

# **BANK OF IRELAND UK HOLDINGS PLC**

## **REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008**

	PAGE
DIRECTORS' REPORT	3
CORPORATE GOVERNANCE	8
INDEPENDENT AUDITORS' REPORT	11
CONSOLIDATED INCOME STATEMENT	13
CONSOLIDATED BALANCE SHEET	14
COMPANY BALANCE SHEET	15
STATEMENT OF RECOGNISED INCOME AND EXPENSE	16
CASH FLOW STATEMENT	17
NOTES TO THE FINANCIAL STATEMENTS	18

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**BANK OF IRELAND UK HOLDINGS PLC**

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**DIRECTORS' REPORT**

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The Directors present their report and the audited consolidated financial statements of Bank of Ireland UK Holdings PLC and its subsidiaries (the 'Group') for the financial year ended 31 March 2008. A statement of Directors' Responsibilities is included on page 10.

**Principal activities**

The Group provides banking, credit and leasing products via various direct and indirect national distribution channels, including the internet. In addition, the Group transacted in mortgage products during the year however this activity has now been discontinued as described below. The Company's principal activity is to act as an intermediate holding and finance company. In this regard, the Company is an issuer of listed debt (see note 24 to the accounts).

During the first six months of the year, a corporate restructure was undertaken. On 1 October 2007, the businesses of Bristol & West plc, Bank of Ireland Home Mortgages Ltd and Brunel Residential Securitisation No.1 plc, concerned with the provision of lending and savings products via various distribution channels, were transferred to other legal entities within the Bank of Ireland Group. Bank of Ireland UK Holdings plc also acquired all of the subsidiaries of Bristol & West plc and Bank of Ireland Home Mortgages Ltd. Bristol & West plc continues to hold interest bearing cash deposits in order to meet its liabilities, including the payment of future preference share dividends. Further details of this corporate restructure are given in note 9 to the accounts.

**Review of Business and Future Developments**

In addition to profit performance the board monitors progress on the overall group strategy by reference to three key performance indicators.

	2008	2007	
Loans and advances to customers	(90)%	11.98%	Year on year growth in loans and advances to customers expressed as a percentage. Decrease is due to corporate restructure referred to above.
Mortgage book arrears	N/A	0.54%	Percentage of mortgage book greater than three months in arrears. This indicator no longer applies following the restructure referred to above.
Finance lease and hire purchase receivables	22.3%	27.9%	Year on year growth in Finance lease and hire purchase receivables expressed as a percentage. Continued strong growth was experienced in the year in leasing and hire purchase businesses.

**Results and dividends**

As mentioned above a corporate restructure was undertaken during the first six months of the year. Accordingly the results of the Group have been segregated between 'continuing operations' and 'discontinued operations' relating to the transferred business.

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**BANK OF IRELAND UK HOLDINGS PLC**

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**DIRECTORS REPORT (continued)**

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The Group made a profit before taxation of £72.0m (2007: profit of £80.4m) of which a profit of £31.1m related to continuing operations (2007: £2.1m) and a profit of £40.9m related to discontinued operations (2007: profit of £78.3m). The Income Statement for the year can be seen on page 13.

**Policy on payment of creditors**

The Group's policy is to agree terms of payment with suppliers and these normally provide for payment within thirty days after the invoice date, except where other arrangements have been negotiated. It is Group policy to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

**Risk Management**

The risks associated with the operations of the Group were significantly reduced following the transfer of the business of Bristol & West plc on 1 October 2007. The Group's financial risk management objectives and policies and principal risk exposures facing the business are set out in note 33 to 35 to the financial statements.

**People**

Following the corporate restructure on 1 October 2007, some contracts of employment previously held by the Group were transferred to The Governor and Company of the Bank of Ireland.

Partnership and teamwork are qualities which are valued by the Group. These are encouraged through regular communication meetings and consultation with Partners' Councils - the elected staff representative body. The Group's profit-related pay scheme, Bank of Ireland share ownership and SAYE share option schemes are available to encourage wider financial involvement in the Group's affairs. Following the corporate restructure these benefits continue to be available to employees within the Bank of Ireland group and Partner's Council continues to operate.

The Group is committed to equal opportunities for all staff and job applicants. It gives full and fair consideration to applications for employment from disabled people and to the training, development and promotion of disabled employees. The Group has ensured full compliance with the Disability Discrimination Act. If serving employees become disabled, the Group continues employment wherever possible and arranges retraining.

**Charitable donations**

The Group made charitable donations of £94,890 (2007: £110,715) to a wide range of beneficiaries as follows:

<b>Purpose</b>	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
Cultural	80,000	94,250
Social	14,415	12,725
Medical	475	3,740
Total	<u>94,890</u>	<u>110,715</u>

No political donations were made.

**DIRECTORS**

**Board of Directors who served during the year and up to the date of signing the financial statements: Non-Executive Directors**

**Chairman: Brian J Goggin**

Chief Executive of Bank of Ireland Group. Was appointed Non-Executive Director of Bristol & West plc on 21 July 2004 and appointed as Chairman of the Board on 28 February 2005.

Age: 56

**Roy Bailie OBE \***

Former Non-Executive Director and Chairman of the Group Audit Committee of Bank of Ireland. Former director of the Bank of England. Chairman of W&G Baird Holdings Limited. Non Executive Director of UTV plc. Appointed Non-Executive Director and Chairman of Audit Committee on 1 August 2006. Resigned from the Board on 1 October 2007.

Age: 64

**Orna Ni Chionna \***

Formerly with McKinsey 1983-2001. Non-Executive Director of Northern Foods plc and BUPA. Appointed Non-Executive Director of Bristol & West plc on 25 June 2002. Appointed a Director and Trustee of Bristol & West Pension Trustees Limited on 1 August 2004. Resigned from the Board on 1 October 2007.

Age: 52

**Bernard A Cragg \***

Appointed Non-Executive Director of Bristol & West plc on 25 June 2002. Chairman of Datamonitor plc. Senior Independent Director and Chairman of the Audit Committee of Mothercare plc. Chairman of the Audit Committee of Workspace Group plc. Chairman of the Audit Committee of Astro All Asia Networks plc (registered in Malaysia). Chairman of i-mate plc. Appointed a Director and Trustee of Bristol & West Pension Trustees Limited on 14 November 2002. Resigned from the Board on 1 October 2007.

Age: 53

**Dr Alan McClure \***

Appointed Non-Executive Director of Bristol & West plc on 25 June 2002. Past President & CEO of Perfecseal Inc. Chairman of Ilex Urban Regeneration Company Limited. Non-Executive Director of Invest Northern Ireland. Non-Executive Director of Forensic Services Northern Ireland. Commissioner of Londonderry Port & Harbour Authority. Resigned from the Board on 1 October 2007.

Age: 59

**John P O'Donovan**

Chief Financial Officer of Bank of Ireland Group. Was appointed Non-Executive Director of Bristol & West plc on 25 June 2002.

Age: 56

*Note:* \* Denotes a Member of the Audit Committee until its disbandment on 20 September 2007.

**DIRECTORS – (continued)**

**Board of Directors who served during the year and up to the date of signing the financial statements: Executive Directors**

**Desmond E Crowley**

Joined Bank of Ireland in 1988, and in March 2000 became a member of the Group Executive Committee on being appointed Chief Executive of Retail Banking and Distribution. Appointed Chief Executive Retail Financial Services, Ireland in April 2004. On 1 January 2006, appointed Chief Executive of Bristol & West plc and Bank of Ireland UK Financial Services Division.

Age: 48

**Richard M Brown**

Joined Bristol & West plc in 1992 and is Managing Director of Personal Lending UK, part of the Bank of Ireland UK Financial Services Division. Appointed Executive Director of Bristol & West plc on 28 January 2004. Appointed a Director and Trustee of Bristol & West Pensions Trustees Limited on 16 February 2006.

Age: 44

**David McGowan**

Joined Bank of Ireland in 1979 and is Managing Director of Business Banking UK, part of the Bank of Ireland UK Financial Services Division. Appointed Executive Director of Bristol & West plc on 28 February 2005.

Age: 52

**Kieran Coleman**

Joined Bank of Ireland in 2007 as Finance Director for the UK Financial Services Division. Previously he was with Prudential plc where he was Finance Director, Prudential UK and Europe business and Chief Financial Officer of Egg plc.

Age: 39

**Peter F Morris**

Joined Bank of Ireland Group in 1974. Previously Managing Director of Business Financial Services GB. Appointed Risk Director – UKFS Division in 2004. Appointed Executive Director of Bristol & West plc on 21 November 2007.

Age: 51

**Directors' Interests**

There were no Directors with interests in the shares of the Company. The Company is a wholly owned subsidiary of The Governor and Company of the Bank of Ireland, a body corporate incorporated outside the United Kingdom. As such the Directors are not required to disclose their interest in shares in, or debentures of, that or any other body corporate incorporated outside of Great Britain.

**Provision of information to auditors**

All directors at the time of approving this report, confirm the following:

- (a) so far as each director is aware, there is no information of which the company and Group's auditors are unaware, and
- (b) each director has taken all the steps they ought to have taken as director, in order to make themselves aware of any relevant audit information, and to establish that the Company and Group's auditors are aware of that information.

**Independent Auditors**

A resolution concerning the reappointment of PricewaterhouseCoopers LLP will be submitted to the Annual General Meeting.

Signed by order of the Board  
Richard Holden  
Company Secretary  
28 August 2008

Disclosures on internal controls specified by the 2006 Combined Code, which incorporates the recommendations of the Turnbull Committee, are provided below. The Group is not required to make other Combined Code disclosures as it is exempt under the Listing Rules.

### **Internal control**

As a result of the corporate restructure referred to in the Directors' report and described in more detail in Note 9, the principal risks of the Group were substantially reduced and at 31 March 2008 only relate to the assets and liabilities that remain in the Company and its remaining subsidiaries. These remaining risks will continue to be reviewed by management with the appropriate action being taken to ensure their mitigation.

The Directors acknowledge their overall responsibility for the Group's system of internal control. Such systems can provide only reasonable and not absolute assurance against material financial misstatement or fraud which could arise because of the nature of the Group's operations in undertaking a wide range of financial services that inherently involve varying degrees of risk.

The overall control systems operated during the financial year by the Bank of Ireland Group which Bank of Ireland UK Holdings plc and its subsidiaries are subject to, included:

- A clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to The Court which support the maintenance of a strong control environment;
- A comprehensive set of policies and procedures relating to financial controls, asset and liability management (including interest, equity, liquidity and foreign exchange risk), operational risk management, regulatory risk management and credit risk management.

These controls, which were embedded within the operations of the Group, are subject to periodic review by Bank of Ireland Group Internal Audit. Emphasis is focused on areas of greatest risk as identified by risk analysis.

The effectiveness of the Company's internal controls are monitored by the Board. In addition, the effectiveness of internal controls are assessed on an ongoing basis by the Bank of Ireland Group Audit Committee. During the financial year ended 31 March 2008 the reviews performed by the Group Audit Committee involved reviewing the work and reports of risk management functions such as internal audit, fraud and investigations, compliance and operational risk and establishing that appropriate action was being taken by management to address issues highlighted. In addition, the reports of the independent external auditors, PricewaterhouseCoopers, which contain details of any material control issues identified from their work as auditors, were reviewed by the Group Audit Committee.

Risk assessments were undertaken across the Group based on management's view of risk throughout the year. The Bank of Ireland Group Risk Policy Committee meets to ensure that accountability for managing material operational risks identified by the risk management functions were clearly assigned and that identified risks were being satisfactorily addressed on an ongoing basis.

Operational Risk procedures places responsibility on line managers for reviewing their operations for risk, identifying the controls necessary to mitigate these risks, and providing written certification to senior executive management that these controls have been reviewed and are operating as intended.

Following the corporate restructure the operations of the Group continue to be subject to the risk assessment and Operational Risk procedures described above.

Throughout the year, the senior executive management reviewed the Bank of Ireland Group Audit Committee's conclusions in relation to the Group's system of internal control, and also examined the full range of risks affecting the Group and the appropriateness of the internal control structures in place to manage and monitor them. This process involved a confirmation that extensive systems of

internal control were in place throughout the financial year and up to the date of the signing of these financial statements. It also involved an assessment of the on-going process for the identification, management and control of individual risks and of the role of the various committees and risk management functions and the extent to which various significant challenges facing the Group, were understood and were being addressed. No material issues emerged from this assessment. Accordingly, the Directors confirm that they have reviewed, in accordance with the Turnbull guidance, the effectiveness of the Group's system of internal control for the year ended 31 March 2008 and it was deemed to be effective.

**Remuneration Committee**

The Bank of Ireland Group Remuneration committee makes recommendations to the Court of the Bank of Ireland on the formulation of policy on the remuneration of Executive Directors of Bank of Ireland and approves, on the Court's behalf, specific remuneration packages for the Executive Directors. The remuneration of Non-Executive directors of Bank of Ireland UK Holdings plc is determined by the Court. Directors do not participate in any decisions relating to their own remuneration.

**Directors Indemnities**

The Group has put in place Directors and Officers liability insurance in respect of legal actions against its Directors; this insurance cover does not extend to fraudulent or dishonest behaviour.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently, except for the changes arising on the adoption of new accounting standards during the year as described in note 1;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that, to the best of each Director's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRS as adopted by the European Union give a true and fair view of the assets, liabilities, financial position of the Group and of the company and of the profit of the Group; and
- the management report contained in the Directors Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face, which is disclosed in notes 33 to 35 to the financial statements.

Signed by:  
Desmond E. Crowley  
Director

Signed by:  
Kieran Coleman  
Director

28 August 2008

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF IRELAND UK HOLDINGS PLC**

We have audited the group and parent company financial statements (the “financial statements”) of Bank of Ireland UK Holdings PLC for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Recognised Income and Expenses, the Group and Parent Company Cash Flow Statements and the related notes to financial statements. 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 Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' 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 company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986 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 have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and as regards the group financial statements Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

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

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**BANK OF IRELAND UK HOLDINGS PLC**

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**INDEPENDENT AUDITORS REPORT (continued)**

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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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986, of the state of the parent company's affairs as at 31 March 2008 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and as regards the group financial statements Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Bristol  
29 August 2008

**Notes:**

- The maintenance and integrity of the Bank of Ireland website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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**BANK OF IRELAND UK HOLDINGS PLC**  
**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2008**

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	Note	2008 £m	2007 £m
<b>Continuing operations</b>			
Interest and similar income	4	361.8	456.3
Interest expense and similar charges	4	(294.0)	(409.6)
<b>Net interest income</b>		<u>67.8</u>	<u>46.7</u>
Fee and commission income		65.4	71.5
Fee and commission expense		0.6	(24.2)
<b>Net fee and commission income</b>		<u>66.0</u>	<u>47.3</u>
Net trading expense	5	(13.6)	(3.2)
Other operating income	6	3.3	0.1
Impairment losses on loans and advances	14	(12.5)	(3.8)
Other operating expenses	7	(79.9)	(85.0)
<b>Profit before taxation from continuing operations</b>		<u>31.1</u>	<u>2.1</u>
Taxation	10	3.9	(6.7)
<b>Profit/(loss) for the period from continuing operations</b>		<u>35.0</u>	<u>(4.6)</u>
<b>Discontinued operations</b>			
Result for the period from discontinued operations	9	24.6	59.4
<b>Profit for the period</b>		<u>59.6</u>	<u>54.8</u>
<b>Minority interest</b>		<u>(2.5)</u>	<u>3.3</u>
<b>Profit for the period attributable to equity holders of the parent</b>		<u>57.1</u>	<u>58.1</u>

The notes on pages 18 to 94 are an integral part of these consolidated financial statements.

The parent company's income statement has not been presented in these consolidated financial statements as explained in note 11.

**BANK OF IRELAND UK HOLDINGS PLC**  
**CONSOLIDATED BALANCE SHEET AT 31 MARCH 2008**

		<b>Group</b>	
		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>£m</b>	<b>£m</b>
<b>ASSETS</b>			
Cash at bank	12	4.9	17.6
Derivative financial instruments	33	86.0	175.0
Loans and advances to banks	13	2,321.6	10,446.0
Loans and advances to customers	14	2,395.7	25,650.3
Available for sale securities - unlisted	15	39.9	167.3
Available for sale securities - listed	16	-	300.5
Held to maturity securities	16	497.0	496.7
Intangible assets	18	103.9	140.7
Property, plant and equipment	19	43.1	52.5
Assets classified as held for sale	20	-	3.2
Current tax asset		22.6	10.1
Deferred tax assets	21	6.2	21.4
Other assets	22	126.7	495.6
<b>TOTAL ASSETS</b>		<u>5,647.6</u>	<u>37,976.9</u>
<b>LIABILITIES</b>			
Deposits from banks	23	2,336.4	24,274.9
Derivative financial instruments	33	122.4	208.6
Due to customers	25	-	4,091.9
Debt securities in issue	26	-	5,535.6
Other liabilities	28	136.9	519.1
Provisions	29	0.7	24.7
Current tax liabilities		38.0	31.3
Deferred tax liabilities	21	4.9	29.8
Retirement benefit obligations	30	4.4	40.2
Subordinated liabilities	24	2,431.5	2,675.0
Other borrowed funds	27	32.6	50.4
<b>TOTAL LIABILITIES</b>		<u>5,107.8</u>	<u>37,481.5</u>
<b>EQUITY</b>			
Share capital	31	2.5	2.5
Retained earnings	32	509.2	462.9
Other reserves	32	4.4	7.6
Total shareholders' equity		<u>516.1</u>	<u>473.0</u>
Minority interest		23.7	22.4
<b>TOTAL EQUITY</b>		<u>539.8</u>	<u>495.4</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,647.6</u>	<u>37,976.9</u>

The notes on pages 18 to 94 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 28 August 2008 and signed on its behalf by:

Desmond E Crowley  
Director

**BANK OF IRELAND UK HOLDINGS PLC**  
**COMPANY BALANCE SHEET AT 31 MARCH 2008**

		<b>Company</b>	
		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>£m</b>	<b>£m</b>
<b>ASSETS</b>			
Shares in group undertakings	17	293.3	812.3
Loans and advances to banks	13	2,142.0	1,867.6
Derivative financial instruments	33	86.0	44.5
Current tax asset		5.5	8.8
Other assets	22	2.5	0.8
<b>TOTAL ASSETS</b>		<b>2,529.3</b>	<b>2,734.0</b>
<b>LIABILITIES</b>			
Amounts owed to parent company		11.3	651.4
Derivative financial instruments	33	122.4	134.9
Other liabilities	28	33.0	30.0
Subordinated liabilities	24	1,934.5	1,737.5
<b>TOTAL LIABILITIES</b>		<b>2,101.2</b>	<b>2,553.8</b>
<b>EQUITY</b>			
Share capital	31	2.5	2.5
Retained earnings	32	422.6	177.7
Other reserves	32	3.0	-
<b>TOTAL EQUITY</b>		<b>428.1</b>	<b>180.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,529.3</b>	<b>2,734.0</b>

The notes on pages 18 to 94 are an integral part of these consolidated financial statements

The financial statements were approved by the Board of Directors on 28 August 2008 and signed on its behalf by:

Desmond E Crowley  
Director

**BANK OF IRELAND UK HOLDINGS PLC**  
**GROUP AND COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**AT 31 MARCH 2008**

		<b>Group</b>		
	<b>Note</b>	<b>Profit &amp; Loss Account £m</b>	<b>Other Reserves £m</b>	<b>Total £m</b>
<b>For the year ended 31 March 2007</b>				
Minority interest		3.3		3.3
Actuarial gain on pension fund	30	6.2	-	6.2
Deferred tax on actuarial gains and losses	21	(1.6)	-	(1.6)
Revaluation of property, plant and equipment	19	-	5.2	5.2
Deferred tax on revaluation of property, plant and equipment	21	-	(1.2)	(1.2)
Transfer of reserves following sale of property		1.2	(1.2)	-
Net income recognised directly in equity		9.1	2.8	11.9
Profit for the financial year		54.8	-	54.8
Total recognised income		63.9	2.8	66.7
<b>For the year ended 31 March 2008</b>				
Minority interest		(2.5)		(2.5)
Actuarial gain on pension fund	30	9.8	-	9.8
Deferred tax on actuarial gains and losses	21	(2.9)	-	(2.9)
Revaluation of property, plant and equipment	19	-	(2.4)	(2.4)
Deferred tax on revaluation of property, plant and equipment	21	-	0.7	0.7
Transfer of reserves following sale of property	32	1.0	(1.0)	-
Net income recognised directly in equity		5.4	(2.7)	2.7
Profit for the financial year		59.6	-	59.6
Total recognised income / (expense)		65.0	(2.7)	62.3

There are no movements to be recognised through the parent company statement of recognised income and expense in 2008 or 2007.

