BANK OF IRELAND MORTGAGE BANK ANNUAL REPORT

31 December 2011

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors at 28 March 2012

Jonathan Byrne
John Clifford
Neil Corcoran
Paul Flynn
Brian Kealy
Stephen Mason
Brian McConnell
Richard Milliken

Registered Office and number

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

Cover-Assets Monitor

Mazars
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

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the “Bank”), for the year ended 31 December 2011.

The Bank changed its financial year end in 2010 from 31 March to 31 December. This prior period change brought the Bank’s financial calendar in line with its parent company, the Governor & Company of the Bank of Ireland (“Bank of Ireland”). As a consequence, the Bank’s prior period statutory financial statements are reported for the nine month period ended 31 December 2010. The current financial period presented in these financial statements is for the year from 1 January 2011 to 31 December 2011.

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 year ended 31 December 2011 was particularly difficult for the Bank, which continued to be adversely impacted by the ongoing economic downturn. The current economic environment, together with lower disposable incomes, has resulted in subdued demand for lending. The overall Republic of Ireland new mortgage market lending has fallen from €4.5 billion in the 12 months ended 31 December 2010 to just under €2.5 billion in 2011 with the Bank accounting for c.39% of this lending activity. The impairment charges incurred by the Bank remain elevated due to the economic downturn, continued high levels of unemployment and falling disposable incomes leading to increases in mortgage arrears. Wholesale funding markets remained difficult in 2011, particularly for Eurozone banks. While the Bank did not issue any new debt outside of the Bank of Ireland Group, it did issue €5.4 billion of securities to its parent company for use as collateral with the ECB.

Asset Quality:
Loans and advances to customers declined by €370.7 million or 1.8% to €20.2 billion (31 December 2010: €20.6 billion). While the Bank continues to increase its market share of new mortgage lending, overall new business volumes are down due to the continued slowdown in the Irish mortgage market. Mortgages continue to be originated exclusively through the Bank of Ireland branch channel.

Impaired loans increased to €920.6 million at 31 December 2011 from €624.5 million at 31 December 2010. Impairment provisions have increased to €715.3 million at 31 December 2011 from €417.3 million at 31 December 2010. Arrears on impaired loans amounts to 7.2% (31 December 2011: 5.6%) and total provisions as a percentage of impaired balances amounts to 77.7% (31 December 2010: 66.8%). The level of accounts falling into arrears is increasing due to continued high levels of unemployment and lower disposable income.

A range of forbearance strategies are used for customers in arrears or facing potential arrears, in order to arrange, where possible, sustainable mortgage repayments. The Bank has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA) which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process (MARP) for defined owner occupier mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers. In addition, the Bank has set out a clearly defined Mortgages Arrears Resolution Strategy (MARS) incorporating both owner occupier and buy to let mortgages. The strategy adopted by the Bank seeks to minimize loss arising from non repayment of customer mortgages while ensuring that customers are treated fairly and with respect throughout the arrears management and resolution process. Implementation of forbearance solutions occurs on either a temporary or permanent basis to facilitate sustainable repayment plans and is subject to individual case assessment.

Formal temporary forbearance solutions include:

- setting short term revised repayments or short term suspension of repayments, eg. interest only;
- reduced repayment (greater than interest only); and
- term extensions (including servicing interest).

Permanent forbearance solutions for customers in arrears include:

- term extensions;
- capitalisation of arrears is considered where the customer has demonstrated capacity to meet payments in line with their original contracted sum and in circumstances where the customer’s ability to continue to meet repayments following capitalisation is deemed to be sustainable. Repeat capitalisations are restricted; and
- phased step-up repayments over the total contracted term.

Additional potential forbearance options, contained within the recommendations of the Government Inter-Departmental Mortgage Arrears Working Group and in line with our Mortgage Arrears Resolution Strategy, are under consideration.

While the Bank does not have land or development loans, mortgages may be deemed eligible for transfer to NAMA either by virtue of the customer having connected land and development exposure with Bank of Ireland or another bank governed by NAMA legislation. During the year ended 31 December 2011, the Bank transferred €13.8 million of assets to NAMA for a net consideration of €5.5 million in respect of such connected exposures. After taking account of impairment provisions, the loss on disposal incurred by the Bank was €4.0 million. During the year ended 31 December 2011 an additional €3.5 million of consideration was recognised from NAMA after it concluded its due diligence processes on loan tranches transferred in prior periods.

REVIEW OF BUSINESS (continued)

Capital:
€280 million of share capital was issued at an average price per share of €8.00 to the Banks' parent company, Bank of Ireland, during the year. This represented a par value of €35 million (31 December 2010: €20 million) and a share premium of €245 million (31 December 2010: Nil).

At 31 December 2011, the Bank's total capital ratio was 9.30% (31 December 2010: 8.26%) including the impact of transitional capital floors.

The Bank maintains a strong risk management structure and controls framework as described in the notes to the financial statements (see note 27).

Government Guarantee Schemes:
On 24 October 2008, the Bank elected to participate in the Irish Government Guarantee Scheme the "Credit Institutions (Financial Support) scheme". The covered liabilities of participating institutions for the period from 30 September 2008 to 29 September 2010 inclusive were guaranteed under the laws of Ireland by the Minister of Finance. A quarterly charge was payable to the Irish Government under the scheme. The Bank also joined the Government's Eligible Liabilities Guarantee Scheme on 11 January 2010. The Bank has no eligible liabilities under the scheme and therefore has no charge in the financial statement for the year ended 31 December 2011. Further information on both schemes is contained in note 31 to the accounts.

On 21 December 2010, The Credit Institutions (Stabilisation) Act, 2010 ("the Stabilisation Act") was signed into law. The Stabilisation Act provides extensive powers to recapitalise and restructure the Irish banking industry. In exercising these powers, the Minister of Finance can apply to the High Court to seek formal orders and directions which could impose certain onerous requirements on a relevant institution, including the Bank. To date no such orders have been imposed on the Bank or its parent company, Bank of Ireland.

RESULTS

The loss before tax for the year ended 31 December 2011 amounted to €301.6 million, as set out in the profit and loss account on page 13, compared to a loss before tax of €186.4 million for the period 1 April 2010 to 31 December 2010.

Net Interest Income ("NII") decreased to €57.5 million for the year ended 31 December 2011, from €157.6 million for the nine month period ended 31 December 2010. Wholesale funding markets remained difficult in 2011, particularly for Eurozone banks. Heightened concerns regarding European sovereign debt resulted in renewed instability in financial markets which adversely impacted market sentiment, restricted access to wholesale funding markets and lead to elevated wholesale funding costs Consequently, the net interest margin has fallen to 0.13% (for the period 1 April 2010 to 31 December 2010: 0.57%). For the year ended 31 December 2011 a change to the expected life of the mortgage portfolio's cash flows contributed an additional €36.6 million of income.

Fees and commissions expense decreased to €60.3 million for the year ended 31 December 2011, from €75.8 million for the period 1 April 2010 to 31 December 2010. After adjusting for the shorter reporting period, the decrease is primarily due to a reduction in fees payable to ICS Building Society under the terms of the Mortgage Servicing Agreement. This arrangement terminated in October 2011 and the Bank is now dependent on its direct relationship with its parent for the servicing of its mortgage portfolio. In addition to this, charges in relation to Government Guarantee schemes have also reduced as the Bank has not availed of these schemes for the year ended 31 December 2011. This resulted in a nil charge for the year ended 31 December 2011, compared with a charge of €2.1 million for the period 1 April 2010 to 31 December 2010.

After adjusting for the shorter reporting period in the prior year, administrative expenses increased during the year, primarily due to charges from its parent company associated with the provision of outsourced services in respect of managing the mortgage book.

The impairment charge remains elevated at €295.4 million for the year ended 31 December 2011, from €224.7 million for the period 1 April 2010 to 31 December 2010. The impairment charge in the period ended 31 December 2010 included an amount of approximately €80 million to reflect a change in the assumption of expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models of the Bank. The underlying increase in the impairment charge reflects increasing default arrears (90 days past due or more), in the owner occupier and particularly in the buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and continued high unemployment levels.

The Bank enters into derivative transactions for interest rate hedging purposes only. Net trading income reflects hedge ineffectiveness on derivatives to which fair value hedging was originally applied, and interest flows and fair value gains and losses on all other derivatives. For the year ended 31 December 2011 this amounted to a net trading gain of €14.9 million compared to a net trading loss of €5.6 million for the nine month period ended 31 December 2010.

At 31 December 2011 the Bank had a deferred tax asset of €39.5 million (31 December 2010: €18.8 million) relating to a combination of current year trading losses and adjustments required under tax transfer pricing legislation.

SUBORDINATED LIABILITY

On 23 December 2011, the Bank availed of a further €90 million interest bearing subordinated loan from Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The loan rate is based on the three-month EURIBOR rate plus a margin of 11.5% without a step up in margin during its life. The loan matures on 27 December 2021.

FUNDING

The Bank remains funded through a range of sources including asset-backed securities and direct funding from its parent, Bank of Ireland.

During the year ended 31 December 2011, Moody's Investor Services downgraded the long term ratings for the covered bonds issued by the Bank to Baa3. In addition, the Bank no longer seeks a rating for the covered bonds from Standard & Poor's.

The downgrade has impacted the Bank's contingent collateral with the Mortgage Backed Promissory Note programme no longer eligible for use with the European Central Bank ("ECB"). However the Bank utilised during the year the underlying security released to increase availability under the Asset Covered Bond programme which remains eligible with the ECB.

	31 December 2011	31 December 2010
Rating Agency		
Standard & Poor's	-	AA+
Moody's Investor Services	Baa3	A1

At 31 December 2011, the Bank had a €20.2 billion customer loan portfolio funded through the Asset Covered Securities ("ACS") programme €12.6 billion (62%), Capital and subordinated debt €1.0 billion (5%) and net Group borrowings €6.6 billion (33%) Of the €12.6 billion debt securities in issue, €6.0 billion is held by Bank of Ireland. The remaining €6.6 billion is placed with external bondholders with a range of maturities out to 2048.

Full details of debt securities in issue are contained in note 17 to the accounts.

As at 31 December 2011 the Bank has €403.3 million in subordinated loan borrowings from its parent company (31 December 2010: €312.7 million).

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.

DIRECTORS AND SECRETARY

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2011 and up to the date of the approval of the financial statements are set out below. Except where indicated they served as directors for the entire period.

Directors

J Clifford	Non-Executive Chairman	
S Mason	Managing Director	Appointed 13 May 2011
J Byrne	Executive Director	
N Corcoran	Executive Director	Appointed 24 January 2011
M Davis	Independent Non-Executive Director	Resigned 17 January 2011
M Finan	Independent Non-Executive Director	Resigned 11 February 2011
P Flynn	Group Non-Executive Director	
B Kealy	Group Non-Executive Director	
J Martin	Executive Director	Resigned 25 January 2011
B McConnell	Independent Non-Executive Director	Appointed 17 January 2011
M Meagher	Independent Non-Executive Director	Retired 26 May 2011
R Milliken	Independent Non-Executive Director	Appointed 25 January 2011
B Nevin	Managing Director	Resigned 7 March 2011

B Nevin resigned as Managing Director in March 2011 to pursue other interests outside the Group. Effective 13 May 2011, S Mason was appointed as Managing Director of the Company.

