

# International Financial Reporting Standards (IFRS)

10 March 2005

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## Slide No

- Highlights 4
- Introduction 6
- IFRS – Timeline 8
- IFRS – Principal impact areas 10
- Summary of indicative financial impacts of IFRS 24
- Conclusions 27

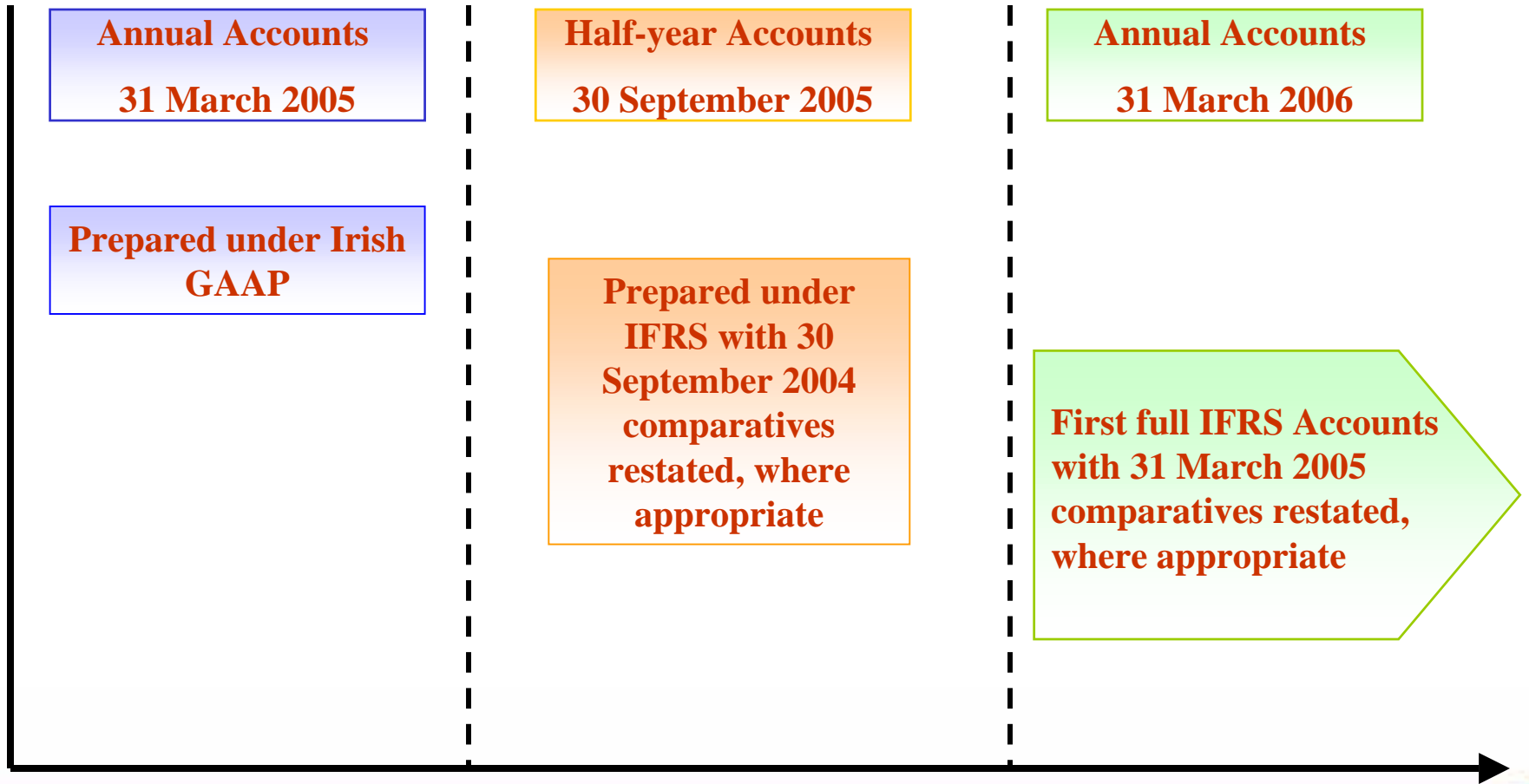
# Highlights

- The impact of IFRS on EPS is estimated to be a reduction of approximately 10 cent per share
- The impact of IFRS on PBT is estimated to be a reduction of circa €85m
- No material impact expected on Tier 1 capital

