to Bank of Ireland	<u>2,195</u>	<u>2,195</u>

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

15 DEBT SECURITIES IN ISSUE (continued)

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

	31 December 2017	31 December 2016
	€m	€m
Opening balance	7,959	7,404
Issued during the year	-	2,043
Redemptions	(963)	(1,416)
Purchases	(10)	(82)
Other movements	(9)	10
Closing balance	<u>6,977</u>	<u>7,959</u>

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 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 2 June 2017. In accordance with the ACS Acts the required disclosures are set out in note 15(a) – 15(h) below.

The total nominal value of mortgage covered securities in issue at 31 December 2017 amounted to €7.0 billion (31 December 2016: €7.9 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:

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

The Bank has the option to participate in Targeted Longer-Term Refinancing Operations (“TLTRO”) with the ECB since 2014. The Bank raised no TLTRO funding during the year ended 31 December 2017 (31 December 2016: €nil).

The Bank continues to participate in the ECB short term Main Refinancing Operations (“MRO”). The Bank had no MRO funds at any time during the year ended 31 December 2017 (31 December 2016: €nil).

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

15 DEBT SECURITIES IN ISSUE (continued)

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

Range		31 December 2017		31 December 2016	
From €'000	To €'000	Number of Accounts	Total Balances of Accounts €m	Number of Accounts	Total Balances of Accounts €m
-	100	38,004	1,714	44,127	1,888
100	200	24,003	3,475	27,170	3,953
200	500	12,164	3,357	13,621	3,678
	Over 500	950	672	851	646
		75,121	9,218	85,769	10,165

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 65,733 properties in the Pool at 31 December 2017 (31 December 2016: 74,393). The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool at 31 December 2017 and 31 December 2016 respectively.

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

	31 December 2017		31 December 2016	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	26%	74%	22%	78%
Number of accounts	19,207	55,914	18,982	66,787
Number of properties	17,186	48,547	16,724	57,669

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2017 and 31 December 2016 respectively. There could be one or more accounts per mortgaged property giving rise to different figures for the number of accounts and the number of properties in the Pool at 31 December 2017 and 31 December 2016.

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

	31 December 2017	31 December 2016
Number of accounts in default	24	36
	€m	€m
Cumulative current balance on above accounts	5	6
of which arrears represent	-	-

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.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

15 DEBT SECURITIES IN ISSUE (continued)

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
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	330	372
	31 December 2017	31 December 2016
Number of accounts in the Pool at 31 December previously three months or more in arrears with an arrears balance greater than €1,000	41	28

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

For the purpose of this disclosure, the term ‘non-performing assets’ is as defined in the ACS Acts as ‘relating to mortgage accounts that are in arrears for a period of three months or more’. During the year ended 31 December 2017, 378 accounts were non-performing (31 December 2016: 388 accounts) and were replaced with other mortgage credit assets.

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

The total amount in arrears (including principal and interest) in respect of mortgage credit assets that are in arrears for three months or more that had not been written off at 31 December 2017 was €104,597 (2016: €108,899). €44,787 of this represented non-payment of interest (2016: €33,060).

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

	For the year ended 31 December 2017 €m	For the year ended 31 December 2016 €m
Interest paid in respect of mortgage credit assets	257	247
Capital repaid in respect of mortgage credit assets	942	1,015

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

At 31 December 2017 there were no mortgage accounts in the Pool that were secured on commercial property (31 December 2016: nil).

16 OTHER LIABILITIES

	31 December 2017 €m	31 December 2016 €m
Amounts due to Bank of Ireland	35	11
Other liabilities	1	1
	<u>36</u>	<u>12</u>

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.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

17 PROVISIONS

	31 December 2017	31 December 2016
	€m	€m
Opening balance	19	-
Charge to income statement	135	19
Provision utilised	(31)	-
Closing balance	<u>123</u>	<u>19</u>

The provision relates to the Tracker Mortgage Examination Review.

During 2016, as part of the industry-wide examination of tracker mortgages, the Bank identified a number of accounts where a right to, or the option of, a tracker rate of interest was not provided to the customer in accordance with their loan agreement. The Bank also identified a rate differential on a number of accounts already on a tracker rate of interest. At 31 December 2016, the Bank had provided €19 million in respect of redress, compensation and costs associated with the examination.

In 2017, the Bank agreed to include an additional 4,348 accounts within the scope of the compensation scheme. A charge of €135 million has been recognised in the income statement to provide principally for the redress, compensation and costs relating to these additional accounts. Of this amount, €74 million was recognised in Interest income (see note 2) and the remaining €61 million was charged to Operating expenses (see note 4).

The Bank utilised €31 million of the provision during 2017, the majority of which related to the payment of redress and compensation to impacted customers. The Bank expects that the majority of the remaining €123 million provision will be fully utilised within 12 months of the balance sheet date.

The Bank has made considerable progress in contacting impacted customer and advising them of their proposed redress and compensation. This therefore has largely informed the quantum of this element of the provision however there are still a number of uncertainties as to the eventual total cost of the examination. 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: impacted customers can lodge appeals in the 12 months after receiving their letter offering redress and compensation. The appeals are considered by an independent appeals panel. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals;
- loss of ownership cases: there is a small number of cases in which customers have lost ownership of their property as a direct result of the Bank's actions. Management recognises the difficult nature of these cases and the fact that complex solutions will be required to appropriately compensate such customers. In determining the provision, management has sought to estimate the volume and financial impact of these cases; 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 the running of the appeals panel, tax liabilities that the Bank will settle on behalf of customers, data system costs, tracing agents and various oversight and governance processes, including relating to the conclusion of the ongoing CBI examination.

18 SUBORDINATED LIABILITIES

On 23 December 2011, the Bank availed of a €90 million interest bearing subordinated loan from its immediate parent, Bank of Ireland. The loan was subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan was based on the three-month EURIBOR rate plus a margin of 11.5%. On 27 October 2017, ahead of schedule, the Bank repaid this €90 million subordinated loan to its immediate parent.

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

On 27 October 2017, the Bank availed of a €90 million interest bearing subordinated loan from its immediate parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is 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 2017, total subordinated loans and accrued interest were €141 million (31 December 2016: €140 million).

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

19 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2017 '000 Units	31 December 2016 '000 Units
Authorised		
Units of €1 of ordinary shares	<u>1,000,000</u>	<u>1,000,000</u>
	31 December 2017 €m	31 December 2016 €m
Allotted, called up and fully paid – presented as equity		
Units of €1 of ordinary shares	<u>738</u>	<u>738</u>
Share premium		
Balance at the beginning of the year	661	661
Premium in issue of ordinary shares	-	-
Balance at the end of the year	<u>661</u>	<u>661</u>

There was no share capital issued during the years ended 31 December 2017 or 31 December 2016.

20 OTHER EQUITY INSTRUMENTS

	31 December 2017 €m	31 December 2016 €m
Opening balance	-	-
Additional tier 1 notes issued	<u>200</u>	<u>-</u>
Closing balance	<u>200</u>	<u>-</u>

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 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.

BANK OF IRELAND MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 SEGMENTAL INFORMATION

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

22 PENSION COSTS

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

The Bank is a participating employer in the ICS PP in respect of 1 employee (year ended 31 December 2016: 1 employee). The remaining 3 employees are members of the BIGPF (year ended 31 December 2016: 5 employees). The ICS PP is a defined benefit scheme based on final pensionable pay and the BIGPF scheme is a hybrid scheme, commonly known as a cash balance scheme. The schemes are operated for eligible employees of Bank of Ireland (the "Principal Employer") and the Bank which are entities under common control.

The Principal Employer met the employer's contributions due for the Bank in 2017 and 2016 (see note 4 for details of amounts recharged). At 31 December 2017, the Bank had €nil outstanding amounts payable to the scheme (31 December 2016: €nil).

23 RISK MANAGEMENT AND CONTROL

Risk management

The Board approves policies and limits with respect to credit risk, market risk, 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. The Group Treasury Unit 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.

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

Credit risk management

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

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

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

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

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

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Credit risk measurement

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

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

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

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

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

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

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

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

Loan loss provisioning or impairment allowances required under IFRS (IAS 39) are based on losses that have been incurred at the balance sheet date and requires that there is objective evidence of impairment and that the loss has been incurred.

Credit risk mitigation and collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower’s capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank’s mortgage loan book property values are determined by reference to the original or latest property valuations held, indexed to the RPPI published by the CSO. Equity / negative equity values are determined using the RPPI published by the CSO at November 2017. The weighted average indexed loan to value (“LTV”) for the total loan book was 61% at 31 December 2017 reflecting a 9% improvement in the weighted average LTV compared to 31 December 2016. This is largely driven by the improvement in the RPPI in the 11 months to November 2017 with 1% of the improvement attributable to the sale of performing tracker mortgages to Bank of Ireland.

The Bank’s requirements around completion, valuation and management requirements for collateral / security are set out in appropriate policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Bank’s mortgage portfolio is set out in table 3c on page 67. The Bank’s credit risk processes are designed to ensure that mortgage charges are enforceable at the time the credit agreement is concluded and that mortgage charges are filed on a timely basis. The objective of this approach is to enable the Bank to realise the value of the protection within a reasonable timeframe, should that become necessary.

Credit reporting / monitoring

It is the Bank’s policy to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Credit risk information is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book, and loan impairment provisions.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Credit risk methodologies

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

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

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

The impairment provision shown on the balance sheet at the year end is driven by internal rating grades. In addition, individually significant accounts (customer level exposure greater than €1 million) are assessed for impairment and provisioning by evaluating the incurred loss at the balance sheet date. The assessment takes account of collateral held and anticipated future repayments for each such account.

