BANK OF IRELAND COVERED BONDS LLP

REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD FROM 7 AUGUST 2008 (DATE OF FORMATION)
TO 31 MARCH 2009

Registered No. OC339231

BANK OF IRELAND COVERED BONDS LLP

CONTENTS

The members present their report and financial statements for the period from date of formation to 31 March 2009.

Principal activities and Future Developments

The partnership's principal activity is the acquisition and management of a portfolio of mortgage loans and the collection of payments of principal and interest on these loans, funded by an intercompany loan from the Governor and Company of the Bank of Ireland ('Bank of Ireland') consisting of the proceeds from the issuance of covered bonds. Bank of Ireland (the mortgage originator) administers the mortgage loans on behalf of the partnership. All activities relate to residential mortgages in the United Kingdom. The partnership provides a guarantee to investors of the covered bonds that are issued by Bank of Ireland on the back of these mortgages.

No future changes in principal activity are envisaged.

Results and Business review

The partnership made a profit for the period of £Nil.

Designated Members

The designated members during the period were The Governor and Company of the Bank of Ireland and Bank of Ireland Covered Bonds Finance Limited. They were both admitted at the time of formation on 7 August 2008.

Members' Interests

Members' voting rights are described in note 15. Payments to members are shown on the face of the income statement and further detail is included within note 12.

Financial Risk Management

Information on financial risk management is set out in note 13.

Post Balance Sheet Events

There are no post balance sheet events that require disclosure in the financial statements.

Statement of the Members' Responsibilities

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

Company law requires the members to prepare financial statements for each financial period. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period.

In preparing those financial statements, the members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

The members are responsible for keeping proper accounts that disclose with reasonable accuracy at any time the financial position of the partnership and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and disclosure of information to auditors

- So far as each member is aware, there is no relevant audit information of which the partnership's auditors are unaware; and
- All steps have been taken that a member ought to have taken in order to make themselves aware of any relevant audit information and to establish that the partnership's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Signed by order of the members

Capita Trust Corporate Services Limited
for and on behalf of Bank of Ireland Covered Bonds Finance Limited
23 December 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF IRELAND COVERED BONDS LLP

FOR THE PERIOD ENDED 31 MARCH 2009

We have audited the financial statements of Bank of Ireland Covered Bonds LLP for the period from 7 August 2008 (date of incorporation) to 31 March 2009 which comprise the Income Statement, the Balance Sheet, the Cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of members and auditors

The members' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of members' responsibilities.

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 members of the partnership in accordance with the Companies Act 1985, as applied to limited liability partnerships by the Limited Liability Partnerships Act 2000 and regulations made thereunder, 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 and are properly prepared in accordance with the Companies Act 1985, as applied to limited liability partnerships. We also report to you if, in our opinion, the limited liability partnership has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Members' Report. 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 members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the limited liability partnership'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.

BANK OF IRELAND COVERED BONDS LLP

INCOME STATEMENT

FOR THE PERIOD ENDED 31 MARCH 2009

Opinion
In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the partnership's affairs as at 31 March 2009 and of its profit and cashflows for the period then ended; and

- have been properly prepared in accordance with the provisions of the Limited Liability Partnerships Regulation 2001 made under the Limited Liability Partnerships Act 2000.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
23 December 2009

BANK OF IRELAND COVERED BONDS LLP

INCOME STATEMENT

FOR THE PERIOD ENDED 31 MARCH 2009

	Notes	Period from formation to 31 March 2009 £'000
Interest receivable	2	80,611
Interest payable	2	(80,611)
Net interest income		-
Other income	3	61
Total operating income		61
Administrative expenses	4	(37)
Profit before tax		24
Taxation	6	-
Profit or loss for the financial period before members' remuneration and profit shares		24
Members' remuneration charged as an expense		(24)
Retained profit for the financial period		-

All results relate to continuing activities.

The notes on pages 9 to 17 are an integral part of these financial statements.

There are no recognised gains or losses other than those included in the income statement above.

BALANCE SHEET

AS AT 31 MARCH 2009

	Notes	31 March 2009 £'000
Non-current assets		
Loan to member	7	4,499,782
Current assets		
Other debtors	8	2,254
Cash and cash equivalents	9	60,158
		62,412
Creditors: Amounts falling due within one year	10	(62,412)
Net Current Assets		-
Total assets less current liabilities		4,499,782
Creditors: Amounts falling due after more than one year	11	(4,499,782)
Net Assets		-
Represented By		
Members interests		-
Total Member Interests		-

The notes on pages 9 to 17 are an integral part of these financial statements.