The notes on pages 18 to 94 are an integral part of these consolidated financial statements.

**BANK OF IRELAND UK HOLDINGS PLC**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008**

		Group		Company	
	Note	2008 £m	2007 £m	2008 £m	2007 £m
<b>Net cash flow from operating activities</b>					
Profit before tax					
- continued operations		31.1	74.5	(37.1)	(44.5)
- discontinued operations		40.9	5.9	-	-
		<u>72.0</u>	<u>80.4</u>	<u>(37.1)</u>	<u>(44.5)</u>
<b>Adjusted for</b>					
Transfer of subsidiary undertakings		-	-	272.5	-
Depreciation and amortisation		9.6	16.9	-	-
Impairment losses on loans and advances to customers		13.1	4.6	-	-
Profit on disposal of intangible assets and property, plant and equipment		(3.7)	-	-	-
Other non-cash movements		(16.5)	107.3	3.0	-
Discontinued Operations		1.7	21.5	-	-
		<u>76.2</u>	<u>230.7</u>	<u>238.4</u>	<u>(44.5)</u>
<b>Changes in operating assets and liabilities</b>					
Loans and advances to banks		(90.7)	295.7	(2,480.7)	-
Loans and advances to customers		(1,502.8)	(1,732.7)	(301.4)	-
Other assets		237.0	(98.0)	(1.7)	1.5
Deposits from other banks		444.2	2,864.0	-	(27.1)
Due to customers		(162.2)	988.6	-	-
Net movement on debt securities held		127.4	5,362.0	-	-
Available for sale securities		304.7	-	-	-
Assets held for resale		2.9	(3.2)	-	-
Other liabilities		178.6	382.7	3.0	11.8
Provisions		(8.1)	(26.6)	-	-
Discontinued Operations		5,088.2	(8458.2)	-	-
		<u>4,619.5</u>	<u>(425.7)</u>	<u>(2,780.8)</u>	<u>(13.8)</u>
Taxes paid		(6.5)	(13.9)	12.8	10.6
Net cash used in operating activities		<u>4,613.0</u>	<u>(439.6)</u>	<u>(2,768.0)</u>	<u>(3.2)</u>
<b>Cash flows from investing activities</b>					
Net investment in intangible assets and property, plant and equipment		(9.3)	(11.8)	-	-
Net divestment of subsidiary undertakings		-	-	164.9	-
Interest on subordinated liabilities		-	(140.5)	-	-
Discontinued Operations		43.0	3.4	-	-
Net cash (used in) / from investing activities		<u>33.7</u>	<u>(148.9)</u>	<u>164.9</u>	<u>-</u>
<b>Cash flows from financing activities</b>					
Derivative financial instruments and other trading liabilities		(30.1)	-	(54.0)	126.0
Redemption of preference shares		-	-	354.1	-
Debt securities in issue		(346.4)	166.7	-	221.8
Subordinated debt issue		243.5	740.0	197.0	(138.8)
Other borrowed funds		(17.8)	-	-	-
Other reserves		3.2	-	-	-
Equity dividends paid		-	(40.0)	-	-
Discontinued Operations		(5,656.9)	-	-	-
Net cash from financing activities		<u>(5,810.9)</u>	<u>866.7</u>	<u>497.1</u>	<u>209.0</u>
<b>Net increase in cash and cash equivalents</b>					
Opening cash and cash equivalents	40	1,326.8	817.9	1,867.6	1,706.3
Closing cash and cash equivalents	40	<u>238.8</u>	<u>1,326.8</u>	<u>-</u>	<u>1,867.6</u>

The notes on pages 18 to 94 are an integral part of these consolidated financial statements.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **1.1 Basis of presentation**

Bank of Ireland UK Holdings plc is a company incorporated and domiciled in the UK.

The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

These consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union and with those parts of the Companies (Northern Ireland) Order 1986 applicable to companies reporting under IFRS. The consolidated and individual financial statements are prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and land and buildings.

The financial statements are presented in GBP millions except where otherwise indicated.

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the estimates and judgements is set out in note 2.

During the year the Transparency (Directive 2004/109/EC) Regulations 2007 (implemented in the UK from 20 January, 2007) became effective for the Group. This directive aims to enhance transparency in EU capital markets in order to improve investor protection and market efficiency. It sets out reporting requirements in respect of interim and annual reports and provides time lines for the publication of management statements during the year. This directive does not have a significant impact on the Group financial statements.

### **1.2 Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. As required by IFRS 5, comparatives for the prior year have been reclassified to amend the income statement presentation to reflect discontinued operations. This has impacted the layout of the income statement but profit after tax is unchanged.

### **1.3 Group accounts**

#### *(1) Subsidiaries*

Subsidiaries, which are those companies and other entities (including Special Purpose Entities (SPE's)) in which the Group, directly or indirectly, has power to govern the financial and operating policies, generally accompanying a shareholding of more than half of its voting rights, are consolidated.

Assets, liabilities and results of all group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial year.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see 'Intangible Assets' for the accounting policy on goodwill).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Upon adoption of IFRS, the Group availed of the exemption not to restate the Group financial statements for any acquisitions or business combinations that took place prior to April 1, 2004.

### *(2) Minority Interests*

Transactions with minorities where the Group has control over the entity are accounted for using the "Economic entity model". This accounting model requires that any surplus or deficit that arises on any transaction(s) with minorities to dispose of or to acquire additional interests in the entity are settled through equity.

### *(3) Securitisations*

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

## **1.4 Foreign Currency Translation**

Foreign currency transactions are translated into sterling at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.5 Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### *(a) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

#### *(b) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.6 Interest income and expense**

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

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 financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the overall return, transaction costs and all other premiums or discounts.

Once a financial asset or a 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 purpose of measuring the impairment loss.

### **1.7 Fee and commission income**

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. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

### **1.8 Financial assets**

#### *(1) Classification, Recognition and Measurement:*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets. Management determines the classification of its financial assets at initial recognition.

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

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

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

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

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

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(b) Loans and receivables**

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

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

### **(c) Held to maturity**

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and would need to be reclassified as available for sale.

Purchases and sales of held to maturity investments are recorded on trade date. They are initially recognised at fair value plus transaction costs and are subsequently accounted for at amortised cost using the effective interest method.

### **(d) Available for sale**

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs and subsequently accounted for at fair value with all measurement gains or losses recognised in equity. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired the cumulative gain or loss previously recognised in equity is removed from equity and included in profit or loss.

Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

### **(2) Derecognition**

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

### **(3) Shares in Group Entities**

The Company's investments in its subsidiaries are stated at cost less any impairment.

## **1.9 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 either amortised cost or fair value through profit or loss. 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.

Preference shares, which carry a mandatory coupon, are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.9 Financial liabilities (continued)**

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

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

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

### **1.10 Valuation of financial instruments**

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

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

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

### **1.11 Impairment of financial assets**

#### *Assets carried at amortised cost*

The Group 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 Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group 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;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.11 Impairment of financial assets (continued)**

- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) 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 Group 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 Group 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 or held to maturity investments 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 or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, 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 group and historical loss experience for assets with credit risk characteristics similar to those in the group. 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 Group to reduce any differences between loss estimates and actual loss experience.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.11 Impairment of financial assets (continued)**

When a loan is uncollectible, 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 income statement.

#### *Available for sale financial assets*

The Group assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss measured as the difference between the original cost and the current fair value, less any impairment loss on that asset previously recognised, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### **1.12 Intangible assets**

Intangible assets are measured at cost less accumulated amortisation and any impairment losses.

#### *(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by an individual statutory entity.

#### *(b) Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, which is normally five years.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.12 Intangible assets (continued)**

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

#### **(c) Other intangible assets**

Details of the method of valuation of other intangibles is detailed in Note 18 to the accounts.

Other intangible assets are amortised on a straight line basis over the life of the agreement and reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

### **1.13 Property, plant and equipment**

Freehold land and buildings are initially recognised at cost, and subsequently are revalued annually at open market value by independent external valuers. Revaluations are to be made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the balance sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on the revaluation of land and buildings are credited to revaluation reserves in shareholders' equity, unless the increase represents a reversal of a previous revaluation decrease of the same asset which was recognised as an expense, in which case the increase can be recognised in the income statement to the extent of the previously recognised decrease. Decreases that offset previous increases on the same asset are charged against property revaluation reserve; all other decreases are charged to the income statement.

Depreciation is calculated on the straight line method to write down the carrying value of assets to their residual values over their estimated useful lives as follows:

Adaptations	15 years, or the remaining period of the lease
Equipment	Maximum of 10 years

The Directors consider that residual values of freehold and long leasehold based on prices at the balance sheet date are such that depreciation is not material.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.13 Property, plant and equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued than any amount in the revaluation reserve relating to that asset is transferred to retained earnings on disposal.

### **1.14 Leases**

(1) A Group Company is the lessee:

The total payments and receipts made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property, plant and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(2) A Group Company is the lessor:

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

### **1.15 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank, balances with central banks and post office banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than 3 months.

### **1.16 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.16 Provisions (continued)**

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

### **1.17 Employee benefits**

#### *(a) Pension obligations*

The Group companies operate various pension schemes. The schemes are funded and the assets of the schemes are held in separate trustee administered funds. The Group has both defined contribution and defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for unrecognised past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The Group's income statement includes the current service cost of providing pension benefits, the expected return on the schemes' assets, net of administration costs, and the interest cost on the schemes' liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to reserves through the Statement of Recognised Income and Expense. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

For defined contribution plans, once the contributions have been paid, the company has no further payment obligations. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.17 Employee benefits (continued)**

#### *(b) Equity compensation benefits*

The Bank of Ireland Group has a number of share based payment schemes. The fair value at the date of grant of the employee services received in exchange for the grant of options or shares is recognised as an expense as recharged from the Bank of Ireland Group to Bank of Ireland UK Holdings plc group. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted at grant date, excluding the impact of any non-market vesting conditions (for example, growth in EPS). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the Bank of Ireland Group revises its estimate of the number of options or shares that are expected to vest. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

Upon transition to IFRS, the Group availed of the exemption only to apply IFRS 2 to share based payments which were granted on or after 7 November 2002 that had not yet vested by 1 January 2005.

#### *(c) Short term employee benefits*

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

#### *(d) Termination payments*

Termination payments are recognised as an expense when the Group is demonstrably committed to a formal plan to terminate employment before the normal retirement date. Termination payments for voluntary redundancies are recognised where an offer has been made by the Group, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

### **1.18 Taxation**

#### *(a) Current income tax*

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

#### *(b) Deferred tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.18 Taxation (continued)**

transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available for sale investments and cash flow hedges, or related to the revaluation of land and buildings which are charged or credited, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

### **1.19 Assets classified as held for sale**

An asset or a disposal group is classified as held for sale if the following conditions are met:

- Its carrying amount will be recovered principally through sale rather than continuing use.
- It is available for immediate sale.
- The sale is highly probable within the next twelve months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of reclassification. Prior period amount are not reclassified.

Properties held for sale are not depreciated. Impairment losses subsequent to classification of properties held for sale are recognised in profit or loss. Increases in fair value less costs to sell of property that has been classified as held for sale are recognised in profit or loss to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset.

### **1.20 Offsetting Financial Instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### **1.21 Dividends**

Dividends on ordinary shares are recognised in equity in the period in which they are paid.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.22 Adoption of new accounting standards**

The following standards / amendments to standards have been adopted by the Group from 1 April 2007:

- IFRS 7 – Financial Instruments: Disclosures (effective for periods beginning on or after 1 January 2007). This standard requires more detailed qualitative and quantitative disclosures about exposures to risks arising from the Group's financial instruments. As a disclosure standard, the application of the standard has not had any impact on the amounts recognised in the financial statements. The IFRS 7 disclosures are set out in these financial statements and in the Risk Management Notes reference 33-36. IFRS 7 supercedes IAS 30 'Disclosures in the Financial

Statements of Banks and Similar Institutions' and the disclosure requirements previously contained in IAS 32 'Financial Instruments: Presentation'.

- Amendment to IAS 1 – Capital Disclosures (effective for periods beginning on or after 1 January 2007). This amendment requires disclosure, both quantitative and qualitative, of an entity's objectives, policies and processes for managing capital. These disclosures are set out in these financial statements and in the Risk Management Notes reference 33-36.

- IFRIC 9 – Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006). This interpretation requires an entity to assess whether a contract contains an embedded derivative at the date an entity first becomes party to the contract and prohibits reassessment unless there is a change to the contract that significantly modifies the cash flows. The adoption of this interpretation has not had an impact on the Group.

- IFRIC 10 – Interim Financial Reporting and Impairment (effective for periods beginning on or after 1 November 2006). This interpretation clarifies that any impairment losses on goodwill and equity instruments recognised in an interim period may not be reversed in subsequent interim periods. This currently does not have an impact on the Group.

- IFRIC 11 – Group and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007). This interpretation deals with accounting for share based payments and does not have a material impact on the Group.

#### *Prospective Change:*

The following standards have been approved by the IASB and adopted by the EU but have not been early adopted by the Group.

IFRS 8 – Operating Segments (effective 1 January 2009). This standard replaces IAS 14 - Segmental Reporting and requires an entity to base their segmental reporting on the information that is reported internally to management. This standard will be adopted by the Group in the year ended 31 March 2010. The impact is not expected to be significant for the Group.

The following standards / amendments to standards have been approved by the IASB but have not yet been adopted by the EU and have not been early adopted by the Group.

Amendment to IFRS 2 – Share-based payments: Vesting Conditions and Cancellations (effective 1 January 2009). This amendment clarifies the accounting treatment of cancellations and vesting conditions. It is not expected to have a significant impact on the Group.

IFRS 3 Revised – Business Combinations (effective 1 July 2009). This standard deals with how an acquirer recognises, measures and discloses in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **1.22 Adoption of new accounting standards (continued)**

The significant changes from existing practice as a result of this revised standard are in relation to acquisitions that are achieved in stages and acquisitions where less than 100% of the equity is acquired. The objective is to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The impact on the Group will be dependent on the nature of any future acquisition.

IFRIC 12 – Service Concession Arrangements (effective 1 January 2008). This interpretation deals with entities providing public services, hence it is not expected to impact on the Group.

IFRIC 13 – Customer Loyalty Programmes (effective 1 July 2008). This interpretation deals with accounting for customer loyalty award schemes, hence it is not expected to have a material impact on the Group.

IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008). This interpretation deals with accounting for refunds in contributions and minimum funding requirements. This IFRIC is not expected to have a material impact on the Group.

Amendment to IAS 1 - Presentation of Financial Statements, (effective 1 January 2009). This amendment revises the requirements for the presentation, structure and content of financial statements. This amendment will impact on the presentation of the financial statements of the Group, however this is not expected to be significant.

Amendment to IAS 23 - Borrowing Costs (effective 1 January 2009). This amendment requires an entity to capitalise borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. It is not expected to impact on the Group.

Amendment to IAS 27 – Consolidated and Separate Financial Statements (effective 1 July 2009). The objective of this amendment is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The introduction of this amendment will impact Group reporting although this is not expected to be significant.

Amendment to IAS 32 – Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective 1 January 2009). This amendment changes the classification from liabilities to equity of (a) some puttable financial instruments and (b) some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This amendment is not expected to impact the Group.

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Impairment losses on financial assets**

In determining whether an impairment loss should be recorded in the Income Statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. See note 34 for further information.

### **Fair value of financial instruments**

The Group measures certain of its financial instruments at fair value in the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and an active market exists. Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs.

Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

The fair value movement on assets and liabilities held at fair value through profit or loss, including those held for trading, are included in net trading income/expense. Fair values in respect of financial assets and liabilities are disclosed in note 33.

### **Provisions**

When it is probable that a liability has been incurred, judgements and estimates are required to make a reasonable estimate of the amount of the loss, for example in the case of endowment mis-selling provisions. Such liabilities are often resolved over long time periods. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties.

### **Retirement Benefits**

The present value of the retirement benefits obligations is dependant upon an actuarial calculation which includes a number of assumptions. These assumptions include the discount rate which is used to determine the present value of the estimated future cash flows that will be required to meet the retirement benefit obligation. In determining the appropriate discount rate to use, the Group considers market yields of high quality corporate bonds denominated in sterling that have terms to maturity approximating the terms of the retirement benefit obligation.

### **Taxes**

Significant judgement is required in determining the Group's tax liabilities. There are many transactions and calculations for which the ultimate tax determination is uncertain and where calculations have been based on management's assessment of legal and professional advice, case law and other relevant guidance. In these situations, the various risks are categorised and approximate

**2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

**Taxes (continued)**

weightings applied in arriving at the assessment of the expected liability. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax amounts in the period in which such determination is made.

**Intangible assets**

The Group reviews the carrying value of intangible assets for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. The impairment review is performed by projecting future cash flows, excluding finance and tax, based on budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the asset an impairment charge would be required in the income statement. The calculation requires the exercise of significant judgement by management; if the estimates made prove to be incorrect or changes in the performance of the related business affect the amount and timing of future cash flows, intangible assets may become impaired in future periods.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3 BUSINESS SEGMENTS**

The Group has two principal business segments, Lending and Consumer together with a central function within which the Group's finance and holding activities are performed.

<b>Group</b>	<b>Lending</b>	<b>Consumer</b>	<b>Divisional Centre</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>At 31 March 2008</b>				
<b>Continuing operations</b>				
Revenue	70.1	86.6	(33.2)	123.5
Segment result	39.0	23.3	(31.2)	31.1
Profit/(loss) before tax	39.0	23.3	(31.2)	31.1
Taxation	0.2		9.5	3.9
		(5.8)		
Profit/(loss) for the year	39.2	17.5	(21.7)	35.0
<b>Discontinued operations</b>				
Revenue	85.0	-	-	85.0
Segment result	40.9	-	-	40.9
Profit before tax	40.9	-	-	40.9
Taxation	(16.3)	-	-	(16.3)
Profit for the year	24.6	-	-	24.6
Segment assets	2,115.3	660.5	2,871.8	5,647.6
Segment liabilities	1,911.2	567.7	2,628.9	5,107.8
<b>Other segment items</b>				
Capital expenditure	1.0	-	-	1.0
Depreciation	1.5	0.1	-	1.6
Amortisation	2.3	2.9	2.9	8.1

Revenue comprises the net income from interest, fees, commissions, net trading expense and other operating income and is generated from lending and deposit-taking business with external retail customers and the related financial assets and liabilities.