DIRECTORS' AND SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office at 31 December 2011, and of their spouses and minor children, in the shares of Bank of Ireland and related Group entities, are disclosed in note 24 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 period. The directors are satisfied that no political donations were made by the Bank during the year.

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE

The statement on Corporate Governance as outlined in the Corporate Governance section on page 10, forms part of the Report of the Directors.

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. In addition other factors such as the Irish economy and the period over which it is likely to recover have a considerable impact on its activities.

In preparing these financial statements the Directors have reviewed these risk factors and 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 provided a letter of comfort in support of the Bank.

Based on the factors above, together with the letter of comfort provided by Bank of Ireland, 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 December 2011.

POST BALANCE SHEET EVENTS

The Bank entered into a framework agreement on 28 February 2012 with the Central Bank of Ireland ("Central Bank") under which the Bank may issue mortgage backed promissory notes to the Central Bank to the value of €2.4 billion against which the Bank has received €615 million in funding. These obligations are secured by way of a first floating charge over all the Banks right, title, interest and benefit, present and future in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security. The deed of floating charge ("Deed of Charge") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the Central Bank, the Bank shall:

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

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

There are no other significant post balance sheet events identified requiring disclosure prior to the approval of these financial statements.

AUDITORS

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

John Clifford	**Stephen Mason**	**Neil Corcoran**	**For and on Behalf of**
Chairman	**Managing Director**	**Director**	**Hill Wilson Secretarial Limited**

28 March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Bank and of the profit or loss of the Bank for that period.

In preparing the financial statements the directors are required to:

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

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

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 comply 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.

John Clifford	**Stephen Mason**	**Neil Corcoran**	**For and on Behalf of**
Chairman	**Managing Director**	**Director**	**Hill Wilson Secretarial Limited**

28 March 2012

Introduction

A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements. With effect from 1 January 2011, the Bank is subject to the Central Bank of Ireland Corporate Governance Code for Credit Institutions and Insurance Undertakings (which is available on www.centralbank.ie). The Bank is not required to comply with the additional requirements of the Code for major institutions.

Effective 1 December 2011, new fitness and probity standards (the "Standards"), were issued by the Central Bank of Ireland for persons performing a prescribed "controlled function" or a "pre-approved controlled function" in a Regulated Financial Service Provider ("RFSP"). The Standards, which apply on a phased basis since 1 December 2011, apply to persons performing only prescribed functions in a RFSP and are based on requirements of competence, capability, honesty, integrity and financial prudence, The Bank is in the process of implementing the requirements of the new standards by the required dates.

Financial reporting process

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

- Clearly defined organisation structure with reporting mechanisms to the Board;
- A comprehensive set of policies and procedures, in line with the Bank of Ireland Group, relating to the controls around financial reporting and the process of preparing the financial statements;
- Ensuring the integrity of the financial statements and the accounting policies therein.

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

Risk assessment

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

Control activities

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

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

Monitoring

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

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

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

We have audited the financial statements on pages 13 to 53. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 17 to 23.

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 9.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and 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 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. 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 other information contained in the Directors' Report and Financial Statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

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 December 2011 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 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

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 8 is consistent with the financial statements.

The net assets of the Bank, as stated in the balance sheet on page 14 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 December 2011 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.

Ivan McLoughlin
For and on behalf of:

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
28 March 2012

(a) The maintenance and integrity of the Bank of Ireland Mortgage Bank website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT

	Notes	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Interest income	2	1,010,470	556,161
Interest expense	3	(953,000)	(398,601)
NET INTEREST INCOME		57,470	157,560
Fee and commission income/(expense)	4	(60,338)	(75,790)
TOTAL OPERATING (LOSS)/INCOME		(2,868)	81,770
Operating expenses	5	(19,117)	(11,388)
Impairment charges	13	(295,429)	(224,718)
Profit/(loss) on sale of assets to NAMA	7	946	(26,475)
Net trading income/(expense)	8	14,906	(5,606)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(301,562)	(186,417)
Taxation credit	9	38,836	23,082
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(262,726)	(163,335)

The movement in reserves is shown in note 22.

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

Loss on ordinary activities arose solely from continuing operations. The Bank had no recognised gains or losses other than those disclosed in the profit and loss 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.

John Clifford	**Stephen Mason**	**Neil Corcoran**	**For and on Behalf of**
Chairman	**Managing Director**	**Director**	**Hill Wilson Secretarial Limited**

28 March 2012

BALANCE SHEET

	Notes	As at 31 December 2011 €'000	As at 31 December 2010 €'000
ASSETS			
Cash and balances at central banks	10	50	50
Loans and advances to banks	11	19,493,552	18,469,538
Loans and advances to customers	12	20,224,722	20,595,439
Derivative financial instruments	15	417,973	369,745
Deferred tax asset	14(b)	39,475	18,762
Other assets	14(a)	16,564	16,196
		40,192,336	39,469,730
LIABILITIES			
Deposits by banks	16	26,528,738	24,378,896
Debt securities in issue	17	12,606,313	14,130,709
Derivative financial instruments	15	49,869	46,523
Other liabilities	18	11,982	26,038
Subordinated liabilities	19	403,261	312,665
		39,600,163	38,894,831
SHAREHOLDERS' FUNDS			
Called up capital stock	20	679,000	644,000
Share premium	20	245,000	-
Reserves	22	(331,827)	(69,101)
		592,173	574,899
		40,192,336	39,469,730

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

John Clifford	**Stephen Mason**	**Neil Corcoran**	**For and on Behalf of**
Chairman	**Managing Director**	**Director**	**Hill Wilson Secretarial Limited**

28 March 2012

CASH FLOW STATEMENT

Cash flows from operating activities	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Loss on ordinary activities before taxation	(301,562)	(186,417)
Amortisation of broker commissions and mortgage discounts	(24,913)	1,567
Interest charged on subordinated liabilities	5,852	2,664
Impairment charges	295,429	224,718
(Profit)/loss on sale of assets to NAMA	(946)	26,475
Fair value adjustments	(14,292)	(5,022)
Net cash flow from trading activities	(40,432)	63,985
Net increase in loans and advances to banks	(1,010,437)	(3,396,700)
Net decrease/(increase) in loans and advances to customers	83,733	(68,107)
Net decrease/(increase) in other assets	68	(21)
Net increase in deposits by banks	2,149,842	1,686,991
Net (decrease)/increase in debt securities in issue	(1,517,380)	1,750,318
Net decrease in other liabilities	(9,137)	(81,613)
Net (increase)/decrease in derivative financial instruments	(30,589)	69,616
Net cash flow from operating activities	(374,332)	24,469
Financing activities		
Interest paid on subordinated liabilites	(5,255)	(2,664)
Issue of subordinated liabilities	90,000	-
Issue of ordinary stock	280,000	20,000
Net cash flow from financing activities	364,745	17,336
Net (decrease)/increase in cash in the period	**(9,587)**	**41,805**

John Clifford	**Stephen Mason**	**Neil Corcoran**	**For and on Behalf of**
Chairman	**Managing Director**	**Director**	**Hill Wilson Secretarial Limited**

28 March 2012

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS **PAGE**

1 ACCOUNTING POLICIES

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

1.1 Basis of preparation

The financial statements of the Bank on pages 13 to 53 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 Acts 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.

1.2 Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2011 is the period of twelve months from the date of approval of these financial statements. A number of risk factors including credit, liquidity, market, operational, legal and regulatory risk, impact on the Bank's activities. In addition other factors such as the Irish economy and the period over which it is likely to recover have a considerable impact on its activities.

In preparing these financial statements the Directors have reviewed these risk factors and 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. The Governor & Company of the Bank of Ireland ("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 for the year ended 31 December 2011.

1.3 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.

Where the Bank revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying value of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

For the year ended 31 December 2011 a change to the expected life of the mortgage portfolio's cash flows amortised to the profit and loss account was made which contributed an additional €36.6 million of income.

For the period ended 31 December 2010 a change to the accounting estimate of expected cash flows of the mortgage portfolio and the model that determined the basis on which deferred discounts and broker commissions were amortised to the profit and loss account was made which contributed an additional €15.9 million of income.

1 ACCOUNTING POLICIES (continued)

1.4 Fee and commission income / expense

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.

1.5 Profit/(loss) on disposal of assets to NAMA

Derecognition of the assets transferred to the National Asset Management Agency ("NAMA") occurred when substantially all of the risks and rewards of ownership were transferred to NAMA. This occurred on a phased basis when ownership of the beneficial interest in each tranche was legally transferred to NAMA.

On the derecognition date, a gain or loss has been recognised which was measured as the difference between the fair value of the consideration received and the balance sheet value of the assets transferred, less transaction costs and any provision for the ongoing cost of servicing these assets on behalf of NAMA. The consideration received was measured at fair value at initial recognition.

1.6 Financial assets

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

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

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

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

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

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

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

(b) Loans and receivables

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

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

1.7 Financial liabilities

The Bank has two categories of financial liabilities:

- those that are carried at amortised cost; and
- those that are carried at fair value through profit or loss.

1 ACCOUNTING POLICIES (continued)

1.7 Financial liabilities (continued)

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

A liability may be designated as at fair value through profit or loss only when:

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

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

1.8 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.

The taxation charge accounts for amounts due to fiscal authorities' in the Republic of Ireland and includes estimates on a judgement of the application of law in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A deferred tax asset is recognised to the extent that it is more then likely that future taxable profits will be available against which deductible timing differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. The judgement takes into consideration the impact of both positive and negative income, the impact of tax legislation and future reversals of existing taxable temporary differences.

The most significant judgement relates to the assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish tax legislation; there is no time restriction on the utilisation of these losses. Based on its projection of future taxable income, the Directors have concluded that it is more than likely that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

1 ACCOUNTING POLICIES (continued)

1.9 Impairment of financial assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment 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:
    - adverse changes in the payment status of borrowers in the group;
    - national or local economic conditions that correlate with defaults on the assets in the group;
    - delinquency in contractual payments of principal or interest;
    - cash flow difficulties;
    - breach of loan covenants or conditions;
    - deterioration in the value of collateral; and
    - initiation of bankruptcy proceedings.

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 financial assets 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.

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.

1 ACCOUNTING POLICIES (continued)

1.10 Valuation of financial instruments

The Bank recognises certain financial assets, financial liabilities and derivative financial instruments at fair value in the balance sheet. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

1.11 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. Derivatives are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow models which typically incorporate observable market data, principally interest rates.

All derivatives are carried as assets when the fair value is positive and as liabilities when the 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 profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

(b) 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.

1.12 Debt securities in issue

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

1.13 Pensions

The 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, Bank of Ireland and the Bank.

Whilst the scheme is a defined benefit scheme, the company does not identify its share of the underlying assets and liabilities of the scheme as, despite encompassing several employers (all of whom are members of the Bank of Ireland Group), the scheme is essentially run as one scheme rather than independent, separately identifiable units. The manner in which the scheme is run assists in the mobility of staff across the Bank of Ireland Group and therefore no sub-unitisation of the scheme takes place either in terms of differential contribution levels or sharing of underlying assets and liabilities. Consequently, the scheme has been accounted for as a defined contribution scheme.

