

**BANK OF IRELAND  
MORTGAGE BANK  
REPORT & ACCOUNTS**

**31 March 2010**

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**BANK OF IRELAND MORTGAGE BANK**

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

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**DIRECTORS AND OTHER INFORMATION**

**Directors at 28 May 2010**

John Clifford  
Brian Kealy  
Michael Meagher  
Mary Finan  
Mary Davis  
Brendan Nevin  
Joseph Martin  
Jonathan Byrne

**Registered Office**

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

**Cover-Assets Monitor**

Mazars  
Harcourt Centre  
Block 3  
Harcourt Road  
Dublin 2

**Auditors**

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
One Spencer Dock  
North Wall Quay  
Dublin 1

**Secretary**

Hill Wilson Secretarial Limited

## **BANK OF IRELAND MORTGAGE BANK**

### **REPORT OF THE DIRECTORS**

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The Directors hereby present their report, together with the audited Annual Accounts of Bank of Ireland Mortgage Bank (the "Bank"), for the year ended 31 March 2010.

#### **RESULTS**

The loss before tax for the period amounted to €626 million as set out in the profit and loss account on page 10. This compares with a profit before tax of €34 million in 2009.

Net Interest Income (NII) increased to €199 million. Funding costs moderated compared to the extreme levels suffered in the financial year to 31 March 2009 arising from market dislocation. Funding costs remain high by historical standards, underpinned by constrained wholesale funding markets. Consequently, the net interest margin remains weak at 0.56%. NII was helped by a 1.6% increase in mortgage balances, as the Bank took a higher market share of new business and redemption levels in the book slowed.

Fees and commissions payable increased by €13.2 million. The majority of this increase is explained by the full year costs of the Bank's participation in the Government Guarantee Scheme.

Administrative expenses increased marginally in the year. The cost income ratio decreased to 13.3% (31 March 2009: 14.0%).

Higher levels of arrears and defaults resulted in impairment losses increasing to €153.4 million (31 March 2009: €47.9 million).

Net Trading Income reflects interest flows on trading derivatives and fair value adjustments on all derivative instruments. The net result was €20 million positive (31 March 2009: €2 million positive).

#### **BOOKS OF ACCOUNT**

The measures taken by the directors to ensure compliance with obligations to keep proper books of account comprise the use of appropriate systems, the implementation of robust procedures and the employment of competent individuals with relevant experience. The books of account are kept at the Bank's registered office.

#### **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 mortgage book grew by €325 million or 1.6% to €0,830 million (31 March 2009: €20,505 million). This increase is smaller than in previous years and reflects the continued slowdown in the Irish mortgage market. Mortgages continue to be originated exclusively through the Bank of Ireland branch channel.

Balance Sheet impairment provisions have increased from €60.7 million to €214.1 million. Rising unemployment, lower disposable income and declining property prices were the main drivers of impairment. The Bank continues to work closely with customers who find themselves in financial difficulty, with a view to achieving mutually satisfactory outcomes.

A dividend of €20 million was paid to Bank of Ireland during the year.

At 31 March 2010, the Bank's total capital ratio was 9.52%.

The Bank maintains a strong risk management structure and controls framework as described in the notes to the financial statements (see note 25).

On October 24, 2008 Bank of Ireland Mortgage Bank elected to participate in the Guarantee Scheme announced by the Irish Government, the "Credit Institutions (Financial Support Act 2008) scheme. The covered liabilities of participating institutions for the period 30 September 2008 to 29 September 2010 inclusive are guaranteed under the laws of Ireland by the Minister of Finance. A quarterly charge is payable to the Irish government under the scheme. The Bank also joined the

## **BANK OF IRELAND MORTGAGE BANK**

### **REPORT OF THE DIRECTORS**

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Government's Eligible Guarantee Scheme on 11 January 2010. Certain future liabilities of the Bank may be guaranteed under this scheme. Further information on both schemes is contained in note 29 to the accounts.

#### **FUNDING**

The wholesale financial markets stabilised somewhat in the financial year to 31 March 2010. The Bank remains well-funded through a range of sources of funding, including asset-backed securities and direct funding from its parent, Bank of Ireland.

During the financial year to 31 March 2010 the Bank continued its successful programme of asset-backed bond issues, completing €3.8 billion in transactions, of which the following were the key issues: €1.5 billion public 5-year issue, €2 billion transaction with Bank of Ireland and a number of smaller private placements.

At the year end, the Bank had access to a borrowing facility under the Central Banks Mortgage Backed Promissory Note Scheme. At 31 March 2010, borrowings under this scheme amounted to €3.5 billion (31 March 2009: €3.6 billion).

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

Subordinated loan borrowings from the parent company amounted to €313 million at the year-end (31 March 2009: €313 million).

#### **DIRECTORS & SECRETARY**

The names of the persons who were Directors of the Bank at any time during the year ended 31 March 2010 are set out below. Except where indicated they served as directors for the entire year.

##### Directors

John Clifford	Appointed 7 October 2009
Rose Hynes	Resigned 18 March 2010
Brian Kealy	
Mary Davis	Appointed 19 March 2010
Michael Meagher	
Richie Boucher	Resigned 7 October 2009
Kevin Twomey	Resigned 31 December 2009
Mary Finan	Appointed 19 March 2010
Brendan Nevin	
Joseph Martin	
Jonathan Byrne	

#### **DIRECTORS' & SECRETARY'S INTERESTS**

The interests of the Directors and Secretary, in office at 31 March 2010, and of their spouses and minor children, in the shares of the Governor & Company of the Bank of Ireland and related Group entities, are disclosed in Note 5(b) of the financial statements.

#### **POLITICAL DONATIONS**

The Electoral Act 1997 requires companies to disclose all political donations over €5,079 in aggregate made during the financial year. The directors are satisfied that no such donations have been made by the Bank during the year.

## **BANK OF IRELAND MORTGAGE BANK**

### **REPORT OF THE DIRECTORS**

#### **AUDIT COMMITTEE**

The Bank's Audit Committee, which comprises only independent non-executive Directors, assists the Board to fulfill its responsibilities relating to:

- the integrity of the financial statements
- the relationship between the Bank and its external auditors
- the Bank's internal and financial controls
- internal audit, compliance and risk management functions

#### **GOING CONCERN**

The information in the financial statements has been prepared on the going concern basis. A number of risk factors including credit, liquidity, market, operational, legal and regulatory risk impact on the Bank's activities. The continuing global financial difficulties and the significantly deteriorated economic environments in which we operate have increased the pressure on the Bank as to how these risk factors are managed.

In preparing these financial statements the Directors have reviewed these risk factors and all relevant information to assess the Bank's ability to continue as a going concern. This review included consideration of the impact of the current economic factors affecting the Bank, the liquidity position and the ability to access funds in the wholesale money markets (including the ability to use assets as collateral to raise funds). The Directors have also reviewed the Bank's business plans for the next 12 months. Bank of Ireland has also provided a letter of comfort in support of the Bank.

Based on the factors above the Directors are satisfied that the Bank will have access to adequate resources, both capital and funding, to continue in business for the foreseeable future. Accordingly, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements at 31 March 2010.

#### **EVENTS SINCE THE YEAR END**

There have been no material events between the date of the balance sheet and the date of approval of the accounts that require reporting.

#### **AUDITORS**

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

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**John Clifford**  
Chairman

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**Brendan Nevin**  
Director

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**Michael Meagher**  
Director

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**For and on Behalf of**  
**Hill Wilson Secretarial Limited**

**28 May 2010**

**BANK OF IRELAND MORTGAGE BANK**  
**STATEMENT OF DIRECTORS RESPONSIBILITIES**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland.

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the annual accounts on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and with Irish statute comprising the Companies Acts, 1963 to 2009, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and the Asset Covered Securities Act 2001 to 2007. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

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**John Clifford**  
**Chairman**

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**Brendan Nevin**  
**Director**

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**For and on Behalf of**  
**Hill Wilson Secretarial Limited**

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**Michael Meagher**  
**Director**

**28 May 2010**

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

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

We have audited the financial statements on pages 10 to 47. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 13 to 16.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable Irish law and the accounting standards issued by the Accounting Standards Board and published by The Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (Ireland). This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the Bank has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the Bank to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the Bank, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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**BANK OF IRELAND MORTGAGE BANK**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMERS OF BANK OF IRELAND MORTGAGE**  
**BANK**

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**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Bank's affairs as at 31 March 2010 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2009, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and the Asset Covered Securities Act, 2001 to 2007.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Bank. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 4 to 6 is consistent with the financial statements.

The net assets of the Bank, as stated in the balance sheet on page 11 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 March 2010 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Bank.

**PricewaterhouseCoopers**  
**Chartered Accountants and Registered Auditors**  
*Dublin*  
**28 May 2010**

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**BANK OF IRELAND MORTGAGE BANK**  
**PROFIT AND LOSS ACCOUNT**

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		Year Ended 31 March 2010	Year Ended 31 March 2009
	Notes	€'000	€'000
Interest receivable	2	767,133	1,389,604
Interest payable	3	(567,966)	(1,195,049)
		-----	-----
<b>NET INTEREST INCOME</b>		199,167	194,555
Fees and commissions payable	4	(114,499)	(101,259)
		-----	-----
<b>TOTAL OPERATING INCOME</b>		84,668	93,296
Administrative expenses	5	(13,880)	(13,372)
Impairment losses	12	(153,447)	(47,864)
Net trading income	7	20,038	1,994
		-----	-----
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(62,621)	34,054
Taxation on loss/profit on ordinary activities	8	7,988	(4,223)
		-----	-----
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(54,633)	29,831
		=====	=====

The movement in the reserves is shown in note 20.