Recharges from Divisional Centre to other business segments are made at cost on a consistent basis year on year.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3 BUSINESS SEGMENTS (CONTINUED)**

<b>Group</b>	<b>Lending</b>	<b>Consumer</b>	<b>Divisional Centre</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>At 31 March 2007</b>				
<b>Continuing operations</b>				
Revenue	63.9	67.7	(40.7)	90.9
Segment result	45.7	3.5	(47.1)	2.1
Profit/(loss) before tax	45.7	3.5	(47.1)	2.1
Taxes	(17.7)	(2.0)	13.0	(6.7)
Profit/(loss) for the year	28.0	1.5	(34.1)	(4.6)
<b>Discontinued operations</b>				
Revenue	178.9	-	-	178.9
Segment result	78.3	-	-	78.3
Profit/(Loss) before tax	78.3	-	-	78.3
Taxes	(18.9)	-	-	(18.9)
Profit/(Loss) for the year	59.4	-	-	59.4
Segment assets	34,245.7	492.6	3,238.6	37,976.9
Segment liabilities	33,409.3	492.6	3,579.6	37,481.5
<b>Other segment items</b>				
Capital expenditure	6.6	-	-	6.6
Depreciation	3.1	0.1	-	3.2
Amortisation	5.7	-	5.5	11.2

**4 NET INTEREST INCOME**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Interest income</b>		
On loans and advances to customers	173.5	444.6
On available for sale securities	6.3	11.4
On amounts due from parent company and fellow group undertakings	182.0	0.3
	361.8	456.3
<b>Interest expense</b>		
On amounts due to customers	11.4	21.8
On amounts due to parent company and fellow group undertakings	136.3	242.2
Subordinated liabilities	141.8	122.8
Preference stock	3.4	4.1
Other	1.1	18.7
	294.0	409.6

Included within interest income is £0.4m (2007: £0.5m) in respect of impaired loans and advances to customers.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**5 NET TRADING EXPENSE**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Foreign currency translation gains less losses	8.6	78.3
Related derivatives held for trading	(22.0)	(81.4)
Net fair value hedge ineffectiveness	(0.2)	(0.1)
Net Trading Expense	<u>(13.6)</u>	<u>(3.2)</u>

Net trading expense of £13.6 million (March 31, 2007: £3.2 million) includes gains and losses on financial instruments held for trading. These are derivative instruments which are economic hedges of the interest rate or foreign exchange risks in financial liabilities held at amortised cost, to which hedge accounting is not applied. It includes the interest income receivable and expense payable and the fair value movements on these derivative instruments.

All of the foreign currency translation gains less losses of £8.6m (March 31, 2007: £78.3 million) relate to financial liabilities held at amortised cost.

Net fair value hedge ineffectiveness comprises a net gain from hedging instruments of £64.6 million (March 31, 2007: net loss of £20.3 million) offsetting a net loss from hedged items of £64.8 million (March 31, 2007: net gain of £20.2 million).

Other than the foreign currency translation gains less losses and fair value hedge accounting adjustments described above, there were no other gains or losses relating to financial liabilities held at amortised cost, available for sale assets, held to maturity investments or loans and receivables included within net trading income (March 31, 2007: nil).

There were no assets or liabilities designated at fair value through profit or loss upon initial recognition within continuing operations during the years ended March 31, 2007 or March 31, 2008.

**6 OTHER OPERATING INCOME**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Rental income from operating lease rentals	1.2	0.1
Other income	2.1	-
	<u>3.3</u>	<u>0.1</u>

**7 OTHER OPERATING EXPENSES**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Staff costs (note 8)	29.6	23.3
Depreciation	0.6	0.3
Amortisation of intangible assets	5.8	5.5
Operating lease rentals	-	3.4
Other administrative expenses	43.9	52.5
	<u>79.9</u>	<u>85.0</u>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7 OTHER OPERATING EXPENSES (CONTINUED)**

Auditors' remuneration in respect of the audit of the Company and the Group was £28,000 (2007: £35,000) and £324,000 (2007: £424,800) respectively.

Other assurance services incurred in respect of the Company and the Group were £15,000 (2007: £nil) and £70,000 (2007: £nil).

Taxation services incurred in respect of the Company and the Group were £nil (2007: £nil) and £nil (2007: £78,000).

Additional non audit fees incurred in respect of the Company and the Group were £nil (2007: £nil) and £32,000 (2007: £317,500) respectively.

The Bank of Ireland Group Audit Committee has reviewed the nature of fees for non-audit services, and is satisfied that it has not affected the independence of the auditors.

**8 STAFF COSTS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	44.1	69.5
Social security costs	4.5	6.1
Pension costs:		
- defined contribution plans	1.0	0.8
- defined benefit plans (note 31)	2.7	4.1
Share based payment schemes	1.3	1.8
Other staff costs	5.3	1.8
	<u>58.9</u>	<u>84.1</u>
Attributable to:		
Continuing operations	29.6	23.3
Discontinued operations	<u>29.3</u>	<u>60.8</u>
	<u>58.9</u>	<u>84.1</u>

The Company had no employees during the year (2007:Nil).

The average number of persons including directors employed by the Group during the year was 1,102 (2007: 1,475).

**9 DISCONTINUED OPERATIONS**

Discontinued operations contributed £40.9m (2007: £78.3m) to pre-tax profit, comprising £85.0m (2007: £178.9m) to revenue, impairment provision (credit)/charge of £(0.5)m (2007: £1.1m) and expenses of £44.6m (2007: £99.5m). The taxation relating to discontinued trading operations was £16.3m (2007: £18.9m).

On 1 October 2007, with the exception of a limited number of non-operational assets and liabilities, the entire businesses of Bristol & West plc, Bank of Ireland Home Mortgages Ltd and Brunel Residential Mortgage Securitisation No.1 plc, referred to within these financial statements as "Discontinued Operations", were transferred to other statutory entities within the Bank of Ireland Group.

The detail of this corporate restructure is as follows:

**9 DISCONTINUED OPERATIONS (CONTINUED)**

- a) The businesses of Bristol & West plc, Bank of Ireland Home Mortgages Ltd and Brunel Residential Mortgage Securitisation No.1 plc were transferred to The Governor and Company of the Bank of Ireland on 1 October 2007 at book value. In addition all of the subsidiaries of Bristol & West plc and Bank of Ireland Home Mortgages Ltd were transferred to Bank of Ireland UK Holdings plc, at their historic cost value, generating nil profit or loss for the Group.
- b) In accordance with Section 135 of the Companies Act 1985, Bristol & West plc reduced its issued ordinary share capital from £306.6m to £50,000 and cancelled its share premium of £18.5m and repaid these to Bank of Ireland UK Holdings plc.
- c) Amounts not required to be retained by the continuing business were distributed by way of dividends totalling £325.2m to Bank of Ireland UK Holdings plc.

**Additional Cash Flow information**

The assets and liabilities of the disposal group were as follows at the date of disposal:

	<b>Total transfer as at 1 October 2007 £m</b>
Derivative financial instruments	130.3
Loans and advances to banks	7,139.8
Loans and advances to customers	24,727.9
Investments in group undertakings	-
Intangible assets	36.9
Property, plant and equipment	6.1
Retirement benefit asset	13.6
Other assets	131.6
Deposits from other banks	(22,382.7)
Derivative financial instruments	(119.6)
Due to customers	(3,929.7)
Debt securities in issue	(5,180.6)
Other liabilities	(560.8)
Provisions	(15.9)
Deferred tax liabilities	(21.4)
Subordinated liabilities	(487.0)
<b>Total value of assets / (liabilities) disposed</b>	<b>(511.5)</b>
Less: cash and cash equivalents of disposal group	-
<b>Total value of assets / (liabilities) disposed, net of cash and cash equivalents</b>	<b>(511.5)</b>
Loss / (profit) on disposal	-
<b>Cash flow from disposal group</b>	<b>(511.5)</b>

**10 TAXATION**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Current tax</b>				
- Continuing operations	(4.4)	6.7	(9.5)	(14.0)
- Discontinued operations	5.8	16.0	-	-
	<u>1.4</u>	<u>22.7</u>	<u>(9.5)</u>	<u>(14.0)</u>
<b>Deferred tax (Note 21)</b>				
- Continuing operations	0.5	-	-	-
- Discontinued operations	10.5	2.9	-	-
	<u>11.0</u>	<u>2.9</u>	<u>-</u>	<u>-</u>
	<u>12.4</u>	<u>25.6</u>	<u>-</u>	<u>(14.0)</u>

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Taxes on continuing operations</b>				
Current tax	(4.4)	6.7	(9.5)	(14.0)
Deferred tax	0.5	-	-	-
	<u>(3.9)</u>	<u>6.7</u>	<u>(9.5)</u>	<u>(14.0)</u>

	<b>Group</b>	<b>Group</b>
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Current tax:</b>		
UK Corporation tax at 30% (2007: 30%)	1.3	20.5
Corporation tax adjustments in respect of prior periods	0.1	2.2
<b>Deferred tax:</b>		
Current year	13.4	6.0
Adjustments in respect of prior periods	(2.4)	(3.1)
	<u>12.4</u>	<u>25.6</u>

Further information about deferred tax is presented in note 21. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Profit before tax	<u>72.0</u>	<u>80.4</u>
Tax calculated at a rate of 30% (2007: 30%)	21.6	24.1
Income not subject to tax	(5.4)	(7.0)
Expenses not deductible for tax purposes	2.3	9.3
Adjustments to tax charge in respect of previous year	(2.4)	(0.8)
Other	(3.7)	-
Taxation	<u>12.4</u>	<u>25.6</u>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**11 COMPANY INCOME STATEMENT**

As permitted by the Companies (Northern Ireland) Order 1986, the company's income statement has not been included in these consolidated financial statements.

**12 CASH AT BANK**

<b>Group</b>	<b>2008 £m</b>	<b>2007 £m</b>
Cash at bank, included in cash and cash equivalents (note 40)	4.9	17.6

Cash at bank is non-interest-bearing.

**13 LOANS AND ADVANCES TO BANKS**

	<b>Group</b>		<b>Company</b>	
	<b>2008 £m</b>	<b>2007 £m</b>	<b>2008 £m</b>	<b>2007 £m</b>
Placements with banks	8.6	59.1	-	-
Due from parent company and fellow group undertakings:				
Balances with less than 3 months maturity Included in cash equivalents (note 40)	233.9	1,250.1	-	-
Balances with 3 -12 months maturity	2,079.1	-	2,142.0	1,867.6
	<u>2,321.6</u>	<u>1,309.2</u>	<u>2,142.0</u>	<u>1,867.6</u>
Mandatory reserve deposits	-	32.0	-	-
Due from parent company and fellow group undertakings	-	9,104.8	-	-
	<u>2,321.6</u>	<u>10,446.0</u>	<u>2,142.0</u>	<u>1,867.6</u>

Loans and advances to banks with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £2,321.6m (2007: £6,637.2m)

**14 LOANS AND ADVANCES TO CUSTOMERS**

	<b>Group 2008 £m</b>	<b>2007 £m</b>
Loans and advances to customers	934.8	24,465.3
Finance lease and hire purchase receivables	1,481.8	1,205.9
Gross loans and advances	<u>2,416.6</u>	<u>25,671.2</u>
Less: allowance for losses on loans and advances	(20.9)	(20.9)
	<u>2,395.7</u>	<u>25,650.3</u>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**14 LOANS AND ADVANCES TO CUSTOMERS (continued)**

**Finance lease and hire purchase receivables**

The loans and advances to customers include finance lease receivables (including hire purchase agreements), which may be analysed as follows:

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Gross investment in finance leases:</b>		
Not later than 1 year	596.2	486.4
Later than 1 year and not later than 5 years	1,029.5	825.8
Later than 5 years	15.5	13.3
	<u>1,641.2</u>	<u>1,325.5</u>
Unearned future finance income on finance leases	(159.4)	(119.6)
Net investment in finance leases	<u>1,481.8</u>	<u>1,205.9</u>

**The net investment in finance leases may be analysed as follows:**

Not later than 1 year	537.8	442.0
Later than 1 year and not later than 5 years	929.7	751.8
Later than 5 years	14.3	12.1
	<u>1,481.8</u>	<u>1,205.9</u>

**Allowance for losses on loans and advances**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Balance at 1 April	<u>20.9</u>	<u>22.6</u>
Provision for loan impairment	12.5	3.8
Attributable to discontinued operations	(0.5)	1.4
Loans written off during the year as uncollectable	(6.7)	(6.9)
Transfer (to)/from other group companies	(1.7)	-
Other movements	(3.6)	-
As at 31 March	<u>20.9</u>	<u>20.9</u>

Loans and advances to customers with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £ 710.8m (2007: 1,873.1m)

**15 AVAILABLE FOR SALE SECURITIES**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Available for sale securities	<u>39.9</u>	<u>167.3</u>

**16 INVESTMENT SECURITIES**

**Available for sale securities**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Available for sale	<u>-</u>	<u>300.5</u>

**Held to maturity securities**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Held to maturity	<u>497.0</u>	<u>496.7</u>

Held to maturity represent the placing of funds raised through BOI Capital Funding (No 4) LP (note 24).

Investment Securities with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £ nil (2007: £ nil)

**17 SHARES IN GROUP UNDERTAKINGS**

<b>Company</b>	<b>£m</b>
At 1 April 2007	812.3
Transfer of subsidiary undertakings	591.9
Decrease in the carrying value of subsidiaries	(757.9)
Capital reduction and repayment of share capital & share premium	(325.0)
Redemption of preference shares	(28.0)
At 31 March 2008	<u>293.3</u>

**Principal subsidiary undertakings**

The Company owns the total issued share capital in all its subsidiary undertakings with the exception of Midasgrange Limited where it has a 50.01% shareholding.

As part of the corporate restructure, all of the subsidiary undertakings of Bristol & West plc and Bank of Ireland Home Mortgages Ltd were transferred to the Company at their historic cost value and subsequently written down to net asset value. In addition, a capital reduction programme at Bristol & West plc resulted in the repayment of share capital, share premium and preference shares.

Up to and following the restructuring, the principal subsidiary undertakings were and continue to be incorporated and operated in England, Wales and Northern Ireland. Information is only given on subsidiaries that in the Director's opinion principally affect the figures shown in the financial statements.

**17 SHARES IN GROUP UNDERTAKINGS (continued)**

<b>The principal subsidiary undertakings are:</b>	<b>Nature of business</b>
Bank of Ireland Home Mortgages Limited	Holding Company
One Temple Quay Limited	Property Management
B&W Services Number 1 Limited	Investment
B&W Services Number 2 Limited	Investment
NIIB Group Limited	Instalment Credit
Bank of Ireland Britain Holdings Limited	Holding Company
BOI Corporate and International (NI) Limited	Management Services
BOI Business Finance Limited	Leasing
BI Mortgage Services Limited	Mortgage Servicing
Bristol & West plc	Holding Company
Midasgrange Limited (Trading as Post Office Financial Services)	Financial Services
Burdale Financial Holdings Limited	Asset Backed Lender

On 1 October 2007 all the subsidiaries of Bristol & West plc and Bank of Ireland Home Mortgages Ltd were transferred to its parent company, Bank of Ireland UK Holdings plc, at their historic cost value.

The principal subsidiary undertakings are all incorporated and operate in England and Wales except for NIIB Group Limited and BOI Corporate and International (NI) Limited which are incorporated and operate in Northern Ireland. Information is only given for those subsidiaries that in the Directors' opinion principally affect the figures shown in the financial statements.

Burdale Financial Holdings Limited has a 31 December financial year end but interim financial statements to 31 March are prepared for the Group financial statements.

In July 2007 the securitisation notes of the special purpose entity Shipshape were redeemed and Shipshape ceased to be deemed a subsidiary from that date.

BOI Capital Funding (No 1) LP, BOI Capital Funding (No 2) LP, BOI Capital Funding (No 3) LP and BOI Capital Funding (No 4) LP, which are funding vehicles for the Bank of Ireland Group, have been included in the results of the Group using acquisition accounting on the basis that the Company exerts dominant control over these entities. The general partner of these companies is BOI G P No.1 Ltd. A wholly owned subsidiary of Bank of Ireland UK Holdings plc.

The Group avails of the exemption provided under Regulation 7 of the The Partnerships and Unlimited Companies (Accounts) Regulations 1993. Under this exemption, the accounts of the Limited Partnerships which BOI G P No.1 Limited manages are not required to be filed as appended to the annual accounts of BOI G P No. 1 Limited as the Limited Partnerships are consolidated within the group accounts of Bank of Ireland UK Holdings plc.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**18 INTANGIBLE ASSETS**

<b>Group</b>	<b>Brand Licence £m</b>	<b>Other Intangible £m</b>	<b>Goodwill £m</b>	<b>Software £m</b>	<b>Total £m</b>
<b>Cost or valuation</b>					
At 1 April 2007	29.4	54.7	37.8	70.0	191.9
Additions	-	-	-	8.2	8.2
Transfer of business (Note 9)	(29.4)	-	-	(37.4)	(66.8)
Disposals	-	-	-	(3.8)	(3.8)
At 31 March 2008	<u>-</u>	<u>54.7</u>	<u>37.8</u>	<u>37.0</u>	<u>129.5</u>
<b>Depreciation</b>					
At 1 April 2007	(8.9)	(16.6)	-	(25.7)	(51.2)
Transfer of business (Note 9)	9.7	-	-	20.2	29.9
Charge for year	(0.8)	(2.9)	-	(4.4)	(8.1)
Disposals	-	-	-	3.8	3.8
At 31 March 2008	<u>-</u>	<u>(19.5)</u>	<u>-</u>	<u>(6.1)</u>	<u>(25.6)</u>
<b>Net book value</b>					
At 31 March 2008	<u>-</u>	<u>35.2</u>	<u>37.8</u>	<u>30.9</u>	<u>103.9</u>
At 31 March 2007	<u>20.5</u>	<u>38.1</u>	<u>37.8</u>	<u>44.3</u>	<u>140.7</u>

<b>Group</b>	<b>Brand Licence £m</b>	<b>Other Intangible £m</b>	<b>Goodwill £m</b>	<b>Software £m</b>	<b>Total £m</b>
<b>Cost or valuation</b>					
At 1 April 2006	29.4	54.7	37.8	63.9	185.8
Additions	-	-	-	8.7	8.7
Reclassification from property, plant and equipment	-	-	-	0.3	0.3
Revaluation	-	-	-	(2.9)	(2.9)
Transfer of business (note 9)	-	-	-	-	-
At 31 March 2007	<u>29.4</u>	<u>54.7</u>	<u>37.8</u>	<u>70.0</u>	<u>191.9</u>
<b>Depreciation</b>					
At 1 April 2006	6.0	11.1	-	23.3	40.4
Charge for year	2.9	5.5	-	5.3	13.7
Reclassification from property, plant and equipment	-	-	-	(2.9)	(2.9)
At 31 March 2007	<u>8.9</u>	<u>16.6</u>	<u>-</u>	<u>25.7</u>	<u>51.2</u>
<b>Net book value</b>					
At 31 March 2007	<u>20.5</u>	<u>38.1</u>	<u>37.8</u>	<u>44.3</u>	<u>140.7</u>
At 31 March 2006	<u>23.4</u>	<u>43.6</u>	<u>37.8</u>	<u>40.6</u>	<u>145.4</u>

## **18 INTANGIBLE ASSETS (continued)**

During 2003/2004, the Bank of Ireland Group entered into a joint venture agreement with the Post Office to sell a range of financial products through its branch network through the entity Midasgrange Limited. 50.01% of Midasgrange Limited is owned by Bank of Ireland UK Holdings plc with the remaining 49.99% being owned by Post Office Limited. Midasgrange is consolidated into the Group results giving rise to an intangible asset of £54.7m, which has been capitalised and is being written off to the profit and loss account over its contractual life. Under the terms of legal agreements entered into in 2007/08, the contractual life has been extended to 20 years.

