

# **Bristol & West plc**

## **Report and Accounts for the year ended 31 March 2008**



**REGISTERED NUMBER 2124201**

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**BRISTOL & WEST PLC**

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**CONTENTS**

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	PAGE
CHIEF EXECUTIVE'S REVIEW	2
DIRECTORS' REPORT	4
CORPORATE GOVERNANCE	9
INDEPENDENT AUDITORS' REPORT	12
INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2008	14
BALANCE SHEET AS AT 31 MARCH 2008	15
STATEMENT OF RECOGNISED INCOME AND EXPENSE AT 31 MARCH 2008	16
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008	17
NOTES TO THE FINANCIAL STATEMENTS	19

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**BRISTOL & WEST PLC**

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**CHIEF EXECUTIVE'S REVIEW**

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**Overview**

During the first six months of this financial year the decision was made to transfer the business of Bristol & West plc (the 'Company') and its subsidiaries to other statutory entities within the Bank of Ireland Group. This corporate restructure, which was successfully completed on 1 October 2007 under the terms of the Financial Services and Markets Act 2000 and was approved by the High Court, is explained in more detail in Note 7 of the financial statements. As part of the corporate restructure the Company disposed of all its subsidiaries to its immediate parent company, Bank of Ireland UK Holdings plc.

**Business and Financial Review**

The Company's result for the year ended 31 March 2008 is a profit before tax of £25.6m against a profit before tax in the previous financial year of £31.0m.

The component parts of the result are as follows:

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Profit/(loss) before tax on continuing operations	5.6	(0.1)
Profit before tax arising from the corporate restructure	13.5	-
Profit before tax on transferred businesses (Note 1)	6.5	31.1
Profit before tax on discontinued operations	<u>20.0</u>	<u>31.1</u>
Profit before tax	<u>25.6</u>	<u>31.0</u>

Note 1: For year ended 31 March 2007 the profit before tax on the transferred businesses of £31.1m was split £16.3m in H1 and £14.8m in H2.

The four key elements of the adverse year on year variance in profit before tax of £5.4m were as follows.

Firstly the fact that the results for year ended 31 March 2007 contain twelve months of profit in respect of the transferred business, whereas the results for year ended 31 March 2008 contain just the first six months of profit. This resulted in the £14.8m profit before tax in H2 of the prior year not being repeated.

Secondly the Company made a profit before tax on the transferred business up until the date of its disposal of £6.5m. This was £9.8m (40%) lower than the profit of £16.3m for the same period in the previous financial year (which is part of the full year profit of £31.1m shown above). Whilst the Company experienced good growth in residential lending up to the date of transfer of the business, particularly in the buy-to-let market, the key factor adversely influencing the performance in the period prior to the corporate restructuring was a narrowing of interest margins reflecting a more competitive market place and higher funding costs.

Thirdly, partially offsetting the two negative variances above, the Company made a profit before tax of £13.5m relating to the corporate restructure itself.

Finally the non-operational net assets retained by Bristol & West plc include interest-bearing cash deposits held to meet its liabilities as they fall due, including the payment of future preference share dividends. The full year profit before tax in respect of these non-operational assets, which are included within 'continuing operations' increased to £5.6m from a loss of £0.1m for the same period in the previous financial year. This improvement results from interest earned on a higher level of inter-group deposits following the corporate restructure.

**Regulation**

Following the transfer of the business of the Company on 1 October 2007 Bristol & West plc ceased to be authorised and regulated by the Financial Services Authority and in addition ceased to hold a Banking Licence from that date.

**Bristol & West plc in the Community**

Up until the date of the transfer of its business the Company continued to support the community through a number of initiatives. These included its participation in the Bank of Ireland Group's "Give Together Initiative" which gave each employee one day's leave per year to volunteer their time to a cause of their choice.

These initiatives continue to be undertaken within The Governor and Company of Bank of Ireland following the transfer of the business and employees.

**Our Staff**

I would like to thank all our staff for their contribution during the financial year. Their commitment and enthusiasm has been a significant factor in the achievement of success for Bristol & West plc and they will continue to be central to delivering on the Bank of Ireland Group's ambitions in the UK market.

**Outlook**

Following the transfer of the business to other parts of the Bank of Ireland Group the Company ceased to have any operations or customers.

However, as mentioned above, the Company will continue to hold interest-bearing cash deposits to meet its liabilities as they fall due, including the payment of future preference share dividends

Desmond E Crowley  
**Chief Executive**  
29 July 2008

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**BRISTOL & WEST PLC**

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**DIRECTORS' REPORT**

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The Directors present their report and the audited financial statements of Bristol & West plc (the 'Company') for the financial year ended 31 March 2008. A statement of Directors' Responsibilities is included on pages 10 and 11.