# Introduction

- The Bank of Ireland Group supports the move to IFRS and improved comparability in accounting globally
- No change to the economics or associated risks of our business is expected from IFRS
- Estimates are to the nearest €10m for profit and loss impacts and €50m for shareholders' funds and regulatory capital impacts
- The figures shown are estimates only and do not constitute a forecast or a restatement of reported results
- The indicative impacts outlined are subject to confirmation from both the Taxation and Regulatory authorities

## IFRS - Timeline



## IFRS - Principal impact areas

Impact area	Standard	Slide
Pension accounting (Employee Benefits)	IAS 19	11
Share-based Payments	IFRS 2	12
Goodwill (Business Combinations)	IFRS 3	13
Insurance Contracts	IFRS 4	14
Loan loss provisioning	IAS 39	15
Hedge & derivative accounting/ Classification of financial instruments	IAS 39	16
Effective interest rate	IAS 39	17
Computer software (Intangible Assets)	IAS 38	18
Dividend accrual (Events After the Balance Sheet Date)	IAS 10	19
Property, Plant and Equipment	IAS 16	20
Special purpose entities (Consolidated and Separate Financial Statements)	IAS 27	21
Debt vs equity classification	IAS 32	22

## Irish GAAP

- P&L charge based on SSAP 24
- Triennial actuarial valuations
- FRS 17 details disclosed in the notes to the Accounts with the pension scheme deficit off balance sheet

## IFRS

- Charge is on an IAS 19 basis which is similar to FRS 17
- Pension scheme deficit will be brought on balance sheet on transition

## Indicative Financial Impact

- 
- **Additional P&L charge estimated at €40m-€50m**
  - **Reduction in shareholders' funds of circa €200m on transition (1 April 2004)**
  - **Regulatory capital treatment to be confirmed**

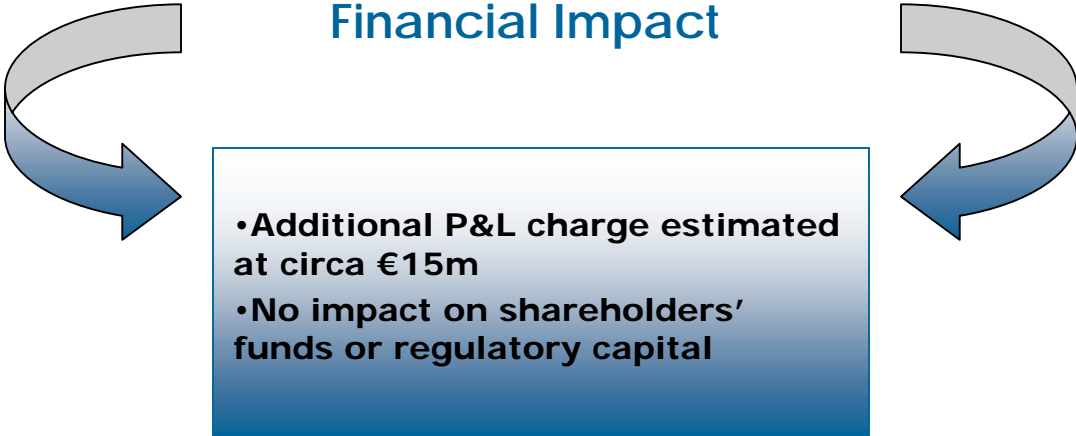
## Irish GAAP

- Fair value of some share-based payments (Employee Sharesave Schemes and options) is not charged to the P&L

## IFRS

- Fair value of these schemes are amortised to P&L over vesting periods

## Indicative Financial Impact

- 
- **Additional P&L charge estimated at circa €15m**
  - **No impact on shareholders' funds or regulatory capital**

