BANK OF IRELAND MORTGAGE BANK REPORT & ACCOUNTS

31st March 2007

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DIRECTORS AND OTHER INFORMATION

Directors at 28th May 2007

J. Collins
J. Larkin
R. Hynes
B. Kealy
D. Mahony
M. Meagher
R. Boucher
K. Twomey

Secretary

G. Kerr
D. Mahony, Deputy Secretary

Registered Office

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

Bank

Bank Of Ireland
6 Lower O'Connell St
Dublin 1

Cover Assets Monitor

Mazars
Harcourt Centre
Block 3
Harcourt Road
Dublin 2

Auditors

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

Legal Advisors

Group Legal Advisors
Bank of Ireland
2 College Green
Dublin 2

BANK OF IRELAND MORTGAGE BANK
DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31st March 2007.

PRINCIPAL ACTIVITIES

The Bank was incorporated in Ireland under the Companies Acts, 1963 to 2006 on 21st May 2004 as a public limited company under the name Bank of Ireland Mortgage Bank p.l.c. It was subsequently re-registered as a public unlimited company under the name Bank of Ireland Mortgage Bank. The bank obtained an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and was registered as a designated mortgage credit institution under the Act on 1st July 2004. The Bank is a wholly owned subsidiary of the Governor & Company of the Bank of Ireland.

With effect from 5th July 2004 the Governor & Company of the Bank of Ireland transferred its Irish residential mortgage business and substantially all of its Irish residential mortgage loans and their related security to Bank of Ireland Mortgage Bank, trading as Bank of Ireland Mortgages. The transfer was affected pursuant to section 58 of the 2001 Asset Covered Securities Act, with the approval of the Central Bank and Financial Services Regulatory Authority of Ireland ("CBFSAI").

The Bank's principal activities are the issuance of Irish residential mortgages and Mortgage Covered Securities in accordance with the Asset Covered Securities Act, 2001. Such loans may be made directly by the Bank or may be purchased from Bank of Ireland and other members of the Group or third parties.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The profit after tax attributable to the Ordinary Shareholders amounted to €77m (2006 €76m) as set out in the profit and loss account on page 11. A dividend of €80m or €0.12820512 per ordinary share was paid on 21st December 2006 (2006 €35m or €0.7231405). Directors have not proposed a final dividend in the current year.

Profit before tax at €88m (2006 €87m) was in line with the previous year.

Sale of new mortgages reached a record high of €5.5bn in 2006/07. The mortgage book grew by 25% to €17.4bn (2006 €13.9bn). Mortgages continue to be originated exclusively through the Bank of Ireland branch channel.

The quality of the loan book continues to be exceptional and the level of arrears is well below the average for the Irish market. The Bank advanced €3.5bn (2006 €2.9bn) in net new mortgages in the period and the mortgage book has grown to €17.4bn (2006 €13.9bn).

Net interest margin (net interest income/average interest earning assets) decreased from 0.89% in 2005/06 to 0.75% in 2006/07. Mortgage margins show a decline primarily due to increased competition in the Irish mortgage market and increased liability spread.

Fees and commissions paid to related entities of Bank of Ireland Group increased by €12m in line with the increased volumes originated.

Costs were managed tightly and the increase in costs was due primarily to the costs associated with maintaining the bond programme and higher recharges from Bank of Ireland Group companies for support services provided.

Extensive work is being carried out by project teams to implement the Basel II approach adopted by Bank of Ireland Group and the provisions of the Sarbanes Oxley Act as it applies to USA listed companies (Bank of Ireland Deposit Receipts are listed on the New York Stock Exchange).

Liquidity is very strong at 33.36% which is well in excess of the Central Bank requirement of 25%.

The outlook for the Irish economy remains positive and the fundamentals that underpin the mortgage and housing markets remain favourable albeit there is a slow down in mortgage market activity from the record highs we have witnessed over the last number of years.

The directors are confident of another strong performance by the Bank in 2007/08.

RISK MANAGEMENT

The Bank has adopted the Risk Management Structure and Controls Framework consistent with that of Bank of Ireland Group. This is described in the notes to the financial statements, see note 24. Fair Value disclosures regarding all financial instruments are presented in Note 25.

In addition the Cover Assets Monitor performs the statutory function in relation to the covered asset pool and reports independently to the Financial Regulator.

ASSET COVERED SECURITIES

During 2006/2007 the Bank continued its successful Programme of Mortgage Bond Issues. In July 2006 the Bank returned to the market with a third transaction for €2bn with a seven-year maturity. In addition the Bank completed €93m in private placement transactions with maturities ranging from five to ten years. This brings the total bonds in issue to €6.4bn and demonstrates the Bank's commitment to establish a €10bn programme with various maturities to establish a benchmark curve incorporating vanilla benchmark and private placement transactions.

SHARE CAPITAL AND SUBORDINATED LIABILITIES

A further 90 million units of €1 ordinary shares were allotted and fully paid during the year.

624,000,000 units of Ordinary Shares, of nominal value of €1.00 each, were in issue at 31st March 2007.

There were no new subordinated loans from its parent during 2006/2007. Subordinated debt is at €242m at 31st March 2007 (2006 €242m).

POLITICAL DONATIONS

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

GOING CONCERN

The Directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for the preparation of the accounts.

BOOKS OF ACCOUNT

The Directors ensure that proper books and account records are kept at the bank's registered office, through the appointment of suitably qualified personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

EVENTS SINCE THE YEAR END

There have been no post balance sheet events that require reporting since the year end, 31st March 2007 and the date of signing.