As part of this agreement, Bristol & West plc, paid a total of £29.4m in consideration in the year ended 31 March 2004 for the use of the Post Office brand. The value of the brand is being amortised over the life of the agreement with the Post Office which is 20 years.

As part of the corporate restructure referred to in note 9, the value of the brand and the value of software related to Bristol & West plc, was transferred to other entities within the Bank of Ireland Group.

### **Impairment Review - Goodwill**

Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred by comparing the carrying value of goodwill to its recoverable amount. An impairment loss arises if the carrying value exceeds the recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the asset.

### **Impairment testing of goodwill**

Goodwill is allocated to cash generating units at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.

Goodwill of £37.8m (31 March 2007: £37.8m) relates to Burdale while Other Intangibles of £35.2m (31 March 2007: £38.1m) relate to the agreement with Midasgrange Ltd as described above.

The calculation of the recoverable amount of goodwill is based upon a value in use calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance.

The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement. The recoverable amount calculations performed for the significant amounts of goodwill are sensitive to changes in the following key assumptions:

#### *Cash flow forecasts*

Cash flow forecasts are based on internal management information for a period of up to five years, after which a growth factor appropriate for the business is applied. Initial cash flows are based on performance in the current year and the next four years cash flows are consistent with approved plans for each business.

#### *Growth rates*

Growth rates beyond five years are determined by reference to local economic growth, inflation projections or long term bond yields. The assumed growth rate is 2.25% for both Burdale and Midasgrange.

**18. INTANGIBLE ASSETS (CONTINUED)**

*Discount rate*

The discount rate applied in all cases is the pre-tax weighted average cost of capital for the Group increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows. A rate of 9% has been used in the models.

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed by the Directors in the review. The Directors consider that reasonable changes in key assumptions used to determine the recoverable amounts of the Burdale goodwill and other intangible assets in Midasgrange will not result in any material impairment.

No impairment was identified in the years ended 31 March 2008 or 31 March 2007.

**19 PROPERTY, PLANT AND EQUIPMENT**

Following the corporate restructure referred to in Note 9, properties and finance leased assets related to Bristol & West plc were transferred to other entities within the Bank of Ireland Group.

<b>Group 2008</b>	<b>Land and buildings £m</b>	<b>Adaptations £m</b>	<b>Equipment £m</b>	<b>Total £m</b>
<b>Cost or valuation</b>				
At 1 April 2007	43.1	2.8	33.8	79.7
Additions		-	1.0	1.0
Reclassification to available for sale			(4.2)	(4.2)
Disposals				(2.4)
Revaluation	(2.4)			
Transfer of business (Note 9)	(0.1)	(0.4)	(28.7)	(29.2)
At 31 March 2008	<u>40.6</u>	<u>2.4</u>	<u>1.9</u>	<u>44.9</u>
<b>Depreciation</b>				
At 1 April 2007	-	(0.9)	(26.3)	(27.2)
Charge for year	-	(0.2)	(1.3)	(1.5)
Disposals	-		3.7	3.7
Transfer of business (Note 9)	-	0.2	23.0	23.2
At 31 March 2008	<u>-</u>	<u>(0.9)</u>	<u>(0.9)</u>	<u>(1.8)</u>
<b>Net book value</b>				
At 31 March 2008	<u>40.6</u>	<u>1.5</u>	<u>1.0</u>	<u>43.1</u>
At 31 March 2007	<u>43.1</u>	<u>1.9</u>	<u>7.5</u>	<u>52.5</u>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**19 PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>Group 2007</b>	<b>Land and buildings</b>	<b>Adaptations</b>	<b>Equipment</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost or valuation</b>				
At 1 April 2006	43.2	2.9	35.4	81.5
Additions	-	-	2.6	2.6
Reclassification to intangible assets	-	-	(0.3)	(0.3)
Reclassification to held for sale	(3.2)	-	-	(3.2)
Disposals	(2.1)	(0.1)	(3.9)	(6.1)
Revaluation	5.2	-	-	5.2
At 31 March 2007	<u>43.1</u>	<u>2.8</u>	<u>33.8</u>	<u>79.7</u>
<b>Depreciation</b>				
At 1 April 2006	-	0.7	25.7	26.4
Charge for year	-	0.3	2.9	3.2
Disposals	-	(0.1)	(2.3)	(2.4)
At 31 March 2007	<u>-</u>	<u>0.9</u>	<u>26.3</u>	<u>27.2</u>
<b>Net book value</b>				
At 31 March 2007	<u>43.1</u>	<u>1.9</u>	<u>7.5</u>	<u>52.5</u>
At 31 March 2006	<u>43.2</u>	<u>2.2</u>	<u>9.7</u>	<u>55.1</u>

As at 31 March 2008, the Group's properties, valued at £40.6m (2007: £43.1m), would have been included at £27.4m (2007: £28.0m) had they been carried at historic cost less depreciation. Within equipment are financed leased assets with a net book value of £nil (2007: £0.7m).

Following the full revaluation on 31 March 2007, a subsequent revaluation of all of the Group's freehold properties and long leasehold properties was carried out as at 31 March 2008. Properties were valued on the basis of market value. Adaptation works were accounted for on the basis of depreciated historic cost. The properties were valued by qualified external surveyors in accordance with the Appraisal and Valuation Standards of The Royal Institution of Chartered Surveyors.

**20 ASSETS CLASSIFIED AS HELD FOR SALE**

<b>Group and Company</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Asset classified as held for sale	<u>-</u>	<u>3.2</u>

A property classified as held for sale was sold in June 2007. The property was part of the Divisional Centre business segment and was sold as a result of rationalisation of properties.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**21 DEFERRED INCOME TAX**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2007: 30%).

The movement on the deferred income tax account is as follows:

	<b>Group 2008 £m</b>	<b>2007 £m</b>
At 1 April 2007	(8.4)	(3.0)
Income statement charge	(11.0)	(2.9)
Deferred tax impact charged / (credited) direct to reserves of:		
Actuarial (losses) relating to pensions	(2.9)	(1.5)
Revaluation of property	0.7	(1.2)
Other	1.5	0.2
Transfer of business (note 9)	21.4	
<b>At 31 March 2008</b>	<u>1.3</u>	<u>(8.4)</u>
<b>Deferred income tax assets</b>		
Accelerated depreciation	(0.2)	2.4
Pensions and other post retirement benefits	1.4	12.4
Other temporary timing differences	5.0	6.6
	<u>6.2</u>	<u>21.4</u>
<b>Deferred income tax liabilities</b>		
Accelerated tax depreciation	(3.5)	(6.1)
Other temporary differences	(1.4)	(20.9)
Pensions and other post retirement benefits	-	-
Revaluation reserve	-	(2.8)
	<u>(4.9)</u>	<u>(29.8)</u>
Net deferred tax asset/(liability)	<u>1.3</u>	<u>(8.4)</u>

The deferred income tax assets disclosed above are expected to be recovered within 12 months.

The deferred tax charge in the income statement comprises the following temporary differences:

	<b>Group 2008 £m</b>	<b>2007 £m</b>
Accelerated tax depreciation	(0.1)	0.3
Pensions and other post retirement benefits	(12.3)	(4.8)
Other provisions	(1.5)	(0.2)
Other temporary differences	2.9	1.8
	<u>(11.0)</u>	<u>(2.9)</u>
	<b>Group 2008 £m</b>	<b>2007 £m</b>
Attributable to:		
- Continuing operations	(0.5)	-
- Discontinued operations	(10.5)	(2.9)
	<u>(11.0)</u>	<u>(2.9)</u>

**21 DEFERRED INCOME TAX (CONTINUED)**

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that realisation of the related tax benefit is probable.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes related to the same fiscal authority.

**22 OTHER ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Amounts due from parent company and fellow group undertakings	64.3	431.6	-	-
Prepayments and accrued income	37.8	33.8	-	-
Other	24.6	30.2	2.5	0.8
	<u>126.7</u>	<u>495.6</u>	<u>2.5</u>	<u>0.8</u>

Other assets with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £ 132.0m (2007: £ 2.5m).

**23 DEPOSITS FROM BANKS**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Deposits from other banks	1.6	32.1
Due to parent company and fellow group undertakings	2,334.8	24,242.8
	<u>2,336.4</u>	<u>24,274.9</u>

All deposits from banks have variable interest rates.

Deposits from other banks with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £685.8m (2007: £2.8m)

**24 SUBORDINATED LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Undated Loan Capital</b>				
Bank of Ireland UK Holdings plc				
Euro 600m 7.4% Guaranteed Step-up Callable Perpetual Preferred Securities	491.5	422.3	491.5	422.3
Stg£350m 6.25% Guaranteed Callable Perpetual Preferred Securities	333.7	325.2	333.7	325.2
Less: unamortised issue costs	(4.2)	(4.8)	(4.2)	(4.8)
	<u>821.0</u>	<u>742.7</u>	<u>821.0</u>	<u>742.7</u>
BOI Capital Funding (No 1) LP				
Euro 600m 6.25% non-voting non-cumulative Perpetual Preferred Securities	477.5	407.9	-	-
Less: unamortised issue costs	(7.8)	(8.1)	-	-
	<u>469.7</u>	<u>399.8</u>	<u>-</u>	<u>-</u>
BOI Capital Funding (No 2) LP				
USD 800m 5.571% Guaranteed Callable Perpetual Preferred Securities	431.6	399.4	-	-
Less: unamortised issue costs	(3.8)	(4.2)	-	-
	<u>427.8</u>	<u>395.2</u>	<u>-</u>	<u>-</u>
BOI Capital Funding (No 3) LP				
USD 400m 6.107% Guaranteed Callable Perpetual Preferred Securities	217.8	201.8	-	-
Less: unamortised issue costs	(1.8)	(2.0)	-	-
	<u>216.0</u>	<u>199.8</u>	<u>-</u>	<u>-</u>
BOI Capital Funding (No 4) LP				
£500m 6.4295% Guaranteed Callable Perpetual Preferred Securities	500.0	500.0	-	-
Less: unamortised issue costs	(3.0)	(3.3)	-	-
	<u>497.0</u>	<u>496.7</u>	<u>-</u>	<u>-</u>
13 <sup>3</sup> / <sub>8</sub> % Perpetual Subordinated Bonds	-	123.9	-	-
	<u>2,431.5</u>	<u>2,358.1</u>	<u>821.0</u>	<u>742.7</u>
<b>Dated Loan Capital</b>				
<b>Bank of Ireland UK Holdings plc</b>				
Euro 600m 6.25% Fixed rate / variable rate Subordinated Notes 2035	-	-	477.5	407.9
USD 800m 5.571% Fixed rate Subordinated Notes	-	-	431.6	399.4
USD 400m 6.107% Fixed rate Subordinated Notes	-	-	217.8	201.8
<b>Bristol &amp; West plc</b>				
10 <sup>3</sup> / <sub>4</sub> % Subordinated Bonds 2018	-	72.4	-	-
3 month LIBOR +42bps Subordinated Loan 2014	-	105.0	-	-
3 month LIBOR +35bps Subordinated Loan 2014	-	60.0	-	-
3 month LIBOR +65bps Subordinated Loan 2016	-	80.0	-	-
Less: unamortised issue costs	-	(0.5)	(13.4)	(14.3)
	<u>-</u>	<u>316.9</u>	<u>1,113.5</u>	<u>994.8</u>
	<u>2,431.5</u>	<u>2,675.0</u>	<u>1,934.5</u>	<u>1,737.5</u>

## **24 SUBORDINATED LIABILITIES (CONTINUED)**

### **Undated Loan Capital**

On 7 March 2001 Bank of Ireland UK Holdings plc (the Issuer) issued €600m 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities (the Preferred Securities) which have the benefit of a subordinated guarantee by the Governor & Company of the Bank of Ireland.

The Preferred Securities are perpetual securities and have no maturity date. However, they are redeemable in whole or in part at the option of the Issuer subject to the prior consent of the Irish Financial Services Regulatory Authority (IFSRA) and of the Governor & Company of the Bank of Ireland, at their principal amount together with any outstanding payments on 7 March 2011 or any coupon payment date thereafter. The Preferred Securities bear interest at a rate of 7.40% per annum to 7 March 2011 and thereafter at a rate of three month EURIBOR plus 3.26% per annum, reset quarterly.

The rights and claims of the holder of the Preferred Securities are subordinated to the claims of the senior creditors of the Issuer or of the Governor & Company of the Bank of Ireland (as the case may be) in that no payment in respect of the Preferred Securities or the guarantee in respect of them shall be due and payable except to the extent that the Issuer or the Governor & Company of the Bank of Ireland (as applicable) is solvent and could make such payment and still be solvent immediately thereafter. Upon any winding up of the Issuer or the Governor & Company of the Bank of Ireland the holders of the Preferred Securities will rank pari passu with the holders of the most senior class or classes of preference shares or stock (if any) of the issuer or of the Governor & Company of the Bank of Ireland then in issue and in priority to all other shareholders of the Issuer and of the Governor & Company of the Bank of Ireland.

On 17 March 2003 Bank of Ireland UK Holdings plc (the Issuer) issued £350m 6.25% Guaranteed Callable Perpetual Preferred Securities (the Preferred Securities) which have the benefit of a subordinated guarantee by the Governor & Company of the Bank of Ireland.

The Preferred Securities are perpetual securities and have no maturity date. However they are redeemable in whole but not in part at the option of the Issuer subject to the prior consent of IFSRA and of the Governor & Company of the Bank of Ireland, at their principal amount together with any outstanding payments on 7 March 2023 or any coupon date thereafter.

The Preferred Securities bear interest at a rate of 6.25% per annum to 7 March 2023 and thereafter at a rate of 6 month Libor plus 1.70% per annum, reset semi annually.

The rights and claims of the holders of the preferred securities are subordinated to the claims of the senior creditors of the Issuer or the Governor & Company of the Bank of Ireland (as the case may be) in that no payment in respect of the preferred securities or the guarantee shall be due and payable except to the extent that the Issuer or the Governor & Company of the Bank of Ireland (as applicable) is solvent and could make such payment and still be solvent immediately thereafter. Upon winding up of the Issuer or the Bank (in respect of claims under the guarantee), the holder of the Preferred Securities will rank pari passu with holders of the most senior class or classes of preference shares or stock or other preferred securities (if any) of the Issuer or the Governor & Company of the Bank of Ireland then in issue and in priority to all other shareholders of the Issuer and of the Governor & Company of the Bank of Ireland.

On 2 March 2005 BoI Capital Funding (No 1) LP (the Issuer) issued €600m 6.25% non-voting non-cumulative Perpetual Preferred Securities (the Preferred Securities) which have the benefit of a subordinated guarantee by the Governor & Company of the Bank of Ireland The general partner of the issuer BOI GP No.1 Limited, is a wholly owned subsidiary of Bank of Ireland UK Holdings plc.

The Preferred Securities are perpetual securities and have no maturity date. However they are redeemable on 3 March 2010, or on any distribution payment date thereafter, in whole but not in part, at the option of the General Partner, subject to the prior consent of IFSRA.

## **24 SUBORDINATED LIABILITIES (CONTINUED)**

The Preferred Securities bore interest at a rate of 6.25% per annum to 3 March 2008 and thereafter at a variable rate of interest per annum which is the lesser of (i) the aggregate of 0.10 per cent per annum and the annual spot 10 Year EUR fixed versus 6 month EURIBOR swap rate and (ii) 8 per cent per annum.

On 20 January 2006 BoI Capital Funding (No 2) LP (the Issuer) issued USD 800m 5.571% non-voting non-cumulative Perpetual Preferred Securities (the Preferred Securities) which have the benefit of a subordinated guarantee by the Governor & Company of the Bank of Ireland. The General Partner of the issuer is BOI GP No.1 Limited, is a wholly owned subsidiary of Bank of Ireland UK Holdings plc

The Preferred Securities are perpetual securities and have no maturity date. However they are redeemable on 1 February 2016, or on any distribution payment date thereafter, in whole but not in part, at the option of the General Partner, subject to the prior consent of the IFSRA.

The Preferred Securities bear interest at a rate of 5.571% per annum to 1 February 2016 and thereafter at a floating rate of interest per annum which is three month USD LIBOR plus 1.68%.

On 27 January 2006 BoI Capital Funding (No 3) LP (the Issuer) issued USD 400m 6.107% non-voting non-cumulative Perpetual Preferred Securities (the Preferred Securities) which have the benefit of a subordinated guarantee by the Governor & Company of the Bank of Ireland. The General Partner of the issuer is BOI GP No.1 Limited, a wholly owned subsidiary of Bank of Ireland UK Holdings plc

The Preferred Securities are perpetual securities and have no maturity date. However they are redeemable on 4 February 2016, or on any distribution payment date thereafter, in whole but not in part, at the option of the General Partner, subject to the prior consent of the IFSRA.

The Preferred Securities bear interest at a rate of 6.107% per annum to 4 February 2016 and thereafter at a variable rate of interest per annum which is three month USD LIBOR plus 1.06%.

On 19 September 2006 BoI Capital Funding (No 4) LP (the Issuer) issued GBP 500m 6.4295% non-voting non-cumulative Perpetual Preferred Securities (the Preferred Securities) which have the benefit of a subordinated guarantee by the Governor & Company of the Bank of Ireland. The General Partner of the issuer is BOI GP No.1 Limited, a wholly owned subsidiary of Bank of Ireland UK Holdings plc

The Preferred Securities are perpetual securities and have no maturity date. However they are redeemable on 3 April 2017, or on any distribution payment date thereafter, in whole but not in part, at the option of the General Partner, subject to the prior consent of IFSRA.

The Preferred Securities bear interest at a rate of 6.4295% per annum to 3 July 2017 and thereafter at a variable rate of interest per annum which is three month GBP LIBOR plus 1.50%.

The rights and claims of the holders of the Preferred Securities are subordinated to the claims of the senior creditors of the Issuer or the Governor & Company of the Bank of Ireland (as the case may be) in that no payment in respect of the preferred securities or the guarantee shall be due and payable except to the extent that the Issuer or the Governor & Company of the Bank of Ireland (as applicable) is solvent and could make such payment and still be solvent immediately thereafter. Upon winding up of the Issuer or the Governor & Company of the Bank of Ireland (in respect of claims under the guarantee), the holder of the Preferred Securities will rank pari passu with holders of the most senior class or classes of preference shares or stock or other preferred securities (if any) of the Issuer or the Governor & Company of the Bank of Ireland then in issue and in priority to all other shareholders of the Issuer and of the Governor & Company of the Bank of Ireland.

**24 SUBORDINATED LIABILITIES (CONTINUED)**

**Dated Loan Capital**

The subordinated Notes in Bank of Ireland UK Holdings plc are redeemable in whole, at the option of Bank of Ireland UK Holdings plc, on any interest payment date falling on or after the interest payment date falling in March 2010 and at any time prior to 3 March 2010 and thereafter on any interest payment date in the event of certain tax changes. The Notes are held by BoI Capital Funding (No 1) LP, BoI Capital Funding (No 2) LP and BoI Capital Funding (No 3) LP, which are consolidated in the Bank of Ireland UK Holding plc accounts.

As a result of the corporate restructure on 1 October 2007 (see note 9), the subordinated bonds and subordinated loans related to Bristol & West plc were transferred to The Governor & Company of the Bank of Ireland at their book value.