At 31 December 2017, each of the following events required the completion of an impairment assessment to determine whether a loss event had occurred at the balance sheet date that may lead to recognition of impairment losses:

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

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

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

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

Methodology for individually assessing impairment

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

An analysis of the Bank's impairment provisions and impairment reversal by nature of impairment provision is set out in the tables on page 45.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Credit risk methodologies (continued)

Methodology for collectively assessing impairment

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

The Bank's collective specific provisioning model parameters and assumptions have been updated in the current year, informed by the Bank's recent observed experience (including updated residential property sales data).

Some of the key factors used in the calculation of the portfolio specific provision include assumptions in relation to:

- residential property valuation (31 December 2017: RPPI indexed to indexed value¹ 23.7% off peak nationally);
- forced sale discount (31 December 2017: c.23% to c.55%);
- workout costs (31 December 2017: c.7%);
- weighted average cure rate (31 December 2017: c.33.43% over three years, with cure assumptions segmented by: forbearance classification; and region (for relevant cohorts));
- weighted average repayment rate (31 December 2017: 5.91% over three years); and
- time to sale (31 December 2017: 3.5 years from the reporting date).

The provisioning model assumptions and parameters use historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflect the definition of cure per the CBI Impairment "Provisioning and Disclosure Guidelines" (May 2013) which requires satisfactory completion of a twelve month probation period, while being less than 30 days past due.

The Bank's critical accounting estimates and judgements on pages 27 and 28 include sensitivity analysis disclosure on some of the key judgemental areas in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision ("collective specific") in line with individually assessed loans. An analysis of the Bank's impairment provisions and impairment reversal by nature of impairment provision is set out in the tables on page 45.

Methodology for establishing incurred but not reported (IBNR) provisions

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

- loss emergence rates (based on historic grade migration experience and current PD, offset by cure expectations where appropriate);
- the emergence period (historic experience adjusted to reflect the current conditions); and
- LGD rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

¹ Indexed value with reference to end September 2017 CSO RPPI for 'Dublin – all residential properties' and 'National excluding Dublin – all residential properties' (hereafter 'Non-Dublin'). At that date, the Dublin index was 24.0% lower than its peak and the Non-Dublin index was 29.8% lower than its peak. The end September CSO index was published on 8 November 2017 and was used in the updating of the mortgage collective impairment provisioning parameters and assumptions which were approved internally for year ended 31 December 2017.

23 RISK MANAGEMENT AND CONTROL (continued)

Credit risk methodologies (continued)

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

A key assumption used in the calculation of the IBNR impairment provisions for mortgages past due greater than 90 days but not impaired is the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions have been reviewed during the year informed by the Bank's recent observed experience (including updated residential property sales data). The resulting updates, particularly in relation to the residential property value assumptions, the forced sale discounts and workout costs used in the IBNR provisioning model, are the same as those outlined above in respect of the collective specific provisioning methodology. The past due greater than 90 days but not impaired model cure assumptions are segmented as appropriate and updated for recent observed experience. At 31 December 2017, the cure assumptions reflect a weighted average cure rate of 50.84% over a three year period. At 31 December 2017, the weighted average repayment rate applied in the past due greater than 90 days but not impaired IBNR model is 10.05% over a three year period.

Emergence period refers to the period of time between the occurrence and reporting of a loss event. For example, at 31 December 2017, emergence periods for mortgages are in the range of 6 to 20 months.

The LGD is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of any changes in the property sector, discounted collateral values and repayment prospects, etc.). While loss emergence rates have been assessed in light of the Bank's recent grade migration experience and current PDs, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2016. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, as appropriate, based on recent observed experience.

The Bank's critical accounting estimates and judgements on pages 27 and 28 include sensitivity analysis disclosures on some of the key judgemental areas.

Methodology for loan loss provisioning and forbearance

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

Individually assessing impairment and forbearance

The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis).

Collectively assessing impairment and forbearance¹

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

Provisioning and forbearance

Mortgages which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision book cover on forborne loans is reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and / or re-default.

¹For collective provisioning purposes, the Bank applies a definition of forbearance that is aligned with the CBI's 'Impairment Provisioning & Disclosures Guidelines' 2013.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Impaired loans review

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

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

Impairment reversal on loans and advances to customers by nature of provision

	For the year ended 31 December 2017	For the year ended 31 December 2016
	€m	€m
Specific provisions - individually assessed	(5)	(2)
Specific provisions - collectively assessed	(34)	(70)
Incurred but not reported	(59)	(26)
	<u>(98)</u>	<u>(98)</u>

Impairment provision by nature of impairment provision

	31 December 2017	31 December 2016
	€m	€m
Specific provisions - individually assessed	235	349
Specific provisions - collectively assessed	110	143
Incurred but not reported	119	177
	<u>464</u>	<u>669</u>

The impairment reversal of €98 million for the year ended 31 December 2017 compares to an impairment reversal of €98 million in the prior year, and reflects a continuing improvement in the underlying book performance, including arrears resolution.

Asset quality

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

The Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications¹. The Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing loans' which comprised 'probationary residential mortgages' and 'defaulted' loans.

Loans and advances to banks

For both the year ended 31 December 2017 and year ended 31 December 2016, all loans and advances to banks were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland.

Derivative financial instruments

Derivative contracts are only entered into with counterparties who are considered reputable. There are €nil amounts past due or impaired at 31 December 2017 (31 December 2016: €nil).

Loans and advances to customers

The following tables provide further details in relation to total loans and advances to customers. For an analysis of loans and advances to customers between forborne and non-forborne see pages 78 to 80 of the Supplementary asset quality and forbearance disclosures.

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

BANK OF IRELAND MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Loans and advances to customers (continued)

The Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications¹.

The Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Previously the Bank did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.

All exposures that are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'.

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

Forbearance occurs when a borrower is granted an agreed change ("forbearance measure") to the contractual terms of a mortgage loan for reasons relating to the actual or apparent financial stress or distress of that borrower. An exposure continues to be classified as forborne until such time as it satisfies conditions to exit forbearance in line with EBA guidance. Loans that have never been forborne or loans that no longer require to be reported as 'forborne' are classified as 'non-forborne loans'.

The Bank applies internal ratings to both forborne and non-forborne loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A seven point credit grade rating scale is used for standard products.

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

- high quality ratings apply to loans to customers with whom the Bank has excellent repayment experience. High quality ratings are derived from grades 1 and 2 on the seven point grade scale;
- satisfactory quality ratings apply to good quality loans that are performing as expected. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grade 3 on the seven point grade scale. In addition, satisfactory quality ratings can also apply to certain mortgage forbearance arrangements where the customer is making full interest and capital repayments;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings are derived from grade 4 on the seven point grade scale. In addition, acceptable quality ratings apply to certain mortgage forbearance arrangements where the customer is making at least full interest payments; and
- lower quality ratings apply to those loans that are neither in arrears nor impaired but where the Bank is required to work closely with the borrower regarding restructure and / or resolution. For both forborne and non-forborne loans, lower quality ratings are derived from grade 5 on the seven point grade scale. In addition, the lower quality ratings apply to certain mortgage forbearance arrangements where the customer is making less than full interest payments.

'Non-performing exposures' (NPEs) consist of:

- impaired loans;
- loans past due greater than 90 days but not impaired;
- forborne collateral realisation loans; and
- other / probationary loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

'Impaired' loans are:

- exposures which carry a specific provision whether forborne or not. Specific provisions are as a result of either individual or collective assessment for impairment.

'Forborne collateral realisation' loans are:

- loans that are not greater than 90 days past due and / or impaired and consists 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 include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

'Past due but not impaired' loans, whether forborne or not, are:

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Loans and advances to customers (continued)

Loans and advances to customers (before impairment provisions) reduced from €19.2 billion at 31 December 2016 to €15.4 billion at 31 December 2017 primarily reflecting the sale of performing tracker mortgages with a carrying value of €4.0 billion to its immediate parent during the year. For an analysis of the Bank's risk profile of loans and advances to customers past due and / or impaired between 'non-forborne' and 'forborne' see pages 78 to 80 in the supplementary asset quality and forbearance disclosures.

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

Total loans and advances	31 December 2017	31 December 2016¹
	€m	€m
High quality	12,840	15,984
Satisfactory quality	521	692
Acceptable quality	823	977
Lower quality but neither past due nor impaired	60	65
Neither past due nor impaired	14,244	17,718
Past due up to 30 days	161	159
Past due 31 - 60 days	50	61
Past due 61- 90 days	30	33
Past due greater than 90 days but not impaired	124	160
Past due² but not impaired	365	413
Impaired	802	1,047
Total past due and impaired	1,167	1,460
Total loans and advances to customers	15,411	19,178

Loans and advances to customers (before impairment provisions) reduced by €3.8 billion to €15.4 billion at 31 December 2017. Loans 'neither past due nor impaired' decreased by €3.5 billion to €14.2 billion at 31 December 2017 from €17.7 billion at 31 December 2016. Loans 'past due and impaired' reduced by €0.3 billion to €1.2 billion at 31 December 2017 reflecting the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies (31 December 2016: €1.5 billion).

Non-performing exposures

As described on the previous page, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

The tables below provide an analysis of non-performing exposures included in loans and advances to customers.

	31 December 2017	31 December 2016
	€m	€m
Impaired	802	1,047
Past due greater than 90 days but not impaired	124	160
Neither impaired nor past due greater than 90 days	863	961
Total non-performing exposures	1,789	2,168

Non-performing exposures have reduced by €0.4 billion to €1.8 billion at 31 December 2017.