AUDITORS

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

John G. Collins
Director

Joe Larkin
Director

Denis Mahony
Director and Deputy Secretary

Michael J. Meagher

Michael J. Meagher
Director

BANK OF IRELAND MORTGAGE BANK
DIRECTORS' REPORT

DIRECTORS' & SECRETARY

The names of the persons who were Directors of the Bank at any time during the year ended 31st March 2007 are set out below. Except where indicated they served as directors for the entire year.

Directors	
J. Collins	
J. Larkin	
R. Hynes	
B. Kealy	
D. Mahony (Director and Deputy Secretary)	Appointed Deputy Secretary 12th February 2007
M. Meagher	
R. Boucher	Appointed 25th May 2006
S. Crowe	Retired 30th August 2006
K Twomey	Appointed 11th December 2006
M Ferns (Secretary)	Retired 11th December 2006
G Kerr (Secretary)	Appointed 11th December 2006

DIRECTORS' & SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office at 31st March 2007, and of their spouses and minor children, in the shares of the Governor & Company of the Bank of Ireland and related Group entities, are disclosed in Note 5(b) of the financial statements.

BANK OF IRELAND MORTGAGE BANK
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The directors confirm that they have complied with 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 with Irish statute comprising the Companies Acts, 1963 to 2006, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and the Asset Covered Securities Act 2001. 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.

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

We have audited the financial statements on pages 11 to 43. These financial statements have been prepared under the accounting policies set out therein.

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 8.

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 2006, the European Communities (Credit Institutions : Accounts) Regulations 1992 and the Asset Covered Securities Act, 2001. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

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

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

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

PRICEWATERHOUSECOOPERS

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

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 March 2007 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2006, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and the Asset Covered Securities Act, 2001.

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 7 is consistent with the financial statements.

The net assets of the Bank, as stated in the balance sheet on page 13 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 March 2007 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Bank.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

28 May 2007

BANK OF IRELAND MORTGAGE BANK
PROFIT AND LOSS ACCOUNT

	Notes	Year Ended 31 March 2007 €m	Year Ended 31 March 2006 €m
Interest receivable and similar income	2	896	557
Interest payable	3	(717)	(393)
NET INTEREST INCOME		179	164
Fees and commissions receivable		1	2
Fees and commissions payable	4	(81)	(69)
TOTAL OPERATING INCOME		99	97
Administrative expenses	5	(14)	(12)
Impairment losses on loans & advances	12	-	-
Net Trading Income	7	3	2
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		88	87
Taxation on profit on ordinary activities	8	(11)	(11)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		77	76

The movement in the reserves is shown in Note 19

The notes on pages 15 to 43 form part of the financial statements.

John G. Collins
Director

Joe Larkin
Director

Denis Mahony
Director and Deputy Secretary

Michael J. Meagher

Michael J. Meagher
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year Ended 31 March 2007 €m	Year Ended 31 March 2006 €m
Profit on ordinary activities after taxation	1	77	76
Implementation of FRS 25 & 26		-	6
TOTAL GAINS RECOGNISED IN YEAR		77	82

BANK OF IRELAND MORTGAGE BANK

BALANCE SHEET — AS AT 31 MARCH

	Notes	2007 €m	2006 €m
ASSETS			
Cash and balances at central banks	9	-	-
Loans and advances to banks	10	8,167	6,616
Loans and advances to customers	11	17,389	13,879
		25,556	20,495
LIABILITIES			
Deposits by banks	14	18,165	14,549
Debt securities in issue	15	6,314	5,040
Derivative financial instruments	13	115	41
Other liabilities	16	11	2
Subordinated liabilities	17	244	243
		24,849	19,875
SHAREHOLDERS' FUNDS			
Called up capital stock	18	624	534
Profit and loss account	19	83	86
		707	620
		25,556	20,495

The notes on pages 15 to 43 form part of the financial statements.

Commitments see note 27.

John G. Collins
Director

Joe Larkin
Director

Denis Mahony
Director and Deputy Secretary

Michael J. Meagher
Director

BANK OF IRELAND MORTGAGE BANK
CASHFLOW STATEMENT

	Notes	Year Ended 31 March 2007 €m	Year Ended 31 March 2006 €m
Net cash flow from operating activities	21	(12)	(108)
Returns on Investment and Servicing of Finance	21	(87)	(41)
Taxation		(11)	(11)
Financing	21	90	170
Increase/(decrease) in cash in the period		(20)	10

The notes on pages 15 to 43 form part of the financial statements.

1 BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements on pages 11 to 43 have been prepared under the historical cost convention, modified by the revaluation of certain financial instruments, in accordance with the Companies Acts, 1963 to 2006, the European Communities (Credit Institutions: Accounts) Regulations 1992, the Asset Covered Securities, Act 2001 and with accounting standards generally accepted in Ireland.

The difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost convention amounts to €3million. (2006 €2m).

The financial information is drawn up in euro (€) and except where otherwise indicated are expressed in millions. 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 Interest Income and Expense

Interest income and expense are recognised in the Profit & Loss for all instruments measured at amortised cost using the effective interest method. Interest income / expense on derivative financial instruments are accounted for in line with underlying substance of the derivative.

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

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

1.3 Fees & commission income / payable

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

1.4 Financial Assets

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

Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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

1.5 Financial Liabilities

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

1.6 Derivative financial instruments and hedge accounting

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

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (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, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(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 in trading income.

1.7 Impairment of financial assets

(a) Assets carried at amortised cost

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:
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; or
    national or local economic conditions that correlate with defaults on the assets in the group.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

1.7 Impairment of financial assets continued

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss.