The notes on pages 13 to 47 form part of the financial statements.

(Loss)/Profit on ordinary activities arose solely from continuing operations. The bank had no recognised gains or losses other than those disclosed in the income and expenditure account and therefore no separate statement of total recognised gains and losses has been presented.

Other than the fair value movements on financial instruments arising under FRS 26, there is no material difference between the results on an unmodified historical cost basis and those included in the profit and loss account above.

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**John Clifford**  
**Director**

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**Brendan Nevin**  
**Director**

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**Michael Meagher**  
**Director**

28 May 2010

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**For and on Behalf of**  
**Hill Wilson Secretarial Limited**

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**BANK OF IRELAND MORTGAGE BANK**  
**BALANCE SHEET**

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	Notes	Year Ended 31 March 2010 €'000	Year Ended 31 March 2009 €'000
<b>ASSETS</b>			
Cash and balances at central banks	9	50	25
Loans and advances to banks	10	15,008,004	15,348,456
Loans and advances to customers	11	20,829,572	20,504,800
Derivative financial instruments	14	426,455	302,226
Other assets	13	11,853	6,068
		-----	-----
		36,275,934	36,161,575
		=====	=====
<b>LIABILITIES</b>			
Deposits by banks	15	22,704,218	21,663,432
Debt securities in issue	16	12,421,187	13,370,781
Derivative financial instruments	14	1,990	1,901
Other liabilities	17	117,771	19,100
Subordinated liabilities	18	312,534	313,494
		-----	-----
		35,557,700	35,368,708
<b>SHAREHOLDERS' FUNDS</b>			
Called up capital stock	19	624,000	624,000
Reserves	20	94,234	168,867
		-----	-----
		718,234	792,867
		-----	-----
		36,275,934	36,161,575
		=====	=====

The notes on pages 13 to 47 form part of the financial statements.

Commitments see note 27.

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**John Clifford**  
**Director**

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**Brendan Nevin**  
**Director**

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**Michael Meagher**  
**Director**

**28 May 2010**

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**For and on Behalf of**  
**Hill Wilson Secretarial Limited**

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**BANK OF IRELAND MORTGAGE BANK**

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**CASHFLOW STATEMENT**

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		<b>Year Ended 31 March 2010</b>	<b>Year Ended 31 March 2009</b>
	<b>Notes</b>	<b>€'000</b>	<b>€'000</b>
<i>Net cash flow from operating activities</i>	22(i)	30,733	34,325
Returns on Investment and Servicing of Finance	22(ii)	(6,533)	(15,434)
Taxation		-	(10,000)
Dividend		(20,000)	-
		-----	-----
Increase in cash in the period	22(iv)	4,200	8,891
		=====	=====

The notes on pages 13 to 47 form part of the financial statements.

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**John Clifford**  
**Director**

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**Brendan Nevin**  
**Director**

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**Michael Meagher**  
**Director**

**28 May 2010**

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**For and on Behalf of**  
**Hill Wilson Secretarial Limited**

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1 BASIS OF ACCOUNTING AND ACCOUNTING POLICIES****1.1 Basis of Preparation**

The financial statements on pages 10 to 47 have been prepared under the historical cost convention, modified by the revaluation of certain financial instruments, in accordance with the Companies Acts, 1963 to 2009, the European Communities (Credit Institutions: Accounts) Regulations 1992, the Asset Covered Securities, Act 2001 to 2007 and with accounting standards generally accepted in Ireland.

The financial statements are prepared in euro (€) and except where otherwise indicated are expressed in thousands. Costs, assets and liabilities are inclusive of irrecoverable value added taxes, where appropriate. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

A change to the accounting estimate of expected life of the mortgage portfolio and the model that determines the basis on which deferred discounts and broker commissions are amortised to the profit and loss account contributed an additional €16 million income in the financial year to 31 March 2010.

**1.2 Interest Income and Expense**

Interest income and expense are recognised in the profit and loss account for all instruments measured at amortised cost using the effective interest method. Interest income / expense in 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 rate 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 and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

**1.3 Fees & commission income / payable**

Fees and commissions which are not an integral part of the effective interest rate are generally recognised on an accruals basis when the service has been provided. Fees and commissions payable relating to the cost of services received are recognised on an accrual basis.

**1.4 Financial Assets**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading receivables.

Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs. 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.

Loans and receivables investments are carried at amortised cost using the effective interest rate method.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1.5 Financial Liabilities**

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost. For liabilities subsequently carried at amortised cost, any difference between the proceeds net of transaction costs and the redemption value is recognised in the profit and loss account using the effective interest rate method.

**1.6 Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities (fair value hedge).

**(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 and expenditure account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

**(b) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss account in net trading income.

**1.7 Impairment of financial assets****(a) 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 charges 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:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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 charge is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment charge on loans and receivables carried at amortised cost has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future impairment charges 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 charge is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment charge 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 cost for 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, 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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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.

#### **1.8 Impairment of financial assets continued**

If, in a subsequent period, the amount of the impairment charge 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 profit and loss account.

When a loan is uncollectable, it is written off against the related provision for loan-impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit and loss account.

#### **1.9 Issued Debt Securities**

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

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1.10 Pensions**

Bank of Ireland Mortgage Bank is a minority participating employer in the ICS Building Society Pension Plan. The scheme is a Defined Benefit Scheme based on final pensionable pay and operated for eligible employees of ICS Building Society and the Bank.

Whilst the scheme is a defined benefit scheme the Bank is unable to identify its share of the underlying assets and liabilities of the scheme and hence it is treated as a defined contribution scheme in the financial statements of the Bank.

The pension cost relating to this scheme is assessed in accordance with the advice of a qualified actuary. Contributions are charged to the profit and loss account in the period in which they became payable. The disclosures required under Financial Reporting Standard 17 ("Retirement Benefit") for the year ended 31 March 2010 are shown in note 24.

**1.11 Deferred Taxation**

Deferred taxation is recognised on all timing differences where the transaction or event that gives rise to an obligation to pay more tax in the future or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted by the balance sheet date. Deferred Tax is measured on a non discounted basis.

**1.12 Accrued interest**

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

**1.13 Subordinated Loan**

Borrowings are initially recognised at fair value and subsequently measured at amortised cost.

**1.14 Use of estimates or judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. 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.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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<b>2</b>	<b>INTEREST RECEIVABLE</b>	<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
	Loans and advances to banks	201,797	469,195
	Loans and advances to customers	565,336	920,409
		-----	-----
		767,133	1,389,604
		=====	=====
	Included in Loans and advances to customers is €9,849,541 (31 March 2009: €5,338,764) relating to Interest on impaired loans.		
<b>3</b>	<b>INTEREST PAYABLE</b>	<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
	Other interest payable	358,822	775,814
	Debt securities in issue	204,528	403,801
	Interest on subordinated liabilities	4,616	15,434
		-----	-----
		567,966	1,195,049
		=====	=====
	Within the Interest payable amount above €503,657,118 relates to liabilities due within 5 years and €64,308,389 relates to amounts due after 5 years.		
<b>4</b>	<b>FEES AND COMMISSIONS PAYABLE</b>	<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
	Service fee payable to Bank of Ireland Group companies	98,702	96,459
	Government Guarantee Scheme	15,797	4,800
		-----	-----
		114,499	101,259
		=====	=====
<b>5</b>	<b>ADMINISTRATIVE EXPENSES</b>	<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
	Staff Costs:		
	- wages and salaries	287	433
	- social security costs	31	50
	- pension costs	59	99
		-----	-----
		377	582
	Other administrative expenses	13,503	12,790
		-----	-----
	Total administrative expenses	13,880	13,372
		=====	=====

In addition to the fee payable to Bank of Ireland group companies for servicing the mortgage portfolio the Bank is recharged for support service costs. These costs are included within other administrative expenses.

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**5(a) EMPLOYEE INFORMATION**

For the year ended 31 March 2010 the average number of employees was 4 (31 March 2009: 6 employees).

**5 (b) DIRECTORS' & SECRETARY'S INTERESTS**

The interests of the Directors and Secretary, in office as at 31 March 2010, and of their spouses and minor children, in the shares of Bank of Ireland or the Group undertakings are set out in the tables below.