¹ As described on page 46, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. As a result, the Bank has amended the risk profile of loans and advances to customers which are 'neither past due nor impaired' to reflect this change in classification and comparative figures have been restated resulting in an increase in the 'high quality' by €301 million from €15,683 million and 'acceptable quality' by €257 million from €720 million with offsetting decreases in 'satisfactory quality' by €380 million from €1,072 million and lower quality by €178 million from €243 million, with no change to the overall total of 'neither past due nor impaired' loans.

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Loans and advances to customers (continued)

Composition and impairment

The table below summarises the composition, non-performing exposures¹, impaired loans¹ and impairment provisions of the Bank's loans and advances to customers.

	Loan Volumes €m	Non- performing exposures ² €m	Non-performing exposures as a % of advances ³ %	Impaired loans €m	Total provisions €m	Impairment provisions as a % of non-performing exposures %	Specific provisions as a % of impaired loans %
31 December 2017							
Total mortgages							
Owner occupied mortgages	13,214	974	7%	443	223	23%	35%
Buy to let mortgages	2,197	815	37%	359	241	30%	53%
Total	15,411	1,789	12%	802	464	26%	43%
31 December 2016							
Owner occupied mortgages	15,966	1,156	7%	550	302	26%	37%
Buy to let mortgages	3,212	1,012	32%	497	367	36%	58%
Total	19,178	2,168	11%	1,047	669	31%	47%

Total mortgages were €15.4 billion at 31 December 2017 compared to €19.2 billion at 31 December 2016, a decrease of €3.8 billion or 20%. The movement in the book size reflects a combination of factors including the sale of the performing tracker mortgages to Bank of Ireland (€4.0 billion), new mortgage lending, principal repayments and resolution activity.

Repossessed collateral

At 31 December 2017, the Bank had 65 properties in possession (31 December 2016: 82 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	31 December 2017 €m	31 December 2016 €m
Residential mortgages	<u>16</u>	<u>13</u>

¹As described on page 46, the Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary mortgages' and 'defaulted' loans.

²The 'non-performing exposures' classification does not indicate that the terms of the forbearance measure are not being met.

³The increase in non-performing exposures as a % of advances is largely attributable to the sale of performing tracker mortgages to Bank of Ireland.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

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

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

	Maximum exposure	
	31 December 2017	31 December 2016
	€m	€m
Loans and advances to banks	1,915	2,129
Loans and advances to customers	14,808	18,391
Derivative financial instruments	73	103
Commitments	1,307	1,210
Total	18,103	21,833

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

	31 December 2017	31 December 2016
	€m	€m
Loans and advances to customers		
- Dublin	6,025	6,884
- Rest of Ireland	9,386	12,294
Total	15,411	19,178

(ii) Industry Sectors

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

Market risk

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

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

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

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

BANK OF IRELAND MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Market risk (continued)

Loans and Advances to Customers

At 31 December 2017, the Bank had €8.6 billion (31 December 2016: €14.3 billion) of floating-rate loans and advances to customers, where the interest rate is either linked to the ECB Base rate or the Bank's standard variable rate.

The Bank enters into interest rate swaps to hedge the interest rate exposure on floating rate mortgages against which asset covered securities are issued. These interest rate swaps and related floating rate mortgages qualify for cash flow hedge accounting. At 31 December 2017, the nominal value of swaps qualifying for hedge accounting was €3.8 billion (31 December 2016: €5.2 billion). Further details are provided in note 13.

At 31 December 2017, the Bank had €6.5 billion (31 December 2016: €4.6 billion) of loans and advances to customers, where the rate is typically fixed for periods of 1, 2, 3, 5 and 10 years. The interest rate exposure of the Bank relating to its Irish residential loans is managed through maturity matched borrowing from the Group resulting in no material sensitivity to changes in interest rates.

At 31 December 2017, the Bank had €0.3 billion (31 December 2016: €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 2017, the Bank had (nominal) €6.9 billion in issued asset covered securities (31 December 2016: €7.9 billion). €4.7 billion of the issued asset covered securities are at fixed rates (31 December 2016: €5.7 billion) and the remaining €2.2 billion have an interest rate that resets based on short-dated EURIBOR (31 December 2016: €2.2 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 2017, the nominal value of swaps qualifying for fair value hedge accounting is €0.1 billion (31 December 2016: €0.1 billion). Further details are provided in note 13.

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 2017, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €0.02 million (31 December 2016: €0.27 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.

Liquidity risk

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

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

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

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

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2017 and 31 December 2016 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.

31 December 2017

Liabilities	Demand €m	Within 3 months €m	After 3 months but within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Deposits from banks	-	2,379	1,373	4,582	136	8,470
Debt securities in issue	-	738	45	4,449	2,216	7,448
Subordinated liabilities	-	-	4	109	55	168
Commitments	1,307	-	-	-	-	1,307
Total liabilities	1,307	3,117	1,422	9,140	2,407	17,393

31 December 2016

Liabilities	Demand €m	Within 3 months €m	After 3 months but within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Deposits from banks	-	6,987	1,092	3,169	132	11,380
Debt securities in issue	-	43	1,015	4,236	3,215	8,509
Subordinated liabilities	-	3	9	141	57	210
Commitments	1,210	-	-	-	-	1,210
Total liabilities	1,210	7,033	2,116	7,546	3,404	21,309

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

31 December 2017	Within 3 months €m	After 3 months but within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Net cash outflows on derivative financial instruments	2	8	14	2	26

31 December 2016	Within 3 months €m	After 3 months but within 1 year €m	After 1 year but within 5 years €m	After 5 years €m	Total €m
Net cash outflows on derivative financial instruments	1	3	17	3	24

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

Regulatory risk 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 and Regulatory Risk 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.

BANK OF IRELAND MORTGAGE BANK

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RISK MANAGEMENT AND CONTROL (continued)

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 managed by the Bank include the following:

- **Customer-Focused Strategy:** The delivery of fair outcomes for customers forms the principal consideration of the Bank's customer-focused strategy. The Bank has no appetite for systemic unfair and adverse outcomes for customers. However, it is acknowledged that there may be a certain level of risk arising from the nature of the Bank's operations, for example staff and systems dependency, and that unintended unfair or adverse outcomes may occur;
- **Product & Service Lifecycle Management:** The Bank is committed to creating 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 sales process and beyond; and
- **Governance, Culture and People:** The Bank is committed to mitigating any risk arising out of business unit or employee behaviours which result in poor outcomes for customers. Therefore, the foundations of a good conduct risk and customer-centric culture lie in the clear definition and consistent application of the standards and behaviours expected of employees.

Business and strategic risk

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

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

Reputation risk

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

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

Capital management

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

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

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

31 December 2017		Carrying amount in balance sheet					Fair Value hierarchy			
		At fair value through profit or loss		At fair value		Total	Level 1	Level 2	Level 3	Total
Held for Trading	Fair value hedge derivative	Cash flow hedge derivative	Held at amortised cost		€m					
Financial assets not measured at fair value										
Loans and advances to banks	(1)	-	-	-	1,915	1,915	-	1,995	-	1,995
Loans and advances to customers	(2)	-	-	-	14,961	14,961	-	-	14,444	14,444
Financial assets measured at fair value										
Derivatives financial instruments	(5)	22	19	32	-	73	-	73	-	73
		22	19	32	16,876	16,949	-	2,068	14,444	16,512
Financial liabilities not measured at fair value										
Deposits from banks	(3)	-	-	-	8,458	8,458	-	8,472	-	8,472
Debt securities in issue	(4)	-	-	-	6,977	6,977	4,470	-	2,641	7,111
Subordinated liabilities	(4)	-	-	-	141	141	-	141	-	141
Financial liabilities measured at fair value										
Derivative financial instruments	(5)	18	-	7	-	25	-	25	-	25
		18	-	7	15,576	15,601	4,470	8,638	2,641	15,749

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

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

		Carrying amount in balance sheet				Fair Value hierarchy				
		At fair value through profit or loss		At fair value		Total	Level 1	Level 2	Level 3	Total
		Held for Trading	Fair value hedge derivative	Cash flow hedge derivative	Held at amortised cost					
		€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets not measured at fair value										
Loans and advances to banks	(1)	-	-	-	2,129	2,129	-	2,234	-	2,234
Loans and advances to customers	(2)	-	-	-	18,524	18,524	-	-	16,732	16,732
Financial assets measured at fair value										
Derivatives financial instruments	(5)	15	23	65	-	103	-	103	-	103
		15	23	65	20,653	20,756	-	2,337	16,732	19,069
Financial liabilities not measured at fair value										
Deposits from banks	(3)	-	-	-	11,363	11,363	-	11,398	-	11,398
Debt securities in issue	(4)	-	-	-	7,959	7,959	5,494	-	2,642	8,136
Subordinated liabilities	(4)	-	-	-	140	140	-	140	-	140
Financial liabilities measured at fair value										
Derivative financial instruments	(5)	15	-	8	-	23	-	23	-	23
		15	-	8	19,462	19,485	5,494	11,561	2,642	19,697

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

There were no transfers between the fair value hierarchy levels during the year ended 31 December 2017 or the year ended 31 December 2016.

(1) Loans and advances to banks

The Bank places funds with Bank of Ireland. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans and advances. The carrying amount of variable rate loans is considered to be 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

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

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

(3) Deposits from banks

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.

(4) Debt securities in issue and subordinated liabilities

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

(5) Derivative financial instruments

Derivatives are carried at fair value at the balance sheet date. The fair value is based on the discounted future cash flows of these contracts.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS

The Bank's immediate parent undertaking is The Governor and Company of the Bank of Ireland, a corporation established in Ireland under Royal Charter. The consolidated financial statements of The Governor and Company of the Bank of Ireland are available at the Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4.