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

1.8 Issued Debt Securities

Capital Instruments Mortgage Covered Securities Bond

Issue expenses incurred in connection with the issue of dated capital instruments other than equity shares are deducted from the proceeds of the issue and amortised to the profit and loss account as appropriate so that the finance costs are allocated to accounting periods at a constant rate based on the carrying amount of the instrument. The amortisation of premiums and discounts is included in interest payable.

1.9 Pensions

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

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

The pension cost relating to this scheme is assessed in accordance with the advice of a qualified actuary. Contributions are charged to the profit and loss account in the period in which they became payable. The disclosures required under Financial Reporting Standard 17 ("Retirement Benefit") for the year ended 31st March 2007 are shown in note 23.

1.10 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.

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 €m	2006 €m
Loans and advances to banks	246	128
Loans and advances to customers	650	429
	896	557

3 INTEREST PAYABLE

	2007 €m	2006 €m
Other interest payable	484	283
Debt securities in issue	224	104
Interest on subordinated liabilities	9	6
	717	393

4 FEES AND COMMISSIONS PAYABLE

	2007 €m	2006 €m
Service fee payable to group companies	81	69
	81	69

5 ADMINISTRATIVE EXPENSES

	2007 €m	2006 €m
Staff Costs:		
- wages and salaries	0.56	0.56
- social security costs	0.06	0.06
- pension costs	0.06	0.05
	0.68	0.66
Other administrative expenses	13.08	11.62
Total administrative expenses	13.76	12.28

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

5(a) EMPLOYEE INFORMATION

For the year ended 31st March 2007 the average number of employees was 9 (2006 6 employees).

5 (b) DIRECTORS' & SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office as at 31st March 2007, and of their spouses and minor children, in the shares of Bank of Ireland or the Group undertakings are set out in the tables below.

SHARES IN THE GOVERNOR & COMPANY OF THE BANK OF IRELAND

	As at 31 March 2007	As at 31 March 2006 (or date of appointment if later)
Directors	SHARES	SHARES
J. Collins	76,031	119,031
J. Larkin	24,425	22,988
S. Crowe	11,479	10,536
R. Hynes	2,900 ADRs*	Nil
B. Kealy	4,915	2,671
D. Mahony	15,367	12,850
M. Meagher	68,178	68,078
R. Boucher	1,923	1,904
K. Twomey	4,064	2,518
Secretary		
G. Kerr	5,833	5,775

*In the United States of America the Governor & Company of the Bank of Ireland Ordinary Stock (symbol IRE) is traded on the New York Stock Exchange in the form of American Depository Shares (ADSs), each ADS representing the right to receive four units of Ordinary Stock and evidenced by American Depository Receipts (ADRs).

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

Directors	Date of Grant	Earliest Exercise Date	Exercise Price €	As at 31 March 2007	As at 31 March 2006 (or date of appointment if later)
J. Collins	18 Jun 2003	18 Jun 2006	10.77	Nil	50,000
	24 Jun 2002	24 Jun 2005	12.50	Nil	40,000
J. Larkin	21 May 2001	21 May 2004	11.05	10,000	10,000
	18 Jun 2003	18 Jun 2006	10.77	15,000	15,000
	26 Jul 2004	26 Jul 2007	10.76	18,000	18,000
	21 Jul 2005	21 Jun 2008	12.85	14,000	14,000
	04 Jul 2006	04 Jul 2009	14.00	13,500	Nil
	22 Dec 2006	01 Feb 2010	12.28	301	Nil
S. Crowe	15 Dec 2003	1 Feb 2009	7.84	2,653	2,653
R. Hynes	-	-	Nil	Nil	Nil
B. Kealy	15 Dec 2003	1 Feb 2007	7.84	Nil	1,522
	18 Jun 2003	18 Jun 2006	10.77	Nil	8,000
	26 Jul 2004	26 Jul 2007	10.76	11,500	11,500
	21 Jul 2005	21 Jun 2008	12.85	9,500	9,500
	04 Jul 2006	04 Jul 2009	14.00	8,000	Nil
	22 Dec 2006	01 Mar 2010	12.28	301	Nil
D. Mahony	15 Dec 2003	01 Feb 2007	7.84	Nil	1,522
	13 Jul 1999	13 Jul 2002	8.93	10,000	10,000
	21 Jun 2005	21 Jun 2008	12.85	3,000	3,000
	22 Dec 2006	01 Mar 2010	12.28	301	Nil
M. Meagher	-	-	-	Nil	Nil

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

Directors	Date of Grant	Earliest Exercise Date	Exercise Price €	As at 31 March 2007	As at 31 March 2006 (or date of appointment if later)
R. Boucher	08 Dec 03	8 Dec 2006	10.54	20,000	20,000
	26 Jul 04	26 Jul 2007	10.76	26,000	26,000
	21 Jun 05	21 Jun 2008	12.85	23,000	23,000
	04 Jul 2006	04 Jul 2009	14.00	30,500	Nil
	22 Dec 2006	01 Mar 2010	12.28	301	Nil
K. Twomey	-	-	-	Nil	Nil
Secretary					
G. Kerr	-	-	-	Nil	Nil

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

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

Directors	Date of Award	As at 31 March 2007	As at 31 March 2006 (or date of appointment if later)
J. Collins	18 Jun 2003	Nil	Nil
J. Larkin	18 Jun 2003	Nil	7,054
	26 Jul 2004	12,500	12,500
	21 Jun 2005	10,500	10,500
	04 Jul 2006	9,450	Nil
S. Crowe	-	Nil	Nil
R. Hynes	-	Nil	Nil
B. Kealy	-	Nil	Nil
D. Mahony	-	Nil	Nil
M. Meagher	-	Nil	Nil
R. Boucher	18 Dec 03	Nil	10,368
	26 Jul 04	18,500	18,500
	21 Jun 05	16,000	16,000
	04 Jul 06	30,500	Nil
K. Twomey	-	Nil	Nil

Secretary	Date of Award	As at 31 March 2007	As at 31 March 2006 (or date of appointment if later)
G. Kerr	-	Nil	Nil

*Since 2004 the Governor & Company of the Bank of Ireland has operated a Long Term Incentive Plan ('LTIP'), with stockholder approval, for key senior executives who are best placed to maximise stockholder value. This replaced the Long Term Performance Stock Plan ('LTPSP'), which operated from 1999 to 2003. Under this plan and its predecessor, the LTPSP, conditional awards have been made to the executive Directors as set out in the table above.