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 ("FRS 17") for the year ended 31 December 2011 are shown in note 26.

1 ACCOUNTING POLICIES (continued)

1.14 Accrued interest

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

1.15 Subordinated liabilities

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

1.16 Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

1.17 Critical accounting estimates or judgements

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

(a) Impairment charges on financial assets

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

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

A key judgemental area is in relation to Residential mortgages. This loan portfolio has been significantly affected in the current economic climate, as values of security have considerably reduced, particularly in Ireland, and there are very low levels of activity in the sector. Residential mortgage loans before impairment provisions at 31 December 2011 amounted to €20.9 billion (31 December 2010: €21.0 billion), against which were held provisions for impairment of €0.7 billion (31 December 2010: €0.4 billion). At 31 December 2011, the assumption adopted by the Bank in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007.

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in note 27 on Risk Management and Control.

1 ACCOUNTING POLICIES (continued)

1.17 Critical accounting estimates or judgements (continued)

(b) Taxation

At 31 December 2011 the Bank had a deferred tax asset of €39.5 million (31 December 2010: €18.8 million) relating to a combination of current year trading losses and adjustments required under tax transfer pricing legislation.

A deferred tax asset is recognised to the extent that it is more likely than not that future taxable profits will be available against which deductible timing differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. The Bank's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences. The most significant judgement relates to the Bank's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish tax legislation, there is no time restriction on the utilisation of these losses. There is however, a restriction on the utilisation of tax losses carried forward by an institution participating in NAMA. This lengthens the period over which the deferred tax asset will reverse by restricting the amount of profits against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit on the utilisation of these losses.

Based on its projection of future taxable income, the Bank has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

(c) Effective interest rate method

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.

In determining the effective interest rate, management exercise judgement on such matters as the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life. As part of this review, economic factors such as unemployment levels, consumer confidence and economic and fiscal stability were considered, along with mortgage market specific factors such as house price levels, switcher activity and consumer demand.

For the year ended 31 December 2011 a change to the expected life of the mortgage portfolio's cash flows amortised which contributed an additional €36.6 million of income.

For the period ended 31 December 2010 a change to the accounting estimate of expected cash flows of the mortgage portfolio and the model that deteremined the basis on which deferred discounts and broker commissions were amortised to the profit and loss account was made which contributed an additional €15.9 million of income.

2 INTEREST INCOME

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Loans and advances to banks	389,685	138,169
Loans and advances to customers	620,785	417,992
	1,010,470	556,161

Included within interest income on loans and advances to customers is €14.4 million (for the period 1 April 2010 to 31 December 2010: €8.8 million) relating to loans on which an impairment provision has been recognised.

3 INTEREST EXPENSE

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Debt securities in issue	263,052	118,892
Other interest payable	684,096	276,848
Interest on subordinated liabilities	5,852	2,861
	953,000	398,601
Of which payable to Bank of Ireland	630,112	181,887

4 FEE AND COMMISSION INCOME/(EXPENSE)

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Service fee payable to Bank of Ireland Group companies	61,153	74,281
Government guarantee scheme	-	2,089
Other income	(815)	(580)
	60,338	75,790

The service fee payable to Bank of Ireland Group companies relates to fees for servicing the Bank's mortgage portfolio. With effect from 1 October 2011 the Bank has terminated its arrangements under the terms of the Mortgage Servicing Agreement, with ICS Building Society.

The Government guarantee scheme fee relates to the fee paid under the Credit Institutions (Financial Support) Scheme 2008 (the "CIFS Scheme"), which commenced on 30 September 2008 and expired on 29 September 2010. This fee is included as a fee and commission expense as it is neither directly attributable nor incremental to the issue of specific financial liabilities. Further information on the CIFS scheme is outlined in note 31.

5 OPERATING EXPENSES

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Staff costs:		
- wages and salaries	404	196
- social security costs	28	21
- pension costs	41	62
	473	279
Other operating expenses	18,644	11,109
Total operating expenses	19,117	11,388

Staff costs include an allocation of amounts payable to persons not directly employed by the Bank.

During the year ended 31 December 2011, 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 operating expenses.

Employee Information

For the year ended 31 December 2011 the average number of employees was 4 (for the period 1 April 2010 to 31 December 2010: 4 employees).

6 AUDITORS' REMUNERATION

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Auditors' remuneration (excluding VAT)		
Statutory audit	53	50
Other assurance services	20	25
Taxation services	-	-
Other non-audit services	-	-
Total	73	75

7 PROFIT/(LOSS) ON SALE OF ASSETS TO NAMA

The profit/(loss) on sale of assets to NAMA reflects those assets that were sold to NAMA during the year ended 31 December 2011 and for the period from 1 April to 31 December 2010 as set out below.

	For the year ended 31 December 2011		For the period 1 April 2010 to 31 December 2010	
	€'000	€'000	€'000	€'000
Fair value of consideration received [1]		5,479		45,464
Assets transferred				
- Loan sold to NAMA (nominal value)	(13,822)		(91,646)	
- Impairment provisions at date of sale	4,370	(9,452)	20,559	(71,087)
Other items [2]		1,430		(852)
Adjustment to consideration in respect of assets transferred during 2010 [3]		3,489		-
Profit/(loss) on sale of assets to NAMA		946		(26,475)

1 Fair value of consideration received consists of NAMA senior bonds (representing 95% of the nominal consideration) and the fair value of NAMA subordinated bonds (representing 5% of the nominal consideration). All bonds are held in the parent company, Bank of Ireland who in turn transferred the cash equivalent of the consideration to the Bank.

2 Other items includes provision for servicing liability, other related sale costs and adjustments in respect of movements in assets between the due diligence valuation date and the date at which they transferred to NAMA.

3 As at 31 December 2010, the final NAMA due diligence process was still ongoing for €91.6 million of assets transferred to NAMA. Given the uncertainity over the final consideration for these transferred assets, Bank of Ireland Mortgage Bank was required to estimate the amount receivable from NAMA. The ultimate amount received from NAMA was greater than originally anticipated by €3.5 million.

NAMA has the power to acquire from Participating Institutions, Eligible Bank Assets, that is land and development loans and certain associated loans. Associated loans comprise of non land and non development related loans to borrowers of land and development related loans, or loans to certain associated entities of borrowers who provided security in respect of the land or development related loans. All loans transferred from the Bank are categorised as associated loans.

8 NET TRADING INCOME / (EXPENSE)

	For the year ended 31 December 2011	For the period 1 April 2010 to 31 December 2010
	€'000	€'000
Net income/(expense) from derivative assets and liabilities held for trading		
Interest rate contracts	6,224	(10,630)
Fair value hedges		
Fair value gain/(loss) on derivative contracts in fair value hedge relationships	49,725	(31,627)
Fair value (loss)/gain on liabilities in fair value hedge relationships	(41,043)	36,651
	14,906	(5,606)

Within fair value hedges there is a €8.7 million gain (for the period 1 April 2010 to 31 December 2010: €5.0 million gain) which represents the net hedge ineffectiveness in relation to fair value hedges. See note 15 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 rate contracts that do not qualify for hedge accounting.

Included within interest rate contracts are fair value and interest rate movements on derivative contracts that were in a fair value hedge relationship but no longer qualify for hedge accounting.

9 TAXATION

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Current Tax		
Amounts receivable in respect of Group relief	2,181	7,817
Under provision from prior period/year	15,942	74
	18,123	7,891
Deferred Tax		
Trading losses	36,639	15,490
Other tax timing difference	-	(5)
Over provision from prior period/year	(15,926)	(294)
	20,713	15,191
	38,836	23,082

The Bank has surrendered the benefit of tax losses to another Group company for a consideration of €2.2 million, which is expected to be received in the following financial period.

The current tax credit for the period is lower than the credit that would result from applying the standard rate of Irish corporation tax (12.5%) to profit / (loss) on ordinary activities. The difference is explained below:

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Loss on ordinary activities before tax	(301,562)	(186,417)
Loss @12.5%	(37,695)	(23,302)
Effects of:		
Trading losses carried forward	36,639	15,490
Other adjustments	-	(5)
Transfer pricing adjustment	(1,125)	-
Group relief	2,181	7,817
Current tax credit for the year/period	-	-

10 CASH AND BALANCES AT CENTRAL BANKS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Funds placed with Central Bank of Ireland	50	50
Funds placed with Central Bank of Ireland by remaining maturity		
Repayable on demand	-	-
3 months or less	-	-
1 year or less but over 3 months	50	50
	50	50

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

11 LOANS AND ADVANCES TO BANKS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Funds placed with Bank of Ireland	19,493,552	18,469,538
Loans and advances to banks by remaining maturity		
Repayable on demand	20,807	30,394
3 months or less	16,350,837	8,265,501
1 year or less but over 3 months	2,080,000	1,469,394
5 years or less but over 1 year	142,250	7,517,000
Over 5 years	899,658	1,187,249
	19,493,552	18,469,538

12 LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Loan and advances to customers	20,224,722	20,595,439
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	347,598	254,224
1 year or less but over 3 months	617,529	570,223
5 years or less but over 1 year	3,375,143	3,240,157
Over 5 years	16,599,773	16,948,164
Less impairment provisions (note 13)	(715,321)	(417,329)
	20,224,722	20,595,439

The Bank's exposure to credit risk on loans and advances to customers is from its mortgage lending activities on residential property in Ireland. For details of impairment provisions see note 13.

13 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Opening balance	417,329	214,123
Charge to profit and loss account	295,429	224,718
Impairment provisions on assets sold to NAMA (note 7)	(4,370)	(20,559)
Other∞	6,933	(953)
Closing balance	715,321	417,329

∞ Contained within other amounts are debt collection costs of €(1.5) million and amounts written off in respect of loans, advances to customers of €(1.6) million and the remainder relates to interest on impaired loans.

14(a) OTHER ASSETS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Current tax	-	8,000
Amounts receivable from Bank of Ireland Group companies	16,255	7,817
Other	309	379
	16,564	16,196

14(b) DEFERRED TAX ASSET

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Opening balance	18,762	3,571
Profit and loss credit	20,713	15,191
Closing balance	39,475	18,762

The deferred tax asset of €39.5 million (31 December 2010: €18.8 million) consists of operating losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it will be recovered, as the Directors are satisfied that it is more than likely that there will be sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already been reversed. Under Irish tax legislation, there is no time restriction on the utilisation of these losses.

15 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relating to their terms. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives held for trading are derivatives entered into with economic hedging intent but do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 27.