**SHARES IN THE GOVERNOR & COMPANY OF THE BANK OF IRELAND**

	As at 31 March 2010	As at 31 March 2009 or at date of appointment if applicable
<b>Directors</b>	<b>SHARES</b>	<b>SHARES</b>
B. Nevin	10,756	10,756
J. Clifford	140,128	140,128
B. Kealy	8,010	8,010
M. Meagher	69,598	69,598
M. Finan	8,500	8,500
M. Davis	Nil	Nil
J. Martin	Nil	Nil
J. Byrne	1,455	2,018
<b>Secretary</b>		
Hill Wilson Secretarial Limited	Nil	Nil

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**STOCK OPTIONS HELD BY DIRECTORS AND SECRETARY IN THE GOVERNOR & COMPANY OF THE BANK OF IRELAND**

<b>Directors</b>	<b>Date of Grant</b>	<b>Earliest Exercise Date</b>	<b>Exercise Price €</b>	<b>As at 31 March 2010</b>	<b>As at 31 March 2009 or at date of appointment if applicable</b>
B. Nevin	26 Jul 2004	26 Jul 2007	10.76	18,000	18,000
	21 Jun 2005	21 Jun 2008	12.85	11,500	11,500
	04 Jul 2006	04 Jul 2009	14.00	Nil	12,000
	12 Jun 2007	12 Jun 2010	15.45	9,500	9,500
	03 Jun 2008	03 Jun 2011	8.10	25,450	25,450
J. Clifford	24 Jun 2002	24 Jun 2005	12.50	10,000	10,000
	18 Jun 2003	18 Jun 2006	10.77	20,000	20,000
	26 Jul 2004	26 Jul 2007	10.76	21,500	21,500
	21 Jun 2005	21 Jun 2008	12.85	13,000	13,000
	04 Jul 2006	04 Jul 2009	14.00	Nil	18,700
	12 Jun 2007	12 Jun 2010	15.45	13,950	13,950
	03 Jun 2008	03 Jun 2011	8.10	23,800	23,800
B. Kealy	26 Jul 2004	26 Jul 2007	10.76	11,500	11,500
	21 Jun 2005	21 Jun 2008	12.85	9,500	9,500
	04 Jul 2006	04 Jul 2009	14.00	Nil	8,000
	22 Dec 2006	01 Mar 2010	12.28	Nil	301
	12 June 2007	12 Jun 2010	15.45	5,900	5,900
	24 Dec 2007	01 Mar 2011	6.96	Nil	531
	03 June 2008	03 Jun 2011	8.10	9,650	9,650
J. Martin	-	-	-	Nil	Nil
M. Meagher	-	-	-	Nil	Nil
M. Finan	-	-	-	Nil	Nil
M. Davis	-	-	-	Nil	Nil
J. Byrne	22 Dec 2006	01 Mar 2010	12.28	Nil	301
	12 June 2007	12 Jun 2010	15.45	4,550	4,550
	24 Dec 2007	01 Mar 2011	6.96	531	531
	03 June 2008	03 Jun 2011	8.10	12,750	12,750

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**DIRECTORS' & SECRETARY'S INTERESTS IN THE GOVERNOR & COMPANY OF THE BANK OF IRELAND LONG TERM INCENTIVE PLAN\* (LTIP)**

Included in the table below are the Shares conditionally awarded to the Directors under the terms of the LTIP.

Directors	Date of Award	As at 31 March 2010	As at 31 March 2009 or at date of appointment if applicable
B. Nevin	26 Apr 2004	Nil	5,031
	04 Jul 2006	Nil	8,900
	12 Jun 2007	8,050	8,050
	03 Jun 2008	22,250	22,250
J. Clifford	-	Nil	Nil
B. Kealy	-	Nil	Nil
J. Martin	-	Nil	Nil
M. Meagher	-	Nil	Nil
M. Finan	-	Nil	Nil
M. Davis	-	Nil	Nil
J. Byrne	-	Nil	Nil

\*Since 2004 the Governor & Company of the Bank of Ireland has operated a Long Term Incentive Plan ('LTIP'), with stockholder approval, for key senior executives who are best placed to maximise stockholder value.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**DIRECTORS' & SECRETARY'S INTEREST IN SAVINGS SHARES IN ICS BUILDING SOCIETY**

Directors	As at 31 March 2010 €'000	As at 31 March 2009 or at date of appointment if applicable €'000
B. Nevin	1	1
J. Clifford	20	Nil
B. Kealy	Nil	Nil
M. Meagher	500	Nil
M. Finan	1	Nil
M. Davis	1	Nil
J. Martin	Nil	Nil
J. Byrne	1	Nil

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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<b>6</b>	<b>PROFIT BEFORE TAXATION</b>	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
	Profit before taxation has been arrived at after charging:		
	<b>Auditors Remuneration (Including VAT)</b>		
	Statutory audit	49	48
	Other assurance services	20	-
	Total	----- 69 =====	----- 48 =====

<b>7</b>	<b>NET TRADING INCOME</b>	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
	<b>Net income from assets and liabilities held for trading</b>		
	Interest rate contracts	1,058	19,436
	<b>Fair value hedges</b>		
	Fair value gains on derivative contracts in fair value hedge relationships	103,022	312,949
	Fair value (losses) on liabilities in fair value hedge relationships	(84,042)	(330,391)
		----- 20,038 =====	----- 1,994 =====

Within fair value hedges there is a €19m gain (31 March 2009: €17m loss) which represents the net hedge ineffectiveness in relation to the fair value hedges. See notes 14 and 25 for details of interest rate contracts and fair value hedging arrangements. Included in interest rate contracts is the fair value of interest rate swaps and the related interest that do not qualify for hedge accounting.

<b>8</b>	<b>TAXATION</b>	<b>2010</b> <b>€'000</b>	<b>2009</b> <b>€'000</b>
	<b>Current Tax</b>		
	Irish Corporation tax @ 12.5%	4,257	(4,379)
	<b>Deferred Tax</b>		
	Unwinding of Transition Adjustments	160	161
	Losses carried forward	3,485	
	Other tax timing difference	86	(5)
		----- 7,988 =====	----- (4,223) =====

The tax credit/charge for the period is at an effective rate of 12.5%, which is the same as the standard Irish corporation tax rate.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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The current tax charge for the year is higher than the charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The difference is explained below:

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
(Loss)/Profit on ordinary activities before tax	(62,621)	34,054
(Loss)/Profit @12.5%	(7,828)	4,257
Effects of:		
Losses carried forward	3,485	86
Other tax timing differences	86	36
	-----	-----
Current tax (credit) / charge for the year	(4,257)	4,379
	-----	-----
<b>9 CASH AND BALANCES AT CENTRAL BANKS</b>	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Funds placed with Central Bank of Ireland	50	25
	-----	-----
	50	25
Other loans and advances to banks by remaining maturity	=====	=====
Repayable on demand	-	-
3 months or less	-	-
1 year or less but over 3 months	50	25
	-----	-----
	50	25
	=====	=====

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

<b>10 LOANS AND ADVANCES TO BANKS</b>	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Funds placed with the Governor & Company of the Bank of Ireland	15,008,004	15,348,456
	-----	-----
	15,008,004	15,348,456
	=====	=====
Loans and advances to banks by remaining maturity		
Repayable on demand	11,022	16,881
3 months or less	6,234,683	4,931,917
1 year or less but over 3 months	50,000	2,000,887
5 years or less but over 1 year	6,355,000	5,877,000
Over 5 years	2,357,299	2,521,771
	-----	-----
	15,008,004	15,348,456
	=====	=====

**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

11	LOANS AND ADVANCES TO CUSTOMERS	Notes	2010 €'000	2009 €'000
	Repayable on demand		-	-
	3 months or less		195,877	170,110
	1 year or less but over 3 months		558,847	506,020
	5 years or less but over 1 year		3,148,543	2,885,715
	Over 5 years		17,140,428	17,003,631
	Less provisions for bad and doubtful debts	12	(214,123)	(60,676)
			-----	-----
			20,829,572	20,504,800
			=====	=====

The Bank's exposure to credit risk is from its mortgage lending activities on residential property in Ireland. For details of bad and doubtful debts see note 12.

**12 PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

The movement on the provision for bad and doubtful debts is included in the table below:

	2010 €'000	2009 €'000
At 1 April	60,676	12,812
Charge against Profits	153,447	47,864
	-----	-----
At 31 March	214,123	60,676
	=====	=====

**13 OTHER ASSETS**

	2010 €'000	2009 €'000
Amounts recoverable from BOI Insurance Ltd.	356	2,156
Current Taxation	7,926	3,912
Deferred Taxation	3,571	-
	-----	-----
	11,853	6,068
	=====	=====

13 (a)	Deferred Taxation Asset/(Liability)	2010 €'000	2009 €'000
	Deferred tax at 1 April	(160)	(321)
	Profit and Loss	3,731	161
		-----	-----
	Deferred tax at 31 March	3,571	(160)
		=====	=====

The closing Deferred Tax balance at the 31 March 2010 is made up of € Nil (31 March 2009: €85,000) on Mortgage Discounts, €nil (31 March 2009: €75,000) on loan loss provisions and €3,571,000 (31 March 2009: nil) on trading losses and other timing differences.

**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

14	DERIVATIVE FINANCIAL INSTRUMENTS AS AT 31 MARCH 2010	2010	2010	2009	2009
		€'000	€'000	€'000	€'000
		Contract / Notional Amount €'000	Fair Value (Asset)/ Liability €'000	Contract / Notional Amount €'000	Fair Value (Asset)/ Liability €'000
14 (a)	Derivatives held for trading				
	Non-Pooled Swaps	9,883,237	-	8,841,298	-
	Pooled Swaps	10,882,955	-	11,459,708	-
	Private Placing Swaps	703,000	1,990	653,000	1,901
	Interest rate swaps	31,250	(11,333)	2,010,000	(52,345)
	Total derivatives held for trading	21,500,442	(9,343)	22,964,006	(50,444)
14 (b)	Derivatives held for hedging				
	Interest rate swaps	6,086,000	(415,122)	4,346,000	(249,881)
	Total derivatives held for hedging	6,086,000	(415,122)	4,346,000	(249,881)
	Total derivatives	27,586,442	(424,465)	27,310,006	(300,325)

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The following table represents the underlying principal and replacement costs of the bank's derivatives as at 31 March 2010.