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

Directors	As at 31 March 2007	As at 31 March 2006
J. Collins	673	671
J. Larkin	29,521	1,152
S. Crowe	Nil	Nil
R. Hynes	Nil	Nil
B. Kealy	Nil	Nil
D. Mahony	24	23
M. Meagher	Nil	Nil
R. Boucher	Nil	Nil
K. Twomey	Nil	Nil
Secretary		
M. Ferns	Nil	Nil
G. Kerr	Nil	Nil

6 PROFIT BEFORE TAXATION

	2007 €000	2006 €000
Profit before taxation has been arrived at after charging:		
Auditors Remuneration (Including VAT)		
Statutory audit	44	42
Other assurance services	90	67
Other Services		
Tax advisory	-	15
Total	134	124
Directors' remuneration		
Fees	63	46
Salaries	-	-
Pension contributions to directors	-	-
	63	46

All loans to non executive directors are made in the ordinary course of business on normal commercial terms. Loans to executive directors are made on terms similar to those available to staff generally on a case by case basis and in accordance with policy and / or in the ordinary course of business on normal commercial terms. Included in the loans and advances are loans of €2.2m made to 4 executive directors (2006: €1.6m to 3 directors) on terms similar to those generally available to staff.

7 NET TRADING INCOME

For the year ended 31st March 2007 the net trading income comprising the gains / losses on trading derivatives and the ineffective element of hedging instruments was €3m (2006 €2m).

8 TAXATION

	2007 €000	2006 €000
Current Tax		
Irish Corporation tax @ 12.5%	10,911	10,913
Deferred Tax		
Unwinding of Transition Adjustments	(236)	(86)
	10,755	10,827

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

9 CASH AND BALANCES AT CENTRAL BANKS

	2007 €000	2006 €000
Funds placed with Central Bank of Ireland	25	25
	25	25
Other loans and advances to banks by remaining maturity		
Repayable on demand		
- 3 months or less	-	-
- 1 year or less but over 3 months	25	25
	25	25

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

10 LOANS AND ADVANCES TO BANKS

	2007 €m	2006 €m
Funds placed with the Governor & Company of the Bank of Ireland	8,167	6,616
	8,167	6,616
Loans and advances to banks by remaining maturity		
Repayable on demand	7	14
- 3 months or less	1,722	2,302
- 1 year or less but over 3 months	-	-
- 5 years or less but over 1 year	2,002	2,000
- over 5 years	4,436	2,300
	8,167	6,616

11 LOANS AND ADVANCES TO CUSTOMERS

	Notes	2007 €m	2006 €m
Repayable on demand		-	-
3 months or less		122	118
1 year or less but over 3 months		355	353
5 years or less but over 1 year		2,189	2,065
Over 5 years		14,729	11,349
Less provisions for bad and doubtful debts	12	(6)	(6)
		17,389	13,879

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

12 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

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

	2007 €000	2006 €000
Opening Provision at 1 April 2006	6,178	9,397
Transition Adjustment	-	(3,412)
Charge against Profits	157	193
At 31 March 2007	6,335	6,178

Interest on impaired mortgage balances at 31st March 2007 was €3.992m (2006 €2.152m)

13	DERIVATIVE FINANCIAL INSTRUMENTS AS AT 31st MARCH 2007	2007 €m Contract / Notional Amount €m	2007 €m Fair Value Liability €m	2006 €m Contract / Notional Amount €m	2006 €m Fair Value Liability €m
13 (a)	Derivatives held for trading				
	Non-Pooled Swaps	10,478	-	9,269	-
	Pooled Swaps	6,420	-	4,218	-
	Private Placing Swaps	203	0.2	160	0.2
	Total derivatives held for trading	17,101	0.2	13,647	0.2
13(b)	Derivatives held for hedging				
	Interest rate swaps	6,050	114.6	4,000	40.8
	Total derivatives held for hedging	6,050	115	4,000	41
	Total derivatives	23,151	115	17,647	41

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The following table represents the underlying principal and replacement costs of the bank's derivatives as at 31st March 2007.

31st March 2007	Within one year €m	Over one year €m	Total €m
Underlying Principal Amount			
Interest Rate Contracts	16,897	6,253	23,151
Replacement Costs			
Interest Rate Contracts	-	-	-

The following table represents the underlying principal and replacement costs of the bank's derivatives as at 31st March 2006.

31st March 2006	Within one year €m	Over one year €m	Total €m
Underlying Principal Amount			
Interest Rate Contracts	13,487	4,160	17,647
Replacement Costs			
Interest Rate Contracts	-	-	-

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

14 DEPOSITS BY BANKS

	2007 €m	2006 €m
Deposits by Banks	18,165	14,549
Deposits by remaining maturity		
Repayable on demand	17	4
- 3 months or less	18,148	14,545
Due to the Governor & Company of the Bank of Ireland	18,165	14,549

15 DEBT SECURITIES IN ISSUE

	Notes	2007 €m	2006 €m
Bonds and medium term notes by remaining maturity			
- 3 months or less		109	50
- 1 year or less but over 3 months		37	36
- 5 years or less but over 1 year	1(a)	2,005	1,986
- Greater than 5 years	1(b)	4,163	2,198
Other debt securities in issue by remaining maturity			
- 3 months or less	2	-	770
- 1 year or less but over 3 months		-	-
- 5 years or less but over 1 year		-	-
		6,314	5,040

Notes

(1) (a) The Bank issued €2,000m of fixed rate (3.5%) in mortgage covered securities in September 2004 maturing September 2009.