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 the year ended 31 December 2017 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 2017, the State held, through the Ireland Strategic Investment Fund, 13.95% of the ordinary shares of Bank of Ireland Group plc (31 December 2016: 13.95% of the capital stock of Bank of Ireland).

• **Guarantee Schemes**

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

Although the Bank has no guaranteed liabilities under the ELG Scheme, the ELG 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.

(b) Transactions with Directors and Key Management Personnel

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

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

(i) Loans to Directors - Companies Act Disclosures

Directors at 31 December 2017		Aggregate maximum amount outstanding during the year ended² 31 December 2017		Repayments³ during the year ended 31 December 2017
	Balance as at 1 January 2017¹	Balance as at 31 December 2017¹	31 December 2017	31 December 2017
	€'000	€'000	€'000	€'000
Mortgages total				
N Corcoran	447	432	447	33
S Mason	1,155	1,102	1,155	61
L McLoughlin	326	322	326	18
J O'Beirne	1,321	1,290	1,320	64
Directors no longer in office at 31 December 2017				
D Buckley	569	556	568	31

¹ Balances include principal and interest.

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

³ Repayments include principal and interest.

S Crowe, G Kelly, H Lorton and R Milliken had no loans with the Bank during the year ended 31 December 2017. No advances were made during the year. No amounts were waived during the year.

Directors at 31 December 2016		Aggregate maximum amount outstanding during the year ended² 31 December 2016		Repayments³ during the year ended 31 December 2016
	Balance as at 1 January 2016¹	Balance as at 31 December 2016¹	31 December 2016	31 December 2016
	€'000	€'000	€'000	€'000
Mortgages total				
D Buckley	-	569	591	28
S Mason	1,208	1,155	1,207	61
L McLoughlin	331	326	330	18
J O'Beirne	1,349	1,321	1,348	64
Directors no longer in office at 31 December 2016				
P Flynn	374	314	374	64

¹ Balances include principal and interest.

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

³ Repayments include principal and interest.

J Clifford, S Crowe, Mr G Kelly, Ms G Kelly, H Lorton, B McConnell and R Milliken had no loans with the Bank during the year ended 31 December 2016. Advances totalling €590,000 were made to D Buckley during the year. No amounts were waived during the year.

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

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

Loans relate to mortgages secured on residential property.

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

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

(ii) Loans to Directors of parent companies¹ - Companies Act Disclosures

	Directors of parent companies ¹ at 31 December 2017		Aggregate maximum	Repayments ⁴
	Balance as at ² 1 January 2017	Balance as at ² 31 December 2017	amount outstanding during the year ended ³ 31 December 2017	during the year ended 31 December 2017
	€'000	€'000	€'000	€'000
Mortgages total				
P Kennedy	2,823	2,823	2,822	17
F Muldoon	165	135	165	36
Directors no longer in office at 31 December 2017				
R Boucher	16	-	16	16

¹ Parent companies at 31 December 2017 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 and interest paid is included in the closing balances.

⁴ Repayments include principal and interest.

B Kealy was a director of Bank of Ireland Group plc, the Bank's ultimate parent company during the year ended 31 December 2017, retiring on 23 March 2017. As this was prior to the corporate reorganisation, he was not a director of Bank of Ireland Group plc while it was the parent company of the Group. B Kealy had mortgages of €530,477 outstanding at 1 January 2017 and €440,124 (includes principal and interest) outstanding at 31 December 2017, with mortgage repayments of €113,052 during the year. No amounts were waived.

K Atkinson, P Butler, T Considine, R Goulding, P Haren, A Kane, A Keating, D Marston, B Martin, F McDonagh and P Mulvihill had no loans with the Bank during the year ended 31 December 2017. F McDonagh had a mortgage facility for €985,000 approved during the year, which was not drawn down. No advances were made during the year to any directors of the parent companies. No amounts were waived during the year.

	Directors of parent company ¹ at 31 December 2016		Aggregate maximum	Repayments ⁴
	Balance as at ² 1 January 2016	Balance as at ² 31 December 2016	amount outstanding during the year ended ³ 31 December 2016	during the year ended 31 December 2016
	€'000	€'000	€'000	€'000
Mortgages total				
R Boucher	49	16	49	33
P Kennedy	2,823	2,823	2,823	17
F Muldoon	188	165	187	29

¹ Parent company at 31 December 2016 is The Governor and Company of the Bank of Ireland.

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 and interest paid is included in the closing balances.

⁴ Repayments include principal and interest.

K Atkinson, P Butler, T Considine, P Haren, A Kane, A Keating, D Marston, B Martin and P Mulvihill had no loans with the Bank during the year ended 31 December 2016. No advances were made during the year to any directors of the parent company. No amounts were waived during the year.

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

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

Loans relate to mortgages secured on residential property.

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

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

(iii) Loans to connected persons on favourable terms

Connected persons at 31 December 2017

There were no loans to connected persons on favourable terms as at 31 December 2017.

Connected persons at 31 December 2016

Connected persons ³ of the following Director	Balance as at ¹ 31 December 2016 €'000	Maximum amount outstanding during the year ended ² 31 December 2016 €'000	Number of persons as at 31 December 2016	Maximum number of persons during the year ended 31 December 2016
-------------------------------------------------------------	---------------------------------------------------------	--------------------------------------------------------------------------------------------------	------------------------------------------------	---------------------------------------------------------------------------

Persons connected to

Directors no longer in office at 31 December 2016

P Flynn	12	14	1	1
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¹ Balances include principal and interest.

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

³ Connected persons of Directors are defined by Section 220 of the Companies Act.

(iv) Loans to connected persons³ - Central Bank of Ireland licence condition disclosures

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

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

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

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

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

Connected persons at 31 December 2017

There were no loans to connected persons required to be disclosed as at 31 December 2017.

Connected persons at 31 December 2016

Connected persons ³ of the following Director	Balance as at ¹ 31 December 2016 €'000	Aggregate maximum amount outstanding during the year ended ² 31 December 2016 €'000	Number of persons as at 31 December 2016	Maximum number of persons during the year ended 31 December 2016
J Clifford	243	255	1	1

¹ Balances include principal and interest.

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

³ Connected persons of Directors are defined by Section 220 of the Companies Act 2014.

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

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

(v) Key management personnel (“KMP”) - loans

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

For the purposes of IAS 24: Related Party Disclosures, key management personnel (“KMP”) comprise the Directors of the Bank and key management personnel (“Director – Risk Operations”, “Head of Mortgage and Consumer Credit ROI”, “Chief Risk Officer”, “Director of Customer Propositions”, and “Head of Mortgages”). 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 table below.

IAS 24 Disclosures

At 31 December 2017	Balance as at 1 January ¹ 2017 €'000	Balance as at 31 December ¹ 2017 €'000	Maximum amounts outstanding during the year ended ² 31 December 2017 €'000	Number of KMP as at 1 January 2017	Number of KMP as at 31 December 2017
Key Management Personnel					
Loans ³	10,624	11,249	12,044	17	18
At 31 December 2016	Balance as at 1 January ¹ 2016 €'000	Balance as at 31 December ¹ 2016 €'000	Maximum amounts outstanding during the year ended ² 31 December 2016 €'000	Number of KMP as at 1 January 2016	Number of KMP as at 31 December 2016
Loans ³	8,711	10,624	11,062	13	17

¹ Balances include principal and interest.

² The maximum amount outstanding during the year is calculated using the highest balance on each account. The highest maximum outstanding liability in respect of a loan or mortgage during the year ended 31 December 2017 for any member of key management personnel and their close family did not exceed €2.8 million (31 December 2016: €2.8 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.

³ The opening balance includes balances and transactions with KMP who have retired during 2016 and are not related parties during the current year. Therefore these KMP are not included in the maximum amounts outstanding.

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 €0.43 million (31 December 2016: €0.02 million).

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

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

BANK OF IRELAND MORTGAGE BANK
NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

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

(vi) Directors' remuneration

	For the year ended 31 December 2017	For the year ended 31 December 2016
	€'000	€'000
Fees	125	143
Other emoluments	215	170
Other - pension	36	22
Total remuneration	376	335

No other fees or bonuses were paid to Directors during the year ended 31 December 2017 (year ended 31 December 2016: €nil).

26 CONTINGENT LIABILITIES AND COMMITMENTS

The Bank has €1.3 billion of approved mortgage loan applications that had not been drawn down at 31 December 2017 (31 December 2016: €1.2 billion).

27 POST BALANCE SHEET EVENTS

On 22 January 2018, Moody's upgraded the rating assigned to the Bank's covered bonds in issue to Aaa from Aa1. There are no other post balance sheet events that require disclosure in the financial statements.

28 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 23 February 2018.

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BANK OF IRELAND MORTGAGE BANK

SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)

The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 21. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.

Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented.

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

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

Lending criteria for the Bank's mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value ("LTV") limits;
- loan to income limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book Composition

Table 1

Mortgage loan book - volumes (before impairment provisions)	31 December 2017		31 December 2016	
	€m		€m	
Owner occupied mortgages	13,214		15,966	
Buy to let mortgages	2,197		3,212	
Total	15,411		19,178	

Mortgage loan book - volumes (before impairment provisions) by interest rate type	31 December 2017		31 December 2016	
	€m	%	€m	%
Tracker	4,176	27%	8,755	46%
Variable rate	4,457	29%	5,568	29%
Fixed rate	6,778	44%	4,855	25%
Total	15,411	100%	19,178	100%

Total mortgages were €15.4 billion at 31 December 2017 compared to €19.2 billion at 31 December 2016, a decrease of €3.8 billion or 20%. The movement in the book size reflects a combination of factors including the sale of performing tracker mortgages to Bank of Ireland (€4.0 billion), new mortgage lending, principal repayments and resolution activity. Tracker mortgages have reduced by €4.6 billion (52%) in 2017 and are now 27% of the mortgage book. Variable rate mortgages of €4.5 billion have decreased by €1.1 billion as at 31 December 2017. Fixed rate mortgages have increased by €1.9 billion which reflects the strong take up of fixed interest rate mortgages by both existing and new customers.