31 March 2010	Within one year €'000	Over one year €'000	Total €'000
<b>Underlying Principal Amount</b>			
Interest Rate Contracts	20,816,192	6,770,250	27,586,442
<b>Replacement Costs</b>			
Interest Rate Contracts	2,291	424,164	426,455

The following table represents the underlying principal and replacement costs of the bank's derivatives as at 31 March 2009.

31 March 2009	Within one year €'000	Over one year €'000	Total €'000
<b>Underlying Principal Amount</b>			
Interest Rate Contracts	22,301,006	5,009,000	27,310,006
<b>Replacement Costs</b>			
Interest Rate Contracts	51,453	250,773	302,226

The above interest rate contracts are all held with financial counterparties.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**15 DEPOSITS BY BANKS**

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
<b>Deposits by Banks</b>	22,704,218	21,663,432
	=====	=====
<b>Deposits by remaining maturity</b>		
Repayable on demand	22,433	32,493
3 months or less	20,390,311	21,630,939
1 year or less but over 3 months	690,380	-
5 years or less but over 1 year	1,463,064	-
Greater than 5 years	138,030	-
	-----	-----
Due to the Governor & Company of the Bank of Ireland	22,704,218	21,663,432
	=====	=====

**16 DEBT SECURITIES IN ISSUE**

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
<b>Bonds and medium term notes by remaining maturity</b>		
3 months or less	3,500,000	3,000,000
1 year or less but over 3 months	102,463	2,026,696
5 years or less but over 1 year	6,414,191	6,068,821
Greater than 5 years	2,404,533	2,275,264
	-----	-----
	12,421,187	13,370,781
	=====	=====

**Notes**

Bank of Ireland Mortgage Bank is a directly, wholly-owned, subsidiary of the Governor & Company of the Bank of Ireland, holds a banking licence and is a designated mortgage credit institution within the meaning of the Asset Covered Securities Act, 2001 to 2007 (the "Acts"). The Acts provide, among other things, for the registration of eligible credit institutions as designated mortgage credit institutions, the maintenance by designated mortgage credit institutions of a defined pool of prescribed mortgage credit assets and limited classes of other assets, known as a cover assets pool (Pool) and the issuance by designated mortgage credit institutions of certain asset covered securities secured by a statutory preference under the Acts on the assets (Cover Assets) comprised in the Pool. Asset covered securities issued by Institutions in accordance with the Acts are called mortgage covered securities (Mortgage Covered Securities). The value of the pool including mortgage assets and cash at 31 March 2010 securing these assets was €12.9 billion (31 March 2009: €12.7 billion) As at 31 March 2010 there are no mortgage credit assets secured on commercial property in Bank of Ireland Mortgage Bank (31 March 2009: Nil).

In accordance with the Acts, see the required disclosures set out in tables 16 (a) – 16(g) below.

The Bank's first issue of mortgage covered securities was for €2 billion in September 2004, maturing in September 2009. This was a standalone issue and was not an issue of Securities under the mortgage covered securities programme established by the Bank in May 2005 (the **Original Programme**). In June 2005, the Bank returned to the market with a second issue of €2 billion of mortgage covered securities with a ten year maturity. In July 2006, the Bank returned to the market with a third issue for €2 billion with a seven-year maturity. In the 12 months to 31 December 2006 the Bank also completed €393 million in private placement transactions with maturities ranging from

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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five to ten years. In January and March 2008 the Bank executed two private placement transactions for €50 million and €500 million respectively.

In the financial year to 31 March 2009, the Bank completed €3.1 billion in transactions comprising of €675 million in private placements, €31 million in registered private placements and €2.4 billion contingent liquidity transactions. Of the €2.4 billion transactions with Bank of Ireland, €1 billion was issued in September 2008 under the €10 billion ACS programme and €1.4 billion under a new €3 billion Mortgage Covered securities programme launched 13 March 2009.

In the financial year to 31 March 2010, the Bank completed €3.8 billion in funding transactions comprising of €1.5 billion public transaction with a five year maturity, €196 million in private placements, €55 million in registered private placements and €2 billion in transactions with its parent Bank of Ireland. During the year there were €5.3 billion in maturities. This brings the total mortgage covered securities in issue as at 31 March 2010 to €8.5 billion.

The mortgage-covered securities are shown on the balance sheet net of issue costs and expenses incurred in connection with their issue and the basis adjustment relating to the fair value hedges.

The Bank can raise funds from the Central Bank and Financial Services Authority of Ireland (“CBFSAI”) under the Mortgage Backed Promissory Note Programme (MBPNP) entered into. Obligations under the programme are secured by way of a first floating charge to the CBFSAI over all its right, title, interest and benefit of loans and advances to customers. The Bank has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets without the prior written consent of the CBFSAI. The deed of floating charge was executed by the Bank of Ireland Mortgage Bank and dated 5 July 2004 in favour of the CBFSAI. The mortgages in the MBPNP are secured by a floating charge over Irish Residential Mortgage Credit Assets, which are not in the covered assets pool. At 31 March 2010 there was €3.5bn worth of other debt securities pledged to Central Bank (31 March 2009: €3bn).

**16(a) Mortgage Accounts & Principal Outstanding in the Mortgage Covered Pool as at 31 March 2010**

<b>From Range</b>	<b>To Range</b>	<b>Number of Accounts 2010</b>	<b>Total Balances of Accounts (1) 2010</b>	<b>Number of Accounts 2009</b>	<b>Total Balances of Accounts (1) 2009</b>
<b>€'000</b>	<b>€'000</b>		<b>€'000</b>		<b>€'000</b>
0	100	31,367	1,465,565	30,908	1,491,100
100	200	21,814	3,222,035	22,587	3,352,134
200	500	17,527	4,929,440	18,527	5,222,202
Over 500		1,617	1,286,064	1,777	1,418,007
		-----	-----	-----	-----
		72,325	10,903,104	73,799	11,483,443
		=====	=====	=====	=====

- (1) The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the pool as at 31 March 2010 and 31 March 2009 respectively.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**16 DEBT SECURITIES IN ISSUE continued**

**16(b) Geographical Location and Details for the Pool as at 31 March 2010**

<b>Geographical Area</b>	<b>% of Over all Properties</b>	<b>Number of Accounts (2) *</b>	<b>Number of Properties</b>
Dublin	22%	16,054	13,647
Outside Dublin	78%	56,271	48,891
	-----	-----	-----
	100%	72,325	62,538
	=====	=====	=====

(2) The number of accounts represents the cumulative number of mortgage accounts held in the pool, as at 31 March 2010 and 31 March 2009 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 as at 31 March 2010 and for comparatives as at 31 March 2009.

**Geographical Location and Details for the Pool 31 March 2009**

<b>Geographical Area</b>	<b>% of Over all Properties</b>	<b>Number of Accounts (2) *</b>	<b>Number of Properties</b>
Dublin	22%	16,287	13,916
Outside Dublin	78%	57,512	50,160
	-----	-----	-----
	100%	73,799	64,076
	=====	=====	=====

**16(c) Pool Accounts in Default as at 31 March 2010**

As at 31 March 2010 there were 195 accounts (31 March 2009: 98 accounts) in default (the term default is defined as relating to mortgage accounts that are in arrears exceeding 3 months). The cumulative current balance on these accounts was €33,153,346 with an arrears amount of €575,119 as at 31 March 2010 (31 March 2009: cumulative balance was €24,118,877 with arrears of €566,261).

**16(d) Pool Accounts in Default with Arrears >€1,000 as at 31 March 2010**

During the year ended 31 March 2010 there were 1,278 accounts (31 March 2009: 585 accounts) which had been in default with arrears of more than €1,000. The cumulative current balance on these accounts was €288,464,702 with an arrears amount of €4,821,324 (31 March 2009: €130,995,751 with an arrears amount of €3,222,439). As at 31 March 2010 there were 150 accounts with arrears in excess of €1,000. The cumulative current balance on these accounts was €30,852,569 with an arrears balance of €545,893. As at 31 March 2009, 82 of the accounts in default had arrears of more than €1,000 on them. The cumulative balance on these accounts in arrears of over €1,000 was €23,262,600 with an arrears amount of €554,829 as at 31 March 2009.

**16(e & f) Replacement of Non Performing Assets in the Pool**

During the year ended 31 March 2010, 1,352 accounts (31 March 2009: 554 accounts) that were non-performing (the term non performing is defined as relating to mortgage accounts that are in arrears exceeding 3 months) were replaced with other mortgage credit assets. The total amount in arrears in respect of mortgage assets that had not been written off as at 31 March 2010 was €575,119 (31 March 2009: €566,261).