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

As at 31 December 2011	**Contract/ notional amount €'000**	**Fair Values Assets €'000**	**Fair Values Liabilities €'000**
Derivatives held for trading			
Interest rate swaps	30,709,574	54,063	(49,869)
Total derivative assets / liabilities held for trading		54,063	(49,869)
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	5,895,500	363,910	-
Total derivative assets / liabilities held for hedging		363,910	-
Total derivative assets / liabilities		417,973	(49,869)

As at 31 December 2010	**Contract/ notional amount €'000**	**Fair Values Assets €'000**	**Fair Values Liabilities €'000**
Derivatives held for trading			
Interest rate swaps	22,257,076	44,618	(46,523)
Total derivative assets / liabilities held for trading		44,618	(46,523)
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	5,998,000	325,127	-
Total derivative assets / liabilities held for hedging		325,127	-
Total derivative assets / liabilities		369,745	(46,523)

16 DEPOSITS BY BANKS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Deposits by credit institutions	26,528,738	24,378,896
Deposits by remaining maturity		
3 months or less	5,409,548	3,850,761
1 year or less but over 3 months	1,353,325	731,922
5 years or less but over 1 year	2,053,811	2,446,210
Greater than 5 years	17,712,054	17,350,003
Due to Bank of Ireland	26,528,738	24,378,896

17 DEBT SECURITIES IN ISSUE

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Debt securities in issue	12,606,313	14,130,709
Bonds and medium term notes by remaining maturity		
3 months or less	500,785	3,632,830
1 year or less but over 3 months	1,191,910	1,570,922
5 years or less but over 1 year	10,301,946	7,734,636
Greater than 5 years	611,672	1,192,321
	12,606,313	14,130,709
Included in the above are amounts due to Bank of Ireland	5,956,760	3,403,781

Notes

Bank of Ireland Mortgage Bank is a directly, wholly-owned subsidiary of Bank of Ireland, holds its own banking licence and is a designated mortgage credit institution within the meaning of the Asset Covered Securities Acts, 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 December 2011 securing these assets was €19.6 billion (31 December 2010: €14.7 billion). As at 31 December 2011 there are no mortgage credit assets secured on commercial property in Bank of Ireland Mortgage Bank (31 December 2010: Nil).

In accordance with the Acts, see the required disclosures set out in note 17(a) – 17(f) below.

In the nine month period ended 31 December 2010, the Bank issued €1.9 billion of securities comprising of €10 million in private placements and €1.9 billion in transactions with its parent, Bank of Ireland. During the period there were €0.2 billion in maturities. This brought the total mortgage covered securities in issue as at 31 December 2010 to €10.2 billion.

In the year to 31 December 2011, the Bank issued €5.4 billion of securities in transactions with its parent, Bank of Ireland. During the same period there were €27.5 million in repurchases, €2.1 billion in part-redemptions with its parent, and €1.2 billion in maturities. This brought the total mortgage covered securities in issue as at 31 December 2011 to €12.2 billion.

17 DEBT SECURITIES IN ISSUE (continued)

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.

During 2010 the Bank raised funds from the Central Bank of Ireland (“CBI”) under the Mortgage Backed Promissory Note Programme (“MBPNP”). Obligations under the programme were secured by way of a first floating charge to the CBI over Irish Residential Mortgage Assets, which were not in the covered assets pool. At 31 December 2011 there were no debt securities pledged to the CBI (31 December 2010: €3.6 billion).

During 2011 the downgrade of one of Bank of Ireland’s credit ratings resulted in the re-categorisation of certain deposits held by the Bank with Bank of Ireland from substitution assets to credit transaction assets (“CTA”) as defined by the Acts. The Acts also define a limit on the level of CTA and as a result of this re-categorisation the Bank was not in compliance with this limit. The Bank notified the Central Bank having confirmed the breach of limit. The breach has since been fully remediated, and enhancements to existing controls have been put in place to prevent its re-occurrence. The integrity of the cover assets pool was not impacted and no financial loss occurred to the Bank or any third party by reason of the noncompliance with the limit.

17(a) Mortgage Accounts & Principal Outstanding in the Mortgage Covered Pool

		31 December 2011		31 December 2010	
From Range €’000	To Range €’000	Number of Accounts	Total Balances of Accounts €’000	Number of Accounts	Total Balances of Accounts €’000
0	100	50,847	2,312,829	32,085	1,473,482
100	200	32,941	4,872,891	22,970	3,411,534
200	500	23,885	6,656,145	19,485	5,489,285
Over 500		1,837	1,413,339	1,686	1,333,682
		109,510	15,255,204	76,226	11,707,983

The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the pool as at 31 December 2011 and 31 December 2010 respectively.

17(b) Geographic Location and Details for the Pool

	31 December 2011		31 December 2010	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	22%	78%	22%	78%
Number of accounts	24,212	85,298	17,116	59,110
Number of properties	20,203	72,451	14,737	51,802

The number of accounts represents the cumulative number of mortgage accounts held in the pool, as at 31 December 2011 and 31 December 2010 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 December 2011 and at 31 December 2010.

17(c) Pool Accounts in Default at year end

	As at 31 December 2011	As at 31 December 2010
Number of Accounts in default	258	78
Cumulative current balance on above accounts	€57,698,170	€16,055,602
of which arrears represent	€871,576	€272,165

Default is defined as mortgage accounts that are 90 days or more in arrears

17 DEBT SECURITIES IN ISSUE (continued)

17(d) Pool Accounts with Arrears of more than €1,000

Pool accounts with Arrears of more than €1,000 at any point during the year		
Number of accounts with arrears of more than €1,000	3,030	938
Cumulative current balance on above accounts	€703,128,931	€215,433,256
of which arrears represent	€13,340,053	€3,607,191
Pool accounts with Arrears of more than €1,000 at Year End		
Number of accounts with arrears of more than €1,000	537	133
Cumulative current balance on above accounts	€130,481,277	€38,279,311
of which arrears represent	€1,909,641	€574,260

17(e) Replacement of Non Performing Assets in the Pool

During the year ended 31 December 2011, 2,930 accounts (31 December 2010: 1,011 accounts) that were non-performing (the term non-performing is defined as relating to mortgage accounts that are in arrears exceeding 90 days) 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 December 2011 was €871,576 (31 December 2010: €272,165).

17(f) Total Mortgage Principal and Interest Repayments on Pooled Accounts by customers

	For the year ended 31 December 2011	For the period 1 April 2010 to 31 December 2010
Interest paid in respect of mortgage credit assets	€450,437,569	€234,640,171
Capital repaid in respect of mortgage credit assets	€780,003,008	€472,985,908

18 OTHER LIABILITIES

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Amounts due to Bank of Ireland	10,912	5,824
Amounts due to other Bank of Ireland Group Companies	271	8,999
Provisions for other liabilities and charges	341	10,202
Other sundry liabilities	458	1,013
	11,982	26,038

19 SUBORDINATED LIABILITIES

On 2 July 2004 the Bank availed of a €162 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is based off the three-month EURIBOR rate plus a margin of 35 basis points and it reprices quarterly. The loan matures on 4 July 2014.

On 30 June 2005 the Bank availed of a further €80 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is based off 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 the Bank availed of a further €70 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is based off 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.

19 SUBORDINATED LIABILITIES (continued)

On 23 December 2011 the Bank availed of a further €90 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The loan rate is based on the three-month EURIBOR rate plus a margin of 11.5% without a step up in margin during its life. The loan matures on 27 December 2021.

The total of subordinated loans at 31 December 2011 is €403.3 million (31 December 2010: €312.7 million), €402 million being the loan balance and €1.3 million of accrued interest (31 December 2010: €312 million loan balance and €0.7 million accrued interest).

20 SHARE CAPITAL AND PREMIUM

	As at 31 December 2011 '000 Units	As at 31 December 2010 '000 Units
Authorised		
1,000 million units of €1.00 of Ordinary Shares	1,000,000	1,000,000

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Allotted and fully paid		
Equity		
679 million units of €1.00 of Ordinary Shares (31 December 2010: 644 million units of €1.00 of Ordinary Shares)	679,000	644,000

Share premium	For the year ended 31 December 2011 €'000	For the period 1 April 2010 to 31 December 2010 €'000
Balance at the beginning of the year/period	-	-
Premium in issue of ordinary stock	245,000	-
Balance at the end of the year/period	**245,000**	-

Share capital issued during the year ended 31 December 2011 is as follows:

Date of issuance	Issue price per share	Number of issued ordinary shares in 000's	Ordinary share value €'000	Premium €'000	Total €'000
31 March 2011	€8.00	5,000	5,000	35,000	40,000
30 June 2011	€8.00	8,750	8,750	61,250	70,000
29 September 2011	€8.00	13,750	13,750	96,250	110,000
23 December 2011	€8.00	7,500	7,500	52,500	60,000
Total		**35,000**	**35,000**	**245,000**	**280,000**

The shares were issued to the Bank's parent company, Bank of Ireland. The issuance assisted in maintaining an adequate capital position. All units of Ordinary Shares in issue carry the same voting rights.

Share capital issued during the year ended 31 December 2010 is as follows:

Date of issuance	Issue price per share	Number of issued ordinary shares in 000's	Ordinary share value €'000	Premium €'000	Total €'000
22 December 2010	€1.00	20,000	20,000	-	20,000
Total		**20,000**	**20,000**	-	20,000

21 NOTE TO THE CASH FLOW STATEMENT

	Cash	Loans and advances to / from Banks on demand	Total Cash
31 December 2011			
	€'000	**€'000**	**€'000**
Net change in cash and cash equivalents	-	(9,587)	(9,587)
Opening cash and cash equivalents	50	30,394	30,444
Closing cash and cash equivalents	**50**	**20,807**	**20,857**
31 December 2010			
	€'000	**€'000**	**€'000**
Net change in cash and cash equivalents	-	41,805	41,805
Opening cash and cash equivalents	50	(11,411)	(11,361)
Closing cash and cash equivalents	**50**	**30,394**	**30,444**

22 RESERVES

	For the year ended 31 December 2011	For the period 1 April 2010 to 31 December 2010
	€'000	**€'000**
Profit and loss account		
Opening balance	(69,101)	94,234
Loss for the year/period	(262,726)	(163,335)
Closing balance	**(331,827)**	**(69,101)**

23 DIVIDEND

No dividends were paid during the year ended 31 December 2011 (31 December 2010: No dividends paid)

24 DIRECTORS' & SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office as at 31 December 2011, 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 Bank of Ireland

	As at 31 December 2011	As at 31 December 2010 or at date of appointment if applicable
Directors	**Shares**	**Shares**
J Byrne	1,455	1,455
J Clifford	344,820	344,820
N Corcoran	14,297	8,297
P Flynn	110,473	31,443
B Kealy	10,781	10,781
S Mason	39,164	31,550
B McConnell	7,829	1,702
R Milliken	Nil	Nil
Secretary		
Hill Wilson Secretarial Limited	Nil	Nil

24 DIRECTORS' & SECRETARY'S INTERESTS (continued)

Stock options held by Directors and Secretary in Bank of Ireland

Directors	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price €	As at 31 December 2011	As at 31 December 2010 or at date of appointment if applicable
J Byrne	24 Dec 2007	1 Mar 2011	1 Sep 2011	6.96	Nil	531
	3 Jun 2008	3 Jun 2011	3 Jun 2018	8.10	Nil	12,750
N Corcoran	24 Dec 2007	1 Mar 2011	1 Sep 2011	6.96	Nil	531
B Kealy	26 Jul 2004	26 Jul 2007	26 Jul 2014	10.76	11,500	11,500
	21 Jun 2005	21 Jun 2008	21 Jun 2015	12.85	9,500	9,500
	3 Jun 2008	3 Jun 2011	3 Jun 2018	8.10	Nil	9,650
S Mason	24 Jun 2002	24 Jun 2005	24 Jun 2012	12.50	10,000	10,000
	18 Jun 2003	18 Jun 2006	18 Jun 2013	10.77	10,000	10,000
	26 Jul 2004	26 Jul 2007	26 Jul 2014	10.76	11,500	11,500
	21 Jun 2005	21 Jun 2008	21 Jun 2015	12.85	9,000	9,000
	3 Jun 2008	3 Jun 2011	3 Jun 2018	8.10	Nil	11,600

No stock options were held by the following Directors in Bank of Ireland: J Clifford, P Flynn, B McConnell and R Milliken.