The proportion of the portfolio on a 'full principal and interest'¹ repayment basis at 31 December 2017 was 94% (31 December 2016: 94%) with the balance of 6% on an 'interest only'² repayment basis (31 December 2016: 6%). Of the Owner occupied mortgages of €13.2 billion, 97% were on a 'full principal and interest' repayment basis (31 December 2016: 96%), while 77%³ of the Buy to let mortgages of €2.2 billion were on a 'full principal and interest' repayment basis (31 December 2016: 80%). It is the Bank's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

¹ 'Full Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.

² 'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. 'Interest only' periods typically range between 3 and 5 years.

³ The proportionate reduction year on year is due to the sale of performing tracker mortgages to Bank of Ireland.

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)
Book composition (continued)
Origination profile
Table 2
Origination¹ of mortgage loan book (before impairment provisions)

31 December 2017	Total mortgage loan book		Non-performing exposures	
	Balance €m	Number of accounts ²	Balance €m	Number of accounts ²
2000 and before	155	6,986	21	519
2001	154	3,065	15	235
2002	255	4,249	33	357
2003	472	6,451	69	626
2004	729	7,878	132	960
2005	1,117	9,679	253	1,443
2006	1,493	10,518	480	2,317
2007	1,243	8,050	437	2,021
2008	944	6,752	248	1,264
2009	909	7,389	68	486
2010	712	5,323	18	121
2011	634	4,780	7	45
2012	603	4,580	3	21
2013	581	4,153	2	14
2014	946	5,970	2	11
2015	1,206	7,034	1	3
2016	1,328	7,127	-	-
2017	1,930	9,006	-	-
Total	15,411	118,990	1,789	10,443

31 December 2016	Total mortgage loan book		Non-performing exposures	
	Balance €m	Number of accounts ²	Balance €m	Number of accounts ²
2000 and before	220	8,954	28	664
2001	203	3,853	17	266
2002	345	5,741	40	415
2003	636	8,249	82	740
2004	1,129	11,513	164	1,144
2005	1,882	15,353	316	1,748
2006	2,867	19,455	577	2,687
2007	2,601	16,704	531	2,327
2008	1,841	12,405	301	1,417
2009	997	7,828	80	543
2010	785	5,683	19	127
2011	693	5,052	7	54
2012	662	4,823	2	14
2013	643	4,399	2	14
2014	1,033	6,277	2	8
2015	1,290	7,306	-	-
2016	1,351	7,262	-	-
Total	19,178	150,857	2,168	12,168

The tables above illustrate that at 31 December 2017, €2.9 billion or 19% of the mortgage loan book originated before 2006, €3.7 billion or 24% between 2006 and 2008 and €8.8 billion or 57% in the years since 2008.

As described on page 46, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forbore classifications. The Bank now reports 'non-performing exposures' and 'impaired loans' replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

At 31 December 2017, total non-performing exposures were €1.8 billion (31 December 2016: €2.2 billion) or 12% of the mortgage loan book, of which €1.2 billion originated between 2006 and 2008. There has been a significant decrease in total non-performing exposures in the year ended 31 December 2017 reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions. At 31 December 2017, impairment provisions were €0.5 billion equating to 26% of non-performing exposures.

¹ The lending originated in each year is net of related redemptions. For phased drawdowns the year of initial drawdown is classified as the year of origination.

² The number of accounts does not equate to either the number of customers or the number of properties.

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Book composition (continued)****Risk Profile****Table 3a****Risk profile of mortgage loan book (before impairment provisions)****31 December 2017**

	<u>Owner occupied</u>		<u>Buy to let</u>		<u>Total</u>	
	€m	%	€m	%	€m	%
Total loans and advances						
Neither past due nor impaired	12,492	95%	1,752	80%	14,244	92%
1-90 days past due but not impaired	179	1%	62	3%	241	2%
Past due greater than 90 days but not impaired	100	1%	24	1%	124	1%
Impaired	443	3%	359	16%	802	5%
Total	13,214	100%	2,197	100%	15,411	100%
Non-performing exposures	€m	%	€m	%	€m	%
Impaired	443	46%	359	44%	802	45%
Past due greater than 90 days but not impaired	100	10%	24	3%	124	7%
Neither impaired nor past due greater than 90 days	431	44%	432	53%	863	48%
Total	974	100%	815	100%	1,789	100%

31 December 2016

	<u>Owner occupied</u>		<u>Buy to let</u>		<u>Total</u>	
	€m	%	€m	%	€m	%
Total loans and advances						
Neither past due nor impaired	15,115	95%	2,603	82%	17,718	93%
1-90 days past due but not impaired	186	1%	67	2%	253	1%
Past due greater than 90 days but not impaired	115	1%	45	1%	160	1%
Impaired	550	3%	497	15%	1,047	5%
Total	15,966	100%	3,212	100%	19,178	100%
Non-performing exposures	€m	%	€m	%	€m	%
Impaired	550	47%	497	49%	1,047	48%
Past due greater than 90 days but not impaired	115	10%	45	4%	160	7%
Neither impaired nor past due greater than 90 days	491	43%	470	47%	961	45%
Total	1,156	100%	1,012	100%	2,168	100%

The tables above illustrate that €14.2 billion or 92%¹ of the total mortgage loan book at 31 December 2017 was classified as 'neither past due nor impaired' compared to €17.7 billion or 93% at 31 December 2016.

As described on page 46, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Bank now reports 'non-performing exposures' and 'impaired loans' replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted loans'.

In 2017, total non-performing exposures reduced significantly by €0.4 billion or 17% to €1.8 billion. Within this, impaired mortgages reduced by €0.2 billion or 23% to €0.8 billion (2016: €1.0 billion), 'past due greater than 90 days but not impaired' mortgages reduced by €0.1 billion or 23% to €0.1 billion (2016: €0.2 billion) and 'neither impaired nor past due greater than 90 days' reduced by €0.1 billion to €0.9 billion (2016: €1.0 billion). 'Neither impaired nor past due greater than 90 days' consists of forborne collateral realisation loans of €0.7 billion (2016: €0.8 billion) and other non-performing exposures of €0.2 billion (2016: €0.2 billion). The overall reduction reflects the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity supported by improving economic conditions.

There has been a reduction in Owner occupied non-performing exposures in the year ended 31 December 2017, decreasing by €0.2 billion or 16% to €1.0 billion at 31 December 2017 (31 December 2016: €1.2 billion). This reduction further reflects the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies.

This progress is also evident in the reduction of non-performing exposures in relation to Buy to let mortgages by €0.2 billion or 19% to €0.8 billion at 31 December 2017 from €1.0 billion at 31 December 2016. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

¹ The reduction year on year is largely due to the sale of performing tracker mortgages to Bank of Ireland.

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Book composition (continued)****Arrears profile****Table 3b – Unaudited**

Mortgage Arrears - Greater than 90 days past due (number of accounts)	31 December 2017	30 September 2017	30 June 2017	31 December 2016
Owner occupied mortgages	2.6% ²	2.2%	2.3%	2.6%
Industry ¹ Owner occupied (number of accounts)	Not available	7.9%	8.1%	8.4%
Buy to let mortgages	6.7% ²	5.4%	5.6%	6.7%
Industry ¹ Buy to let (number of accounts)	Not available	17.1%	17.4%	17.5%

Mortgage Arrears - Greater than 90 days past due (value)	31 December 2017	30 September 2017	30 June 2017	31 December 2016
Owner occupied mortgages	3.5% ²	3.0%	3.2%	3.6%
Industry ¹ Owner occupied (value)	Not available	11.8%	12.0%	12.4%
Buy to let mortgages	13.5% ²	12.0%	12.4%	14.4%
Industry ¹ Buy to let (value)	Not available	24.7%	24.9%	24.8%

The latest information published by the Central Bank of Ireland (“CBI”) is for the quarter ended 30 September 2017. This information indicates that the proportion (by number of accounts) of the mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (27.8% of industry average) and Buy to let (31.6% of industry average) mortgages. At 30 September 2017, 2.2% and 5.4% of the Bank’s Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than ‘90 days past due’ compared to 7.9%¹ and 17.1%¹ respectively for the industry.

Mortgage Arrears - 720 days past due (number of accounts)	31 December 2017	30 September 2017	30 June 2017	31 December 2016
Owner occupied mortgages	1.4% ²	1.2%	1.2%	1.4%
Industry ¹ Owner occupied (number of accounts)	Not available	5.0%	5.1%	5.2%
Buy to let mortgages	3.8% ²	2.9%	3.0%	3.7%
Industry ¹ Buy to let (number of accounts)	Not available	12.5%	12.7%	12.2%

Mortgage Arrears - 720 days past due (value)	31 December 2017	30 September 2017	30 June 2017	31 December 2016
Owner occupied mortgages	2.2% ²	1.9%	2.0%	2.2%
Industry ¹ Owner occupied (value)	Not available	8.2%	8.4%	8.6%
Buy to let mortgages	7.8% ²	6.5%	6.8%	8.0%
Industry ¹ Buy to let (value)	Not available	19.3%	19.3%	18.7%

The latest information published by the CBI is for the quarter ended 30 September 2017. This information indicates that the proportion (by number of accounts) of the mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (24.0% of industry average) and Buy to let (23.2% of industry average) mortgages. At 30 September 2017, 1.2% and 2.9% of the Bank’s Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than 720 days past due compared to 5.0%¹ and 12.5%¹ respectively for the industry.