(b) In June 2005 the Bank issued €2,000m of fixed rate (3.25%) in mortgage covered securities maturing June 2015. They also issued a further €2,000m of fixed rate (4.05%) in mortgage covered securities in July 2006 maturing July 2013 along with a further €50m also issued in July 2006 of fixed rate (4.05%) maturing January 2013. In respect of the fixed rate issues, interest rate swaps have been entered into to swap the fixed rate payments to floating rate The Bank also issued four private placing ACS Bonds totalling €343m with floating rates repricing quarterly. 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.

15 DEBT SECURITIES IN ISSUE continued

Bank of Ireland Mortgage Bank is a directly, wholly-owned, subsidiary of the Governor & Company of the Bank of Ireland, holds a banking licence and is a designated mortgage credit institution within the meaning of the Asset Covered Securities Act, 2001 (the "2001 Act"). The Act provides, 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 Act on the assets (Cover Assets) comprised in the Pool. Asset covered securities issued by Institutions in accordance with the Act are called mortgage covered securities (Mortgage Covered Securities). The value of the pool including mortgage assets and cash at the 31st of March 2007 securing these assets was €7.2bn (2006 €4.8bn). As at 31st March 2007 there are no mortgage credit assets secured on commercial property in Bank of Ireland Mortgage Bank (2006 Nil).

In accordance with the 2001 Act, see the required disclosures set out in tables 15 (a) – 15(g) below.

(2) The Bank can raise funds from the Central Bank and Financial Services Authority of Ireland (CBFSAI) under the Mortgage Backed Promissory Note Programme (MBPNP) entered into. Obligations under the programme are secured by way of a first floating charge to the CBFSAI over all its right, title, interest and benefit, in €3bn (2006 €1bn) of loans and advances to customers. The bank has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets without the prior written consent of the CBFSAI. The deed of floating charge was executed by the Bank of Ireland Mortgage Bank and dated 5th July 2004 in favour of the Central Bank and Irish Financial Services Regulatory Authority. The mortgages in the MBPN programme are secured by a floating charge over Irish Residential Mortgage Credit Assets, which are not in the covered assets pool. At 31st March 2007 there was no amount of other debt securities obliged to Central Bank (2006 €770m).

15(a) Mortgage Accounts & Principal Outstanding in the Mortgage Covered Pool as at 31st March 2007

From Range €000	To Range €000	Number of Accounts 2007	Total Balances of Accounts (1) 2007 €000	Number of Accounts 2006	Total Balances of Accounts (1) 2006 €000
0	100	28,982	1,377,337	26,597	1,261,089
100	200	17,465	2,519,376	12,447	1,754,663
200	500	7,881	2,129,095	3,847	1,025,194
Over 500		522	384,246	203	139,131
		54,850	6,410,054	43,094	4,180,077

(1) The total balance of accounts represents the cumulative amount outstanding on the all the mortgage accounts in the pool as at 31st March 2007 and 31st March 2006 respectively.

15 DEBT SECURITIES IN ISSUE continued

15(b) Geographical Location and Details for the Pool as at 31st March 2007

Geographical Area	% of Over all Properties	Number of Accounts (2)	Number of Properties
Dublin	21%	11,940	10,474
Outside Dublin	79%	42,910	38,466
	100%	54,850	48,940

15 (b) Geographical Location and Details for the Pool 31st March 2006

Geographical Area	% of Over all Properties	Number of Accounts (2)	Number of Properties
Dublin	21%	9,149	7,825
Outside Dublin	79%	33,945	29,993
	100%	43,094	37,818

(2) The number of accounts represents the cumulative number of mortgage accounts held in the pool as at 31st March 2007 and as at 31st March 2006. 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 31st March 2007and for comparatives at 31st March 2006.

15(c) Pool Accounts in Default as at 31st March 2007

As at 31st March 2007 there were 244 accounts (2006 27) in default (the term default is defined as relating to mortgage accounts that are in arrears exceeding 3 months). The cumulative current balance on these accounts was €26,702,886 with an arrears amount of €1,066,973 as at 31st March 2007 (31st March 2006 cumulative balance was €2,112,064 with arrears of €59,069).

15(d) Pool Accounts in Default with Arrears >€1,000 as at 31st March 2007

During the year there were 386 accounts which had been in default with arrears of more than €1,000. The cumulative balance on these accounts was €49,217,262 with an arrears amount of €1,906,705. As at 31st March 2007 there were 225 accounts with arrears in excess of €1,000. The cumulative current balance on these accounts was €26,380,091 with an arrears balance of €1,056,019.

As at 31st March 2006, 21 of the 164 accounts in default had arrears of more than €1,000 on them. The cumulative balance on these accounts in arrears of over €1,000 was €1,956,585 with an arrears amount of €54,302 as at 31st March 2006.

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

During the year ended 31st March 2007, 68 accounts (2006 170) that were non-performing (the term non performing is defined as relating to mortgage accounts that are in arrears exceeding 3 months) were replaced with other mortgage credit assets. The total amount in arrears in respect of mortgage assets that had not been written off as at 31st March 2007 was €1,066,973 (2006 €59,069).