Options granted in 2008 matured on 3 June 2011 and did not vest as the performance conditions were not achieved.

SAYE options under the Bank of Ireland Group 2008 SAYE Option Scheme vested in March 2011, these options were not exercised by J Byrne or N Corcoran and therefore lapsed.

Directors' & Secretary's interests in 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 December 2011	As at 31 December 2010 or at date of appointment if applicable
S Mason	3 Jun 2008	Nil	10,400

No interests in the LTIP* stock options were held by the following Directors:

J Byrne, J Clifford, N Corcoran, P Flynn, B Kealy, B McConnell and R Milliken.

*Since 2004 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.

For further details on the above schemes please refer to note 46 Capital Stock in the annual report of the Bank's parent company, Bank of Ireland.

Directors' & Secretary's interests in savings shares in ICS Building Society

Directors	As at 31 December 2011 or at date of appointment if applicable €'000	As at 31 December 2010 or at date of appointment if applicable €'000
J Byrne	1	1
J Clifford	102	100
S Mason	1	1

No interests in savings shares in ICS Building Society were held by the following Directors:

N Corcoran, P Flynn, B Kealy, B McConnell and R Milliken.

25 SEGMENTAL INFORMATION

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

26 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 Bank of Ireland, ICS Building Society and the Bank.

An independent actuary, on the basis of triennial actuarial reviews, determines the Bank's contributions to the ICS scheme. The most recent full actuarial valuations were performed at 31 December 2011. With effect from 1 October 2010 the Bank is contributing to the ICS Plan at a rate of 24.8% of pensionable salaries. The net deficit on the scheme as at 31 December 2011 amounted to €9.1 million (31 December 2010: €6.7 million).

Whilst the scheme is a defined benefit scheme, it has not identified separately 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.

Contributions on behalf of the Bank's employees amounted to €124,671 for the year ended 31 December 2011 (31 December 2010: €108,417). As at 31 December 2011 the Bank had no outstanding amounts to be paid to the scheme (31 December 2010: Nil).

27 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 Bank utilises a range of service level agreements with Bank of Ireland Group to support its overall risk management and control processes. The Head of Credit has responsibility for credit policy implementation and the Head of Finance has responsibility for financial risk policy implementation. The Bank of Ireland Group 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 include reviews on a regular basis. In addition, Bank of Ireland Group control functions (e.g. Credit, Group Internal Audit, etc.) independently review compliance with 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.

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

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

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

In addition, an independent control unit within Bank of Ireland Group, Credit & Market Risk Division, undertakes periodic reviews of the appropriateness of the risk rating models that are used within the business and evaluates whether the models are 'fit for purpose' and are 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.

27 RISK MANAGEMENT AND CONTROL (continued)

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. Such risks are monitored appropriately.

Measurement of credit risk

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

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

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

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

The risk rating system is continuously refined and validated to ensure that the level of risk 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 the amount, and number of 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 and requires that there is objective evidence of impairment and that the loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

Credit risk mitigation and collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property.

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.

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

The mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). This index provides the relevant index to be applied to original market values in the period after January 2005. For mortgages originated prior to January 2005, the Permanent TSB/ESRI House price index is utilised. The weighted average indexed LTV for the total loan book is 102% at 31 December 2011.

Impairment criteria and provisions

Impairment provisions are recognised for losses that have been incurred and/or reported at the balance sheet date, details of which are provided in the tables to this note.

The impairment provision shown in the balance sheet at the year end is driven by internal rating grades. In addition, individual significant accounts in default (90 days+) are assessed for impairment and provisioning by evaluating the incurred loss at the balance sheet date. The assessment takes account of collateral held (including a reassessment of its enforceability) and anticipated repayments for each such account.

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision.

27 RISK MANAGEMENT AND CONTROL (continued)

Impairment criteria and provisions (continued)

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

For financial reporting purposes, loans on the balance sheet that become impaired are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge in the income statement.

Methodology for Individually Assessing Impairment

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

Methodology for Collectively Assessing Impairment

Where exposures fall below the threshold for individual assessment of impairment, such homogenous exposures with similar credit risk characteristics are pooled and are collectively assessed for impairment. A provision is then calculated by estimating the future cash flows of a group of exposures that are collectively evaluated for impairment. This estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used to create the portfolio provision, which are based on historical experience (i.e. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions. Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision in line with individually assessed loans.

Methodology for establishing incurred but not reported (IBNR) provisions

Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. These are described as incurred but not reported provisions. Statistical models are used to determine the appropriate level of IBNR provisions. These models estimate latent losses taking into account three observed and / or estimated factors:

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

Where there are loan arrears, the account is downgraded to reflect the higher underlying risk. Grade migration and adjusted PD grades are analysed for inclusion in the loss model. Recent data sets are used in order to capture current trends rather than averaging over a period which might include earlier and less stressed points in the credit cycle. The emergence period is calculated using historical loan loss experience. Given the current economic environment the emergence periods are adjusted to reflect the more intensive credit management model in place, where all vulnerable portfolios are reviewed on a shortened cycle. The loss given default (LGD) is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of the deterioration in the property sector, discounted collateral values, rising unemployment and reduced repayment prospects, etc) model in place, where all vulnerable portfolios are reviewed on a shortened cycle.

27 RISK MANAGEMENT AND CONTROL (continued)

Impairment criteria and provisions (continued)

Impairment charge by nature of impairment provision	**For the year ended 31 December 2011 €'000**	**For the period 1 April 2010 to 31 December 2010 €'000**
Specific provisions - individually assessed	69,017	62,659
Specific provisions - collectively assessed	83,704	98,833
Incurred but not reported	142,708	63,226
	295,429	224,718

Impairment provision by nature of impairment provision	**As at 31 December 2011 €'000**	**As at 31 December 2011 €'000**
Specific provisions - individually assessed	175,491	106,575
Specific provisions - collectively assessed	246,213	159,223
Incurred but not reported	293,617	151,531
	715,321	417,329

Asset quality

The Bank classifies loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of FRS 26.

The Bank applies internal ratings to loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A seven point credit grade rating scale is used for mortgages. This credit scale has a defined relationship with the Group's Probability of Default (PD) scale.

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

- high quality ratings apply to loans to customers, with whom the Bank has an excellent repayment experience. High quality ratings are derived from grades 1 and 2 on the seven point grade scale;
- satisfactory quality ratings apply to good quality loans that are performing as expected. Satisfactory quality ratings are derived from grade 3 on the seven point grade. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage restructuring arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. Acceptable quality ratings are derived from grade 4 outstandings within the seven point scale . In addition, acceptable quality ratings can also apply to certain temporary mortgage restructuring arrangements that are neither past due nor impaired.

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

	Maximum Exposure	
	As at 31 December 2011 €'000	**As at 31 December 2010 €'000**
Loans and advances to banks	19,493,552	18,469,538
Loans and advances to customers	20,105,635	20,498,450
Derivative financial instruments	417,973	369,745
Commitments	718,858	782,100
Total	**40,736,018**	**40,119,833**

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, net of provisions, 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.

27 RISK MANAGEMENT AND CONTROL (continued)

Loans and advances

Loans and advances to banks (note 11) and loans and advances to customers (note 12) 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 these loans and advances.

Loans and advances to customers

(i) Loans and advances to customers neither impaired nor past due

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
High quality	17,169,981	18,124,635
Satisfactory quality	177,908	156,753
Acceptable Quality	760,535	924,662
Total	**18,108,424**	**19,206,050**

(ii) Loans and advances to customers past due but not impaired

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Past due 1 - 29 days	443,271	330,985
Past due 30 - 59 days	296,695	182,561
Past due 60- 89 days	206,945	111,329
Past due greater than 90 days	964,118	557,326
Total	**1,911,029**	**1,182,201**

Loans and advances where balances are in arrears are considered impaired unless information is available to suggest that the Bank is unlikely 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 to customers impaired balances

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Impaired balances	920,589	624,517

Arrears on impaired loans as a % of the impaired balances amounts to 7.2% (31 December 2010: 5.6%). Total provisions as a percentage of impaired balances amounts to 77.7% (31 December 2010: 66.8%). The level of accounts falling into arrears is increasing and is being actively managed by the Bank.

Loans and advances to customers reduced by 0.35% or €73 million, from €21.0 billion at 31 December 2010 to €20.9 billion at 31 December 2011 due to principal repayments and muted demand for new mortgages. 'Impaired' loans increased from €0.6 billion or 3% of Loans and advances to customers at 31 December 2010 to €0.9 billion or 4% at 31 December 2011, reflecting increasing default arrears (90 days or more past due), particularly in the buy to let segments. In the owner occupied segment, this increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and continued high unemployment levels. In the buy to let segment, while there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak and buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year.

Loans and advances to customers classified as either 'past due but not impaired' or 'impaired' amounted to €2.8 billion or 14% of the Bank's loan book at 31 December 2011 compared to €1.8 billion or 9% at 31 December 2010 reflecting increasing default arrears (90 days or more past due) in the owner occupied and particularly in the buy to let segments.

The impairment charge on the mortgage loan book has remained elevated during the year ended 31 December 2011 reflecting increasing default arrears (90 days or more past due), in the owner occupied and particularly in the buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland with high unemployment levels, including affordability issues and falling disposable income.

27 RISK MANAGEMENT AND CONTROL (continued)

Loans and advances to customers (continued)

The impairment charge in the year ended 31 December 2010 included an amount of approximately €80 million, to reflect a change in the Bank's assumption of the expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models for mortgages.

Loans and advances to banks

For both the year ended 31 December 2011 and period ended 31 December 2010, all loans and advances to banks were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland Group entities.

Derivative financial instruments

Derivative contracts are only entered into with counterparties who are considered reputable and 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 December 2011 (31 December 2010: Nil).

Repossessed collateral

As at 31 December 2011, the Bank had 106 properties in possession (31 December 2010: 45 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	As at 31 December 2011 €'000	**As at 31 December 2010 €'000**
Residential mortgages	10,241	7,569

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.

	As at 31 December 2011 €'000	**As at 31 December 2010 €'000**
Loans and advances to customers		
- Dublin	6,702,358	6,677,719
- Rest of Ireland	14,237,684	14,335,050
Total	**20,940,042**	**21,012,769**

27 RISK MANAGEMENT AND CONTROL (continued)

Concentration of risks of financial assets with credit risk exposure (continued)

(ii) Industry Sectors

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

Market risk

Market risk is the potential adverse change in earnings or the value of net worth arising from movements in interest rates, exchange rates or other market prices. The Bank has adopted the Group's policy on market risk and the Bank complies with this policy. The management of market risk in the Bank is governed by Bank of Ireland Group policy, approved by the Bank's Board 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 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 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 Bank of Ireland.