Interest payable for the year in respect of the subordinated liabilities was £141.8m (2007: £85.7m). Issue expenses incurred in connection with the issue of subordinated debt are deducted from the proceeds of the issue and amortised to the profit and loss account.

**25 DUE TO CUSTOMERS**

**Group**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Retail customers		
- current / demand accounts	-	1,672.0
- term deposits	-	1,921.1
- other customer deposits	-	498.8
	<u>-</u>	<u>4,091.9</u>

The Group has not had any defaults of principal, interest or redemption amounts during the period on any of its liabilities during the period (2007: £nil).

As a result of the corporate restructuring (see note 9) amounts due to customers were transferred to The Governor and Company of the Bank of Ireland.

The fair value of customer accounts designated at fair value through profit or loss upon initial recognition was nil (March 31, 2007: £394.4m). These accounts were so designated because they met the criteria set out in the Group's accounting policy on Financial Liabilities (note 1.9). The contractual amounts of these customer accounts due at maturity was nil (March 31, 2007: £343.9m). No gain or loss was recognised on these customer accounts in relation to changes in the Group's credit spread (March 31, 2007: nil).

**26 DEBT SECURITIES IN ISSUE**

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Brunel mortgage-backed floating rate Notes	-	5,487.8
Shipshape mortgage-backed floating rate Notes	-	47.8
	<u>-</u>	<u>5,535.6</u>
	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>%</b>	<b>%</b>
Brunel mortgage-backed floating rate Notes average interest rate	<u>6.20</u>	<u>5.69</u>
Shipshape mortgage-backed floating rate Notes average interest rate	<u>5.71</u>	<u>5.24</u>

On 13 March 2007 a residential mortgage-backed securitisation was completed raising £5.5bn through the special purpose vehicle, Brunel (note 17).

In March 2007 Brunel, a deemed subsidiary of Bristol & West plc, issued mortgage-backed floating rate notes, and Bristol & West plc bore the issue costs of these notes which are being amortised over the period to the first call date, which is five years.

As explained in note 9, as a result of the corporate restructure Brunel ceased to be a deemed subsidiary of the Company on 1 October 2007, and on this date the balance of the unamortised issue costs was transferred to The Governor and Company of the Bank of Ireland.

Shipshape mortgage backed floating rate notes were redeemed in July 2007.

**27 OTHER BORROWED FUNDS**

	<b>Group</b>	
	<b>Rate</b>	<b>2008</b>
	<b>%</b>	<b>£m</b>
		<b>2007</b>
		<b>£m</b>
Preference shares	8.125	<u>32.6</u>
		<u>50.4</u>

Other borrowed funds represent the interest of third parties in the preference shares of Bristol & West plc.

As part of the corporate restructure (see note 9) on 1 October 2007, £17.8m of preference shares were repaid in full together with any dividend accruing, to holders of the shares as at 6 August 2007 under a cash election scheme.

As part of the corporate restructure sufficient funds have been retained within Bristol & West plc to meet future dividend payments as they fall due.

Further details of the rights of holders of preference shares in Bristol & West plc are given in note 22 of the Bristol & West plc financial statements for the year ended 31 March 2008. A copy of the Bristol & West plc financial statements are available from 1 Temple Back East, Temple Quay, Bristol, BS1 6DX.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**28 OTHER LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Income tax	-	2.6	-	-
Finance leases	-	0.2	-	-
Amounts due to parent company and fellow group undertakings	49.2	326.3	27.5	-
Amounts due to subsidiaries	-	-	5.5	30.0
Accruals and deferred income	37.3	103.7	-	-
Other	50.4	86.3	-	-
	<u>136.9</u>	<u>519.1</u>	<u>33.0</u>	<u>30.0</u>

Other liabilities with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £ 136.9 m (2007: £ 519.1m).

**29 PROVISIONS**

	<b>Branch disposal costs</b>	<b>Property costs</b>	<b>Other</b>	<b>Total</b>
<b>Group</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 April 2007	8.2	7.4	9.1	24.7
Charged to income statement	0.3	0.2	3.5	4.0
Provisions utilised	(3.1)	(0.8)	(3.2)	(7.1)
Provisions released	(0.3)	(4.3)	(0.4)	(5.0)
Transfer of business	5.1	(2.5)	(8.3)	(15.9)
At 31 March 2008	<u>-</u>	<u>-</u>	<u>0.7</u>	<u>0.7</u>

Provisions for discontinued operations comprise branch disposal costs plus £nil m (2007: £2.2m) of other provisions. Net amounts released to the income statement in respect of these items totalled £nil m (2007: charged £5.9m).

Provisions for property costs represent provisions for future rentals of leaseholds in excess of the Group's current and future requirements. The provisions will reverse over the length of the lease or, if sooner, over the period to the anticipated date of disposal. Other provisions comprise predominantly amounts in respect of legal and compliance matters including endowment mis-selling, the final outcome of which are inherently uncertain.

As a result of the corporate restructure (see note 9), the majority of provisions balances were transferred to other entities within the Bank of Ireland Group.

**30 RETIREMENT BENEFIT OBLIGATIONS**

Until the corporate restructure the Group operated a number of pension schemes for its employees. The most significant were defined benefit schemes operated by Bristol & West plc, Bank of Ireland Home Mortgages Ltd and NIIB Group Ltd.

As a result of the corporate restructure all employee contracts of employment with Bristol and West plc and Bank of Ireland Home Mortgages Ltd were amended to reflect a change of employer to The Governor and Company of the Bank of Ireland which became the Principal Employer in relation to these schemes.

The Group made a one-off contribution of £32.6m in September 2007 to eliminate the deficit in these Schemes. At the same time the Governor & Company of Bank of Ireland purchased a Stand-by Letter of Credit providing the Schemes with alternative security to that provided under the Pension Protection Fund, which, under a lacuna in current legislation, ceased from 1 October 2007. The Schemes Trustees and Bank of Ireland agreed to review the Stand-by Letter of Credit annually on 31 March.

As a consequence of the above restructure, the disclosures provided below in respect of the current financial year show the transfer of scheme assets and obligations at 1 October 2007. The amounts reported at 31 March 2008 relate primarily to the defined benefit scheme operated by NIIB Group Ltd.

The pension charge for the period was £1.6m (2007: £4.1m) in respect of the defined benefit schemes. The cost of defined contribution schemes was £1.0m (2007: £0.8m). A payment of £1.1m (2007: £0.3m) was made in respect of the Bank of Ireland defined benefit scheme that is not operated by the Group.

**Weighted Average of Schemes in  
Place at:**

<b>Financial Assumptions</b>	<b>31 March 2008</b>	<b>31 March 2007</b>
	<b>%pa</b>	<b>% pa</b>
Inflation rate	3.50%	3.00
Discount rate	6.50%	5.30
Rate of general increase in salaries	4.50%	4.00 – 4.80
Rate of increase in pensions in payment	3.50%	2.30 – 3.00
Rate of increase to deferred pensions	3.50%	3.00 – 3.50

**Mortality assumptions**

The main mortality assumptions used in estimating the actuarial value of the liabilities below are based on the PMA92/PFA92 (c=2020) tables for actives and deferred and PMA92/PFA92 (C=2000) for pensioners. These tables have been adjusted to allow for any regional differences (where appropriate).

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**30 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

The expected long term rates of return and fair value of assets of the defined benefit plans on a combined basis as at 31 March 2008 and 31 March 2007 were as follows:

	2008		2007	
	Expected long term rate of return %	Market Value £m	Expected long term rate of return %	Market Value £m
<b>Assets</b>				
Equities	8.50	8.3	7.90	177.4
Bonds	6.10	1.8	5.10	78.7
Property, cash and other	4.50 – 6.20	0.5	4.00	2.0
Total fair value of schemes assets		10.6	7.02	258.1
<b>Liabilities</b>	<b>Discount rate %</b>		<b>Discount rate %</b>	
Actuarial value of liabilities of funded schemes	6.50	(15.0)	5.30	(294.3)
Actuarial value of liabilities of unfunded schemes		-	5.30	(4.0)
		(15.0)		(298.3)
<b>Net pension surplus / (deficit)</b>		(4.4)		(40.2)

The following table sets out the components of the defined benefit cost for the years ended 31 March 2008 and 31 March 2007.

	2008 £m	2007 £m
<b>Components of pension expenses:</b>		
Current service cost	3.4	5.8
Expected return on pension scheme assets	(11.2)	(16.1)
Interest on pension scheme liabilities	9.4	14.4
<b>Cost of providing defined retirement benefits</b>	<b>1.6</b>	<b>4.1</b>

**Actual return on scheme assets**

	2008 £m	2007 £m
Expected return on scheme assets	11.2	16.1
Actuarial (loss) / gain	(5.8)	(1.7)
<b>Actual return on scheme assets</b>	<b>5.4</b>	<b>14.4</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**30 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

<b>Reconciliation of defined benefit obligations during the year</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Defined benefit obligation at beginning of year	298.3	294.0
Current service cost	3.4	5.8
Actual member contributions	0.7	1.0
Interest cost	9.4	14.4
Actuarial (gain) / losses on scheme liabilities	(14.4)	(7.9)
Benefits paid	(5.0)	(9.0)
Transfer of benefit obligations to Bank of Ireland Group	(277.4)	-
<b>Defined benefit obligation at end of year</b>	<b>15.0</b>	<b>298.3</b>

<b>Reconciliation of the fair value of scheme assets during the year</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Fair value of scheme assets at beginning of year	258.1	234.9
Expected return on assets	11.2	16.1
Actual member contributions	0.7	1.0
Experience (loss) / gain	(5.8)	(1.7)
Contributions by employer		
Planned at start of the year	10.2	16.5
Additional to remove deficit	32.6	-
As benefits	0.1	0.3
Benefits paid	(5.0)	(9.0)
Transfer of scheme assets to Bank of Ireland Group	(291.5)	-
<b>Fair value of scheme assets at end of year</b>	<b>10.6</b>	<b>258.1</b>

**Analysis of the amount recognised in Statement of Recognised Income and Expense (SORIE)**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Experience (loss)/gain on scheme assets	(5.8)	(1.7)
Experience gain on liabilities	(0.8)	-
Gain/(loss) on change of assumptions (financial and demographic)	15.2	7.9
Other gains	1.2	-
<b>Total gains recognised in the SORIE during the year</b>	<b>9.8</b>	<b>6.2</b>
Cumulative amount of gains/ (losses) recognised in SORIE to end of year	1.8	(5.1)

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**30 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

<b>History of experience gains and losses</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Experience gain on scheme assets:			
Amount	(5.8)	(1.7)	25.8
Percentage of scheme assets	11.62%	0.66%	10.98%
Experience gains/(losses) on scheme liabilities:			
Amount	(0.8)	-	2.9
Percentage of scheme liabilities	0.72%	-	0.99%
Total actuarial gain recognised in SORIE:			
Amount	9.8	(1.7)	28.7
Percentage of scheme liabilities	0.47%	0.58%	9.76%
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Defined benefit pension plans</b>			
Scheme assets	10.6	258.1	234.9
Defined benefit obligations	(15.0)	(298.3)	(294.0)
<b>Deficit within schemes</b>	<b>(4.4)</b>	<b>(40.2)</b>	<b>(59.1)</b>

For the year ending 31 March 2008, the expected employer and employee contributions are £544,000 and £41,000 respectively.

Retirement benefit obligations at balance sheet date with a contractual maturity date less than 12 months is £ nil (2007: £ nil).

**31 SHARE CAPITAL**

<b>Company</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Authorised</b>		
100,000,000 units of ordinary shares of £1.00 each	100.0	100.0
<b>Allotted and fully paid</b>		
2,477,841 units of ordinary shares of £1.00 each	2.5	2.5

All units of ordinary shares in issue carry the same voting rights.

**32 EQUITY RECONCILIATION**

<b>Group</b>	<b>Share Capital £m</b>	<b>Revaluation reserve £m</b>	<b>Retained earnings £m</b>	<b>Total £m</b>
Balance as at 1 April 2006	2.5	4.8	440.0	447.3
Profit for the year	-	-	58.1	58.1
Dividend paid to fellow subsidiary	-	-	(40.0)	(40.0)
Actuarial valuation of pension fund	-	-	5.2	5.2
Deferred tax on valuation of pension fund	-	-	(1.6)	(1.6)
Revaluation of property	-	5.2	-	5.2
Deferred tax on revaluation of property	-	(1.2)	-	(1.2)
Transfer of reserve following sale of property	-	(1.2)	1.2	-
Balance as at 31 March 2007	2.5	7.6	462.9	473.0
Profit for the year	-	-	57.1	57.1
Actuarial valuation of pension fund	-	-	9.8	9.8
Deferred tax on valuation of pension fund	-	-	(2.9)	(2.9)
Revaluation of property	-	(2.4)	-	(2.4)
Deferred tax on revaluation of property	-	0.7	-	0.7
Transfer of reserve following sale of property	-	(1.0)	1.0	-
Amounts transferred to other BoI Group units	-	(0.5)	(18.7)	(19.2)
At 31 March 2008	2.5	4.4	509.2	516.1

<b>Company</b>	<b>Retained earnings £m</b>
At 31 March 2006 /1 April 2006	208.1
Movement in retained earnings for the year	(30.4)
At 1 April 2007	177.7
Movement in retained earnings for the year	244.9
At 31 March 2008	422.6

**Revaluation reserve**

This arises on the revaluation of property to market value.

**Retained earnings**

The retained earnings comprises accumulated retained profits.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**33 FINANCIAL RISK MANAGEMENT**

As a consequence of the corporate restructure referred to in the Directors report and in more detail in note 9, financial risk associated with the Group significantly reduced following the transfer of the businesses of Bristol and West plc, Bank of Ireland Home Mortgages Ltd and Brunel Residential Mortgage Securitisation No. 1 plc on 1 October 2007 to The Governor and Company of the Bank of Ireland and other Bank of Ireland Group entities.

The table below analyses the carrying amounts of the financial assets and liabilities by accounting treatment and by balance sheet heading.

**Group**

**At March 31, 2008**

	At fair value through profit or loss			At fair value through equity		Loans and receivables / held at amortised cost £m	Total £m
	Derivatives designated as fair value hedging instruments £m	Held for trading £m	Designated upon initial recognition £m	Available for sale £m	Cash flow hedge derivatives £m		
<b>Financial assets</b>							
Cash at bank	-	-	-	-	-	4.9	4.9
Held to maturity securities	-	-	-	-	-	497.0	497.0
Derivative financial instruments	59.7	26.3	-	-	-	-	86.0
Loans and advances to banks	-	-	-	-	-	2,321.6	2,321.6
Available for sale financial assets	-	-	-	39.9	-	-	39.9
Loans and advances to customers	-	-	-	-	-	2,395.7	2,395.7
<b>Total financial assets</b>	<b>59.7</b>	<b>26.3</b>	<b>-</b>	<b>39.9</b>	<b>-</b>	<b>5,219.2</b>	<b>5,345.1</b>
<b>Financial liabilities</b>							
Deposits by banks	-	-	-	-	-	2,336.4	2,336.4
Customer accounts	-	-	-	-	-	-	-
Derivative financial instruments	15.9	106.5	-	-	-	-	122.4
Debt securities in issue	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	2,431.5	2,431.5
Other borrowed funds	-	-	-	-	-	32.6	32.6
<b>Total financial liabilities</b>	<b>15.9</b>	<b>106.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,800.5</b>	<b>4,922.9</b>

**At March 31, 2007**

	At fair value through profit or loss			At fair value through equity		Loans and receivables / held at amortised cost £m	Total £m
	Derivatives designated as fair value hedging instruments £m	Held for trading £m	Designated upon initial recognition £m	Available for sale £m	Cash flow hedge derivatives £m		
<b>Financial assets</b>							
Cash at bank	-	-	-	-	-	17.6	17.6
Held to maturity securities	-	-	-	-	-	496.7	496.7
Derivative financial instruments	14.7	160.3	-	-	-	-	175.0
Loans and advances to banks	-	-	-	-	-	10,446.0	10,446.0
Available for sale financial assets	-	-	-	467.8	-	-	467.8
Loans and advances to customers	-	-	-	-	-	25,650.3	25,650.3
<b>Total financial assets</b>	<b>14.7</b>	<b>160.3</b>	<b>-</b>	<b>467.8</b>	<b>-</b>	<b>36,610.6</b>	<b>37,253.4</b>
<b>Financial liabilities</b>							
Deposits by banks	-	-	-	-	-	24,274.9	24,274.9
Customer accounts	-	-	394.4	-	-	3,697.5	4,091.9
Derivatives financial instruments	35.5	164.4	-	-	8.7	-	208.6
Debt securities in issue	-	-	-	-	-	5,535.6	5,535.6
Subordinated liabilities	-	-	-	-	-	2,675.0	2,675.0
Other borrowed funds	-	-	-	-	-	50.4	50.4
<b>Total financial liabilities</b>	<b>35.5</b>	<b>164.4</b>	<b>394.4</b>	<b>-</b>	<b>8.7</b>	<b>36,233.4</b>	<b>36,836.4</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Company**

**At March 31, 2008**

	At fair value through profit or loss			At fair value through equity		Loans and receivables / held at amortised cost €m	Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m		
	€m	€m	€m	€m	€m		
<b>Financial assets</b>							
Cash and balances at central banks	-	-	-	-	-	-	-
Held to maturity securities	-	-	-	-	-	-	-
Derivative financial instruments	59.7	26.3	-	-	-	-	86.0
Loans and advances to banks	-	-	-	-	-	2,142.0	2,142.0
Available for sale financial assets	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>59.7</b>	<b>26.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,142.0</b>	<b>2,228.0</b>
<b>Financial liabilities</b>							
Deposits by banks	-	-	-	-	-	11.3	11.3
Customer accounts	-	-	-	-	-	-	-
Derivative financial instruments	15.9	106.5	-	-	-	-	122.4
Debt securities in issue	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	1,934.5	1,934.5
Other borrowed funds	-	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>15.9</b>	<b>106.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,945.8</b>	<b>2,068.2</b>

**At March 31, 2007**

	At fair value through profit or loss			At fair value through equity		Loans and receivables / held at amortised cost €m	Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m		
	€m	€m	€m	€m	€m		
<b>Financial assets</b>							
Cash and balances at central banks	-	-	-	-	-	-	-
Held to maturity securities	-	-	-	-	-	-	-
Derivative financial instruments	14.7	29.8	-	-	-	-	44.5
Loans and advances to banks	-	-	-	-	-	1,867.6	1,867.6
Available for sale financial assets	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>14.7</b>	<b>29.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,867.6</b>	<b>1,912.1</b>
<b>Financial liabilities</b>							
Deposits by banks	-	-	-	-	-	651.4	651.4
Customer accounts	-	-	-	-	-	-	-
Derivatives financial instruments	35.5	99.4	-	-	-	-	134.9
Debt securities in issue	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	1,737.5	1,737.5
Other borrowed funds	-	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>35.5</b>	<b>99.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,388.9</b>	<b>2,523.8</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below:

	Fair values £m	March 2008 Contractual amount due on maturity £m	Fair values £m	March 2007 Contractual amount due on maturity £m
Customer accounts	-	-	394.4	343.9
<b>Total</b>	-	-	394.4	343.9