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**16(g) Total Mortgage Principal and Interest Repayments on Pooled Accounts by customers for year ended 31 March 2009**

For the year ended 31 March 2010 the total amount of interest and capital repaid in respect of mortgage credit assets was €308,786,519 and €585,149,044 respectively (31 March 2009: €460,931,529 and €759,204,081) respectively

**17 OTHER LIABILITIES**

	Note	2010 €'000	2009 €'000
Amounts due to the Governor & Company of the Bank of Ireland		111,185	18,940
Other Liabilities		6,586	-
Deferred Tax	13 (a)	-	160
		-----	-----
		117,771	19,100
		=====	=====

**18 SUBORDINATED LIABILITIES**

On 2 July 2004 Bank of Ireland Mortgage Bank availed of a €162 million interest bearing subordinated loan from its parent the Governor & Company of the Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is linked to the three-month euribor rate plus a margin of 85 basis points and it reprices quarterly. The loan matures on 4 July 2014.

On 30 June 2005 Bank of Ireland Mortgage Bank availed of a further €80 million interest bearing subordinated loan from its parent the Governor & Company of the Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is linked to the three-month euribor rate plus a margin of 30 basis points and it reprices quarterly. The loan matures on 2 July 2015.

On 11 February 2008 Bank of Ireland Mortgage Bank availed of a further €70 million interest bearing subordinated loan from its parent the Governor & Company of the Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is linked to the three-month euribor rate plus a margin of 75 basis points (125 basis points from 11 February 2013) and it reprices quarterly. The loan matures on 13 February 2018.

This brings the total to €313 million (31 March 2009: €313 million), €312 million being the loan balance and €0.5 million accrued interest at the 31 March 2010 (31 March 2009: €312 million loan balance and €1.4 million accrued interest).

**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

<b>19 SHARE CAPITAL</b>		<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
<b>Authorised</b>			
1,000m units of €1.00 of Ordinary Shares		1,000,000	1,000,000
		-----	-----
		1,000,000	1,000,000
		=====	=====
<b>Allotted and fully paid</b>			
		<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
Equity			
624m units of €1.00 of Ordinary Shares (2009: 624m units of €1.00 of Ordinary Shares)		624,000	624,000
		-----	-----
		624,000	624,000
		=====	=====
Share capital issued during the financial year to 31 March 2010 amounted to € Nil (31 March 2009: € Nil). All units of Ordinary Shares in issue carry the same voting rights.			
<b>20 RESERVES</b>		<b>2010</b>	<b>2009</b>
	<b>Notes</b>	<b>€'000</b>	<b>€'000</b>
<b>Profit and loss account</b>			
Opening balance		168,867	139,036
(Loss)/Profit for the period		(54,633)	29,831
Dividend paid	21	(20,000)	-
		-----	-----
Closing balance		94,234	168,867
		=====	=====
<b>21 DIVIDEND</b>		<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
Dividend Paid		20,000	-
		=====	=====

A dividend of €20 million or €0.0320512 per ordinary share in issue was paid during the year to 31 March 2010 to the Bank's parent, the Governor & Company of the Bank of Ireland. There were no dividends paid or proposed in the year ended 31 March 2009.



**BANK OF IRELAND MORTGAGE BANK**  
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**ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE**  
**22 (iv) BALANCE SHEET**

	<b>Cash</b>	<b>Loans and advances to / from Banks on demand</b>	<b>Total Cash</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>2010</b>			
At 1 April 2009	-	(15,611)	(15,611)
Cash Flow	-	4,200	4,200
At 31 March 2010	-	(11,411)	(11,411)
<b>2009</b>			
At 1 April 2008	-	(24,502)	(24,502)
Cash Flow	-	8,891	8,891
At 31 March 2009	-	(15,611)	(15,611)

**23 SEGMENTAL INFORMATION**

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

**24 PENSION COSTS**

Bank of Ireland Mortgage Bank is a minority participating employer in the ICS Building Society Pension Plan. The scheme is a defined benefit scheme based on final pensionable pay and operated for eligible employees of ICS Building Society and the Bank.

An independent actuary, on the basis of triennial actuarial reviews, determines the Banks contributions to the ICS scheme. The most recent full actuarial valuations were performed at 1 January 2007. With effect from 1 October 2007 the Bank is contributing to the ICS Plan at a rate of 22.6% of pensionable salaries. The deficit on the scheme as at 31 December 2009 amounted to €12.8 million (31 December 2008: €14.6million).

Whilst the scheme is a defined benefit scheme the Bank is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis due to the fact that it is a minority participating employer, hence it is treated as a defined contribution scheme (rather than a defined benefit scheme) in the accounts of the Bank.

Contributions on behalf of the Bank's employees amounted to €69,743 for the year ended 31 March 2010(31 March 2009: €74,535). There were no outstanding amounts to be paid to the scheme at 31 March 2010 by the Bank (31 March 2009: Nil).

**25 RISK MANAGEMENT AND CONTROL**

**Financial Risk Management**

The Board of Directors approves policies and limits with respect to credit risk, market risk, liquidity risk and operational risk. The Head of Credit and Risk Management has overall responsibility for credit policy implementation and the Senior Finance Business Partner has overall responsibility for financial risk policy implementation. The Treasury Unit has responsibility for day-to-day monitoring of market and liquidity risks. The Compliance and Operational Risk Unit has responsibility for operational risk policy and controls. The Bank's risk management and control policies comply with Bank of Ireland Group risk management policies, which includes reviews on a regular basis. In addition, Bank of Ireland Group control functions

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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(e.g. Credit, Group Internal Audit, etc) independently review compliance with the Bank of Ireland Group policies as part of their ongoing work in the Bank. The general scheme of risk management, financial and operational controls is designed to safeguard the Bank's assets while allowing sufficient operational freedom to earn a satisfactory surplus of income over expenditure.

**Credit Risk**

The Bank takes on exposure to credit risk, which is the risk that a counterparty can cause a financial loss for the Bank by failing to discharge an obligation. Credit Risk is one of the main types of risk to which the Bank's business is exposed, and is managed accordingly. Apart from exposures to entities within the Bank of Ireland 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 of Directors, and the Bank of Ireland Group Risk Policy Committee (GRPC).

**Structure and Organisation of the Credit Risk Management Function**

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

The Credit Risk function within the Bank is a key function within the business responsible for proposing credit policy to the Board and the management and safety of lending in accordance with approved policies. Underwriting and Credit Management/Collections activities are centralised and performance in this area is measured in relation to credit quality and operational efficiency.

Lending officers are allocated lending limits according to credit competence, proven judgment, 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 ratings is automatic through the use of risk rating models appropriate to the facilities at time of application and monthly thereafter based on account performance. Performance monitoring and management of all risk rating models is undertaken by the Credit Risk Function.

In addition, an independent control unit within Bank of Ireland Group Internal Audit undertakes periodic reviews of the appropriateness of the risk rating models that are used within the business and evaluates whether the models are 'fit for purpose' and are IRB (Internal Rating Based) compliant under Basel II requirements.

Bank of Ireland Group Credit Review undertakes periodic reviews of the quality and management of credit risk assets across the Group, including the Bank, and plays a key role in reviewing the Bank's adherence to policy, processes and procedures.

**Management of Credit Risk**

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, and to geographical and other segments. Such risks are monitored appropriately.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet repayment obligations. Renegotiation of facilities that would otherwise be past due or impaired in the financial year is considered in certain circumstances.

**Measurement of Credit Risk**

In measuring credit risk of Loans and Advances to customers, the Bank considers three components:

- the "probability of default" (PD) by the client
- current exposures 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.

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**BANK OF IRELAND MORTGAGE BANK**

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The Bank assesses the Probability of Default of borrowers using internal rating tools tailored to the various product categories. 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 incurred is acceptable to the Bank.

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

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

Loan loss provisioning or impairment allowances required under FRS 26 are based on losses that have been incurred at the balance sheet date (the “incurred loss model”).

### **Credit Risk Mitigation & Collateral**

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these are careful 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.

Security for each account in the Bank’s mortgage portfolio consists of a first legal charge over residential real estate with supporting life and fire cover as appropriate. A dedicated team is responsible for the receipt and maintenance of security within the Bank.

The Bank’s requirements around completion, valuation and management requirements for collateral/security are set out in appropriate policies and procedures. The Bank’s credit risk mitigation 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.

### **Impairment Criteria and Provisions**

Impairment provisions are recognised for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the balance sheet at the year-end is driven by internal rating grades, with a significant portion arising from higher risk business. In addition, impaired accounts at higher risk ratings are individually assessed for provisions by evaluating the incurred loss at balance sheet date. The assessment takes account of collateral held (including a reassessment of its enforceability) and anticipated repayments for each such account.

Mortgages are considered past due where a contracted payment of principal or interest is 1 or more days past due. Mortgages are considered impaired when they are past due and where full recovery of the account is significantly in doubt. Examples of situations in which full recovery could be in doubt would be, cash flow difficulties experienced by the borrower, the initiation of bankruptcy proceedings or the degree of borrower co-operation.

Collectively assessed impairment allowances are provided for in two instances through assessment of available historical evidence adjusted for current conditions, using experienced judgement and statistical techniques. Firstly, for accounts which, although in default are not deemed individually significant or have lower risk ratings. Secondly, for the remainder of the book where losses have been incurred but have not yet been identified.

See details of the carrying value of these provisions in note 12.