At 31 December 2011, the Bank had €3.96 billion of fixed-rate lending, where the rate is typically fixed for periods of 1 to 3 years (31 December 2010: €3.95 billion). The interest rate exposure of the Bank relating to its Irish residential lending denominated in euro is managed through maturity matched borrowing from BoIGM and has no material sensitivity to changes in interest rates. The Bank does not enter into any trading positions and has no material sensitivity to changes in interest rates.

At 31 December 2011 the Bank had €12.22 billion (nominal) in issued Asset Covered Securities. €5.97 billion of the issued Asset Covered Securities is typically fixed for periods of 5 years or more (31 December 2010: €6.02 billion (nominal)) and the remaining €6.25 billion have an interest rate that resets quarterly (31 December 2010: €4.20 billion (nominal)). Interest rate exposure on the underlying pool of mortgages supporting Asset Covered Securities issued is managed using macro interest rate swaps.

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 the Bank pays to BoIGM an amount related to a weighted average basket interest rate, determined by reference to interest rates payable on the residential loans held by the Bank 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 less a spread related to the composite margin on the underlying mortgage loans. In return, on a monthly basis, BoIGM pays to the Bank interest on that notional amount at one month EURIBOR. The non-pool interest rate contract is structured and operates on a similar basis to the pool interest rate contract. These macro interest rate swaps are deemed traded derivatives (see note 15) and do not qualify for hedge accounting.

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

The Bank enters into interest rate swaps to hedge the interest rate exposure on its fixed rate Mortgage Covered Securities in issue. The majority of these swaps and related fixed rate Mortgage Covered Securities qualify for fair value hedge accounting treatment. At 31 December 2011, the nominal value of swaps qualifying for hedge accounting is €5.90 billion (31 December 2010: €6.00 billion) as set out in note 15.

The Bank measures its interest rate risk in terms of the sensitivity of its fixed assets and fixed liabilities, in Net Present Value ("NPV") terms, to a 1% parallel shift in the yield curve. The Bank is required to ensure that this sensitivity remains within a low operational hedging limit at 31 December 2011. At 31 December 2011, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €8,079 (31 December 2010: €31,166), with an average of €62,658 for the year ended 31 December 2011 (31 December 2010: €27,528).

Currency risk

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

27 RISK MANAGEMENT AND CONTROL (continued)

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 systemic 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.

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

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

The Bank meets its day to day residual funding requirements through borrowing facilities in place with BoIGM. While the Bank raises a significant level of its funding from the Bank of Ireland Group, the Bank has the capability to fund outside the Bank of Ireland Group if required.

The Bank changed its funding model in 2010 from one month funding to the expected life funding model. The new model is based on funding for the expected life of the mortgage asset.

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 shows principal balances and undiscounted interest cash flows 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.

As at 31 December 2011						
Liabilities	**Demand**	**Within 3 months**	**After 3 months but within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Deposits by banks	-	5,412,582	1,121,320	2,158,516	21,540,377	30,232,795
Debt securities in issue	-	533,858	1,504,225	10,644,455	657,661	13,340,199
Subordinated debt	-	4,353	13,156	223,939	210,168	451,616
Commitments	718,858	-	-	-	-	718,858
Total liabilities	**718,858**	**5,950,793**	**2,638,701**	**13,026,910**	**22,408,206**	**44,743,468**

As at 31 December 2010						
Liabilities	**Demand**	**Within 3 months**	**After 3 months but within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Deposits by banks	-	3,841,996	746,231	2,551,154	19,666,629	26,806,010
Debt securities in issue	-	3,640,372	1,736,124	8,272,039	1,280,029	14,928,564
Subordinated debt	-	1,103	3,368	257,104	73,353	334,928
Commitments	782,100	-	-	-	-	782,100
Total liabilities	**782,100**	**7,483,471**	**2,485,723**	**11,080,297**	**21,020,011**	**42,851,602**

27 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

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

The tables below analyse cash flows on derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Cash flows associated with derivatives are undiscounted cash flows anticipated over the life of the derivatives based on expected interest rates at year end. Derivative cash flows are included for the pay and receive legs of net settled contracts with negative fair values.

As at 31 December 2011	Within 3 months €'000	After 3 months but within 1 year €'000	After 1 year but within 5 years €'000	After 5 years €'000	Total €'000
Net cash outflows on derivative financial instruments	6,756	19,125	26,786	1,019	53,686

As at 31 December 2010	Within 3 months €'000	After 3 months but within 1 year €'000	After 1 year but within 5 years €'000	After 5 years €'000	Total €'000
Net cash outflows on derivative financial instruments	8,853	21,503	18,375	712	49,443

Operational risk

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

Regulatory risk

Regulatory risk 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.

27 RISK MANAGEMENT AND CONTROL (continued)

Capital management

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

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

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

During 2011 and 2010, the Bank complied with all externally required capital requirements.

28 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table represents the carrying amount and the fair value of financial assets and financial liabilities of the Bank.

		As at 31 December 2011		As at 31 December 2010	
		Carrying amount	Fair values	Carrying amount	Fair values
		€'000	€'000	€'000	€'000
Assets					
Loans and advances to banks	(1)	19,493,552	19,625,984	18,469,538	18,644,557
Loans and advances to customers	(2)	20,224,722	16,825,989	20,595,439	18,947,804
Derivative financial instruments	(5)	417,973	417,973	369,745	369,745
Liabilities					
Deposits by banks	(3)	(26,528,738)	(26,528,738)	(24,368,776)	(24,368,776)
Debt securities in issue	(4)	(12,606,313)	(10,397,959)	(14,130,709)	(13,158,534)
Derivative financial instruments	(5)	(49,869)	(49,869)	(46,523)	(46,523)
Subordinated Liabilities	(4)	(403,261)	(304,049)	(312,665)	(312,665)

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

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

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

(3) Deposits by banks
The carrying amount of variable rate deposits is considered to be at market value.

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

(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 cash flows of these contracts.

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

Fair value hierarchy

The table below shows the Bank's financial assets and liabilities that are recognised and subsequently measured in the balance sheet at fair value and their classification within the fair valuation hierarchy. All are classified as Level 2. The bank has no financial assets and liabilities classified as Level 1 or Level 3.

Fair value hierarchy Level 2	As at 31 December 2011	As at 31 December 2010
	€'000	€'000
Financial assets held at fair value		
Derivative financial instruments	417,973	369,745
Total financial assets held at fair value	**417,973**	**369,745**
Financial liabilities held at fair value		
Derivative financial instruments	49,869	46,523
Total financial liabilities held at fair value	**49,869**	**46,523**

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.

29 COMMITMENTS

At 31 December 2011 the Bank has €719 million of approved mortgage loan applications that as at 31 December 2011 had not been drawn down**.** Undrawn mortgage loan applications at 31 December 2010 calculated on the same basis were €782 million.

30 RELATED PARTY TRANSACTIONS

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

(a) 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 Schemes see note 31. During the year ended 31 December 2011, the State's proportionate holding of the ordinary stock of Bank of Ireland reduced significantly following the 8 July 2011 rights issue, the debt for equity and cash offers and in particular the sale by the State of a significant number of units of ordinary stock in Bank of Ireland to a group of institutional investors and fund managers.

As a result, at 31 December 2011 the State held 15% of the ordinary stock of Bank of Ireland (31 December 2010: 36%).

(b) Transactions with Directors and Key Management Personnel

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

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

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

30 RELATED PARTY TRANSACTIONS (continued)

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

(i) Loans to Directors - Companies Acts Disclosures

	Balance as at 1 January 2011 [1] €'000	Balance as at 31 December 2011 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2011 €'000
Directors at 31 December 2011			
J Byrne			
Mortgages total	517	495	517
N Corcoran			
Mortgages total	527	515	527
P Flynn			
Mortgages total	663	634	662
B Kealy			
Mortgages total*	406	499	507
S Mason			
Mortgages total	1,398	1,399	1,400
Directors no longer in office at 31 December 2011			
B Nevin			
Mortgages total	350	345	350

J Clifford, M Davis, M Finan, J Martin, B McConnell, M Meagher and R Milliken had no loans with the Bank during the year ended 31 December 2011.

	Balance as at 1 April 2010 [1] €'000	Balance as at 31 December 2010 [1] €'000	Aggregate maximum amount outstanding during the period 1 April 2010 to [2] 31 December 2010 €'000
Directors at 31 December 2010			
J Byrne			
Mortgages total	533	517	533
P Flynn^			
Mortgages total	682	663	683
B Kealy			
Mortgages total*	411	406	412
B Nevin			
Mortgages total	214	350	565

J Clifford, M Davis, M Finan, J Martin and M Meagher had no loans with the Bank in the nine month period ended 31 December 2010.

*a portion of the mortgage total is on a preferential staff rate.

[1] Balances include principal and interest.

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

^ Restated.

30 RELATED PARTY TRANSACTIONS (continued)

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

(ii) Loans to Directors of parent company

	Balance as at [1] 1 January 2011 €'000	Balance as at [1] 31 December 2011 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2011 €'000
Directors of parent company at 31 December 2011			
R Boucher			
Mortgages Total	206	176	206
J Kennedy			
Mortgages Total	425	300	425
P Kennedy			
Mortgages Total	4,211	4,211	4,211
Directors of parent company no longer in office at 31 December 2011			
D Crowley			
Mortgages Total	496	542	575
P Haran			
Mortgages Total	105	89	105
H McSharry			
Mortgages Total	92	-	92

P Butler, T Considine, D Donovan, D Holt, R Hynes, P Molloy, P Mullvhill, J O'Donovan, P O'Sullivan and J Walsh had no loans with the Bank during the year ended 31 December 2011.

	Balance as at [1] 1 April 2010 €'000	Balance as at [1] 31 December 2010 €'000	Aggregate maximum amount outstanding during the period 1 April 2010 to [2] 31 December 2010 €'000
Directors of parent company at 31 December 2010			
R Boucher			
Mortgages Total	228	206	228
D Crowley			
Mortgages Total	604	496	604
P Haran			
Mortgages Total	116	105	116
J Kennedy			
Mortgages Total	549	425	550
P Kennedy			
Mortgages Total	4,031	4,211	4,211
H McSharry			
Mortgages Total	113	92	113
Directors of parent company no longer in office at 31 December 2010			
D McCourt			
Mortgages Total	347	348	348

[1] Balances include principal and interest.

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

30 RELATED PARTY TRANSACTIONS (continued)

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

(ii) Loans to Directors of parent company (continued)

T Considine, D Donovan, D Holt, R Hynes, P Molloy, T Neill, J O'Donovan, P O'Sullivan and J Walsh had no loans with the Bank during the period ended 31 December 2010.

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

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

Loans relate to mortgages secured on residential property.