**Fair Values of financial assets and liabilities**

Group	2008		2007	
	Carrying Amount £m	Fair Values £m	Carrying Amount £m	Fair Values £m
<b>Assets</b>				
Loans and advances to banks	2,328.8	2,328.8	10,446.0	10,446.0
Loans and advances to customers	2,321.6	2,321.6	25,650.3	25,592.6
Available for sale securities - unlisted	39.9	39.9	167.3	167.3
Available for sale securities - listed	-	-	300.5	300.5
Held to maturity securities	497.0	386.2	496.7	496.7
<b>Liabilities</b>				
Deposits by banks	2,336.4	2,336.4	24,274.9	24,274.9
Due to customers	-	-	4,091.9	4,090.5
Debt securities in issue	-	-	5,535.6	5,535.6
Subordinated liabilities	2,431.5	1,827.8	2,675.0	2,747.0
Other borrowed funds	32.6	34.7	50.4	68.9

Company	2008		2007	
	Carrying Amount £m	Fair Values £m	Carrying Amount £m	Fair Values £m
<b>Assets</b>				
Debt securities	-	-	-	-
Loans and advances to banks	2,142.0	2,142.0	1,867.6	1,867.6
Loans and advances to customers	-	-	-	-
Available for sale securities	-	-	-	-
Held to maturity securities	-	-	-	-
<b>Liabilities</b>				
Deposits by banks	11.3	11.3	651.4	651.4
Due to customers	-	-	-	-
Debt securities in issue	-	-	-	-
Subordinated liabilities	1,934.5	1,441.6	1,737.5	1,737.5
Other borrowed funds	-	-	-	-

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Derivative instruments: fair value**

<b>Group</b>	<b>Fair Values</b>		
	<b>Contract / Notional Amount £m</b>	<b>Assets £m</b>	<b>Liabilities £m</b>
<b>31 March 2008</b>			
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency swaps	649.4		80.2
Total foreign exchange derivatives held for trading	649.4	-	80.2
<b>Interest rate derivatives</b>			
Interest rate swaps	477.5	26.3	26.3
Total interest rate derivatives held for trading	477.5	26.3	26.3
<b>Equity, commodity and credit contracts</b>			
Equity index linked contracts held	-	-	-
Credit derivatives	-	-	-
<b>Total derivative assets / liabilities held for trading</b>	<b>1,126.9</b>	<b>26.3</b>	<b>106.5</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	1,476.9	59.7	15.9
Total designated as fair value hedges	1,476.9	59.7	15.9
<b>Derivatives designated as cash flow hedges</b>			
Cross currency interest rate swaps	-	-	-
Total designated as cash flow hedges	-	-	-
<b>Total derivative assets / liabilities held for hedging</b>	<b>1,476.9</b>	<b>59.7</b>	<b>15.9</b>
<b>Total derivative assets / liabilities</b>	<b>2,603.8</b>	<b>86.0</b>	<b>122.4</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

Group	Contract / Notional Amount £m	Fair Values	
		Assets £m	Liabilities £m
<b>31 March 2007</b>			
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency swaps	733.9	1.7	70.1
Total foreign exchange derivatives held for trading	733.9	1.7	70.1
<b>Interest rate derivatives</b>			
Interest rate swaps	2,046.9	33.3	29.9
Total interest rate derivatives held for trading	2,046.9	33.3	29.9
<b>Equity, commodity and credit contracts</b>			
Equity index linked contracts held	420.2	125.3	64.3
Credit derivatives	38.0	-	0.1
<b>Total derivative assets / liabilities held for trading</b>	<b>3,239.0</b>	<b>160.3</b>	<b>164.4</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	1,370.2	14.7	35.5
Total designated as fair value hedges	1,370.2	14.7	35.5
<b>Derivatives designated as cash flow hedges</b>			
Cross currency interest rate swaps	4,485.3	-	8.7
Total designated as cash flow hedges	4,485.3	-	8.7
<b>Total derivative assets / liabilities held for hedging</b>	<b>5,855.5</b>	<b>14.7</b>	<b>44.2</b>
<b>Total derivative assets / liabilities</b>	<b>9,094.5</b>	<b>175.0</b>	<b>208.6</b>

**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

Company	Contract / Notional Amount £m	Fair Values	
		Assets £m	Liabilities £m
<b>31 March 2008</b>			
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency swaps	649.4		80.2
Total foreign exchange derivatives held for trading	649.4	-	80.2
<b>Interest rate derivatives</b>			
Interest rate swaps	477.5	26.3	26.3
Total interest rate derivatives held for trading	477.5	26.3	26.3
<b>Equity, commodity and credit contracts</b>			
Equity index linked contracts held	-	-	-
Credit derivatives	-	-	-
<b>Total derivative assets / liabilities held for trading</b>	<b>1,126.9</b>	<b>26.3</b>	<b>106.5</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	1,476.9	59.7	15.9
Total designated as fair value hedges	1,476.9	59.7	15.9
<b>Derivatives designated as cash flow hedges</b>			
Cross currency interest rate swaps	-	-	-
Total designated as cash flow hedges	-	-	-
<b>Total derivative assets / liabilities held for hedging</b>	<b>1,476.9</b>	<b>59.7</b>	<b>15.9</b>
<b>Total derivative assets / liabilities</b>	<b>2,603.8</b>	<b>86.0</b>	<b>122.4</b>

**33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

Company	Fair Values		
	Contract / Notional Amount £m	Assets £m	Liabilities £m
<b>31 March 2007</b>			
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency swaps	612.3	-	69.6
Total foreign exchange derivatives held for trading	612.3	-	69.6
<b>Interest rate derivatives</b>			
Interest rate swaps	407.9	29.8	29.8
Total interest rate derivatives held for trading	407.9	29.8	29.8
<b>Equity, commodity and credit contracts</b>			
Equity index linked contracts held	-	-	-
Credit derivatives	-	-	-
<b>Total derivative assets / liabilities held for trading</b>	1,020.2	29.8	99.4
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	1,370.2	14.7	35.5
Total designated as fair value hedges	1,370.2	14.7	35.5
<b>Derivatives designated as cash flow hedges</b>			
Cross currency interest rate swaps	-	-	-
Total designated as cash flow hedges	-	-	-
<b>Total derivative assets / liabilities held for hedging</b>	1,370.2	14.7	35.5
<b>Total derivative assets / liabilities</b>	2,390.4	44.5	134.9

The Groups's financial instruments comprised lending and savings products that arose in the course of the Group's ordinary activities, supported by wholesale financial instruments for funding, investment and regulatory purposes; these instruments included deposits, corporate bonds, reverse repurchase agreements, plus other debt and capital instruments. In addition, derivative financial instruments were held for non-trading activities to manage market and credit risks.

The main risks arising from the Group's financial instruments were credit risk (note 34), liquidity risk (note 35), market risk, regulatory and operational risk. The Group had minimal residual foreign currency exposure.

### **33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **Market Risk**

Market risk is the potential adverse change in Group income or the value of the Group's net worth resulting from movements in interest rates or other market prices and arises from the structure of the balance sheet. Following the corporate restructure on 1 October 2007 the Group's exposure to market risk is insignificant.

The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of shareholder value and the achievement of the Group's corporate objectives.

The Group considers that the three most significant aspects of market risk for the Group are interest rate risk, foreign currency risk and, up until the corporate restructuring on 1 October 2007, equity risk. These are discussed in detail below.

The Group's exposure to market risk is governed by policy approved by the Board of Directors. This policy set's out the nature of risk that may be taken, the types of financial instrument that may be used to manage risk and the way in which risk is controlled.

The limit structure for controlling market risk is assigned by the Board of Directors. Compliance with this structure is monitored by the Asset and Liability Committee. Reports are reviewed monthly showing the Group's exposure to market risk. Market risk management is subject to independent measurement, reporting and control.

#### *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Up until the corporate restructure on 1 October 2007, interest rate risk arose primarily from the Group's exposure to interest rate fluctuations whilst offering customer products (both mortgages and savings) which were at a fixed or capped rate of interest. Exposure was managed using fixed rate deposits and loans, interest rate swaps, swaptions and caps.

Interest rate risk arising from the Group's funding activities is managed using fixed rate loans and interest rate swaps.

The limit structure within which interest rate risk is managed is based upon the expected loss in fair value arising from a 1% shift in interest rates and option volatility. The effect on the Group's net worth at 31 March 2008 and 31 March 2007 that such an interest rate shift would produce was not significant.

#### *Equity risk*

Up until the corporate restructure on 1 October 2007, the Group retained a portfolio of investment products where customers' principal was guaranteed and their return was dependent on the performance of an index, or combination of indices, based on major world stock markets. The Group's policy was to eliminate such risks by means of an equity swap arrangement, save for a very small limit on unmatched exposures.

This policy also applied to a small number of products where an element of the return is linked to a house price index.

As a result of the measures in place to eliminate this risk the sensitivity of the results of the Group to performance of stock market indices was not significant.

### **33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### *Currency risk*

Board Policy requires that all foreign currency exposure was hedged to *de-minimis* levels as it arose.

The Group also held during the year liquid assets denominated in euros that were hedged with cross-currency swaps and foreign currency funding. £nil of debt securities (2007: £120.5m) and £nil of Eurobond reverse repurchase agreements (2007: £284.1m) were held in Euros by the Group as at 31 March 2008.

The Group has issued subordinated liabilities denominated in US dollars and Euros that are hedged with cross currency swaps and foreign currency loans to Bank of Ireland. £649.4m of subordinated liabilities denominated in US dollars (March 31, 2007: £601.2m) and £969.0m of subordinated liabilities denominated in Euros (March 31, 2007: £830.2m) were in issue as at March 31, 2008.

As a result of the hedging relationships put in place the sensitivity of the results of the Group to exchange rate fluctuations is not significant.

#### **Regulatory Risk**

Regulatory 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 Group operates. Non-compliance has adverse reputational implications and may lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

The Board of Directors oversees regulatory compliance with the extensive supervisory and regulatory regimes to which the Group is subject.

The Group manages regulatory risk under an overall framework which is implemented by accountable executives monitored by the Bank of Ireland Group Risk Policy Committee (GRPC), the Bank of Ireland Group Audit Committee (GAC) and the Bank of Ireland Group Regulatory and Operational Risk Committee (GRORC), supported by the Bank of Ireland Group Regulatory and Operational Risk (GROR) function. The effective management of regulatory compliance is primarily the responsibility of business management.

The Bank of Ireland Group's regulatory compliance is governed by policy formulated by the GRORC and approved by the GRPC, on behalf of the Court of Directors of the Bank of Ireland. This requires the conduct of business in accordance with applicable regulations and with an awareness of regulatory risk by all employees. The Bank of Ireland Group has established a formal approach to the management of regulatory risk and the objective is the identification, assessment, monitoring and management of regulatory risks. Business units, Divisional compliance and GROR undertake risk based compliance monitoring, and annual compliance monitoring plans are reviewed to reflect changes or emerging regulatory risks. Regulatory compliance reports from business units are analysed and reviewed by GROR and by the GRORC.

#### **Operational Risk**

Operational risk is the risk that human error, systems failure, and inadequate controls and procedures will result in unexpected loss. The Group's exposure to operational risk is governed by the Bank of Ireland Operational Risk Committee. The Group 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 Group and the Bank of Ireland Group.

### **33 FINANCIAL RISK MANAGEMENT (CONTINUED)**

The Group manages operational risk under an overall strategy which was implemented by accountable executives monitored by the Compliance and Operational Risk Unit and the Bank of Ireland Group's Internal Audit Committee. In addition, the strategy is monitored by the Bank of Ireland Group Operational Risk Committee and supported by the Group Operational Risk function. Potential risk exposures are assessed and appropriate controls are put in place.

Recognising that operational risk cannot be entirely eliminated the Group implemented risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms such as insurance, where appropriate.

### **34 CREDIT RISK**

Credit risk reflects the risk that a counter-party will be unable to meet its contractual obligations to the Group in respect of loans or other financial transactions thereby causing the Group to incur a loss. Due to the corporate restructure the methods of process, control and measurement have varied. The Group's exposure to credit risk is governed by the Bank of Ireland policy approved by the Bank of Ireland Court of Directors, on the recommendation of the Bank of Ireland Group Risk Policy Committee (GRPC) with the Group's own Credit Committee ratifying changes prior to 1 October 2007.

#### **Credit Risk Management**

##### *Credit Policy*

The core values governing the provision of credit are contained in the Bank of Ireland Group and Unit Credit Policies which were approved and reviewed by the Group's Credit Committee prior to the corporate restructure on 1 October 2007 and for all periods by the GRPC/Head of Bank of Ireland Group Credit and, where appropriate, the Bank of Ireland Court of Directors. The Unit Credit Policies define in greater detail the credit approach appropriate to the units concerned, taking account of the markets in which they operate and the products they provide. Procedures for the approval and monitoring of exceptions to policy are clearly set out in each document. In a number of cases these unit policies are supplemented by Sectoral Credit Policies.

Lending caps are put in place when it is considered appropriate to limit exposure to certain sectors. An independent function (within Bank of Ireland Group Credit), Group Credit Review, review the quality and management of risk assets across the Group and report to the GPRC on a quarterly basis.

##### *Lending Authorities*

The Group has a credit risk management system that operates through a hierarchy of authorities that are related to internal loan ratings. All exposures above certain levels require approval by the Bank of Ireland Group Credit Committee. Exposures below the Credit Committee's authority are approved according to a system of tiered authorities. Individuals are allocated lending limits according to credit competence, proven judgement, experience and the nature and scale of lending in their business unit.

Lending proposals above the relevant limits are referred to a divisional credit department or to Bank of Ireland Group Credit for independent assessment, formulation of a recommendation and subsequent adjudication by the appropriate authorities, which include the Heads of Divisions, Senior Executives and the Bank of Ireland Group Credit Committee. Existing credit risk is reviewed periodically with lower quality exposures subject to greater intensity of supervision and management.

### **34 CREDIT RISK (CONTINUED)**

#### *Rating Methodologies*

The use of credit rating models, which measures the degree of risk inherent in lending to specific counterparties, is central to Credit Risk Management within the Group.

The primary measures by which credits are assessed are probability of default (PD), exposure at default (EAD) and loss given default (LGD) metrics. These measures reflect the Bank of Ireland Group's expected loss (EL) model. The EL model combines an assessment of the probability that the borrower will default on their contractual obligations in a one-year time horizon (PD), with the amount of exposure the Group expects to be owed at default (EAD) and the likely recovery ratio on the defaulted obligations (LGD) to generate an EL outcome, as required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee). These measurements are fully embedded in the Group's daily operational credit risk management and contrasted with impairment allowances required under IAS39, which are based on losses that have been incurred at the balance sheet date (the incurred loss model) rather than expected losses.

For debt securities and other bills, external ratings, such as Standard & Poor's (S&P) rating and their equivalents are used, together with expert judgment, to rate credit risk exposures. Statistical scoring techniques are used to assess the quality of consumer loans, both at the application stage and for ongoing portfolio management.

The scoring system is continuously refined and validated to ensure that all new and existing lending meets predefined criteria, which ensures that the level of risk incurred is acceptable to the Group. Risk modelling is also applied at portfolio level in the Group's credit businesses to guide economic capital allocation and strategic portfolio management.

In addition to providing a solid basis for Basel II compliance, a key objective of these initiatives is to allow the Group to further integrate the advances in credit risk measurement into pricing for credit risk and advanced portfolio management.

An Independent Control Unit validates risk rating models to ensure that they are compliant with Basel II requirements. This unit reports to the Risk Measurement Committee, a sub-committee of the GRPC responsible for governing the measurement of credit risk and the implementation of risk measurement models across the Group.

#### *Settlement risk*

Settlement risk arises in any situation where a payment in cash, securities or equities is made in expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks that arise from the Group's market transactions on any single day.

#### *Credit related commitments*

Guarantees and standby letters of credit: Irrevocable commitments by the Group to make payments at a future date in specified circumstances. These instruments carry the same credit risk as loans and are assessed on the same basis.

Documentary and commercial letters of credit: Written undertakings by the Group on behalf of a customer authorising a third party to draw drafts or payment instruments on the Group to a stipulated amount under specific terms and conditions and collateralised by the underlying shipment of goods to which they relate. These instruments carry less risk than a direct loan.

### **34 CREDIT RISK (CONTINUED)**

Commitments: Unused elements of authorisations to extend credit in the form of loans, guarantees or letters of credit, where the Group is potentially exposed to loss in an amount equal to the total unused commitments. These instruments carry the same credit risk as loans and are assessed on the same basis. However, the likely amount of loss is less than the total unused commitments, as most commitments are contingent upon customers maintaining specific credit and performance standards.

Letters of Offer: Where the Group had made an irrevocable offer to extend credit to a customer and the customer may or may not have confirmed acceptance of the offer on the terms outlined, the potential credit risk is assessed and recorded. The likely amount of loss is considerably less than the face value of offer letters, as not all offers are accepted. In some businesses, the value of offer letters expected to result in loan drawdowns is assessed statistically.

#### **Collateral**

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Bank of Ireland Group's policies and procedures. The nature and level of security required depends on a number of factors, including but not limited to the amount of the exposure, the type of facility provided, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default.

A variety of types of collateral are accepted including property, securities, cash, guarantees and insurance, grouped broadly as follows:

- Financial collateral (lien over deposits, shares, etc.)
- Residential and commercial real estate
- Physical collateral (plant & machinery, etc.)
- Other collateral (debtors, guarantees, insurance, etc.)

The Bank of Ireland Group's requirements around completion, valuation and management requirements for collateral are set out in the appropriate Group or business unit policies and procedures.

As operationally impracticable, the Bank of Ireland Group has availed of the option under IFRS 7 not to disclose the fair value of collateral held against past due or impaired financial assets.

#### **Credit Risk Mitigation**

The Group mitigates credit risk through the adoption of both positive measures, (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise (e.g. loan loss provisioning, collateralisation). An assessment of the borrower's ability to service and repay the proposed level of debt is undertaken for all credit requests.

##### *Limits*

The Group imposes risk control limits and guide-points to mitigate significant concentration risk. These limits and guide-points are informed by the Bank of Ireland Group's loss tolerance guide-points (LTG's).

##### *Derivatives*

In managing its credit risk, the Group makes use of a bilateral agreement called a credit default swap that transferred risk to a third party. Under this agreement the Group makes payments to the third party during the life of the swap in exchange for an undertaking from the seller to make a payment to the Group following a specified credit event.

### **34 CREDIT RISK (CONTINUED)**

#### *Securitisations*

Up until the date of the corporate restructure referred to in note 9, the Group made some use of securitisation vehicles for its residential mortgages.

#### *Credit risk avoidance*

The Group chooses not to assume certain types of credit risk exposure by not operating in particular markets, avoiding particular business activities and/or not selling particular products and services.

#### *Risk Concentrations*

Undue concentrations could lead to increased volatility in the Group's expected outcomes. The avoidance of risk concentrations is therefore a fundamental cornerstone of the Group's approach to risk management. It is the policy of the Group to avoid undue concentrations of counter-party, industry, sector, product, geographical or other forms of significant connected risk in its credit books. Monetary risk limits and guide-points are set by GRPC or its sub-committees and, as necessary, approved by the Bank of Ireland Court of Directors to avoid risk concentrations.

#### **Impairment Criteria**

Impairment is defined as "exposures which have a specific provision attaching to them and loans that are 90 days or more past due."

#### **Impairment Provisions**

With effect from 1 April 2005 the Group adopted and applied impairment provisioning methodologies that are in compliance with International Financial Reporting Standards (IFRS). International Accounting Standard (IAS 39) requires that an incurred loss approach be taken to impairment provisioning.

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

The criteria used to determine that there is objective evidence of impairment include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- External rating downgrade below acceptable level

Specific provisions are created where there is a shortfall between the amount of the Group's exposure and the likely recoverable amount. The recoverable amount is calculated by discounting the value of expected future cash flows at the exposure's original effective interest rate.