¹ Industry source: CBI Mortgage Arrears Statistics Report – adjusted to exclude the Bank

² The increase quarter on quarter is largely due to the sale of performing tracker mortgages to Bank of Ireland.

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)
Book composition (continued)
Loan to value profiles
Loan to value profiles – total loans
Table 3c
31 December 2017

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of total mortgage loan book						
Less than 50%	4,509	34%	562	26%	5,071	33%
51% to 70%	4,676	35%	445	20%	5,121	33%
71% to 80%	1,992	15%	236	11%	2,228	15%
81% to 90%	1,160	9%	397	18%	1,557	10%
91% to 100%	367	3%	164	7%	531	3%
Subtotal	12,704	96%	1,804	82%	14,508	94%
101% to 120%	381	3%	230	10%	611	4%
121% to 150%	93	1%	84	4%	177	1%
Greater than 150%	36	-	79	4%	115	1%
Subtotal	510	4%	393	18%	903	6%
Total	13,214	100%	2,197	100%	15,411	100%
Weighted average LTV¹:						
Stock of mortgages at year end		59%		75%		61%
New mortgages during the year		69%		50%		69%

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of total mortgage loan book						
Less than 50%	4,137	26%	594	19%	4,731	25%
51% to 70%	4,614	29%	565	18%	5,179	27%
71% to 80%	2,412	15%	305	9%	2,717	14%
81% to 90%	1,743	11%	518	16%	2,261	12%
91% to 100%	1,027	6%	348	11%	1,375	7%
Subtotal	13,933	87%	2,330	73%	16,263	85%
101% to 120%	1,525	10%	475	14%	2,000	10%
121% to 150%	447	3%	250	8%	697	4%
Greater than 150%	61	-	157	5%	218	1%
Subtotal	2,033	13%	882	27%	2,915	15%
Total	15,966	100%	3,212	100%	19,178	100%
Weighted average LTV¹:						
Stock of mortgages at year end		67%		84%		70%
New mortgages during the year		69%		50%		68%

The tables above set out the weighted average indexed LTV for the total mortgage loan book which showed positive movements during 2017 and was, on average, 61%² at 31 December 2017 (31 December 2016: 70%), 59% for Owner occupied mortgages and 75% for Buy to let mortgages. The weighted average indexed LTV for new mortgages written during 2017 was 69%, being 69% for Owner occupied mortgages and 50% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the RPPI published by the CSO. The indexed LTV profile of the mortgage loan book contained in Table 3c is based on the CSO RPPI at November 2017.

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

² The weighted average indexed LTV for the total loan book was 61% at 31 December 2017 reflecting a 9% improvement in the weighted average LTV compared to 31 December 2016. This is largely driven by the improvement in the RPPI in the 11 months to November 2017 with 1% of the improvement attributable to the sale of performing tracker mortgages to Bank of Ireland.

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Book composition (continued)****Loan to value profiles – total loans (continued)**

The RPPI for November 2017 reported that average national residential property prices were 23.1% below peak (December 2016: 32.1% below peak), with Dublin residential prices and outside of Dublin residential prices 24.1% and 29.2% below peak respectively (December 2016: 32.8% and 36.3% below peak respectively). In the 11 months to November 2017, residential property prices at a national level increased by 11.6%.

At 31 December 2017, €14.5 billion or 94% of the Bank's mortgages were classified as being in positive equity, 96% for Owner occupied mortgages and 82% for Buy to let mortgages.

At 31 December 2017, the total calculated negative equity in the mortgage loan book was €0.1 billion (31 December 2016: €0.4 billion). The majority of mortgage borrowers in negative equity are performing and / or continue to meet their mortgage repayments.

Table 3d**Loan to value profiles – non-performing exposures****31 December 2017**

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of total mortgages - non-performing exposures¹						
Less than 50%	174	18%	47	6%	221	13%
51% to 70%	201	21%	90	11%	291	16%
71% to 80%	121	12%	80	10%	201	11%
81% to 90%	127	13%	198	24%	325	18%
91% to 100%	114	12%	105	13%	219	12%
Subtotal	737	76%	520	64%	1,257	70%
101% to 120%	148	15%	164	20%	312	17%
121% to 150%	65	7%	67	8%	132	8%
Greater than 150%	24	2%	64	8%	88	5%
Subtotal	237	24%	295	36%	532	30%
Total	974	100%	815	100%	1,789	100%

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of total mortgages - non-performing exposures¹						
Less than 50%	151	13%	40	4%	191	9%
51% to 70%	173	15%	77	8%	250	12%
71% to 80%	121	10%	67	7%	188	9%
81% to 90%	127	11%	174	17%	301	14%
91% to 100%	125	11%	115	11%	240	11%
Subtotal	697	60%	473	47%	1,170	55%
101% to 120%	234	20%	249	24%	483	22%
121% to 150%	179	16%	169	17%	348	16%
Greater than 150%	46	4%	121	12%	167	7%
Subtotal	459	40%	539	53%	998	45%
Total	1,156	100%	1,012	100%	2,168	100%

The tables above illustrate the indexed LTV ratios at the applicable reporting dates for non-performing exposures. The ratios reflect the application of the CSO RPPI at November 2017.

¹As described on page 46, the Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary mortgages' and 'defaulted' loans.

BANK OF IRELAND MORTGAGE BANK

SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)

Book composition (continued)

Table 3d (continued)

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

Of the non-performing exposures, €1.3 billion or 70% were classified as being in positive equity (31 December 2016: €1.2 billion or 55%) while €0.5 billion or 30% were classified as being in negative equity at 31 December 2017 (31 December 2016: €1.0 billion or 45%).

For the non-performing exposures category, 76% of Owner occupied mortgages (31 December 2016: 60%) and 64% of Buy to let mortgages (31 December 2016: 47%) were classified as being in positive equity at 31 December 2017.

Asset quality

Composition and impairment

The tables below summarise the composition of non-performing exposures¹, impaired loans¹, and total impairment provisions for the mortgage portfolio.

Table 4

	Advances (pre-impairment)	Non-performing exposures ²	Non-performing exposures as a % of advances ³	Impaired Loans	Total provisions	Impairment provisions as a % of non-performing exposures	Specific provisions as a % of impaired loans
31 December 2017	€m	€m	%	€m	€m	%	
Total mortgages							
Owner occupied mortgages	13,214	974	7%	443	223	23%	35%
Buy to let mortgages	2,197	815	37%	359	241	30%	53%
Total	15,411	1,789	12%	802	464	26%	43%

of which;

Forborne mortgages

Owner occupied mortgages	1,404	843	60%	343	168	20%	34%
Buy to let mortgages	758	634	84%	190	141	22%	49%
Total	2,162	1,477	68%	533	309	21%	39%

	Advances (pre-impairment)	Non-performing exposures ²	Non-performing exposures as a % of advances	Impaired Loans	Total provisions	Impairment provisions as a % of non-performing exposures	Specific provisions as a % of impaired loans
31 December 2016	€m	€m	%	€m	€m	%	
Total mortgages							
Owner occupied mortgages	15,966	1,156	7%	550	302	26%	37%
Buy to let mortgages	3,212	1,012	32%	497	367	36%	58%
Total	19,178	2,168	11%	1,047	669	31%	47%

of which;

Forborne mortgages⁴

Owner occupied mortgages	1,735	980	56%	412	221	23%	36%
Buy to let mortgages	900	722	80%	232	187	26%	52%
Total	2,635	1,702	65%	644	408	24%	42%

Total non-performing exposures reduced significantly by €0.4 billion or 17% to €1.8 billion at 31 December 2017, reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

There has been a reduction of non-performing exposures in relation to Owner occupied mortgages in the year ended 31 December 2017, decreasing by €0.2 billion or 16% to €1.0 billion at 31 December 2017 (31 December 2016: €1.2 billion). This reduction further reflects the ongoing progress the Bank is making in effecting its mortgage arrears resolution strategies.

This progress is also evident in the reduction of non-performing exposures in relation to Buy to let mortgages reducing by €0.2 billion or 19% to €0.8 billion at 31 December 2017 from €1.0 billion at 31 December 2016. This reduction reflects the significant progress made by the Bank in the ongoing restructure of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

¹As described on page 46, the Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary mortgages' and 'defaulted' loans.

²The 'non-performing exposures' classification does not indicate that the terms of the forbearance measure are not being met.

³The increase in non-performing exposures as a % of advances is largely attributable to the sale of performing tracker mortgages to Bank of Ireland.

⁴In line with the revised asset reporting methodology as set out on page 46, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €2.4 billion to €2.6 billion. Owner occupied forborne mortgages have increased by €0.1 billion to €1.7 billion and Buy to let forborne mortgages have increased by €0.1 billion to €0.9 billion.