15(g) Total Mortgage Principal and Interest Repayments on Pooled Accounts by customers for year ended 31st March 2007

For the year ended 31st March 2007 the total amount of interest and capital repaid in respect of mortgage credit assets was €292,584,185 and €1,090,711,502 (2006 €116,470,619 and €748,141,057) respectively.

16 OTHER LIABILITIES

		2007 €m	2006 €m
Amounts due to other Bank of Ireland Group Companies		10.5	-
Current and deferred taxation	(1)	0.5	2
		11	2

(1) **Deferred Taxation Liability**

	2007 €000	2006 €000
Deferred tax 1 April 2006	718	-
Deferred Tax on Implementation of FRS 26	-	804
Profit and Loss	(236)	(86)
Deferred tax at 31 March 2007	482	718

The closing Deferred Tax balance at the 31st March 2007 is made up of €257,000 (2006 €343,000) on Mortgage Discounts and €225,000 (2006 €375,000) on Loan Loss Provisions.

17 SUBORDINATED LIABILITIES

On 2nd July 2004 Bank of Ireland Mortgage Bank availed of a €162m interest bearing subordinated loan from its parent the Governor & Company of the Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is linked to the three-month euribor rate plus a margin of 35 basis points and it reprices quarterly. The loan matures on 4th July 2014.

On 30th June 2005 Bank of Ireland Mortgage Bank availed of a further €80m interest bearing subordinated loan from its parent the Governor & Company of the Bank of Ireland. This brings the total to €244m (2006 €243m), €242m being the loan balance and €1.6m accrued interest at the 31st March 2007. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is linked to the three-month euribor rate plus a margin of 30 basis points and it reprices quarterly. The loan matures on 2nd July 2015.

18 SHARE CAPITAL

	2007 €m	2006 €m
Authorised		
1,000m units of €1.00 of Ordinary Shares	1,000	1,000
	1,000	1,000

Allotted and fully paid	2007 €m	2006 €m
Equity		
624m units of €1.00 of Ordinary Shares (2006, 534m units of €1.00 of Ordinary Shares)	624	534
	624	534

During the year there were 90m units of €1 Ordinary Shares issued as set out in the table below as a result of capital injections from the parent company.

Date of Acquisition by Allotment	No. of Ordinary Shares Issued
October 2006	40,000,000
April 2006	50,000,000
Total Allotted and fully paid	90,000,000

All units of Ordinary Shares in issue carry the same voting rights.

19 RESERVES

	Notes	2007 €m	2006 €m
Profit and loss account			
Opening balance		86	39
Profit for the period		77	76
Dividend Paid	20	(80)	(35)
Implementation of FRS 25 & 26		-	6
Closing balance		83	86

20 DIVIDEND

	2007 €m	2006 €m
Dividend Paid	80	35

A dividend of €80m or €0.12820512 (2006 €35m or €0.7231405) per ordinary share in issue was paid on 21st December 2006 to the Bank's parent the Governor & Company of the Bank of Ireland.

21 NOTES TO THE CASH FLOW STATEMENT

21(i) RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Notes	Year Ended 31 March 2007 €m	Year Ended 31 March 2006 €m
Profit on Ordinary activities before taxation		88	87
Amortisation of issue costs and mortgage discounts		13	4
Interest charged on subordinated liabilities		7	6
Fair value adjustments		(3)	(2)
Net cash flow from trading activities		105	95
Net (increase) in loans and advances to banks		(1,558)	(2,878)
Net (increase) in loans and advances to customers		(3,518)	(2,921)
Net increase in deposits by banks		3,603	3,278
Net increase in debt securities in issue		1,460	2,396
Net increase in other assets		-	52
Net increase in other liabilities		9	(21)
Net increase in accruals and deferred income		-	(39)
Net increase in derivative financial instruments	1	(113)	(70)
Net cash flow from operating activities		(12)	(108)

Note:
(1) Balance sheet movements on derivative financial instruments comprises of movements in interest accruals.

21(ii) Returns on investment and servicing of finance

	Year Ended 31 March 2007 €m	Year Ended 31 March 2006 €m
Interest paid on subordinated liabilities	(7)	(6)
Dividend paid	(80)	(35)
	(87)	(41)

21 (iii) Financing

	Year Ended 31 March 2007 €m	Year Ended 31 March 2006 €m
Issue of subordinated liabilities	-	80
Issue of Ordinary stock	90	90
	90	170

21 (iv) ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	Cash	Loans and advances to / from Banks on demand	Total Cash
2007	€m	€m	€m
At 1 April 2006	-	10	10
	-	-	-
Cash Flow	-	(20)	(20)
At 31 March 2007	-	(10)	(10)
2006			
At 1 April 2005	-	-	-
Cash Flow	-	10	10
At 31 March 2006	-	10	10

22 SEGMENTAL INFORMATION

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

23 PENSION COSTS

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

An independent actuary, on the basis of triennial actuarial reviews, determines the Banks contributions to the ICS scheme. The disclosures have been calculated by qualified independent actuaries based on the most recent full actuarial valuations at 1st January 2004 as updated to 31st December 2006. The deficit on the scheme as at 31st December 2006 amounted to €8.7m (2006 €13.4m). With effect from the 5th July 2004 the Bank is contributing to the ICS Plan at a rate of 18.3% of pensionable salaries.

Whilst the scheme is a defined benefit scheme the Bank is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, hence it is treated as a defined contribution scheme in the accounts of the Bank.

Contributions on behalf of the Bank's employees amounted to €57,000 for the year ended 31st March 2007 (2006 €51,000). There were no outstanding amounts to be paid to the scheme at 31st March 2007 by the Bank (2006 €Nil).