(iii) Loans to connected persons+ and Central Bank licence condition disclosures

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

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

(a) the aggregate amount of lending to all connected persons, as defined in Section 26 of the Companies Act 1990; and
(b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

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

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

2011 Connected person of the following Director	Balance as at 31 December 2011[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2011[2] €'000	Number of persons as at 31 December 2011	Maximum number of persons during the year ended[2] 31 December 2011 €'000
Persons connected to P Flynn	91	102	1	1

2010 Connected person of the following Director	Balance as at 31 December 2010[1^] €'000	Aggregate maximum amount outstanding during the period 1 April 2010 to 31 December 2010[2] €'000	Number of persons as at 31 December 2010	Maximum number of persons during the year ended 31 December 2011[2] €'000
Persons connected to P Flynn^	102	110	1	1

+ 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.

[1] Balances include principal and interest.

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

^ Restated.

30 RELATED PARTY TRANSACTIONS (continued)

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

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

The following information is prepared in accordance with FRS 8: Related party disclosures.

For the purposes of FRS 8: Related Party Disclosures, key management personnel ("KMP") comprise the Directors of the Bank and key management personnel ("Head of Mortgage Credit"). Key management personnel also comprise KMP of the parent company, Bank of Ireland.

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

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

FRS 8 Disclosures **2011**	**Balance as at 1 January [1] 2011 €'000**	**Balance as at 31 December [1] 2011 €'000**	**Aggregate maximum amounts outstanding during the year ended [2] 31 December 2011 €'000**	**Number of KMP as at 1 January 2010**	**Number of KMP as at 31 December 2011**
Key Management Personnel					
Loans	9,102	10,121	10,547	15	17

2010	**Balance as at 1 April [1] 2010 €'000**	**Balance as at 31 December [1] 2010 €'000**	**Aggregate maximum amounts outstanding during the period ended [2] 31 December 2010 €'000**	**Number of KMP as at 1 April 2010**	**Number of KMP as at 31 December 2010**
Key Management Personnel					
Loans	6,706	9,102	10,190	16	15

[1] Balances include principal and interest.

[2] The maximum amount outstanding during the year is calculated using the highest balance on each account. The highest maximum outstanding liability in respect of a loan or mortgage during the year ended 31 December 2011 for any member of key management personnel and their close family did not exceed €4.2 million (31 December 2010: €4.2 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.

Loans relate to mortgages secured on residential property.

Included in the above FRS 8 loan disclosure are loans to key management personnel on preferential staff rates amounting to €125,000 (31 December 2010: €136,000).

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

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

30 RELATED PARTY TRANSACTIONS (continued)

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

(v) Directors' remuneration

	For the year ended 31 December 2011	For the period 1 April 2010 to 31 December 2010
	€'000	€'000
Fees	115	83
Other emoluments*	260	171
Total remuneration	**375**	**254**

* No other fees or bonuses were paid to directors during the year ended 31 December 2011 or the period ended 31 December 2010.

The Bank has availed of the exemption under FRS 8 not to disclose the KMP remuneration.

31 GOVERNMENT GUARANTEE SCHEME

Credit Institutions (Financial Support) Scheme 2008
Under this scheme, the Irish Government guaranteed relevant deposits and debt securities raised by Irish covered institutions.

The Credit Institutions (Financial Support) Scheme 2008 (the CIFS Scheme) expired on 29 September 2010. For the year ended 31 December 2011 the Bank has no fees charged under the CIFS scheme (€2.1 million for the period ended 31 December 2010).

Credit Institutions (Eligible Liabilities Guarantee) Scheme
Effective 11 January 2010, the Bank was accepted into the Irish Government's Eligible Liabilities Guarantee Scheme (the ELG Scheme).

The purpose of the ELG Scheme was to update and revise the guarantee under the CIFS Scheme. The ELG scheme provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both unguaranteed and guaranteed form (up to a maximum maturity of 5 years).

Eligible liabilities include:
- deposits to the extent not covered by deposit protection schemes in Ireland or any other jurisdiction;
- 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, and subject to prior consultation with the EU Commission.

Dated subordinated debt and covered bonds are not guaranteed under the ELG Scheme.

The Irish Government has extended the ELG scheme for a further period of one year to 31 December 2012. The extension is subject to EU state aid approval every six months, which is the maximum period permitted for such approval under the European Commission's policy on guarantee schemes in the financial sector. The EU Commission has approved the extension to 30 June 2012. Debt securities and deposits issued under the ELG scheme prior to 30 June 2012 will be covered to maturity, subject to a maximum maturity of five years.

An approval by the EU Commission of a further extension of the ELG scheme to 31 December 2012 would ensure that debt securities and deposits issued under the ELG scheme prior to 31 December 2012 would be covered up to their maturity, subject to a maximum term of five years.

The Bank had no eligible liabilities under the scheme and therefore has no charge in the financial statement for the year ended to 31 December 2011 or the period ended 31 December 2010.

32 SIGNIFICANT EVENTS

During the year ended 31 December 2011, Moody's Investor Services downgraded the long term ratings for the covered bonds issued by the Bank to Baa3. In addition, the Bank no longer seeks a rating for the covered bonds from Standard & Poor's.

The downgrade has impacted the Bank's contingent collateral with the Mortgage Backed Promissory Note programme no longer eligible for use with the European Central Bank ("ECB"). However the Bank utilised during the year the underlying security released to increase availability under the Asset Covered Bond programme which remains eligible with the ECB.

	31 December 2011	31 December 2010
Rating Agency		
Standard & Poor's	-	AA+
Moody's Investor Services	Baa3	A1

33 POST BALANCE SHEET EVENTS

The Bank entered into a framework agreement on 28 February 2012 with the Central Bank of Ireland ("Central Bank") under which the Bank may issue mortgage backed promissory notes to the Central Bank to the value of €2.4 billion against which the Bank has received €615 million in liquidity funding. These obligations are secured by way of a first floating charge over all the Banks right, title, interest and benefit, present and future in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security. The deed of floating charge ("Deed of Charge") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the Central Bank, the Bank shall:

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

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

There are no other significant post balance sheet events identified requiring disclosure prior to the approval of these financial statements.

34 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 28 March 2012.

The following disclosures represent additional disclosures for the mortgage loan book of the Bank. These disclosures provide additional detail and breakdowns on the composition and quality of the loan book.

Book composition

Loan book volumes	**As at 31 December 2011**	**As at 31 December 2010**
Residential mortgage loan book (before impairment provisions)	**€'m**	**€'m**
Owner-occupier	15,912	15,783
Buy to let	5,028	5,230
Total	**20,940**	**21,013**

Loan book volumes - Location	**As at 31 December 2011**	**As at 31 December 2010**
Residential mortgage loan book	**€'m**	**€'m**
Dublin	6,702	6,678
Rest of Ireland	14,238	14,335
Total	**20,940**	**21,013**

The mortgage book, before provisions, was €20.9 billion at 31 December 2011 compared to €21.0 billion at 31 December 2010, and accounts for the vast majority of the branch network originated mortgages included in the Bank of Ireland Group's ROI mortgage book of €28.1bn. The decrease of €73 million or 0.35% in the year reflects principal repayments and muted demand for new mortgages. The Bank provided mortgage finance to c.45% of first time buyer customers in the most recently published Irish Mortgage Council market data. Buy to let mortgages have reduced by €202million or 3.9% and owner occupied mortgages have increased by €129 million or 0.82%. Of the owner occupied mortgages of €15.9 billion, 91% are on a 'principal and interest' repayment basis (31 December 2010: 89%). Of the buy to let mortgages of €5.0 billion, 55% are on 'principal and interest' repayment basis (31 December 2010: 47%). The Bank, as part of the Bank of Ireland Group, has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio, and the portfolio has all been underwritten by the Group which manages this entire portfolio.

The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. Mortgage applications are assessed utilising a stressed interest rate. The mortgage process is a fully documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Loan origination profile of residential mortgages (pre impairment provision) 31 December 2011	**Total residential mortgage loan book**		**Loans > 90 days past due and / or impaired**	
	Balance €'m	**Number of Accounts[1]**	**Balance €'m**	**Number of Accounts[1]**
1996 and before	80	4,854	4	192
1997	47	1,917	3	83
1998	80	2,656	4	114
1999	146	3,696	9	160
2000	262	5,125	16	238
2001	371	5,746	20	263
2002	638	8,157	37	360
2003	1,066	11,111	83	618
2004	1,791	14,721	157	893
2005	2,803	18,977	282	1,377
2006	4,060	22,767	520	2,088
2007	3,669	19,083	490	1,783
2008	2,570	14,243	224	892
2009	1,408	9,459	34	210
2010	1,074	6,762	2	19
2011	875	5,834	0	2
Total	**20,940**	**155,108**	**1,885**	**9,292**

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

The table above illustrates that €7.3 billion or 35% of the mortgage loan book originated before 2006, €10.3 billion or 49% between 2006 and 2008 and €3.4 billion or 16% in the years since. Total loans that are greater than 90 days past due and / or impaired were €1.9 billion or 9.0% of the mortgage loan book at 31 December 2011, of which €1.2 billion or 5.9% were originated between 2006 and 2008.

Book Composition (continued)

As at 31 December 2011	Owner-occupied €'m	%	Buy to let €'m	%	Total €'m	%
Neither past due nor impaired	14,207	89	3,902	78	18,109	87
Past due but not impaired	1,318	9	593	12	1,911	9
Impaired	387	2	533	10	920	4
Total	**15,912**	**100**	**5,028**	**100**	**20,940**	**100**

As at 31 December 2010	Owner-occupied €'m	%	Buy to let €'m	%	Total €'m	%
Neither past due nor impaired	14,628	93	4,578	88	19,206	91
Past due but not impaired	861	5	321	6	1,182	6
Impaired	294	2	331	6	625	3
Total	**15,783**	**100**	**5,230**	**100**	**21,013**	**100**

The tables above illustrates that €18.1 billion or 86% of the total mortgage loan book at 31 December 2011 was classified as 'neither past due nor impaired' compared to €19.2 billion or 91% at 31 December 2010.

The above table shows that the 'past due but not impaired' category amounted to €1.9 billion or 9% of the total mortgage loan book at 31 December 2011 compared to €1.2 billion or 6.0% at 31 December 2010. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels.

'Impaired' mortgages increased from €0.6 billion or 3% of total mortgages at 31 December 2010 to €0.9 billion or 4% of total mortgages at 31 December 2011, an increase of 47%. This increase in impaired mortgages reflects increasing default arrears (90 days or more past due), in the owner occupied and particularly in the buy to let segments.

In the following tables, property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). This index provides the relevant index to be applied to original market values in the period after January 2005. For mortgages originated prior to January 2005, the Permanent TSB / ESRI House price index is utilised. Equity / negative equity values are determined using the Residential property price index published by the CSO at 31 December 2011 and the Permanent TSB / ESRI House price index at 31 December 2010.