Impairment provisions are also recognised for potential losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. These are described as Incurred but not Reported (IBNR) provisions. Statistical models are used to determine the appropriate level of IBNR provisions. These models are regularly reviewed, and revised where necessary.

**34 CREDIT RISK (CONTINUED)**

All units regularly review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions.

**Loans and Advances Renegotiated that would otherwise be past due or impaired**

Financial assets may be renegotiated at the request of the Group or the customer for commercial purposes, where there is evidence of the continuing ability of the customer to meet renegotiated payment obligations. Where facilities that are past due or impaired are renegotiated, it is the Group's standard practice to retain these facilities in the past due or impaired classifications until the customer has demonstrated the ability to meet present and future commitments. The balance of facilities that have been renegotiated that would otherwise be past due or impaired as at 31 March 2008 was nil (31 March 2007: nil).

**Maximum exposure to credit risk (before collateral or other credit enhancements)**

The table below represents the maximum exposure to credit risk for financial assets with material credit risk at March 31, 2008 and March 31, 2007 taking no account of collateral or other credit enhancements held. Exposures are based on the net carrying amounts as reported in the balance sheet for on balance sheet assets. Interest receivable has been excluded from the table. The following tables should be read in conjunction with the credit risk information outlined above.

**Group**

<b>Maximum exposure to credit risk (before collateral or other credit enhancements)</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Loans and receivables</b>		
- Loans and advances to banks	2,321.6	10,446.0
- Loans and advances to customers		
> Mortgages	-	23,718.0
> Personal	1,121.6	929.5
> Commercial	1,295.0	1,023.7
Gross loans and advances to customers	2,416.6	25,671.2
Less allowance for losses on loans and advances	(20.9)	(20.9)
Loans and advances to customers	2,395.7	25,650.3
<b>Held to Maturity Securities</b>		
- Debt securities		
> Unlisted	497.0	496.7
<b>Derivative financial instruments</b>	86.0	175.0
<b>Available for sale financial assets</b>		
- Debt securities		
> Listed	-	300.5
> Unlisted	39.9	167.3
<b>Total</b>	<b>5,340.2</b>	<b>37,235.8</b>
<b>Off balance sheet</b>		
Contingent liabilities	63.2	-
Commitments	782.8	1,602.2
<b>Total off balance sheet</b>	<b>846.0</b>	<b>1,602.2</b>
<b>Total maximum exposure</b>	<b>6,186.2.0</b>	<b>38,838.0</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**34 CREDIT RISK (CONTINUED)**

The Group's primary market is the UK and all exposures are originated and managed in the UK.

<b>Industry analysis</b>	<b>2008 £m</b>	<b>2007 £m</b>
Personal		
> Residential mortgages	-	23,718.0
> Other lending	1,121.6	929.5
Construction and property	148.2	114.3
Business and other services	310.7	245.4
Manufacturing	388.9	330.8
Distribution	221.7	127.6
Transport	166.6	165.6
Financial	4.6	4.5
Agriculture	43.4	24.2
Energy	10.9	11.3
<b>Gross loans and advances to customers</b>	<b>2,416.6</b>	<b>25,671.2</b>

The tables below summarise the Group's financial assets over the following categories: neither past due nor impaired, past due but not impaired and impaired. Exposures are based on the gross amount, before provisions for impairment.

<b>March 31, 2008</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
Financial assets neither past due nor impaired	-	1,094.2	1,265.6	2,944.5	5,304.3
Financial assets past due but not impaired	-	9.5	12.5	-	22.0
Impaired financial assets	-	17.9	16.9	-	34.8
<b>Total</b>	<b>-</b>	<b>1,121.6</b>	<b>1,295.0</b>	<b>2,944.5</b>	<b>5,361.1</b>

<b>March 31, 2007</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
Financial assets neither past due nor impaired	22,963.4	907.5	1,008.9	11,585.5	36,465.3
Financial assets past due but not impaired	741.9	6.8	5.8	-	754.5
Impaired financial assets	12.7	15.2	9.0	-	36.9
<b>Total</b>	<b>23,718.0</b>	<b>929.5</b>	<b>1,023.7</b>	<b>11,585.5</b>	<b>37,256.7</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**34 CREDIT RISK (CONTINUED)**

**Financial assets neither past due nor impaired**

<b>March 31, 2008</b>	<b>Mortgages</b>	<b>Personal</b>	<b>Commercial</b>	<b>Other financial instruments</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
High quality	-	1,094.2	1,265.6	2,944.5	5,304.3
Satisfactory quality	-	-	-	-	-
Acceptable quality	-	-	-	-	-
Lower quality but not past due nor impaired	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>1,094.2</b>	<b>1,265.6</b>	<b>2,944.5</b>	<b>5,304.3</b>

<b>March 31, 2007</b>	<b>Mortgages</b>	<b>Personal</b>	<b>Commercial</b>	<b>Other financial instruments</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
High quality	22,963.4	882.1	500.1	10,921.5	35,267.1
Satisfactory quality	-	25.4	508.8	664.0	1,198.2
Acceptable quality	-	-	-	-	-
Lower quality but not past due nor impaired	-	-	-	-	-
<b>Total</b>	<b>22,963.4</b>	<b>907.5</b>	<b>1008.9</b>	<b>11,585.5</b>	<b>36,465.3</b>

**Financial assets past due but not impaired**

<b>March 31, 2008</b>	<b>Mortgages</b>	<b>Personal</b>	<b>Commercial</b>	<b>Other financial instruments</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Past due up to 30 days	-	5.6	11.8	-	17.4
Past due 31 – 60 days	-	2.7	0.5	-	3.2
Past due 61 – 90 days	-	1.2	0.2	-	1.4
Past due more than 90 days	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>9.5</b>	<b>12.5</b>	<b>-</b>	<b>22.0</b>

<b>March 31, 2007</b>	<b>Mortgages</b>	<b>Personal</b>	<b>Commercial</b>	<b>Other financial instruments</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Past due up to 30 days	424.2	3.6	4.9	-	432.7
Past due 31 – 60 days	149.6	2.3	.6	-	152.5
Past due 61 – 90 days	64.4	.9	.3	-	65.6
Past due more than 90 days	103.7	-	-	-	103.7
<b>Total</b>	<b>741.9</b>	<b>6.8</b>	<b>5.8</b>	<b>-</b>	<b>754.5</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**34 CREDIT RISK (CONTINUED)**

**Impaired financial assets**

Please refer above for information on the Group's approach to assessing impairment.

<b>March 31, 2008</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
Impaired financial assets	-	17.9	16.9	-	34.8
Allowance at the beginning of the year	7.1	10.2	3.6	-	20.9
Amounts written off	(1.4)	(3.6)	(1.7)	-	(6.7)
Charge against income statement	0.7	4.2	8.2	-	13.1
Transfer to other Group Units	(6.4)	(0.8)	0.8	-	(6.4)
Allowance at the end of the year	-	10.0	10.9	-	20.9

Allowances include specific and 'incurred but not reported' (IBNR) allowances. IBNR allowances can be recognised on all categories of loans for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. The classification of loans in the prior year has been updated to reflect the IFRS 7 segments. In particular, only those loans on which the Group expects to incur a loss are classified as impaired in line with IFRS. All other loans are classified as 'neither past due nor impaired' or 'past due but not impaired'.

<b>March 31, 2007</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
Impaired financial assets	12.7	15.2	9.0	-	36.9
Allowance at the beginning of the year	6.6	12.6	3.4	-	22.6
Amounts written off	(1.3)	(4.8)	(.8)	-	(6.9)
Charge against income statement	1.8	2.4	1.0	-	5.2
Allowance at the end of the year	7.1	10.2	3.6	-	20.9

**Repossessed collateral**

During the year ended March 31, 2008, the Group took possession of collateral held as security, as follows:

	<b>2008 £m</b>	<b>2007 £m</b>
Residential properties	27.1	22.1

Repossessed properties are sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**34 CREDIT RISK (CONTINUED)**

**Company**

<b>Maximum exposure to credit risk (before collateral or other credit enhancements)</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Loans and receivables</b>		
- Loans and advances to banks	2,142.0	1,867.6
- Loans and advances to customers		
> Mortgages	-	-
> Personal	-	-
> Commercial	-	-
Gross loans and advances to customers	-	-
Less allowance for losses on loans and advances	-	-
Loans and advances to customers	-	-
<b>Held to Maturity Securities</b>		
- Debt securities		
> Listed	-	-
> Unlisted	-	-
<b>Derivative financial instruments</b>	86.0	44.5
<b>Available for sale financial assets</b>		
- Debt securities		
> Listed	-	-
> Unlisted	-	-
<b>Total</b>	<b>2,228.0</b>	<b>1,912.1</b>
<b>Off balance sheet</b>		
Contingent liabilities	-	-
Commitments	-	-
<b>Total off balance sheet</b>	<b>-</b>	<b>-</b>
<b>Total maximum exposure</b>	<b>2,228.0</b>	<b>1,912.1</b>
<b>Industry analysis</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Personal		
> Residential mortgages	-	-
> Other lending	-	-
Construction and property	-	-
Business and other services	-	-
Manufacturing	-	-
Distribution	-	-
Transport	-	-
Financial	-	-
Agriculture	-	-
Energy	-	-
<b>Gross loans and advances to customers</b>	<b>-</b>	<b>-</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**34 CREDIT RISK (CONTINUED)**

The tables below summarise the Company's financial assets over the following categories: neither past due nor impaired, past due but not impaired and impaired. Exposures are based on the gross amount, before provisions for impairment.

<b>March 31, 2008</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
Financial assets neither past due nor impaired	-	-	-	2,228.0	2,228.0
Financial assets past due but not impaired	-	-	-	-	-
Impaired financial assets	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,228.0</b>	<b>2,228.0</b>

<b>March 31, 2007</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
Financial assets neither past due nor impaired	-	-	-	1,912.1	1,912.1
Financial assets past due but not impaired	-	-	-	-	-
Impaired financial assets	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,912.1</b>	<b>1,912.1</b>

**Financial assets neither past due nor impaired**

<b>March 31, 2008</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
High quality	-	-	-	2,228.0	2,228.0
Satisfactory quality	-	-	-	-	-
Acceptable quality	-	-	-	-	-
Lower quality but not past due nor impaired	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,228.0</b>	<b>2,228.0</b>

<b>March 31, 2007</b>	<b>Mortgages £m</b>	<b>Personal £m</b>	<b>Commercial £m</b>	<b>Other financial instruments £m</b>	<b>Total £m</b>
High quality	-	-	-	1,912.1	1,912.1
Satisfactory quality	-	-	-	-	-
Acceptable quality	-	-	-	-	-
Lower quality but not past due nor impaired	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,912.1</b>	<b>1,912.1</b>

### 35 LIQUIDITY RISK

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at an unacceptable cost.

Liquidity distress is almost invariably associated with a severe deterioration in financial performance, but it can also result from unexpected adverse events or systemic difficulties. The Group has in place a risk management framework to manage liquidity risk.

The Group's contractual financial liabilities are reported below as required by IFRS7.

The Group's exposure to liquidity risk is governed by policy approved by the Court of Directors of the Bank of Ireland and the GRPC. The operation of this policy is delegated to the Bank of Ireland Group Asset and Liability Committee (ALCO). The Bank of Ireland Group Asset and Liability Management, on behalf of ALCO, is responsible for monitoring the liquidity risk of the Group and for the development and monitoring of liquidity policy.

In addition to its internal liquidity risk management processes, the Group complies with the requirements of the Financial Services Authority in respect of liquidity management.

The table below summarises the maturity profile of the Group's financial instrument liabilities at March 31, 2008 and March 31, 2007 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows. The balances will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

#### Group

<b>As at March 31, 2008</b>	<b>Demand £m</b>	<b>Up to 3 months £m</b>	<b>3-12 months £m</b>	<b>1-5 years £m</b>	<b>Over 5 years £m</b>	<b>Total £m</b>
Deposits by banks	597.2	293.4	482.9	951.8	11.1	2,336.4
Customer accounts	-	-	-	-	-	-
Debt securities in issue	-	-	-	-	-	-
Subordinated liabilities and other capital instruments	-	33.6	70.3	-	2,441.5	2,545.4
<b>Total</b>	<b>597.2</b>	<b>327.0</b>	<b>553.2</b>	<b>951.8</b>	<b>2,452.6</b>	<b>4,881.8</b>
<b>Derivative financial instruments</b>	<b>Demand £m</b>	<b>Up to 3 months £m</b>	<b>3-12 months £m</b>	<b>1-5 years £m</b>	<b>Over 5 years £m</b>	<b>Total £m</b>
Gross settled derivative liabilities - outflows	-	10.8	33.8	153.4	796.1	994.1
Net settled derivatives – outflows / (inflows)	-	12.8	(4.8)	(7.6)	46.1	46.5
<b>Total</b>	<b>-</b>	<b>23.6</b>	<b>29.0</b>	<b>145.8</b>	<b>842.2</b>	<b>1,040.6</b>

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**35 LIQUIDITY RISK (CONTINUED)**

**Group**

<b>As at March 31, 2007</b>	<b>Demand</b>	<b>Up to 3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>£m</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>£m</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Deposits by banks	296.2	4,920.3	4,323.7	12,774.7	1,960.0	24,274.9
Customer accounts	2,049.1	762.4	404.4	499.6	513.4	4,228.9
Debt securities in issue	-	-	231.7	1,098.3	12,956.1	14,286.1
Subordinated liabilities and other capital instruments	-	48.4	70.9	32.3	2,563.2	2,714.8
<b>Total</b>	<b>2,345.3</b>	<b>5,731.1</b>	<b>5,030.7</b>	<b>14,404.9</b>	<b>17,992.7</b>	<b>45,504.7</b>

  

<b>Derivative financial instruments</b>	<b>Demand</b>	<b>Up to 3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>£m</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>£m</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Gross settled derivative liabilities – outflows	-	16.4	262.7	1,234.1	7,666.0	9,179.2
Net settled derivatives - outflows / (inflows)	-	20.3	(12.3)	13.9	44.0	65.9
<b>Total</b>	<b>-</b>	<b>36.7</b>	<b>250.4</b>	<b>1,248.0</b>	<b>7,710.0</b>	<b>9,245.1</b>

**Company**

<b>As at March 31, 2008</b>	<b>Demand</b>	<b>Up to 3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>£m</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>£m</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Deposits by banks	-	11.3	-	-	-	11.3
Customer accounts	-	-	-	-	-	-
Debt securities in issue	-	-	-	-	-	-
Subordinated liabilities and other capital instruments	-	-	63.0	-	1,954.4	2,017.4
<b>Total</b>	<b>-</b>	<b>11.3</b>	<b>63.0</b>	<b>-</b>	<b>1,954.4</b>	<b>2,028.7</b>

  

<b>Derivative financial instruments</b>	<b>Demand</b>	<b>Up to 3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>£m</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>£m</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Gross settled derivative liabilities - outflows	-	10.8	33.8	153.4	796.1	994.1
Net settled derivatives – outflows / (inflows)	-	12.8	(4.8)	(7.6)	46.1	46.5
<b>Total</b>	<b>-</b>	<b>23.6</b>	<b>29.0</b>	<b>145.8</b>	<b>842.2</b>	<b>1,040.6</b>

  

<b>As at March 31, 2007</b>	<b>Demand</b>	<b>Up to 3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>£m</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>£m</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Deposits by banks	-	651.4	-	-	-	651.4
Customer accounts	-	-	-	-	-	-
Debt securities in issue	-	-	-	-	-	-
Subordinated liabilities and other capital instruments	-	-	63.0	-	1,778.2	1,841.2
<b>Total</b>	<b>-</b>	<b>651.4</b>	<b>63.0</b>	<b>-</b>	<b>1,778.2</b>	<b>2,492.6</b>

**35 LIQUIDITY RISK (CONTINUED)**

	<b>Demand</b>	<b>Up to 3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>£m</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>£m</b>
<b>Derivative financial instruments</b>						
Gross settled derivative liabilities – outflows	-	10.6	33.8	173.5	839.5	1,057.4
Net settled derivatives -	-	20.3	(12.3)	13.9	44.0	65.9
<b>Total</b>	-	30.9	21.4	187.4	883.5	1,123.3

**36 CAPITAL MANAGEMENT**

**Capital management objectives and policies**

Capital Management for Bank of Ireland UK Holdings plc as for all Bank of Ireland Group companies is carried out in the context of the Group’s capital management policy.

The objectives of the Bank of Ireland Group’s capital management policy are to:

- Align capital management to the Bank of Ireland Group’s strategy;
- Meet the requirements of equity and debt investors;
- Achieve the optimal mix of capital to meet the Bank of Ireland Group’s regulatory requirements and rating ambitions; and
- Manage capital in aggregate and at business level, ensuring that capital is only invested in businesses which deliver adequate returns.

It is the Bank of Ireland Group’s policy to maintain a strong capital base, to seek to expand this where appropriate and to utilise it efficiently in the Bank of Ireland Group’s management. Long term debt, undated capital notes, preferred securities and preference stock are raised in various currencies in order to align the composition of capital and risk weighted assets. The Bank of Ireland Group’s capital includes the Bank of Ireland Group’s equity stockholders’ funds together with perpetual and dated subordinated securities. with appropriate regulatory adjustments and deductions applied.

The Bank of Ireland Group in managing its capital uses as the basis for its capital management the capital adequacy requirements set by the Financial Regulator in Ireland which reflect the requirements as set out in the EU Capital Requirements Directive and its preceding directives. These requirements set a floor under which capital levels must not fall. The Bank of Ireland Group seeks to maintain sufficient capital to ensure that even under stressed conditions these requirements are not breached.

The Bank of Ireland Group also looks at other methodologies of capital measurement including the capital definitions set out by rating agencies. It also calculates economic capital based on its own internal models.

**How the capital management objectives are met**

The Bank of Ireland Group meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the Financial Regulator. The Bank of Ireland Group stress tests the capital held to ensure that under stressed conditions that it continues to comply with regulatory minima ratios. It also seeks to minimise refinancing risk by managing the maturity profile of non-equity capital. In addition the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised.

Capital strategy is integrated into the overall strategy of the Bank of Ireland Group reflecting its importance as a key enabler.

### **36 CAPITAL MANAGEMENT (CONTINUED)**

The Bank of Ireland Group has a portfolio approach to its businesses to ensure that optimum returns are targeted and earned with a focus on ensuring growth in value enhancing activities. New lending activity and transactions are subject to RAROC return criteria.

#### **Capital Adequacy Requirements**

The Bank of Ireland Group's capital management policy has been developed within the supervisory requirements of the Irish Financial Regulator.

The EU Capital Requirements Directive (CRD) which came into force from January 1, 2007 introduced significant amendments to the existing capital adequacy framework. The implementation of the CRD results in a more risk sensitive approach to the derivation of a bank's capital requirements.

The CRD is divided into three sections commonly referred to as Pillars. Pillar 1 introduced the Internal Ratings Based Approach (IRBA) which permits banks to use their own internal rating systems to calculate their capital requirements for credit risk. Use of the IRBA is subject to regulatory approval. Where credit portfolios are not subject to IRBA the calculation of the minimum capital requirements is subject to the Standardised Approach is a more granular approach to the calculation of risk weightings.

Under Pillar 2 of the CRD (Supervisory Review) banks undertake an Internal Capital Adequacy Assessment Process (ICAAP) which is then subject to supervisory review.

Pillar 3 of the CRD (Market Discipline) involves the disclosure of a range of qualitative and quantitative information relating to capital and risk. The Bank of Ireland Group will be disclosing this information in due course.