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Asset quality (continued)****Properties in possession**

At 31 December 2017, the Bank had possession of properties held as security as follows:

Table 5a

	31 December 2017		31 December 2016	
	Number of properties in possession at balance sheet date	Balance ¹ outstanding before impairment provisions €m	Number of properties in possession at balance sheet date	Balance ¹ outstanding before impairment provisions €m
Owner occupied mortgages	51	14	60	17
Buy to let mortgages	14	6	22	7
Total residential properties in possession	65	20	82	24

Disposals of properties in possession**Table 5b**

	Number of disposals during the year	Balance ¹ outstanding after impairment provisions €m
31 December 2017		
Owner occupied mortgages	95	15
Buy to let mortgages	22	2
Total disposals of properties in possession	117	17
31 December 2016		
Owner occupied mortgages	105	13
Buy to let mortgages	41	5
Total disposals of properties in possession	146	18

During the year ended 31 December 2017, the Bank disposed of 117 properties (year ended 31 December 2016: 146).

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

For the year ended 31 December 2017, the proceeds from disposals of Owner occupied properties were €15 million (year ended 31 December 2016: €13 million).

For the year ended 31 December 2017, the proceeds from disposals of Buy to let properties before value of additional collateral applied were €2 million (year ended 31 December 2016: €5 million).

In addition, a further 316 Buy to let properties were disposed of by fixed charge receivers during the year (year ended 31 December 2016: 362).

¹ Gross balance outstanding before value of additional collateral held.

Asset quality (continued)**Forbearance measures**

As described on page 46, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forbore classifications. Previously the Bank did not apply a set time period after which the forbore classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.

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

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

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

The forbearance strategies adopted by the Bank seek to maximise recoveries while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Bank to undertake an assessment of the customer’s financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place.

Forbearance effectiveness

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

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

The nature and type of forbearance measures include:

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

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Asset quality (continued)****Forbearance measures (continued)**

The table below sets out mortgages (before impairment provisions) forborne loan stock¹ at 31 December 2017.

Table 6a**Formal forbearance measures - mortgage loan book (before impairment provisions)**

	Performing exposures		Non-performing exposures ^{2,3}		All loans	
	Balance €m	Number of accounts ⁴	Balance €m	Number of accounts ⁴	Balance €m	Number of accounts ⁴
31 December 2017						
Owner occupied						
Full interest	69	613	171	1,032	240	1,645
Reduced payment (greater than full interest)	40	275	331	2,946	371	3,221
Term extension	47	506	25	249	72	755
Capitalisation of arrears	147	1,008	104	652	251	1,660
Hybrids	170	1,435	176	1,235	346	2,670
Other	88	624	36	292	124	916
Total	561	4,461	843	6,406	1,404	10,867
Buy to let						
Full interest	9	68	118	451	127	519
Reduced payment (greater than full interest)	7	47	154	868	161	915
Term extension	22	136	12	85	34	221
Capitalisation of arrears	37	239	42	174	79	413
Hybrids	48	291	293	897	341	1,188
Other	1	7	15	113	16	120
Total	124	788	634	2,588	758	3,376
Total						
Full interest	78	681	289	1,483	367	2,164
Reduced payment (greater than full interest)	47	322	485	3,814	532	4,136
Term extension	69	642	37	334	106	976
Capitalisation of arrears	184	1,247	146	826	330	2,073
Hybrids	218	1,726	469	2,132	687	3,858
Other	89	631	51	405	140	1,036
Total	685	5,249	1,477	8,994	2,162	14,243

¹ Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted forbearance but has subsequently exited forbearance, in line with the EBA guidelines, prior to or on 31 December 2017, this mortgage loan is not included in the stock of forbearance measures.

² The 'non-performing exposures' classification does not indicate that the terms of the forbearance measure are not being met.

³ As described on page 46, the Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary mortgages' and 'defaulted' loans.

⁴ The number of accounts does not equate to either the number of customers or the number of properties.

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)

Asset quality (continued)

Forbearance measures (continued)

Table 6a (continued)

 Formal forbearance measures¹ - mortgage loan book (before impairment provisions) (continued)

	Performing exposures		Non-performing exposures ^{2,3}		All loans	
	Balance €m	Number of accounts ⁴	Balance €m	Number of accounts ⁴	Balance €m	Number of accounts ⁴
31 December 2016						
Owner occupied						
Full interest	123	1,019	212	1,308	335	2,327
Reduced payment (greater than full interest)	70	442	366	3,078	436	3,520
Term extension	69	720	29	268	98	988
Capitalisation of arrears	182	1,248	109	716	291	1,964
Hybrids	228	1,909	226	1,497	454	3,406
Other	83	581	38	282	121	863
Total	755	5,919	980	7,149	1,735	13,068
Buy to let						
Full interest	28	169	159	613	187	782
Reduced payment (greater than full interest)	15	77	183	985	198	1,062
Term extension	34	233	11	77	45	310
Capitalisation of arrears	45	261	42	199	87	460
Hybrids	55	335	312	971	367	1,306
Other	1	5	15	116	16	121
Total	178	1,080	722	2,961	900	4,041
Total						
Full interest	151	1,188	371	1,921	522	3,109
Reduced payment (greater than full interest)	85	519	549	4,063	634	4,582
Term extension	103	953	40	345	143	1,298
Capitalisation of arrears	227	1,509	151	915	378	2,424
Hybrids	283	2,244	538	2,468	821	4,712
Other	84	586	53	398	137	984
Total	933	6,999	1,702	10,110	2,635	17,109

The total number of accounts in forbearance has decreased from 17,109 at 31 December 2016 to 14,243 accounts at 31 December 2017. The balances on accounts in forbearance have decreased from €2.6 billion at 31 December 2016 to €2.2 billion at 31 December 2017. This overall decrease reflects the customers' progression in meeting the forbearance exit criteria required as outlined in the EBA guidance.

¹In line with the revised asset reporting methodology as set out on page 46, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €2.4 billion to €2.6 billion. Non-performing exposures under the forbearance classification have increased by €1.1 billion from €0.6 billion to €1.7 billion while performing exposures under the forbearance classification have decreased by €0.9 billion from €1.8 billion to €0.9 billion.

²The 'non-performing exposures' classification does not indicate that the terms of the forbearance measure are not being met.

³As described on page 46, the Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary mortgages' and 'defaulted' loans.

⁴The number of accounts does not equate to either the number of customers or the number of properties.

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)
Asset quality (continued)
Forbearance measures (continued)

The following table shows the movement in the stock of forborne mortgages (before impairment provisions) during the year ended 31 December 2017.

Table 6b

Reconciliation of forborne loan stock by performing / non-performing exposures status - mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		All loans	
	Balance €m	Number of accounts ¹	Balance €m	Number of accounts ¹	Balance €m	Number of accounts ¹
All loans						
Opening balance at 1 January 2017²	1,735	13,068	900	4,041	2,635	17,109
New forbearance extended	125	1,034	32	154	157	1,188
Exited forbearance						
- Improved to or remained in performing exposures	(308)	(2,550)	(71)	(422)	(379)	(2,972)
- Improved / stabilised and remained in non-performing exposures	-	-	-	(3)	-	(3)
- Redemptions, principal repayments and other	(147)	(677)	(103)	(393)	(250)	(1,070)
- Disimproved to or within non-performing exposures	(1)	(8)	-	(1)	(1)	(9)
Transfers within forbearance between performing and non-performing exposures	-	-	-	-	-	-
Closing balance at 31 December 2017	1,404	10,867	758	3,376	2,162	14,243
Performing exposures						
Opening balance at 1 January 2017²	755	5,919	178	1,080	933	6,999
New forbearance extended	81	629	9	49	90	678
Exited forbearance						
- Improved to or remained in performing exposures	(304)	(2,490)	(68)	(406)	(372)	(2,896)
- Improved / stabilised and remained in non-performing exposures	-	-	-	-	-	-
- Redemptions, principal repayments and other	(53)	(231)	(15)	(55)	(68)	(286)
- Disimproved to or within non-performing exposures	(1)	(4)	-	-	(1)	(4)
Transfers within forbearance between performing and non-performing exposures	83	638	20	120	103	758
Closing balance at 31 December 2017	561	4,461	124	788	685	5,249
Non-performing exposures						
Opening balance at 1 January 2017²	980	7,149	722	2,961	1,702	10,110
New forbearance extended	44	405	23	105	67	510
Exited forbearance						
- Improved to performing exposures	(4)	(60)	(3)	(16)	(7)	(76)
- Improved / stabilised and remained in non-performing exposures	-	-	-	(3)	-	(3)
- Redemptions, principal repayments and other	(94)	(446)	(88)	(338)	(182)	(784)
- Disimproved to or within non-performing exposures	-	(4)	-	(1)	-	(5)
Transfers within forbearance between performing and non-performing exposures	(83)	(638)	(20)	(120)	(103)	(758)
Closing balance at 31 December 2017	843	6,406	634	2,588	1,477	8,994

The table above details the movement in forborne accounts and balances between 1 January 2017 and 31 December 2017 and illustrates the following:

- those accounts for which new forbearance measures were put in place during the year;
- those accounts which exited forbearance measures during the year:
 - improved to or remained in performing status;
 - improved / stabilised and remained in non-performing exposures;
 - redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2017 and remained in forbearance stock at 31 December 2017); or
 - disimproved to or within non-performing exposures; and
- those accounts and balances which transferred between performing and non-performing exposures but remained in forbearance.

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

² Opening balances have been restated as set out on page 73.