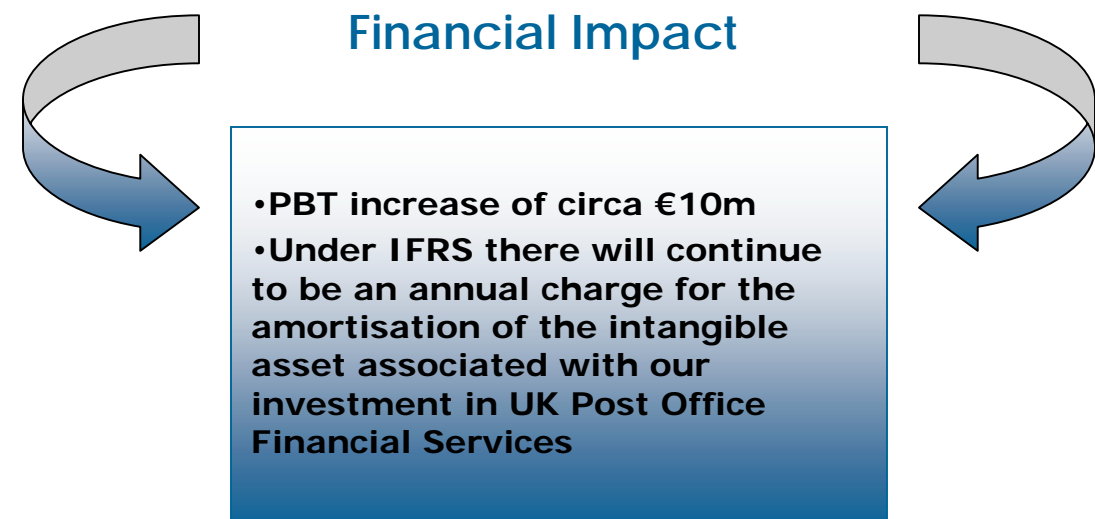
## Irish GAAP

- Goodwill is amortised to P&L over its useful life

## IFRS

- No amortisation
- Annual impairment review

## Indicative Financial Impact

- 
- **PBT increase of circa €10m**
  - **Under IFRS there will continue to be an annual charge for the amortisation of the intangible asset associated with our investment in UK Post Office Financial Services**

## Irish GAAP

- In general, life assurance companies account for products on an embedded value basis

## IFRS

- Products meeting the definition of insurance continue to be accounted for under existing embedded value method
- Other products (investments) are accounted for on a cash flow basis under IAS 39

## Indicative Financial Impact

- **Estimated Operating Profit decrease in the range of €30m-€40m**
- **Non application under IFRS of embedded value to investment products will require an estimated reduction of approximately €250m in Value in Force asset**
- **No impact on Tier 1 Capital arising from Value in Force write down**
- **A full analysis of embedded value profits will be disclosed in the notes to the Financial Statements**

### Other considerations:

- Currently Bank of Ireland Life profits are a single line in the Group Accounts - under IFRS there will be a line by line consolidation which will impact Group ratios
- Other than line by line consolidation, no restatement of 31 March 2005 comparatives

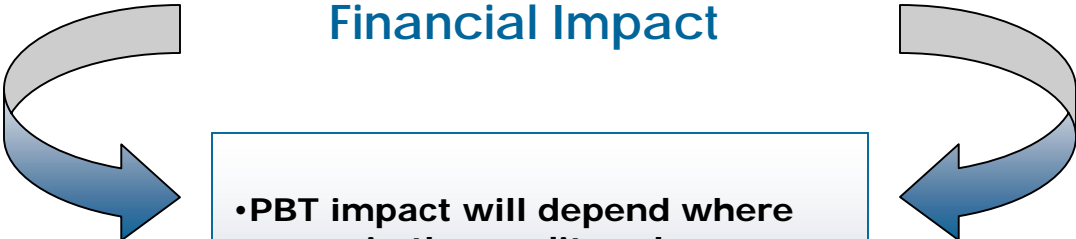
## Irish GAAP

- Non performing loans incur a specific provision
- General provisions are made to cover latent loan losses that have yet to be specifically identified