The CRD also introduced a requirement to calculate capital requirements, and to set capital aside, with respect to operational risk. The Bank of Ireland Group is also required to set capital aside for market risk.

During the financial year under review all externally imposed capital requirements pertaining to the Group were complied with. Bank of Ireland UK Holdings plc which is not a regulated entity in its own right does not have its own capital requirements.

### **37 DIVIDENDS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Dividend paid	-	40.0

No equity dividends were paid by the Group in 2008.

**38 CONTINGENT LIABILITIES AND COMMITMENTS**

Contingent Liabilities		
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Guarantees and irrevocable letters of credit	63.2	
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- Revocable or irrevocable with original maturity of one year or less	1.2	1,602.2
- Irrevocable with an original maturity of over 1 year	781.6	
	<u>846.0</u>	<u>1,602.2</u>

**Pension Commitments**

Unfunded pension commitments in respect of past directors:

Provided £nil (2007: £4.0m).

Unprovided £nil (2007: £nil).

**Subsidiaries**

The company has undertaken to provide certain subsidiaries with financial support to enable them to meet their future obligations as they fall due.

**Finance lease commitments**

The maturity of net obligations under finance leases is as follows:

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
1 year or less	-	0.2
5 years or less but over one year	-	-
	<u>-</u>	<u>0.2</u>

**Operating lease commitments**

Total commitments under non-cancellable operating leases on land and buildings are as follows:

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Leases expiring:		
No later than 1 year	-	3.5
Later than 1 year and no later than 5 years	-	11.2
Later than 5 years	-	12.4
	<u>-</u>	<u>27.1</u>

**Taxation**

As at 31<sup>st</sup> March 2008, there is a potential VAT liability of approximately £3.1m, the outcome of which is dependent on the treatment under existing VAT legislation of certain insurance commissions received by the Group. The Directors are of the opinion that no provision is required.

**38 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

**Commissions**

During the year, the Group entered into agreements lasting until 2020 which allow for the payment of commissions to product distributors if the challenging and revenue enhancing targets prescribed in the agreements were achieved. The achievement of these targets would give rise to an uplift in the Group's revenue over the period significantly in excess of the commissions payable. The maximum potential commissions outstanding under these agreements amounted to £96m at 31 March 2008.

**39 RELATED-PARTY TRANSACTIONS**

**Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group - being the Directors of Bank of Ireland UK Holdings plc.

The table below details, on an aggregated basis, key management personnel compensation.

	<b>Group &amp; Company Directors and key management personnel</b>	
	<b>2008 £m</b>	<b>2007 £m</b>
<b>Staff costs</b>		
Salaries and other short-term benefits	1.0	3.2
Post-employment benefits	-	0.3
Termination benefits	-	-
Share based payments	-	0.4
<b>Total</b>	<u>1.0</u>	<u>3.9</u>

The tables below detail, on an aggregated basis, balances outstanding at the end of the year and related income and expense, together with information relating to other transactions between the Group and its key management personnel.

<b>Group</b>	<b>Directors and key management personnel</b>		<b>Parent</b>		<b>Fellow group undertakings</b>	
	<b>2008 £m</b>	<b>2007 £m</b>	<b>2008 £m</b>	<b>2007 £m</b>	<b>2008 £m</b>	<b>2007 £m</b>
<b>Assets</b>						
At the beginning of the year	0.7	0.8	0.4	0.4	10,963.3	3,817.0
Net amount advanced/(repaid)	<u>(0.3)</u>	<u>(0.1)</u>	<u>20.9</u>	<u>-</u>	<u>(8,691.5)</u>	<u>7,146.3</u>
At the end of the year	<u>0.4</u>	<u>0.7</u>	<u>21.3</u>	<u>0.4</u>	<u>2,271.8</u>	<u>10,963.3</u>
<b>Interest income earned</b>	<u>-</u>	<u>-</u>	<u>3.0</u>	<u>-</u>	<u>383.5</u>	<u>200.7</u>

Loans comprise loans and advances to banks (Note 14), other assets (Note 23) and derivatives (Note 33).

**BANK OF IRELAND UK HOLDINGS PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**39 RELATED-PARTY TRANSACTIONS (CONTINUED)**

Company	Directors and key management personnel	
	2008 £m	2007 £m
<b>Assets</b>		
At the beginning of the year	-	-
Net amount (repaid)/advanced	-	-
At the end of the year	-	-
Interest income	-	-

Company	Parent		Fellow Group Undertakings		Subsidiaries	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
<b>Assets</b>						
At the beginning of the year	0.4	0.4	1,867.2	1,734.8	-	-
Net amount advanced	1.5	-	183.4	132.8	-	-
At the end of the year	1.9	0.4	2,050.6	1,867.6	-	-
Interest income	-	-	142.8	99.2	-	-

Group	Directors and key management personnel		Parent		Fellow Group Undertakings	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
<b>Liabilities</b>						
At the beginning of the year	-	-	-	-	25,013.0	21,530.8
Net amount advanced/repaid	-	-	42.1	-	(22,693.2)	3,483.1
At the end of the year	-	-	42.1	-	2,320.8	25,013.9
Interest expense	-	-	0.1	-	707.0	1,003.4

**39 RELATED-PARTY TRANSACTIONS (CONTINUED)**

Company	Directors and key management personnel	
	2008	2007
Liabilities	£m	£m
At the beginning of the year	-	-
Net amount (repaid)/advanced	-	-
At the end of the year	-	-
Interest income	-	-
Net trading income receivable from parent or ultimate parent company	-	-

Company	Parent		Fellow group undertakings		Subsidiaries	
	2008	2007	2008	2007	2008	2007
Liabilities	£m	£m	£m	£m	£m	£m
At the beginning of the year	-	-	784.5	709.7	1.8	0.1
Net amount advanced	-	-	(479.5)	74.8	-	1.7
At the end of the year	-	-	305.0	784.5	1.8	1.8
Interest income	-	-	20.3	19.9	-	-

The loans are on both a secured and unsecured basis and are expected to be settled in cash.

These loans are made on substantially the same criteria and terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavourable features.

No provisions have been recognised in respect of loans given to key management personnel (2007: nil).

Directors' emoluments are set out in Note 41.

One of the Company's Fellow subsidiaries, Midasgrange Limited, is 49.99% owned by the Post Office and has a balance outstanding at 31 March 2008 with Bristol & West plc of £ nil (2007: £637,000). In 2007, this related to commissions payable in respect of products sourced and manufactured by Bristol & West plc on behalf of Midasgrange Limited and recharges of costs from Bristol & West plc to Midasgrange Limited. In the year to 31 March 2008, Bristol & West plc received amounts from Midasgrange Limited of £ nil (2007: £3.5m).

#### 40 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash in hand (Note 12)	4.9	17.6	-	-
Loans and advances to banks (Note 13)	233.9	1,309.2	-	1,867.6
	<u>238.8</u>	<u>1,326.8</u>	<u>-</u>	<u>1,867.6</u>

#### 41 DIRECTORS EMOLUMENTS

The aggregate amount of emoluments paid to the Directors for the year ended 31 March 2008 is:

	2008 £000	2007 £000
Aggregate emoluments	<u>832</u>	<u>1,492</u>

The aggregate amount of consideration paid to or receivable by third parties for making available the services of a person as a Director included above was £382,062 (2007: £873,000).

The total remuneration of the highest paid Director was £422,880 (2007: £964,492). The amount of the highest paid Director's accrued pension at March 2008 was £186,515 (2007: £178,447) per annum and shares in Bank of Ireland were also received under a long-term incentive scheme.

Three Directors, including the highest paid Director, exercised share options during the year (2007: one). A total of three (2007: two) Directors received Bank of Ireland shares under a long-term incentive scheme.

Retirement benefits are accruing to four (2007: two) Directors under defined benefit schemes at year-end.

No compensation for loss of office in respect of former Directors was paid by the Company during the year (2007: £ nil), and no excess retirement benefits in respect of Directors and former Directors were paid during the year (2007: £nil).

#### 42 SHARE BASED PAYMENTS

##### Use of Ordinary Stock in employee schemes

The Group participates in the following Bank of Ireland Group employee stock schemes, and the related credits/charges can be seen in Note 8 Staff Costs.

##### (a) Employee Stock Issue Scheme

At the 2006 Annual General Court the stockholders approved the establishment of a new Employee Stock Issue Scheme to replace the scheme originally approved by the stockholders in 1997. Under this scheme, which has an Irish and a UK version in order to conform with the relevant revenue legislation in both jurisdictions, all employees in Ireland and the UK are eligible to participate provided that they have been employed by the Bank of Ireland Group in one of the schemes' participating companies for the previous financial year and are still employed by the Bank of Ireland Group on the date the annual results are announced. Each year the Court of Directors may set aside an element of Bank of Ireland Group profit before taxation for allocation to the trustees of the scheme to enable them to acquire units of Ordinary Stock on behalf of the scheme participants.

**42 SHARE BASED PAYMENTS (CONTINUED)**

Currently the amount set aside is related to overall Bank of Ireland Group performance assessed in terms of real growth in underlying earnings per share (“EPS”) and cost savings achieved under the Bank of Ireland Group’s Strategic Transformation Programme (STP). Performance matrices, under both headings, determine the actual % award and currently, the maximum award permitted under these matrices is a total of 6% of a participant’s salary. To date, annual distributions under the schemes have ranged between nil and 6% of each participants salary.

Real growth in underlying EPS is the growth in underlying EPS over the financial year adjusted to take account of inflation.

In addition, if an employee elects for the free stock award, they become eligible to purchase additional stock from gross salary subject to Revenue Commissioners and HM Revenue & Customs rules respectively.

**(b) Sharesave Scheme (“SAYE Scheme”)**

At the 1999 Annual General Court the stockholders approved the establishment of an SAYE Scheme. Under this scheme, which has an Irish and UK version in order to conform with the relevant revenue legislation in both jurisdictions, all employees in Ireland and the UK are eligible to participate provided that they are employed by the Bank of Ireland Group on the invitation to participate date and they are still in the employ of the Bank of Ireland Group on the date that the options are granted.

The table below shows the option price for each year, and what discount this represented of the market price at the time.

Grant Dates		SAYE 2007	SAYE 2006	SAYE 2003
Option Price	ROI	€6.96	€12.28	€7.43
	UK	€7.43	€13.09	€8.37
Discount	ROI	25%	25%	25%
	UK	20%	20%	20%

The difference between ROI and UK option prices reflects the maximum discounts permitted under Revenue Commissioners and HM Revenue & Customs rules respectively.

As at 31 March 2008, there are outstanding options under the scheme of 9,596,947 units of Ordinary Stock of the issued ordinary capital. These options are ordinarily exercisable, provided the participant’s savings contracts are complete between February 2009 and August 2011.

2008	ROI					UK					Total
	2000 7 yr	2003 3 yr	2003 5 yr	2006 3 yr	2007 3 yr	2000 7 yr	2003 3 yr	2003 5 yr	2006 3 yr	2007 3 yr	
Outstanding at beginning of period	2,389,431	428,770	2,116,618	2,310,960	-	531,916	70,594	392,339	513,615	-	8,754,243
Granted	-	-	-	-	3,967,756	-	-	-	-	811,265	4,779,021
Exercised *	(2,311,311)	(216,607)	(26,019)	(128)	-	(422,805)	(47,630)	(10,904)	(250)	-	(3,035,654)
Lapsed	(78,120)	(212,163)	(60,059)	(277,955)	(16,722)	(109,111)	(22,964)	(37,591)	(76,610)	(9,318)	(900,663)
Outstanding at end of period	-	-	2,030,540	2,032,877	3,950,984	-	-	343,844	436,755	801,947	9,596,947
Weighted average exercise price	€5.40	€7.84	€7.84	€12.28	€6.96	€5.40	€8.37	€8.37	€13.09	€7.43	€8.64

\* The weighted average market price on the date the options were exercised was €15.75 (2007: €16.93). None of the options outstanding at 31 March 2008 were exercisable.

**42 SHARE BASED PAYMENTS (CONTINUED)**

**(c) Stock Option Scheme**

Options to subscribe for units of Ordinary Stock are granted under the terms of the Stock Option Scheme. The original scheme was approved by the stockholders of the Governor & Company of the Bank of Ireland, at the Annual General Court in July 1986. This was succeeded in 1996 by the “Bank of Ireland Group Stock Option Scheme - 1996”, and its successor scheme, the “Bank of Ireland Group Executive Stock Option Scheme - 2004” which was approved by the stockholders at the Annual General Court held in July 2004. Key executives may participate in the current scheme at the discretion of the Remuneration Committee. Under the current scheme, the total value of options granted may not exceed 100% of an executive’s salary. The subscription price per unit of stock shall not be less than the market value of the stock at the date of grant. The exercise of options granted since 2004 are conditional upon underlying EPS of the Bank of Ireland achieving a cumulative growth of at least 5% per annum compound above the increase in the Consumer Price Index over the three year performance period, commencing with the period in which the options are granted. The performance conditions for options granted in 1996 up to and including 2003 have been satisfied. Options may not be transferred or assigned and may be exercised only between the third and tenth anniversaries of their grant

	<b>March 2008</b>		<b>March 2007</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at beginning of period	7,016,309	€11.55	6,732,803	€10.658
Granted during the period	1,151,782	€15.20	1,416,190	€13.1371
Exercised during period	378,386	€7.88	988,540	€9.2323
Expired during period	214,120	€11.63	144,144	€11.7503
Outstanding at end of period	7,575,585	€12.26	7,016,309	€11.5503
Exercisable at end of period	3,980,149	€10.58	2,957,605	€10.14798

The weighted average market price on the above option when exercised was €13.64 (2007: €15.53)

<b>Exercise Price Range €</b>	<b>Number of options</b>
6.96 – 9.75	<b>681,932</b>
10.54 – 10.76	<b>2,430,499</b>
11.05 – 13.68	<b>2,027,514</b>
14.00 – 17.16	<b>2,435,640</b>
Total	<b>7,575,585</b>

Outstanding options under the Stock Option Scheme are exercisable at price ranges above. The weighted average remaining contractual life of the outstanding options under the Stock Option Scheme is 1 year.

**(d) Long Term Performance Stock Plan**

The original plan (“Long Term Performance Stock Plan – 1999”) was approved by the stockholders of the Governor & Company of the Bank of Ireland at the Annual General Court in July 1999 and its successor plan, “Bank of Ireland Group Long Term Incentive Plan – 2004” was approved by the stockholders of the Governor & Company of the Bank of Ireland at the Annual General Court in July 2004. This plan links the number of units of stock receivable by participants to the Group’s Total Shareholder Return (“TSR”). TSR represents stock price growth plus dividends.

Each year selected senior executives participating in the plan receive a conditional award of a number of units of Ordinary Stock of the Governor & Company of the Bank of Ireland. The maximum award, for

**42 SHARE BASED PAYMENTS (CONTINUED)**

executive Directors and Group Executive Committee members, cannot exceed 100 per cent (150 per cent for the Group CEO) of their annual salary at the time of the award.

Provided the Bank of Ireland Group's Return on Equity ("ROE") over the three year performance period is, on average, at least 20 per cent, then the proportion of these units which actually vest in the executive on the 3<sup>rd</sup> anniversary of the date of the original award is based on the Bank of Ireland Group's TSR growth relative to a comparator group of 17 financial services companies, as follows:

<b>The Bank's total shareholder return performance relative to the Comparator Companies</b>	<b>% of Units of Stock subject to an Award which may be issued or transferred</b>
Equal to or better than the company ranked second	100%
Between the company ranked median and the company ranked second	Greater than 35% and less than 100% (Pro rata based on the Bank's performance relative to the Comparator Companies)
Equal to the median	35%
Below median	Nil

If the Bank of Ireland Group's ROE over the three year performance period, is on average, below 20%, then the award lapses.

Under the LTPSP, a minimum of 80% of the vested stock must be retained for two years from maturity of award. After two year retention period, an additional award of 20% is made. If the award is retained for an additional 5 years, a further award of 30% is made.

	<b>March 2008</b>		<b>March 2007</b>	
	<b>Number of conditional units</b>	<b>Weighted average grant price €</b>	<b>Number of conditional units</b>	<b>Weighted average grant price €</b>
Outstanding at beginning of period	2,104,333	12.73	1,721,993	11.57
Granted during the period	602,226	14.87	874,173	14.19
Exercised during period	247,373	10.88	16,082	11.04
Expired during period	470,181	11.22	475,751	11.31
Outstanding at end of period	1,989,005	13.96	2,104,333	12.73

The March 2007 figures have been restated to include the potential additional units that could be awarded under the LTPSP scheme if the vested stock is retained for two years (additional award of 20%) and the a further five years (additional award is a further 30%). This increases the outstanding number of conditional units as at 31 March 2007 by 65,579 units (from 2,038,754 to 2,104,333).

Outstanding options under the LTPSP are exercisable at prices ranging between €9.75 to €17.16.

The weighted average remaining contractual life of the outstanding options under the LTIP Scheme is 1 year (the potential matching awards of 30% on the previous LTPSP schemes are excluded from this calculation).

**42 SHARE BASED PAYMENTS (CONTINUED)**

**(e) Options Pricing Model**

The binomial lattice option valuation model is used to estimate the value of the options granted. The following table details the assumptions used and the resulting fair values provided by the options pricing model.

	<b>Stock Option Scheme</b>		<b>LTPSP</b>	
	<b>March 2008</b>	March 2007	<b>March 2008</b>	March 2007
Volatility	20%	25%	20%	25%
Dividend	3.4%	3.4%	3.4%	3.4%
Yield				
Risk free rate	4.6%	4%	N/A	N/A
Implied term	9.4 years	8.5 years	3 years	3 years
Fair value	€3.06	€3.17	€6.00	€5.10
Exercise price	€15.45	€14	Nil	Nil
No of options	1,151.8	1,416.2	580.4	853.1
Vesting period	3 years	3 years	4 years	3 years

	<b>SAYE (RoI)</b>		<b>SAYE (UK)</b>	
	<b>3 Year</b>		<b>3 Year</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Volatility	20%	20%	20%	20%
Dividend	4.2%	3.3%	4.2%	3.3%
Yield				
Risk free rate	4.1%	3.8%	4.1%	3.8%
Implied term	3 years	3 years	3 years	3 years
Fair value	€2.94	€5.10	€2.62	€4.55
Exercise price	€6.96	€12.28	€7.43	€13.09
No of options	3,967.8	2,311.0	811.3	513.6
Vesting period	3 years	3 years	3 years	3 years

	<b>SAYE (RoI)</b>	<b>SAYE (UK)</b>
	<b>5 Year</b>	<b>5 Year</b>
	<b>2003</b>	<b>2003</b>
Volatility	30%	30%
Dividend	3.3%	3.3%
Yield		
Risk free rate	3.6%	3.6%
Implied term	5years	5years
Fair value	€3.54	€3.31
Exercise price	€7.84	€8.37
No of options	2,209.2	450.9
Vesting period	5 years	5years

**(f) Limitations on Employee Stock Issue and Stock Option Schemes**

All of the above stock issue and stock option schemes are subject to a range of flow rate controls approved by the stockholders and which conform to current institutional investor guidelines.

### **43 ULTIMATE PARENT COMPANY**

The Company is a wholly owned subsidiary of The Governor and Company of the Bank of Ireland (which is also the ultimate parent company), a charter company incorporated in the Republic of Ireland. These financial statements are included in the consolidated accounts of The Governor and Company of the Bank of Ireland. A copy of Bank of Ireland Group financial statements may be obtained from Bank of Ireland, Lower Baggot Street, Dublin 2.

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