BANK OF IRELAND MORTGAGE BANK

SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)

Asset quality (continued)

Forbearance measures (continued)

Table 6b (continued)

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

The forborne loan stock has decreased to 14,243 accounts at 31 December 2017 with balances on those accounts of €2.2 billion from 17,109 accounts at 31 December 2016 with balances of €2.6 billion. A total of 1,188 accounts or €0.2 billion new forbearance measures were put in place during the year. A total of 2,984 accounts exited forbearance during the year with balances of €0.4 billion. A reduction of 1,070 accounts relates to redeemed accounts during the year; a reduction of €0.2 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, the forborne loan stock has decreased to 10,867 accounts at 31 December 2017 with balances on those accounts of €1.4 billion from 13,068 accounts at 31 December 2016 with balances of €1.7 billion. A total of 1,034 accounts or €0.1 billion new forbearance measures were put in place during the year. A total of 2,558 accounts exited forbearance during the year with balances of €0.3 billion. A reduction of 677 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, the forborne loan stock has decreased to 3,376 accounts at 31 December 2017 with balances on those accounts of €0.8 billion from 4,041 accounts at 31 December 2016 with balances of €0.9 billion. A total of 154 accounts or €32 million new forbearance measures were put in place during the year. A total of 426 accounts exited forbearance during the year with balances of €0.1 billion. A reduction of 393 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

Mortgage arrears

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

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

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)
Asset quality (continued)
Loan to value profiles – forborne loans
Table 7a
31 December 2017

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of forborne mortgages						
Less than 50%	290	21%	58	8%	348	16%
51% to 70%	328	23%	105	14%	433	20%
71% to 80%	168	12%	82	11%	250	12%
81% to 90%	185	13%	210	28%	395	18%
91% to 100%	165	12%	93	12%	258	12%
Subtotal	1,136	81%	548	73%	1,684	78%
101% to 120%	191	14%	136	18%	327	15%
121% to 150%	62	4%	41	5%	103	5%
Greater than 150%	15	1%	33	4%	48	2%
Subtotal	268	19%	210	27%	478	22%
Total	1,404	100%	758	100%	2,162	100%

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of forborne¹ mortgages						
Less than 50%	273	16%	50	6%	323	12%
51% to 70%	314	18%	91	10%	405	15%
71% to 80%	194	11%	65	7%	259	10%
81% to 90%	186	11%	180	20%	366	14%
91% to 100%	194	11%	121	13%	315	12%
Subtotal	1,161	67%	507	56%	1,668	63%
101% to 120%	327	19%	226	25%	553	21%
121% to 150%	215	12%	112	13%	327	13%
Greater than 150%	32	2%	55	6%	87	3%
Subtotal	574	33%	393	44%	967	37%
Total	1,735	100%	900	100%	2,635	100%

The tables above illustrate the indexed LTV ratios for total forborne mortgages which showed an improvement in the average LTV for 2017. The ratios reflect the application of the CSO RPPI at November 2017.

Of the total mortgages with forbearance measures in place, €1.7 billion or 78% were classified as being in positive equity (31 December 2016: €1.7 billion or 63%) while €0.5 billion or 22% were classified as being in negative equity at 31 December 2017 (31 December 2016: €1.0 billion or 37%). 81% of forborne Owner occupied mortgages (31 December 2016: 67%) and 73% of forborne Buy to let mortgages (31 December 2016: 56%) were classified as being in positive equity at 31 December 2017.

¹ In line with the revised asset reporting methodology as set out on page 46, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €2.4 billion to €2.6 billion.

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)
Asset quality (continued)
Loan to value profiles – forborne loans - non-performing exposures
Table 7b
31 December 2017

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of forborne¹ mortgages- non-performing exposures						
Less than 50%	155	18%	38	6%	193	13%
51% to 70%	174	21%	78	12%	252	17%
71% to 80%	99	12%	67	10%	166	12%
81% to 90%	112	13%	176	28%	288	19%
91% to 100%	103	12%	82	13%	185	13%
Subtotal	643	76%	441	69%	1,084	74%
101% to 120%	133	16%	124	20%	257	17%
121% to 150%	53	6%	40	6%	93	6%
Greater than 150%	14	2%	29	5%	43	3%
Subtotal	200	24%	193	31%	393	26%
Total	843	100%	634	100%	1,477	100%

31 December 2016

	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
LTV ratio of forborne¹ mortgages- non-performing exposures						
Less than 50%	131	13%	31	4%	162	10%
51% to 70%	148	15%	62	9%	210	12%
71% to 80%	105	11%	49	7%	154	9%
81% to 90%	102	10%	145	20%	247	14%
91% to 100%	110	11%	93	13%	203	12%
Subtotal	596	60%	380	53%	976	57%
101% to 120%	202	21%	190	26%	392	23%
121% to 150%	152	16%	101	14%	253	15%
Greater than 150%	30	3%	51	7%	81	5%
Subtotal	384	40%	342	47%	726	43%
Total	980	100%	722	100%	1,702	100%

The tables above illustrate the indexed LTV ratios for non-performing forborne exposures. The ratios reflect the application of the CSO RPPI at November 2017.

Of the non-performing exposures with forbearance measures in place, €1.1 billion or 74% were classified as being in positive equity (31 December 2016: €1.0 billion or 57%), while €0.4 billion or 26% were classified as being in negative equity at 31 December 2017 (31 December 2016: €0.7 billion or 43%). 76% of Owner occupied mortgages (31 December 2016: 60%) and 69% of Buy to let mortgages (31 December 2016: 53%) were classified as being in positive equity at 31 December 2017.

¹ As described on page 46, the Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

BANK OF IRELAND MORTGAGE BANK
SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)
Forbearance disclosures
Risk profile of loans and advances to customers (before impairment provisions)

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

Table 1

Non-forborne loans and advances	31 December 2017 €m	31 December 2016¹ €m
High quality	12,840	15,984
Satisfactory quality	-	-
Acceptable quality	-	-
Lower quality but neither past due nor impaired	-	-
Neither past due nor impaired	12,840	15,984
Past due up to 30 days	80	77
Past due 31 - 60 days	17	23
Past due 61- 90 days	11	10
Past due more than 90 days	32	46
Past due² but not impaired	140	156
Impaired	269	403
Total past due and impaired	409	559
Total non-forborne loans and advances to customers	13,249	16,543
Forborne loans and advances	31 December 2017 €m	31 December 2016¹ €m
High quality	-	-
Satisfactory quality	521	692
Acceptable quality	823	977
Lower quality but neither past due nor impaired	60	65
Neither past due nor impaired	1,404	1,734
Past due up to 30 days	81	82
Past due 31 - 60 days	33	38
Past due 61- 90 days	19	23
Past due more than 90 days	92	114
Past due² but not impaired	225	257
Impaired	533	644
Total past due and impaired	758	901
Total forborne loans and advances to customers	2,162	2,635

Forborne loans and advances to customers classified as 'neither past due nor impaired' were €1.4 billion at 31 December 2017 compared to €1.7 billion at 31 December 2016. Forborne loans and advances to customers classified as 'past due but not impaired' were €0.2 billion at 31 December 2017 (31 December 2016: €0.3 billion). Forborne impaired loans were €0.5 billion at 31 December 2017 (31 December 2016: €0.6 billion).

¹In line with the revised asset reporting methodology as set out on page 46, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €2.4 billion to €2.6 billion primarily due to an increase in 'Impaired' loans under the forbearance classification of €0.3 billion from €0.3 billion to €0.6 billion partially offset by a reduction in 'Neither past due nor impaired' loans under the forbearance classification of €0.3 billion from €2.0 billion to €1.7 billion.

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

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Forbearance disclosures (continued)****Non-performing exposures****Table 2**

As described on page 46, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forbore classifications. The Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

	31 December 2017	31 December 2016
	€m	€m
Non-forborne loans and advances to customers		
Impaired	269	403
Past due greater than 90 days but not impaired	32	46
Neither impaired nor past due greater than 90 days	11	17
Total non-forborne loans and advances to customers	312	466
Forborne loans and advances to customers		
Impaired	533	644
Past due greater than 90 days but not impaired	92	114
Neither impaired nor past due greater than 90 days	852	944
Total forborne loans and advances to customers	1,477	1,702
Total non-performing exposures	1,789	2,168

Impairment reversals on forborne loans and advances to customers

The total impairment reversal of €98 million for the year ended 31 December 2017 includes a reversal of €77 million relating to loans which are classified as forbore at the balance sheet date (year ended 31 December 2016: €79 million).

Table 3

Impairment reversals on forborne loans and advances to customers	For the year ended	For the year ended
	31 December 2017	31 December 2016
	€m	€m
Specific reversal individually and collectively assessed	36	57
Incurred but not reported	41	22
	77	79

The impairment reversal recognised on forborne mortgages reflects continued positive underlying book performance, with reductions in impaired loans and non-performing exposures.

BANK OF IRELAND MORTGAGE BANK**SUPPLEMENTARY ASSET QUALITY AND FORBEARANCE DISCLOSURES (continued)****Forbearance disclosures (continued)****Impairment provision on forborne loans and advances to customers**

The total impairment provision of €464 million at 31 December 2017 (31 December 2016: €669 million) includes €309 million impairment provision on forborne loans (31 December 2016: €408 million) as set out in the table below.

Table 4

	31 December 2017	31 December 2016 ¹
	€m	€m
Advances: total forborne mortgages	<u>2,162</u>	<u>2,635</u>
Non-performing exposures: forborne mortgages	1,477	1,702
Specific provision individually and collectively assessed	210	268
Incurred but not reported	99	140
Total impairment provision on forborne loans	<u><u>309</u></u>	<u><u>408</u></u>
Impairment provisions as a % of non-performing exposures	21%	24%

The decrease in specific provisions on forborne loans in the year reflects the Bank's continued implementation of resolution strategies including the realisation of cash proceeds from property sales, and, where appropriate, giving rise to the utilisation of provisions. The reduction in IBNR impairment provisions reflects an underlying improvement in the risk profile.

¹ As described on page 46, the Bank has revised its asset quality reporting methodology. Previously the Bank did not apply a set time period after which the forbearance classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.