## IFRS

- Incurred loss model - provision only where objective evidence of impairment
- No distinction between general and specific provisions
- Individual and collective (portfolio) impairment assessments

## Indicative Financial Impact

- 
- **PBT impact will depend where we are in the credit cycle**
  - **More volatility in loan loss charge**
  - **Likely positive impact on shareholders' funds**

### Other considerations:

- No restatement of 31 March 2005 comparatives

## Hedge & Derivative Accounting

### **Irish GAAP**

- Derivatives used for hedging purposes accounted for on an accrual basis
- All other derivatives are marked-to-market
- Fair value of derivatives disclosed in the notes to the Accounts

### **IFRS**

- All derivatives at fair value
- Trading derivatives:
  - No change to Irish GAAP
- Hedging derivatives will be designated as being one of:
  - Fair value hedge
  - Cash flow hedge
- Hedge ineffectiveness recognised immediately in P&L

## Classification of Financial Instruments

### **Irish GAAP**

- Financial instruments are classified according to intention and use
- Primary analysis splits transactions between banking and trading books

### **IFRS**

- Financial instruments classified under one of these four categories:
  - Held to maturity (HTM) - Cost less impairment
  - Available for sale (AFS) - Marked-to-market (MTM) in shareholders' funds less impairment
  - Held for trading (HFT) - MTM in P&L
  - Loans & receivables - Cost less impairment

## Indicative Financial Impact

- **Balance sheet reclassifications**
- **PBT impact expected to be nil subject to hedge effectiveness**
- **Shareholders' funds: creation of AFS and cash flow hedging reserves**
- **Regulatory capital will exclude fair value impact of AFS and cash flow hedging activities**

### Other considerations:

- No restatement of 31 March 2005 comparatives

## Irish GAAP

- Most fees recognised in P&L when received
- Costs/commissions excluding mortgage broker costs are expensed as incurred
- Discounts recognised over incentive period

## IFRS

- Discounts are spread over the expected life of the loan
- Most fees (e.g. negotiation fees) are spread over the expected life of the loan
- Costs (e.g. mortgage broker costs) are also spread over the expected life of the loan
- Fees and costs so spread are included in the interest income line in Financial Statements

## Indicative Financial Impact

- **PBT impact is not expected to be material**
- **Some impact on net interest margin and on cost and income lines**

### Other considerations:

- No restatement of 31 March 2005 comparatives

## Irish GAAP

- Computer software is treated as a tangible fixed asset and depreciated over its estimated useful life

## IFRS

- Computer software is reclassified as an intangible asset and continues to be amortised over its estimated useful life

## Indicative Financial Impact

- **No P&L impact as amortisation charge under IFRS will equate to depreciation charge under Irish GAAP**
- **Reclassification from tangible fixed assets to intangible assets of €400m on transition (1 April 2004)**
- **Regulatory capital treatment to be confirmed**

## Irish GAAP

- Dividends declared after a period end are recorded in the period to which they relate

## IFRS

- Under IFRS dividends are recorded in the period in which they are approved

## Indicative Financial Impact

- **No PBT impact**
- **Once off increase in shareholders' funds of circa €260m on transition (1 April 2004)**
- **Regulatory capital treatment to be confirmed**

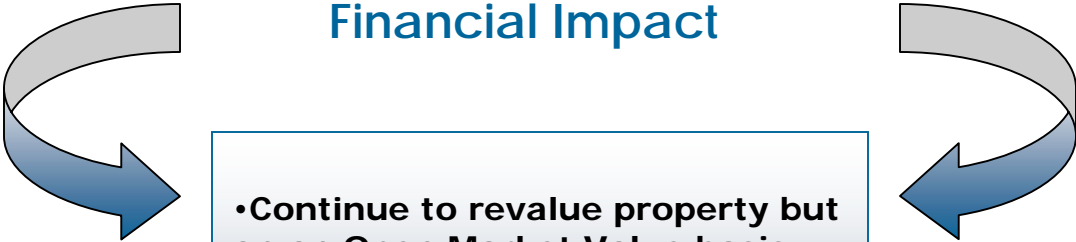
## Irish GAAP

- Property is revalued on the basis of Existing Use Value
- All other fixed assets are held at depreciated historical cost