**BANK OF IRELAND MORTGAGE BANK**  
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**Maximum Exposure to credit risk before collateral held or other credit enhancements**

	<b>Maximum Exposure</b>	
	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Loans and advances to banks	15,008,004	15,348,456
Loans and advances to customers	20,731,238	20,415,308
Derivative financial instruments	426,455	302,226
Commitments	964,616	1,215,887
<b>Total</b>	<b>37,130,313</b>	<b>37,281,877</b>

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

In the table above, the 'Loans and advances to Customers' relate to residential mortgages. The loans and advances to banks and Derivative financial instruments relate to Bank of Ireland Group entities.

**Loans and Advances**

Loans and Advances to Banks (note 10) and Loans and Advances to Customers (note 11) are the main classes of financial assets that the Bank is exposed to from a credit risk perspective. The tables below provide further details in relation to loans and advances.

**Loans and Advances to Customers**

(i) Loans and advances neither impaired nor past due

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Good Quality	19,404,949	19,553,967

Loans and advances are deemed to be 'Good Quality' if the accounts do not have any amount outstanding as arrears.

(ii) Loans and advances past due but not impaired

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Past due 1 - 30 days	314,201	264,731
Past due 31 - 60 days	177,799	159,371
Past due 61- 90 days	115,463	84,853
Past due greater than 90 days	530,882	295,909
<b>Total</b>	<b>1,138,345</b>	<b>804,864</b>

Loans and advances where balances are in arrears are not considered impaired unless information is available to suggest that the Bank is likely to incur a loss. This decision is determined by such factors as the financial circumstances of the borrower and an assessment of their ability to address the arrears.

(iii) Loans and advances impaired balances.

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Impaired balances	359,472	117,854

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Arrears on impaired loans as a % of the impaired balances amounts to 4.55% (31 March 2009: 4.02%). Total provisions as a percentage of impaired balances amounts to 59.76% (31 March 2009: 52.11%). The level of accounts falling into arrears is increasing and is actively being managed by the Collections Department.

**Loans and Advances to Banks**

For both 31 March 2010 and 2009, all loans to credit institutions were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland Group entities.

**Derivative Financial Instruments**

Derivative contracts are only entered into with reputable counterparties who have been approved by the Board of Directors in conjunction with recommendations by the Bank of Ireland Group Risk Policy Committee. There are no amounts past due or impaired as at 31 March 2010 (31 March 2009: Nil).

**Repossessed Collateral**

As at 31 March 2010, the Bank had 19 properties in repossession (31 March 2009: 3 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Residential Mortgages	2,968	517

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

(i) Geographical sectors

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

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Loans and Advances to Customers		
- Dublin	6,607,075	6,511,097
- Rest of Ireland	14,124,163	13,904,211
<b>Total</b>	<b>20,731,238</b>	<b>20,415,308</b>

The counterparty for Loans and advances to banks and Derivative financial instruments is Bank of Ireland Governor & Company, which has its head office in Dublin.

(ii) Industry Sectors

The industry of our counterparty for Loans and advances to Credit Institutions and Derivative Financial Instruments is Financial. Loans and advances to customers is all categorised as Personal (residential mortgages).

**Financial Assets Renegotiated**

The Bank has Financial Assets Renegotiated that would otherwise be past due or impaired as follows:

	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
Residential Mortgages	589,381	92,920

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**Market Risk**

Market risk is the potential adverse change in earnings or the value of net worth arising from movements in interest rates, exchange rates or other market prices. The management of market risk in the Bank is governed by Bank of Ireland Group policy, approved by the Group's Court of Directors and the Group Risk Policy Committee (GRPC). It is a policy requirement that interest rate basis risk arising from customer-facing businesses such as the Bank is transferred, by way of internal economic hedging arrangements, to Bank of Ireland Global Markets (BOIGM). The Board of Directors of the Bank has approved the adoption of the Group's policy on market risk and the Bank complies with this policy.

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 strategy operates within limits set by the Board of Directors. The Bank's interest rate risk strategy incorporates the policies of Bank of Ireland Group. The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

Market risk in the Bank arises on both sides of the balance sheet – on the asset side of the balance sheet through fixed-rate lending and on the liability side of the balance sheet through the issue of fixed rate Asset Covered Securities. The proceeds from the issue of securities are placed on deposit with the Governor and Company of Bank of Ireland.

At 31 March 2010, the Bank had €3.5 billion of fixed-rate lending, where the rate is typically fixed for periods of 1 to 3 years (31 March 2009: €4.8 billion). At 31 March 2010 the Bank had €8.5 billion in issued Asset Covered Securities, where the rate is typically fixed for periods of 5 years or more (31 March 2009: €10 billion).

The Bank does not enter into any trading positions and has no material sensitivity to changes in interest rates. The interest rate exposure of the Bank relating to its Irish residential lending denominated in euro is managed using two macro interest rate swaps with Bank of Ireland Global Markets, one of which, the Pool Interest Rate Contract, relates only to the Pool of Mortgage Covered Securities issued by the Bank and the other, the Non-Pool Interest Rate Contract, relates only to Irish residential loans denominated in euro which are not included in the Pool. These macro interest rate swaps are deemed traded derivatives (see note 14) and do not qualify for hedge accounting.

In the case of the Pool Interest Rate Contract, this is a cover assets hedge contract for the purposes of the Asset Covered Securities Act, 2001 to 2007. Under the Pool Interest Rate Contract, on a monthly basis BOIGM pays to Bank of Ireland Global Markets an amount related to a weighted average basket interest rate, determined by reference to interest rates payable on the residential loans held by BOIGM and which are included in the Pool on the relevant date, on a notional amount equal to the principal amount outstanding of those loans on the relevant date. In return on a monthly basis, Bank of Ireland Global Markets pays to the Bank interest on that notional amount at one month EURIBOR plus an amount related to the composite margin on the underlying mortgage loans. The non-pool interest rate contract is structured and operates on a similar basis to the pool interest rate contract.

With respect to Mortgage Covered Securities, Bank of Ireland Global Markets pays under that cover assets hedge contract an amount related to the fixed interest rate payable on the relevant Mortgage Covered Securities on a notional amount equal to the principal amount outstanding of the relevant Mortgage Covered Securities and on a semi-annual or quarterly basis the Bank pays to Bank of Ireland Global Markets an amount related to six month or three month EURIBOR (whichever is relevant) on that notional amount.

The Bank enters into these interest rate swaps to hedge the interest rate exposure on its fixed rate Mortgage Covered Securities in issue. These swaps and related fixed rate Mortgage Covered Securities qualify for hedge fair value accounting treatment. The nominal value of these swaps is €6 billion (31 March 2009: €4 billion) is set out in Note 14.

During the year, one of the interest rate swaps held for hedging was reclassified to held for trading as it failed hedge effectiveness testing.

The Bank measures its interest rate risk in terms of the sensitivity of its assets and liabilities, in NPV (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. At the end of March 2010, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €32,635 (31 March 2009: €1,651), with an average of €45,567 for the year (31 March 2009: €5407).

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**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 a credit institution will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity distress is almost invariably associated with a severe deterioration in financial performance, but it can also result from unexpected adverse events or systematic difficulties. The Bank has in place a risk management framework to manage that risk.

The Bank's Board of Directors has approved a funding policy for the business that permits funding via the use of asset covered securities, residential Mortgage Backed Promissory Note programmes and borrowing from the Bank of Ireland Group. Changes to the funding policy require the prior approval of the Board of Directors of the Bank and must be in compliance with the Bank of Ireland Group policy.

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 revenue expenditure. The day-to-day management of liquidity is the responsibility of a dedicated team within the Bank.

Limits on potential cashflow mismatches over defined time horizons are the principal basis of liquidity control. The cashflow mismatch methodology involves estimating the net volume of funds, which must be refinanced in particular time periods, taking account of the value of assets that could be liquidated during these periods.

The Bank uses a cashflow liquidity reporting tool which provides daily liquidity risk information by designated cashflow buckets to management. The system captures the cashflows from both balance sheet and off-balance sheet transactions. In the case of specific products such as mortgage repayments and off-balance sheet commitments the Bank applies behavioural adjustments to reflect the Bank's experience of these cashflows based on historical trends. These adjustments are subject to review.

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

The Bank meets its day to day residual funding requirements through borrowing facilities in place with Bank of Ireland Global Markets. While the Bank raises a significant level of its funding from the Bank of Ireland Group, the strength of the Bank's balance sheet gives it the capability to fund outside the Bank of Ireland Group if required.

The tables below analyse liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. In line with the requirements of FRS 29, the liabilities table below show principal balances and undiscounted interest cashflows over the life of the liabilities and so the totals will not agree directly to the balance sheet. It excludes non cash items such as fair value adjustments.