Arrears profile of residential mortgages (ROI) past due but not impaired	31 December 2011			31 December 2010		
	Owner-occupied €'m	Buy to let €'m	Total €'m	Owner-occupied €'m	Buy to let €'m	Total €'m
1 - 30 days	302	141	443	232	99	331
31 - 60 days	198	98	296	131	51	182
61- 90 days	132	75	207	78	33	111
91- 180 days	244	109	353	157	58	215
181- 360 days	247	115	362	146	52	198
Over 360 days	195	55	250	117	28	145
Total loans and advances which are past due, but not impaired	**1,318**	**593**	**1,911**	**861**	**321**	**1,182**
Loans with equity	**593**	**156**	**749**	**523**	**120**	**643**
Loans with negative equity	**725**	**437**	**1,162**	**338**	**201**	**539**

Loans with equity represents the total value of all loans which are past due but not impaired and are not subject to negative equity
Loans with negative equity represents the total value of all loans which are past due but not impaired and are subject to negative equity

The table above illustrates that the 'past due but not impaired' category amounted to €1.9 billion or 9% of the total mortgage loan book at 31 December 2011 compared to €1.2 billion or 6% at 31 December 2010. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels.

Amount of negative equity 31 December 2011	Owner-occupied €'m	Buy to let €'m	Total €'m	Total %
Neither past due nor impaired	1,424	643	2,067	80%
Past due, but not impaired	173	112	285	11%
Impaired	114	118	232	9%
Total	**1,711**	**873**	**2,584**	**100%**

At 31 December 2011 the total negative equity in the mortgage loan book was €2.6 billion, which comprised €2.1 billion (80%) related to 'neither past due nor impaired', €0.3billion (11%) related to 'past due but not impaired' and €0.2 billion (9%) related to 'impaired'.

Loan-to-value ratio of total residential mortgages loan book

	Owner-occupied		Buy to let		Total	
As at 31 December 2011	**€'m**	**%**	**€'m**	**%**	**€'m**	**%**
Less than 50%	2,409	15	259	5	2,668	13
51% to 70%	2,061	13	369	8	2,430	12
71% to 80%	1,157	7	300	6	1,457	7
81% to 90%	1,267	8	307	6	1,574	8
91% to 100%	1,445	9	355	7	1,800	9
Subtotal	**8,339**	**52**	**1,590**	**32**	**9,929**	**47**
101% to 120%	2,829	18	911	18	3,740	18
121% to 150%	2,848	18	1,605	32	4,453	21
151% to 180%	1,265	8	649	13	1,914	9
Greater than 180%	631	4	273	5	904	4
Subtotal	**7,573**	**48**	**3,438**	**68**	**11,011**	**53**
Total	**15,912**	**100**	**5,028**	**100**	**20,940**	**100**

Average LTV[1]:			
Stock of residential mortgages at year end	**97%**	**118%**	**102%**
New residential mortgages during the year	**78%**	**60%**	**77%**

The table above illustrates the indexed loan to value ratio of the total mortgage loan book at 31 December 2011. €9.9 billion (47%) mortgages are in positive equity. 52% of owner occupied mortgages and 32% of buy to let mortgages are in positive equity. The weighted average indexed LTV for the total mortgage loan book is 102% at 31 December 2011, 97% for owner occupied and 118% for buy to let.

Loan-to-value ratio of residential mortgages > 90 days past due and / or impaired

	Owner-occupied		Buy to let		Total	
As at 31 December 2011	**€'m**	**%**	**€'m**	**%**	**€'m**	**%**
Less than 50%	74	7	22	3	96	5
51% to 70%	91	8	42	5	133	7
71% to 80%	53	5	38	5	91	5
81% to 90%	74	7	33	4	107	6
91% to 100%	73	7	44	5	117	6
Subtotal	**365**	**34**	**179**	**22**	**544**	**29**
101% to 120%	179	17	139	17	318	17
121% to 150%	263	25	320	39	583	31
151% to 180%	179	17	130	16	309	16
Greater than 180%	87	7	44	5	131	7
Subtotal	**708**	**66**	**633**	**78**	**1,341**	**71**
Total	**1,073**	**100**	**812**	**100**	**1,885**	**100**

Average LTV[1]:			
> 90 days past due and/or impaired mortgages in total	**119%**	**126%**	**122%**

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

The table above illustrates the indexed loan to value ratio of the greater than 90 days past due or impaired mortgages at 31 December 2011. €0.5 billion (29%) of this element of the mortgage loan book are not in negative equity. 34% of the greater than 90 days past due or impaired owner occupied mortgages are not in negative equity and 22% of the greater than 90 days past due or impaired buy to let mortgages are not in negative equity.

The weighted average indexed LTV for the greater than 90 days past due or impaired mortgages is 122% at 31 December 2011, 119% for owner occupied and 126% buy to let.

Asset quality section

Loans and advances to customers composition and impairment

As at 31 December 2011	**Advances** €'m	**Loans >90 days past due and / or impaired loans** €'m	**Loans >90 days past due and / or impaired loans as a % of advances** %	**Impairment provisions** €'m	**Impairment provisions as a % of loans >90 days past due and / or impaired loans** %
Residential mortgage loan book					
Owner-occupied mortgages	15,912	1,073	7	338	32
Buy to let mortgages	5,028	812	16	377	46
Total	**20,940**	**1,885**	**9**	**715**	**38**

As at 31 December 2010	**Advances** €'m	**Loans >90 days past due and / or impaired loans** €'m	**Loans >90 days past due and / or impaired loans as a % of advances** %	**Impairment provisions** €'m	**Impairment provisions as a % of loans >90 days past due and / or impaired loans** %
Residential mortgage loan book					
Owner-occupied mortgages	15,783	712	5	222	31
Buy to let mortgages	5,230	470	9	195	42
Total	**21,013**	**1,182**	**6**	**417**	**35**

At 31 December 2011 total mortgages were reduced by €73 million or 0.35%, reflecting principal repayments and muted demand for new mortgages. The impairment charge on the mortgage loan book has continued to increase during the year ended 31 December 2011 reflecting increasing default arrears (90 days or more past due), in the owner occupied and particularly in the buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland with high unemployment levels, including affordability issues and falling disposable income.

The impairment charge in the year ended 31 December 2010 included an amount of approximately €80 million, to reflect a change in the Bank's assumption of the expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models for mortgages. The bank estimated that €46 million related to the owner occupied segment and €34 million related to the buy to let segment. While there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak (estimated to be down approximately 26% from peak[1]) and buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year. Overall impairment provision coverage ratios on the mortgages that are greater than 90 days past due and / or impaired has increased from 35.3% to 38.0%.

1 Per 'The Daft.ie rental report – An analysis of recent trends in the Irish rental market 2011, Quarter 4'.

Restructuring for owner occupied residential mortgages As at 31 December 2011	*Loans not in default Balance €'m	Number of Accounts[2]	Loans > 90 days past due and / or impaired Balance €'m	Number of accounts[2]	All loans Balance €'m	Number of accounts[2]
Owner occupier						
Interest only (temporary arrangement)	387	2,637	142	921	529	3,558
Reduced payment (greater than interest only)	191	939	14	85	205	1,024
Term extension (including interest servicing)	140	1,662	12	85	152	1,747
Other	22	142	4	27	26	169
Total	**740**	**5,380**	**172**	**1,118**	**912**	**6,498**
Buy to let						
Interest only (temporary arrangement)	153	793	50	239	203	1,032
Reduced payment (greater than interest only)	145	616	21	38	166	654
Term extension (including interest servicing)	49	368	8	37	57	405
Other	-	3	-	-	-	3
Total	**347**	**1,780**	**79**	**314**	**426**	**2094**
Total						
Interest only (temporary arrangement)	540	3,430	192	1,160	732	4,590
Reduced payment (greater than interest only)	336	1,555	35	123	371	1,678
Term extension (including interest servicing)	189	2,030	20	122	209	2,152
Other	22	145	4	27	26	172
Total	**1,087**	**7,160**	**250**	**1,432**	**1,337**	**8,592**

* Loans neither > 90 days past due nor impaired
2 The number of accounts does not equate to either the number of customers or the number of properties.

The Bank has an operating infrastructure in place to assess and implement restructure arrangements for customers on a case-by-case basis. Arrears are not generally capitalised at point of restructure and remain in the applicable past due category.

The nature and type of restructurings include:

- Interest only (temporary arrangement): an arrangement where the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged.
- Reduced payment (greater than interest only) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future.
- Term extension (including servicing interest): a permanent arrangement where the original term of the mortgage is extended and all interest is fully serviced.
- Other: incorporating short term / temporary payment suspensions or payment reductions.

The above table illustrates the mortgages that have been subject to restructuring arrangements. These arrangements include temporary forbearance arrangements, permanent forbearance arrangements and permanent restructuring arrangements. Of the €1.3 billion of mortgages (before impairment provisions) subject to restructuring at 31 December 2011, 98% of this balance are paying interest only or greater on their balances. 16% are paying full principal and interest having had their mortgage term extended.

The Bank has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA) which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process (MARP) for defined owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers. In addition, the Bank has set out a clearly defined Mortgage Arrears Resolution Strategy incorporating both owner occupied and buy to let mortgages. The process adopted by the Bank seeks to minimise loss arising from non repayment of customer mortgages while ensuring that customers are treated fairly and with respect throughout the arrears management and resolution process. A range of options are deployed, for customers in arrears or facing potential arrears, in order to arrange, where viable or possible, sustainable mortgage repayment solutions. Implementation of forbearance and / or restructuring solutions occur on either a temporary or permanent basis to facilitate sustainable repayment plans. Forbearance and / or restructuring options are applied as appropriate, subject to individual case assessment. Temporary forbearance options include setting short term revised repayments or short term suspension of repayments. Permanent forbearance and/or restructuring solutions include, term extensions, phased step-up repayments over total contracted term and capitalisation of arrears. Additional potential forbearance options, contained within the recommendations of the Government Inter-Departmental Mortgage Arrears Working Group and in line with our Mortgage Arrears Resolution Strategy, are under consideration with a view to expanding longer term sustainable solutions.

Repossessions

At 31 December 2011, the Group had possession of properties held as security as follows:

	31 December 2011		31 December 2010	
	Number of repossessions at balance sheet date	Balance outstanding before impairment provisions €'m	Number of repossessions at balance sheet date	Balance outstanding before impairment provisions €'m
Owner-occupied mortgages	64	19	41	13
Buy to let mortgages	42	10	4	1
Total residential repossessions	**106**	**29**	**45**	**14**

31 December 2011 **Disposals of repossessions**	**Number of disposals during the year**	**Balance outstanding after provision €'m**	**Proceeds from disposals €'m**
Owner-occupied mortgages	42	5	6
Buy to let mortgages	6	1	1
Total residential repossessions	**48**	**6**	**7**

31 December 2010 **Disposals of repossessions**	**Number of disposals during the year**	**Balance outstanding after provision €'m**	**Proceeds from disposals €'m**
Owner-occupied mortgages	7	1	2
Buy to let mortgages	1	-	-
Total residential repossessions	**8**	**1**	**2**

During the year ended 31 December 2011 the Bank disposed of 48 repossessed properties[1] (31 December 2010: 8). The total contracted disposal proceeds was adequate to cover the balance outstanding after the provisions.

[1] The number of properties disposed of during the year ended 31 December 2011 and year ended 31 December 2010 includes those which were subject to an unconditional contract for sale at year end date.