## IFRS

- Existing Use Value is replaced by Open Market Value
- Adaptations shown in a separate asset class and will continue to be depreciated
- All other fixed assets remain at depreciated historical cost
- A deferred tax liability is created on Revaluation Surpluses and on rolled over gains (IAS 12)

## Indicative Financial Impact

- 
- **Continue to revalue property but on an Open Market Value basis**
  - **Adjustments to asset values and the deferred tax liability on the revaluation reserve will be made on transition to IFRS (1 April 2004)**

# Special purpose entities (Consolidated and Separate Financial Statements) (IAS 27)

## Irish GAAP

- Securitisations typically accounted for using linked presentation
- Most special purpose entities (SPEs) are off balance sheet

## IFRS

- Securitisations fully consolidated
- SPEs will be brought on balance sheet

## Indicative Financial Impact

- 
- **Grossing up of the balance sheet by approximately €1.5bn on transition (1 April 2004)**

## Irish GAAP

- All preference shares classified as shareholders' funds
- Certain capital instruments classified as debt.

## IFRS

- New criteria for classification of capital instruments:
  - Debt: instruments with contractual obligation to pay interest or the principal
  - Equity: instruments with no obligation to pay interest or the principal

## Indicative Financial Impact

- **Reclassification of some capital instruments**
- **No material impact expected**
- **No EPS impact**

### Other considerations:

No restatement of 31 March 2005 comparatives

# Summary of indicative financial impacts of IFRS

# Summary of indicative financial impacts of IFRS on Bank of Ireland PBT and EPS

31 March 2005 Indicative Impact	31 March 2005 Indicative Impact	Impact area	Indicative financial impact	Indicative financial impact
PBT €m	Alternative EPS cent		PBT €m	EPS cent
(35)	(3.1)	Pension accounting (Employee Benefits)	(40)-(50)	(3.6)-(4.5)
(15)	(1.5)	Share-based Payments	(15)	(1.5)
10	-	Goodwill (Business Combinations)	10	(0.8)
(55)	(4.9)	Insurance Contracts <b>(Operating Profit)</b>	(30)- (40)	(2.7)-(3.6)
(27)	(2.3)	Loan Loss Provisioning	-	-
(5)	(0.4)	Effective Interest Rate	-	-
<b>(127)</b>	<b>(12.2)</b>	<b>Total</b>	<b>(75) – (95)</b>	<b>(8.6) – (10.4)</b>
		<b>Midpoint of Range</b>	<b>(€85m)</b>	<b>(10 cent)</b>

# Summary of indicative financial impacts of IFRS on Bank of Ireland Shareholders' funds and Tier 1 capital

Impact area	Ref	Slide No	Shareholders' funds €m	Tier 1 Capital €m	Total Capital €m
Pension accounting (Employee Benefits)	IAS 19	11	(200)	*TBD	TBD
Insurance Contracts (Value in Force)	IFRS 4	14	(250)	-	-
Computer software (Intangible Assets)	IAS 38	18	-	TBD	TBD
Dividend accrual (Events After the Balance Sheet Date)	IAS 10	19	260	TBD	TBD
Debt vs equity classification	IAS 32	22	100	-	-
Other	-	-	(50)	-	(50)
<b>TOTAL</b>			<b>(140)</b>		

\*TBD: To be determined

# Conclusions

- The impact of IFRS on EPS is estimated to be a reduction of approximately 10 cent per share
- The impact of IFRS on PBT is estimated to be a reduction of circa €85m
- No material impact expected on Tier 1 capital

Please contact

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### **Replay Facility**

30 minutes after the call, a dial-in replay facility will be available by dialling +44(0) 1452 55 00 00

A recording of the briefing will be available later in the afternoon on our website: [www.bankofireland.ie/investor](http://www.bankofireland.ie/investor)