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**31 March 2010:**

<b>Liabilities</b>	<b>Demand €'000</b>	<b>Within 3 months €'000</b>	<b>After 3 months but within 1 year €'000</b>	<b>After 1 year but within 5 years €'000</b>	<b>After 5 years €'000</b>	<b>Total €'000</b>
Deposits by Banks	22,433	20,396,142	703,871	1,565,457	179,489	22,867,392
Debt Securities in Issue	-	3,633,062	173,613	6,699,783	2,465,664	12,972,122
Subordinated Debt	-	1,359	2,485	174,816	153,984	332,644
Committed Facilities	964,616	-	-	-	-	964,616
<b>Total Liabilities</b>	<b>987,049</b>	<b>24,030,563</b>	<b>879,969</b>	<b>8,440,056</b>	<b>2,799,137</b>	<b>37,136,774</b>

**31 March 2009:**

<b>Liabilities</b>	<b>Demand €'000</b>	<b>Within 3 months €'000</b>	<b>After 3 months but within 1 year €'000</b>	<b>After 1 year but within 5 years €'000</b>	<b>After 5 years €'000</b>	<b>Total €'000</b>
Deposits by Banks	32,493	21,632,494	-	-	-	21,664,987
Debt Securities in Issue	-	3,094,038	2,202,739	6,565,404	2,355,997	14,218,178
Subordinated Debt	-	2,153	4,532	24,523	322,291	353,499
Committed Facilities	1,215,887	-	-	-	-	1,215,887
<b>Total Liabilities</b>	<b>1,248,380</b>	<b>24,728,685</b>	<b>2,207,271</b>	<b>6,589,927</b>	<b>2,678,288</b>	<b>37,452,551</b>

Cash arising on the issue of debt securities is placed on deposit with the Governor and Company of Bank of Ireland on terms similar to the terms of the securities. Hence the debt securities in issue cashflows above will be offset by cashflows arising on these deposits. Deposits by banks represent intergroup funding provided by the Bank's parent.

The tables below analyse cashflows on derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Cashflows associated with derivatives are undiscounted cashflows 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.

**31 March 2010**

	<b>Within 3 months €'000</b>	<b>After 3 months but within 1 year €'000</b>	<b>After 1 year but within 5 years €'000</b>	<b>After 5 years €'000</b>	<b>Total €'000</b>
Net cash inflows / (outflows) on derivative financial instruments	(194)	(728)	(1,099)	(16)	(2,037)

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**31 March 2009**

	<b>Within 3 months €'000</b>	<b>After 3 months but within 1 year €'000</b>	<b>After 1 year but within 5 years €'000</b>	<b>After 5 years €'000</b>	<b>Total €'000</b>
Net cash inflows / (outflows) on derivative financial instruments	(188)	(588)	(1,217)	(45)	(2,038)

**Operational Risk**

Operational risk is the risk that human error, systems failure, and inadequate controls and procedures will result in unexpected loss. 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 Bank of Ireland Group. The Bank manages operational risk through accountable executives monitored by the Compliance and Operational Risk Unit and the Bank's Audit Committee. In addition, there is oversight by the Bank of Ireland Group Operational Risk Committee, supported by the Group Operational Risk function. Potential risk exposures are assessed on a regular basis and appropriate controls are put in place or adapted as considered necessary. Recognising that operational risk cannot be entirely eliminated the Bank implements risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms such as insurance, where appropriate.

**Regulatory Risk**

Regulatory risk arises from a failure to comply with the laws, regulations or codes applicable to the Irish financial services industry. Non-compliance would have adverse reputational implications and could lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Regulatory risk and compliance risk in the Bank is managed in accordance with Bank of Ireland Group policy which has been adopted by the Board of the Bank. 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 each manager in 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 of Directors and separately to the Bank of Ireland Group Regulatory and Operational Risk function.

**Capital Management**

The objectives of the Bank's capital management policy are to:

- to align capital management within the Bank to the strategy of the Bank and that of the Bank of Ireland Group;
- to achieve the optimal mix of capital to meet the Bank's regulatory requirements and rating ambitions; and
- to ensure that capital is invested in businesses which deliver adequate returns.

The Bank, in managing its capital, uses as its basis, the capital adequacy requirements set by the Financial Regulator in Ireland which reflect the requirements as set out in the EU Capital Requirements Directive and its preceding directives. It seeks to maintain sufficient capital to ensure that even under stressed conditions these requirements are not breached.

The Bank's capital includes the Bank's shareholders' funds (subject to regulatory adjustments) together with dated subordinated debt. Regulatory capital requirements are determined by risk asset levels.

The Bank meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the Financial Regulator.

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

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During 2009/10, the Bank complied with all externally required capital requirements.

**26 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The following table represents the carrying amount and the fair value financial assets and liabilities of the Bank as at 31 March 2010.

		<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>
		<b>March</b>	<b>March</b>	<b>March</b>	<b>March</b>
		<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
		<b>Amount</b>	<b>Values</b>	<b>Amount</b>	<b>Values</b>
		<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Assets</b>					
Loans and advances to banks	(1)	15,008,004	15,328,577	15,348,346	15,726,216
Loans and advances to customers	(2)	20,829,572	20,065,965	20,504,800	19,705,661
Derivative financial instruments	(5)	426,455	426,455	302,226	302,226
<b>Liabilities</b>					
Deposits by banks	(3)	22,704,218	22,704,218	21,663,432	21,663,432
Debt securities in issue	(4)	12,421,187	12,083,542	13,370,781	12,667,313
Derivative financial instruments	(5)	1,990	1,990	1,901	1,901

There are no material differences between the fair value and the carrying value of the other assets and liabilities shown on the balance sheet. The following notes summarise the methods and assumptions used in estimating the fair values of financial instruments shown above,

(1) Loans and Advances to Banks

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

The Bank provides lending facilities of varying rates and maturities to corporate and personal customers. Several different techniques are employed as considered appropriate in estimating the fair value of loans and advances. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type. Each loan category is further segmented into fixed and variable rate interest terms. The carrying amount of variable rate loans was considered to be at market rate if there was no significant change in the credit risk of the borrower. The fair value of fixed rate loans is estimated by discounting future cash flows using market rates for similar loans with the same residual maturities, offered by the Bank.

(3) Deposits by Banks

The carrying amount of variable rate loans is considered to be at market value.

(4) Debt Securities in issue

The carrying value of short-term debt securities in issue approximate to their fair values. Fair values of other debt securities in issue are based on quoted market prices where available, otherwise by discounting anticipated cash flows. Included in the carrying value of debt securities in issue is interest payable to the bond holders.

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**BANK OF IRELAND MORTGAGE BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**

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(5) Derivative financial instruments

The carrying value and fair value of interest rate contracts represents amounts accrued and their clean fair value at the balance sheet date. The fair value is based on the discounted future cashflows of these contracts.

**Fair Value Hierarchy**

The table below shows, for the Bank's financial assets and liabilities as at 31 March 2010 that are recognised and subsequently measured in the balance sheet at fair value only, their classification within the valuation hierarchy:

**31 March 2010**

Fair value hierarchy	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
<b>Financial assets held at fair value</b>				
Derivative financial instruments	-	426,455	-	426,455
	-	<b>426,455</b>	-	<b>426,455</b>
<b>Financial liabilities held at fair value</b>				
Derivative financial instruments	-	(1,990)	-	(1,990)
	-	<b>(1,990)</b>	-	<b>(1,990)</b>

The table below shows, for the Bank's financial assets and liabilities as at 31 March 2009 that are recognised and subsequently measured in the balance sheet at fair value only, their classification within the valuation hierarchy:

**31 March 2009**

Fair value hierarchy	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
<b>Financial assets held at fair value</b>				
Derivative financial instruments	-	302,226	-	302,226
	-	<b>302,226</b>	-	<b>302,226</b>
<b>Financial liabilities held at fair value</b>				
Derivative financial instruments	-	(1,901)	-	(1,901)
	-	<b>(1,901)</b>	-	<b>(1,901)</b>

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data.

Level 3 comprises financial assets and liabilities valued using techniques using 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.

**27 COMMITMENTS**

At 31 March 2010 the Bank had €965 million of approved mortgage loan applications that as at the year end had not drawn down. Undrawn mortgage loan applications at 31 March 2009 calculated on an equivalent basis were €1,216 million.

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**28 RELATED PARTY TRANSACTIONS**

The Bank's immediate and ultimate parent undertaking is the Governor and Company of Bank of Ireland, a company incorporated by charter in Ireland. Group accounts are available at Bank of Ireland, Head Office, Lower Baggot Street, and Dublin 2.\*

\* The Bank of Ireland Group intends to move its Head Office from Lower Baggot Street, Dublin 2 to 40 Mespil Road, Dublin 2 on 1 July 2010.

**Related Party Transactions – Transactions with Key Management Personnel**

The following information is presented in accordance with the Companies Act 1990 (as amended by the Companies Amendment Act 2009).

(a) For the purposes of the Companies Act disclosures, directors are the Board of Directors of Bank of Ireland Mortgage Bank and any past directors who were directors during the relevant period. For the purposes of FRS8 Related Party Disclosures, "key management personnel" (KMP) comprises the Directors of Bank of Ireland Mortgage Bank and key management personnel (Head of Credit). Key management personnel also comprises KMPs of the parent company, Bank of Ireland.

(b) Irish Government

The Irish Government, through both the Bank's participation in the Government Guarantee Schemes and the recapitalisation of the Bank of Ireland Group through the National Pension Reserve Fund Commission (NPRFC) became a related party of the Bank. For further details on Guarantee Scheme see note 29.

On 22 February 2010 ordinary stock was issued by Bank of Ireland to the NPRFC.

Although there are other arms of the Irish Government with which the Bank of Ireland Group (including Bank of Ireland Mortgage Bank) has a related party relationship, these are not disclosed as they are in the ordinary course of business, were in place prior to the Irish Government becoming a related party and the information is not material on a quantitative or qualitative basis either separately or in aggregate.