24 RISK MANAGEMENT AND CONTROL

The Board of Directors approves policies and limits with respect to credit risk, market risk, liquidity risk and operational risk. The Head of Credit and Risk Management for Personal Lending for Bank of Ireland has overall responsibility for credit policy implementation at executive level and the Finance Director has overall responsibility for market, liquidity and operational policy implementation at executive level. The Credit Risk Management unit has responsibility for the day-to-day operation of the credit risk policy. The Treasury Unit has responsibility for the day-to-day operation of the market risk and liquidity risk policies. The Compliance and Operational Risk Unit has responsibility for operational risk policy and reviews the operation of the financial and operating controls. The credit risk, market risk, operational risk and liquidity risk policies are reviewed on an annual basis. The Bank's risk management and control policies comply with the Bank of Ireland Group policies on credit risk, market risk, liquidity risk and operational risk. In addition, Bank of Ireland Group Credit and Group Internal Audit review compliance with the Bank of Ireland Group credit risk, market risk, liquidity risk and operational risk policies as part of their ongoing work in Bank of Ireland Mortgage Bank. The general scheme of risk management, financial and operational controls is designed to safeguard the Bank's assets while allowing sufficient operational freedom to earn a satisfactory profit.

Credit Risk

Credit Risk reflects the risk that counterparties will be unable to meet their contractual obligations to the Bank in respect of loans or other financial transactions thereby causing the Bank to incur a loss. Credit risk within the Bank arises primarily from residential mortgage lending. The credit risk policy is agreed by the Board of Directors and complies fully with overall Bank of Ireland Group Lending Policy. The policy is reviewed regularly. Clear policies for approval of loans are documented. The quality of all lending is monitored and measured using portfolio grading tools and proactive quality assurance measures. A robust arrears management process ensures that the impact of arrears on the Bank's performance is minimised.

The Bank primarily assesses credit risk on the criteria of repayment capacity, loan to value ratios, income multiples and adequacy of security. The residential mortgage-lending book is managed on a portfolio basis. Diversification is achieved through maintenance of an acceptable risk spread in relation to a range of risk parameters including geographical locations, product concentrations, loan to value ratios and interest rates.

The entire credit risk process is managed on a daily basis by the Credit Risk Management function. In turn this function is independently reviewed by the Bank of Ireland Group Credit Review function, which reports to the Bank of Ireland Group Credit Committee on the quality and adequacy of overall portfolio quality, credit management standards and control procedures.

Market Risk and Interest Rate Risk Strategy

Market risk is the exposure of the bank's earnings and net worth to changes in interest rates, foreign exchange rates or other market prices. The Bank's principal market risk is interest rate risk. Interest rate risk primarily arises from fixed rate customer lending and the issuance of fixed rate Mortgage Covered Securities. This exposure is substantially eliminated through hedging arrangements and interest rate swaps with Bank of Ireland, which have the effect of transforming fixed rate risk into floating-rate risk.

The Bank's interest rate risk strategy aims to provide the Bank with protection against material adverse changes in interest and related funding rates by undertaking controlled management of the interest rate structure in the Bank's mortgage and funding products. The strategy operates within limits set by the Board of Directors. The Bank's interest rate risk strategy incorporates the policies of Bank of Ireland Group. The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

The Bank's policy is not to trade in derivatives (see below) but to use these instruments to hedge exposures, where appropriate. The underlying principal amount for derivatives was €23.1bn as at 31st March 2007 (€17.6bn at 31st March 2006).

The primary tool for the measurement of interest rate risk is sensitivity to a 1% swing in interest rates. This exposure is monitored on a monthly basis and compared to a limit set by the Bank of Ireland Group Asset and Liability Committee and endorsed by the Board of Directors. Any excess in respect of this limit is reported to the Bank of Ireland Group Asset and Liability Committee and appropriate action to bring the exposure within the limit agreed.

During the year ended 31st March 2007, the Bank's exposure to a parallel 1 per cent upward shift in the euro yield curve was €29,834 (2006 €22,108) in line with the Bank's policy, the average for the year was €17,007 (2006 €13,250). Under regulations made under the ACS Act, 2001 the Bank is required to ensure that it's sensitivity to a 1% parallel shift in the yield curve does not exceed 10% of the level of own funds.

The Bank has no material net exposure to foreign exchange rate fluctuations or changes in non-euro zone interest rates.

25 INTEREST RATE REPRICING

The table below provides an indication of the repricing mismatch at 31st March 2007. For the major categories of assets and liabilities, this 'gap' table shows the volumes maturing in selected maturity bands, taking account of any amortisation of principal. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

Interest Rate Repricing	31 March 2007						
	Not more than three months €m	Over three months but not more than six months €m	Over six months but not more than one year €m	Over one year but not more than five years €m	Over five years €m	Non interest bearing €m	Total €m
Assets							
Cash and balances at Central Bank	-	-	-	-	-	-	-
Loans and advances to banks	4,119	4,000	-	-	-	48	8,167
Loans and advances to customers	13,118	278	471	3,109	351	62	17,389
Total assets	17,237	4,278	471	3,109	351	110	25,556
Liabilities							
Deposits by banks	18,115	-	-	-	-	50	18,165
Debt securities in issue	343	-	-	2,000	4,050	(79)	6,314
Derivative Financial Instruments	-	-	-	-	-	115	115
Other liabilities	-	-	-	-	-	11	11
Subordinated liabilities	242	-	-	-	-	2	244
Shareholders' funds	-	-	-	-	-	707	707
Total liabilities	18,700	-	-	2,000	4,050	806	25,556
Net Position	(1,463)	4,278	471	1,109	(3,699)	(696)	-
Net Derivative Financial Instruments Nominal Value	2,159	(4,278)	(471)	(1,109)	3,699	-	-
Interest rate sensitivity gap	696	-	-	-	-	(696)	-
Cumulative interest rate repricing gap	696	696	696	696	696	-	-