These financial statements were approved by the members on 23 December 2009 and signed on their behalf by:

Capita Trust Corporate Services Limited
For and on behalf of Bank of Ireland Covered Bonds Finance Limited

23 December 2009

BANK OF IRELAND COVERED BONDS LLP

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 31 MARCH 2009

		Period from formation to 31 March 2009 £'000
Cash flows from operating activities		
Profit before tax		-
Changes in operating assets and liabilities		
Net increase in loan to member	7	(4,499,782)
Net increase in other debtors	8	(2,254)
Net increase in creditors: amounts falling due within one year	10	62,412
Net cash from operating activities		(4,439,624)
Cash flows from financing activities		
Net increase in loan from related company	11	4,499,782
Net cash from financing activities		4,499,782
Net increase in cash and cash equivalents	9	60,158
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at end of the period	9	60,158

1. Summary of significant accounting policies

1.1 Basis of preparation

The financial statements for the period from date of formation 7 August 2008 to 31 March 2009 have been prepared in Sterling under the historical cost convention and in accordance with applicable United Kingdom Generally Accepted Accounting Practice and the Companies Act 1985 and the Statement of Recommended Practice on accounting by Limited Liability Partnerships.

The Partnership has adopted Financial Reporting Standard (FRS) 26 (Financial Instruments: Measurement) and as a result has also adopted FRS 25 (Financial Instruments: Disclosure and Presentation) and FRS 29 (Financial Instruments: Disclosure).

1.2 Accounting policies

Substance of transaction

The partnership has received a loan from the Governor and Company of the Bank of Ireland ('Bank of Ireland') , equivalent to the amount that Bank of Ireland has received from note holders under its Covered Bond programme. This amount is shown in creditors: amounts falling due after more than one year.

It has used this loan to acquire a portfolio of mortgages from Bank of Ireland, however, as explained under the 'derecognition' policy below, these mortgages are not recognised on the balance sheet and instead the amount paid to Bank of Ireland as consideration for the mortgages is recognised as a deemed loan within non-current assets.

The partnership has granted a guarantee to the Covered Bond holders in respect of the amounts due to them by Bank of Ireland under the Covered Bond programme. The partnership is legally entitled to the cashflows on the mortgage pool and, in the absence of a default by Bank of Ireland on the Covered bonds and thus a requirement for the partnership to make a payment under the guarantee, it returns these cashflows to Bank of Ireland. These cashflows are not recognised in the financial statements of the partnership as they arise from the mortgages which are not recognised by the partnership, and they are passed immediately back to Bank of Ireland.

The partnership has also entered into a total return swap and a currency swap. The total return swap entitles Bank of Ireland to the total interest income on the securitised mortgages and the interest on the bank account and obligates Bank of Ireland to pay GBP LIBOR plus a fixed margin to the LLP. The currency swap has the impact of changing the principal and interest flows from an element of the securitised mortgage pool into Euros to repay the Euro element of the intercompany loan from Bank of Ireland.

In accordance with interpretation of the application guidance to FRS26, as the counterparty to the swaps is Bank of Ireland, both the currency swap and total return swap are not separately accounted for as derivative financial instruments but are included as a component of the deemed loan from the LLP to Bank of Ireland. .The principal amount of the contract does not represent the Partnership's real exposure to credit risk which is effectively nil as the intercompany loan and the deemed loan are with the same counterparty, Bank of Ireland.

Summary of significant accounting policies (continued)

Derecognition

The partnership has acquired the legal interest in a mortgage portfolio from Bank of Ireland. However, the legal transfer of the beneficial interest in the mortgage portfolio fails the criteria for derecognition in the financial statements of Bank of Ireland (as substantially all the risks and rewards are retained by Bank of Ireland) and consequently it has not been recognised on the balance sheet of the partnership. Instead, a 'loan to member' has been recognised on the balance sheet of the partnership.

Financial assets

The Partnership has classified its financial assets as loans and receivables. The classification of its financial instruments is determined at initial recognition. 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 Partnership provides money directly to a debtor with no intention of trading the receivable.

Purchases and sales of financial assets are recognised on trade date – the date when the Partnership commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Partnership has transferred substantially all risks and rewards of ownership. Non-derivative financial assets are carried at historical cost.

Income recognition and funding costs

Interest income and expense are accounted for as they accrue.