Directors' emoluments and details of compensation paid to key management personnel are provided below.

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**Companies Acts Disclosure**

**Loans**

	Balance as at - 1 April 2009 €'000	Balance as at - 31 March 2010 €'000	<sup>1</sup> Aggregate maximum amount outstanding during the 12 months ended 31 March 2010 €'000
<b>Directors</b>			
<b>Richie Boucher</b>			
Mortgage Total	257	228	257
<b>Jonathan Byrne</b>			
Mortgage Total	560	533	560
<b>Brian Kealy</b>			
Mortgage Total	420	411	421
<b>Brendan Nevin</b>			
Mortgage Total	226	214	226
<b>Kevin Twomey</b>			
Mortgage Total	831	801	831
<b>Total</b>	<b>2,294</b>	<b>2,187</b>	<b>2,295</b>

**There are no 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.**

Included in the above figures are loans to directors on terms similar to those available to staff.

The comparative figure for loans has been adjusted from €2.4 million to €2.3 million. The restatement relates to connected persons who are not on preferential terms.

Loans relate to mortgages secured on residential property.

Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, parent, brother, sister, child; a trustee where the beneficiaries of the trust are the director, his spouse, children or a company which the Director controls, or a company controlled by the director or a person in partnership within the meaning of the Partnership Act 1890.

There are no preferential terms, offered to connected persons of the directors of Bank of Ireland Mortgage Bank apart from loans to connected persons, in their own right as employees, entitled to a staff preferential rate. There are loans to connected persons of directors appointed after 11<sup>th</sup> August 2009 that have not been disclosed as they are exempt under the Financial Regulator's Licence Condition dated 11 August 2009.

There are no guarantees or security entered into by Bank of Ireland Mortgage bank in favour of directors of Bank of Ireland Mortgage Bank.

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<sup>1</sup> The maximum amount outstanding was calculated using the highest balance on each account. The single highest maximum outstanding liability during the year ended 31 March 2010 for any key management personnel did not exceed €831,012. While the maximum amounts does not include interest accrued, interest accrued and interest paid is included in the closing balances.

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**NOTES TO THE FINANCIAL STATEMENTS**

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<b>Directors' Remuneration</b>	<b>31 March 2010</b> <b>€'000</b>	<b>31 March 2009</b> <b>€'000</b>
Fees	73	65
Other emoluments <sup>2</sup>	236	200
<b>Total remuneration</b>	<b>309</b>	<b>265</b>

**The following information is prepared in accordance with FRS 8 "Related party disclosures"**

Key management personnel including Directors hold mortgages with Bank of Ireland Mortgage 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 and the number of persons concerned, in respect of all loans, quasi-loans and credit transactions between Bank of Ireland Mortgage Bank and its key management personnel, as defined above, including members of their close families and entities influenced by them together with the disclosure of the year end balances and highest amounts outstanding during the year are shown in the table below.

<b>FRS 8 Disclosure Requirements</b>	<b>Balance as at 1 April 2009</b> <b>€'000</b>	<b>Balance as at 31 March 2010</b> <b>€'000</b>	<b>*Maximum amounts outstanding during the period</b> <b>€'000</b>	<b>Number of Persons as at 1 April 2009</b>	<b>Number of persons as at 31 March 2010</b>
<b>Key Management Personnel</b>					
<b>Loans (Aggregate of all loans of all KMPs) i.e. on normal commercial terms and on preferential terms</b>	4,957	4,519	5,208	16	16

Loans relate to mortgages secured on residential property.

Included in the above FRS8 loan disclosure are loans to key management personnel (other than Directors and Connected Persons already disclosed under the Companies Act disclosure requirements above) on terms similar to those available to staff generally, amounting to €4518,711 (1 April 2009: €4,957,342).

There are no provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon.

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<sup>2</sup> No other fees or bonuses were paid to directors during the year.

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**BANK OF IRELAND MORTGAGE BANK**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**29 GOVERNMENT GUARANTEE SCHEME****Credit Institutions (Financial Support) Scheme 2008**

On 24 October 2008, four of the Bank of Ireland Group's entities elected to participate in the Guarantee Scheme announced by the Irish Government. Under the Scheme the Irish Government has guaranteed relevant deposits and debt securities raised by Irish covered institutions until 29 September 2010. The entities participating are the Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited.

The following are the specific liabilities covered as set out in the Scheme rules:

- All retail and corporate deposits (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction);
- Interbank deposits;
- Senior unsecured debt;
- Covered bonds (including asset covered securities); and
- Dated subordinated debt (Lower Tier 2).

Any intergroup borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations are excluded.

A number of conditions have been imposed on covered institutions under the Government Guarantee Scheme including inter alia, conditions that regulate the commercial conduct of their business, having regard to capital ratios, market share and balance sheet growth. This is in order to minimise any potential competitive distortion that may arise and to avoid any abuse of the guarantee or any use in a manner irreconcilable with the purpose of the guarantee. These conditions are set out in the Scheme.

Covered institutions are subject to particular reporting requirements to enable the Financial Regulator and the Minister for Finance to monitor compliance with the Scheme and the achievement of its purposes.

A quarterly charge is payable to the Irish Government under the scheme. For the Bank of Ireland Mortgage Bank, this amounted to €16 million for the 12 months ended 31 March 2010.

At 31 March 2010, liabilities of €8.4 billion were guaranteed under this scheme.

**Credit Institutions (Eligible Liabilities Guarantee) Scheme**

On 9 December 2009 the Credit Institutions (Eligible Liabilities Guarantee) Scheme (the "ELG Scheme") was introduced. The purpose of the ELG scheme was to update and revise the current bank guarantee under the Credit Institutions (Financial Support) Scheme 2008 (the "2008 Scheme").

The ELG Scheme is subject to ongoing six monthly approval by the European Commission in accordance with EU State aid rules.

Under the ELG Scheme the Minister for Finance of Ireland can guarantee:

- deposits; and
- debt securities.

The following are the types of debt securities that the ELG Scheme covers;

- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and the EU Commission's Banking Communication (2008/C 270/02) and subject to prior consultation with the EU Commission.

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**BANK OF IRELAND MORTGAGE BANK**  
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From the time that a participating institution joins the ELG Scheme, only covered liabilities of that participating institution (as defined in the CIFS Scheme) in existence or contracted for prior to that time will continue to be guaranteed under the CIFS Scheme. All such then-existing covered liabilities will remain guaranteed until 29 September 2010 under the CIFS Scheme. From the time that a participating institution joins the ELG Scheme, any liabilities incurred or contracted for thereafter by that participating institution may be guaranteed under the ELG Scheme only.

A fee is payable to the Minister for Finance in respect of each liability guaranteed under the ELG Scheme.

Participating institutions are also required to indemnify the Minister for Finance for any costs and expenses incurred by the Minister and for any payments made by the Minister under the Scheme which relate to the participating institution's guarantee under the ELG Scheme.

On 11 January 2010, the Bank of Ireland Group became a participating institution under the ELG Scheme.

### **30 NATIONAL ASSET MANAGEMENT AGENCY (NAMA)**

On 7 April 2009, the Minister for Finance announced that NAMA would be established with the purpose of strengthening the Irish financial sector. The NAMA legislation was passed by the Houses of the Oireachtas (parliament of Ireland) on 12 November 2009 and was signed into law by the President of Ireland on 22 November 2009. At an Extraordinary General Court of the Bank of Ireland Group on 12 January 2010, 99.9% of the stockholders present and entitled to vote at the meeting voted in favour of the Bank applying to participate in NAMA and the Bank of Ireland Group's application as a participating institution was approved by the Minister for Finance on 12 February 2010.

Once designated as a Participating Institution, NAMA has the power to acquire from Participating Institutions, Eligible Bank Assets, that is, land and development loans and certain associated loans. The Eligible Bank Assets are expected to be acquired on a phased basis from March 2010, with the largest systemic exposures to the Irish banking system acquired first.

Bank of Ireland Mortgage Bank expects to incur a loss on disposal of the Eligible Bank Assets to NAMA arising from the difference between the fair value of the consideration to be received and the carrying value of the Eligible Bank Assets to be disposed of together with the costs of disposal and any provision that may be required under Accounting Standards due to the ongoing cost of servicing these assets on behalf of NAMA.

The principal determinant of the expected loss on disposal is the difference between the discount (commonly referred to as the "haircut") applied to the original gross Eligible Bank Asset value in arriving at NAMA's valuation and the impairment provisions recorded against the Eligible Bank Assets under Accounting Standards. This discount or haircut to original asset value is calculated on a different basis and using a different methodology to the determination of impairment provisions under accounting standards.

It should be noted that the portfolio of loans to be transferred and actual discount will only be known on completion of the relevant due diligence and valuation exercises to be performed by NAMA on a loan by loan basis and after the transfer of the final tranche of loans to NAMA. Accordingly Bank of Ireland Mortgage Bank is currently unable to accurately quantify either the amount of loans to be transferred or the ultimate expected loss on acquisition of all of its Eligible Bank Assets by NAMA. However, Bank of Ireland Mortgage Bank does not expect the transfer to have a significant effect on its financial position.

### **31 APPROVAL OF THE FINANCIAL STATEMENTS**

The Directors approved these financial statements on 28 May 2010.