OPERATIONAL RISK

Operational risk is the risk that human error, systems failure, and inadequate controls and procedures will result in unexpected loss. The Bank of Ireland Group Operational Risk Committee governs the Bank's exposure to operational risk. The Bank operates measures of risk identification, assessment and monitoring as are necessary 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's exposure to operational risk is governed by policy formulated by the Bank of Ireland Group Operational Risk Committee and approved by the Group Risk Policy Committee and, where appropriate, by the Court. The policy specifies that the Group will operate such measures of risk identification, assessment, monitoring and management as are necessary to ensure that operational risk management is consistent with the approach, aims and strategic goals of the Group, and is designed to safeguard the Group's assets while allowing sufficient operational freedom to earn a satisfactory return to Stockholders.

The policy document further sets out the responsibilities of management, the requirement for mandatory reporting of incidents and the role of Group Internal Audit in providing the independent review function.

REGULATORY RISK & COMPLIANCE

Regulatory compliance risk arises from a failure to comply with the laws, regulations or codes applicable to the financial services industry in the jurisdictions within which the Bank operates. Non-compliance has adverse reputational implications and may lead to fines, public reprimands, and enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate. The Bank is subject to extensive supervisory and regulatory regimes in the Republic of Ireland. Effective management of regulatory compliance risk is the primary responsibility of business management, who conduct business in accordance with applicable regulations and with an awareness of compliance risk.

DERIVATIVES

The objective of the Bank in using derivatives is to limit the extent to which the Bank will be affected by changes in interest rates, exchange rates or other factors. The Bank does not actively trade in derivative financial instruments. However, derivative transactions which do not qualify for hedge accounting under FRS 26 are classified as trading transactions. The Bank uses Interest Rate Swaps for balance sheet risk management. These derivatives are used to economically hedge the Bank's balance sheet exposure arising from mortgage lending products and the issuance of mortgage covered securities.

The interest rate exposure of the Bank relating to its Irish residential lending denominated in euro is managed using two macro interest rate swaps with Bank of Ireland, one of which, the Pool Interest Rate Contract, relates only to the Pool and Mortgage Covered Securities issued by the Bank and the other, the Non-Pool Interest Rate Contract, relates only to Irish residential loans denominated in euro which are not included in the Pool. These macro interest rate swaps are deemed traded derivatives and do not qualify for hedge accounting. In the case of the Pool Interest Rate Contract, this is a cover assets hedge contract for the purposes of the Asset Covered Securities Act, 2001. Under the Pool Interest Rate Contract, on a monthly basis the Bank pays to Bank of Ireland 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. In return on a monthly basis, Bank of Ireland pays to the Bank interest on that notional amount at one month EURIBOR plus an amount related to the composite margin on the underlying mortgage loans. The non pool interest rate contract is structured and operates on a similar basis to the pool interest rate contract.

With respect to Mortgage Covered Securities, on an annual basis Bank of Ireland pays under that cover assets hedge contract an amount related to the fixed interest rate payable on the relevant Mortgage Covered Securities on a notional amount equal to the principal amount outstanding of the relevant Mortgage Covered Securities and on a six monthly basis the Bank pays to Bank of Ireland an amount related to six month EURIBOR on that notional amount.

The Bank enters into these interest rate swaps to hedge the interest rate exposure on its fixed rate ACS bonds in issue. These swaps and related fixed rate ACS bonds qualify for hedge fair value accounting treatment. The nominal value of these swaps (€6,050m) is set out in Note 13.

25 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table represents the carrying amount and the fair value financial assets and liabilities of the Bank as at 31st March 2007.

		31 March 2007 Carrying Amount €m	31 March 2007 Fair Values €m	31 March 2006 Carrying Amount €m	31 March 2006 Fair Values €m
Assets					
Loans and advances to banks	(1)	8,166	8,166	6,616	6,616
Loans and advances to customers	(2)	17,389	17,398	13,879	13,903
Liabilities					
Deposits by banks	(3)	18,164	18,164	14,549	14,549
Debt securities in issue	(4)	6,313	6,205	5,040	4,954
Derivative financial instruments	(5)	115	115	41	41

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

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

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

(3) Deposits by Banks
The fair value of other borrowings is based on the discounted cash flows using market rates applicable for similar types of borrowing arrangements. The discount rate is estimated using market rates for deposits with similar remaining maturities. The carrying amount of variable rate loans is considered to be at market value.

(4) Debt Securities in issue

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

(5) Derivative financial instruments

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

26 EFFECTIVE INTEREST RATE

	31 March 2007	**31 March 2006**
Loans and advances to customers	4.77%	3.49%
Loans and advances to banks	2.32%	2.10%
Deposits by banks	3.11%	2.21%
Debt securities in issue	3.60%	3.19%
Subordinated Debt	3.61%	2.56%

27 COMMITMENTS

At 31st March 2007 the Bank had €3,868m (2006 €3,576m) of mortgage loans applications that as at the year end had not drawn down.

28 RELATED PARTY TRANSACTIONS

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

Transactions with companies within the Bank of Ireland Group are not disclosed as the Bank has taken advantage of the exemption available under Financial Reporting Standard No. 8 – "Related Party Disclosures", on the basis that the consolidated financial statements of Bank of Ireland Group in which the Bank is included are publicly available as referred to above.

Transactions with Directors are disclosed in notes 5 & 6.

29 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 28th May 2007.