Impairment of financial assets

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

Delinquencies and defaults on the securitised assets do not result in an impairment loss if the cashflows from the asset pool are still expected to be sufficient to meet obligations under the loan. An impairment loss is incurred only if a securitised loan is in default and the security has been sold in possession for an amount that is less than the value of the loan and costs and fees incurred. The amount of the loss is measured as the value of the loan and costs and fees incurred less the carrying amount of the loan to Bank of Ireland.

Summary of significant accounting policies (continued)

Capital Contribution

Under the terms of the LLP Deed describing the sale of the beneficial interest in the mortgage portfolio, Bank of Ireland is legally treated as having made a capital contribution to the LLP for an amount equal to the difference between the face value of the mortgages transferred and the cash payment made by the LLP to Bank of Ireland. This amounted initially to £1,145m in September 2008, reducing to £949m in March 2009. This capital contribution has not been recorded in these financial statements, as the transfer of the mortgages fails the derecognition criteria as described under the 'Derecognition' policy above.

Income taxes

Income tax payable on partnership profits is the liability of the partnership members. Consequently no provision for income or deferred taxation of partnership profits is shown in these accounts.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with banks which can be withdrawn on demand.

2. Net interest income

	Period from incorporation to 31 March 2009 £'000
Interest receivable	
Loans to member	78,418
Interest on cash at bank	2,254
	80,672

	Period from incorporation to 31 March 2009 £'000
Interest payable	
Loan from member	80,611
	80,611

3. Other income

Other income relates to amounts reimbursed by Bank of Ireland to cover administration expenses and members remuneration.

4. Administrative expenses

	Period from incorporation to 31 March 2009 £'000
Audit fees	17
Company secretarial and other fees	20
	37

The cost of the audit fees for Bank of Ireland Covered Bonds Finance Limited and Bank of Ireland Covered Bonds Finance (Holdings) Limited (£5,750 for each company) are included within the amount shown for audit fees above.

5. Members and employees

Employee Information

The partnership had no employees during the year.

Salary costs are included in the management fees payable to Bank of Ireland, and cannot be identified separately.

6. Taxation

The Partnership is not directly liable for any tax.

7. Loan to member

	31 March 2009 £'000
Loan to member	4,499,782

The loan to member represents amounts due from Bank of Ireland (the mortgage originator). This loan has been recorded as the transfer of the beneficial interest in mortgages fails the derecognition criteria, hence the cash paid to Bank of Ireland for the mortgages has been treated as an intercompany loan, which represents the substance of the transaction for accounting purposes.

This loan will be repaid after more than one year and will be repaid in tranches in line with the maturities of the Covered Bonds issued by Bank of Ireland.

8. Other Debtors

	31 March 2009 £'000
Interest receivable	2,254

9. Cash and cash equivalents

	31 March 2009 £'000
Deposits with member	60,158
Total cash and cash equivalents	60,158

10. Creditors: amounts falling due within one year

	31 March 2009 £'000
Amounts due to member	62,412

This relates to the amounts included within cash and cash equivalents and accrued interest which are payable to Bank of Ireland.

11. Creditors: Amounts falling due after more than one year.

	31 March 2009 £'000
Loan from member	4,499,782

This represents cash received from Bank of Ireland equivalent to the amount received by Bank of Ireland under its Covered Bonds program (see accounting policy on substance of transaction included in note 1 for more detail).

12. Related parties

The Members consider that the Partnership is related to its members, Bank of Ireland Covered Bonds Finance Limited and the Governor and Company of the Bank of Ireland ('Bank of Ireland'). It is also related to the subsidiary undertakings of the Bank of Ireland, to Bank of Ireland Covered Bonds Finance (Holdings) Limited (which holds the majority of the share capital of Bank of Ireland Covered Bonds Finance Limited), and to the ultimate holding company, Capita Trust Nominees No. 1 Limited.

The Partnership has entered into loan agreements with Bank of Ireland. Interest receivable on loans and advances to Bank of Ireland is disclosed in Note 2. In addition Bank of Ireland carries out certain administrative work on behalf of the partnership for a fee which amounted to £800.

As at 31 March 2009, the net amount owed to the partnership by Bank of Ireland was £nil. This amount was comprised as follows:

	31 March 2009 £'000
Loans to member company (Note 7)	4,499,782
Interest receivable from Bank of Ireland (Note 8)	2,254
Cash and Cash Equivalents placed with Bank of Ireland (Note 9)	60,158
Borrowings from member company (Note 10,11)	(4,562,194)
	-

Profit and loss transactions in the period to 31 March 2009 with Bank of Ireland included interest receivable of £80,611,000 other income of £61,000 and interest payable of £80,611,000.

In addition, the amount of £24,000 paid to members as shown on the face of the income statement includes £23,999 to Bank of Ireland and £1 to Bank of Ireland Covered Bonds Finance Limited.

As disclosed in note 4 above, the cost of the statutory audit of Bank of Ireland Covered Bonds Finance Limited and Bank of Ireland Covered Bonds Finance Holdings Limited (£5,750 for each company) is also included within the administration expenses of the partnership.

13. Financial instruments

The Partnership's financial instruments comprise a loan from the Partnership to Bank of Ireland (see note 7), interest receivable (see note 8) cash at bank (see note 9), a loan from Bank of Ireland (see note 11), and other amounts due to members (see note 10). Methods used by the Partnership to manage the risks associated with these instruments are summarised below. These have been agreed by the members and applied throughout the period.

Credit risk

Credit risk is the exposure to loss if another party fails to meet its financial obligations to the Partnership, including failing to perform them in a timely manner.

The primary credit risk of the Partnership relates to the default on the loan with Bank of Ireland, which in turn depends on the credit risk associated with the mortgages originated within the Bank of Ireland Group. The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool. All risk factors were assessed in detail at inception.

The Partnership assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. Third party financial instrument counterparties are required to hold certain ratings and the Partnership's exposure to them is subject to financial limits.

The Partnership has a concentration of risk to the originator (Bank of Ireland). The underlying mortgage assets of the securitisation are all in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk. The maximum credit exposure is the carrying value of the loan to Bank of Ireland (£4.5bn, as per note 7)

The credit ratings of Bank of Ireland were:

	31 March 2009	**December 2009**
Long Term – Fitch	A	A-
Long Term – Standard & Poor's	A	A

As explained above, the credit quality of the underlying mortgage loans indicates the capacity of the Partnership to service its payments, although the mortgages remain on the balance sheet of Bank of Ireland. The following table indicates the payment status of the underlying mortgage book:

	31 March 2009
	£'000
Total mortgage balance	5,488,831
Split as follows:	
Up to date	5,404,580
< 3 months in arrears	62,797
> 3 months in arrears	21,454

Foreign currency risk

Foreign currency exchange rate risk is the risk of financial loss as a result of adverse movements in foreign exchange rates when translating financial assets and liabilities denominated in foreign currencies into sterling.

While an element of the intercompany liability is denominated in Euro (€535m), the partnership has a currency swap in place, the impact of which is to convert an equivalent element of the deemed loan into Euro, as explained in note 1.2 'Substance of transaction'. The impact of this is that there are no net exchange rate risks facing the partnership, hence no quantitative analysis of foreign exchange risk is presented.

Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities.

The partnership is exposed to minimal interest rate risk because it has a total return swap in place which swaps the income from the mortgages for a LIBOR based return.

Liquidity risk

The following are the contractual undiscounted cashflows expected in relation to the partnership's principal liability, which is the intercompany loan.

As at 31 March 2009	Not more than 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Intercompany loan	18,061	54,382	3,205,932	1,513,868	4,792,243

The above cashflows incorporate the cashflows from the intercompany loan. While an element of the loan is denominated in Euro, as discussed under foreign exchange risk above, the entity has no net foreign exchange risk as it has entered into a currency swap. Hence the swap exchange rate has been used to translate the expected Euro flows into sterling for the purposes of the liquidity risk analysis above.

Fair value of financial assets and liabilities
In the opinion of the Directors, the fair values of the financial assets and liabilities are not significantly different from the carrying values.

14. Parent company

The member companies of the LLP are the Governor and Company of the Bank of Ireland and Bank of Ireland Covered Bonds Finance Limited. The ultimate controlling party of the partnership is the Governor and Company of the Bank of Ireland.

Under International Financial Reporting Standards, the results of Bank of Ireland Covered Bonds LLP are included in the consolidated financial statements of the Bank of Ireland Group. These can be obtained from Bank of Ireland's Head Office in Lower Baggot Street, Dublin 2.

15. Voting rights

The partnership is managed by a management committee which includes a minimum of four representatives from the Governor and Company of the Bank of Ireland as well as an optional representative of Bank of Ireland Covered Bonds Finance Limited. Each member of the committee has one vote and in the event of no majority the chairman has the casting vote.

16. Set up costs

The costs of setting up the structure have been borne by Bank of Ireland.

17. Approval of financial statements

The financial statements were approved by the members on 23 December 2009.