In accordance with Section 228 of the Companies Act 1985, following the disposal by the Company on 1 October 2007 of all its subsidiaries to its parent company Bank of Ireland UK Holdings plc, these financial statements are prepared only for Bristol & West plc.

**Principal activities**

On 1 October 2007 the business of Bristol & West plc, which was to provide lending and savings products via various distribution channels, was transferred to other statutory entities within the Bank of Ireland Group. Further details of this corporate restructure are given in Note 7 to the accounts.

The Company continues to hold interest-bearing cash deposits in order to meet its liabilities, including the payment of future preference share dividends.

**Review of Business and Future Developments**

A review of the business and future developments is given in the Chief Executive's Review. Prior to the transfer referred to above, in addition to profit performance, the Board monitored progress on the overall Company strategy by reference to three key performance indicators. The results for the key performance indicators for the period up to the date of the transfer are shown in the table below.

	<b>2008 period to date of transfer of business</b>	<b>2007 full year</b>	
Cost/income ratio	86.9%	73.4%	Operating expenses expressed as a percentage of income. The adverse movement was due to market conditions arising in August 2007 creating an increase in the cost of funding. Operating expenses have increased year on year arising from increased costs of regulation.
Growth in loans and advances to customers	4.9%	10.3%	Period on period growth in loans and advances to customers expressed as a percentage. This continued growth was in line with business aspirations given the market dynamics.
Mortgage book arrears	0.45%	0.43%	Percentage of mortgage book greater than three months in arrears. This indicator remained well below industry levels (per Council of Mortgage Lenders data) and reflected the strong asset quality.

Following the corporate restructure the key performance indicator applied by management regarding the remaining activity is to ensure that sufficient interest income is being generated to meet the cost of the preference share dividends as they fall due.

**Results and dividends**

As mentioned above the business of the Company was transferred to other statutory entities within the Bank of Ireland Group on 1 October 2007. Accordingly the results of the Company have been segregated between 'continuing operations' (relating to a limited number of non-operational assets and liabilities that remain) and 'discontinued operations' relating to the transferred business.

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**BRISTOL & WEST PLC**

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**DIRECTORS' REPORT (continued)**

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The Company made a profit before taxation of £25.6m (2007: profit of £31.0m) of which a profit of £5.6m related to continuing operations (2007: loss of £0.1m) and a profit of £20.0m related to discontinued operations (2007: profit of £31.1m). The Income Statement for the year can be seen on page 14.

As part of the corporate restructure and in accordance with section 135 of the Companies Act, the share capital of the Company was reduced from £306.6m to £50,000 and its share premium of £18.5m cancelled, and these amounts were repaid to its parent company, Bank of Ireland UK Holdings plc. Further amounts not required to be retained by the continuing operations were distributed by way of dividends to its parent company during the year. Total dividends paid were £395.2m (2007: £nil).

The preference shares carry a coupon rate of 8.125% (see Note 22). As part of the corporate restructure £46.0m of preference shares were repaid to preference shareholders, a result of which was to reduce the amount of preference share dividends payable during the period to £4.5m (2007: £6.4m).

Total dividend payments of £395.2m were made during the year as follows:

20 September 2007	11.44p per ordinary share
11 December 2007	£2,203 per ordinary share
19 December 2007	£1,049 per ordinary share

**Policy on payment of creditors**

The Company'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 Company policy to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract. Following the transfer of business referred to above, as at 31 March 2008 the Company had no balances (2007: 2 days purchases) outstanding in trade creditors.

**Risk Management**

The risks associated with the operations of the Company were significantly reduced following the transfer of its business on 1 October 2007. The Company's financial risk management objectives and policies and principal risk exposures facing the business are set out in Note 28 to the accounts.

**People**

Following the corporate restructure on 1 October 2007 all contracts of employment held by the Company were transferred to The Governor and Company of Bank of Ireland and therefore the Company ceased to have any employees from this date.

Partnership and teamwork are qualities which are valued by the Company. These were encouraged through regular communication meetings and consultation with Partners' Councils - the elected staff representative body. The Company's profit-related pay scheme, Bank of Ireland share ownership and SAYE share option schemes were available to encourage wider financial involvement in the Company'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 Company has been committed to equal opportunities for all staff and job applicants. It has given full and fair consideration to applications for employment from disabled people and to the training, development and promotion of disabled employees. The Company has ensured full compliance with the Disability Discrimination Act. If serving employees became disabled, the Company continued employment wherever possible and arranged retraining.

**Charitable donations**

The Company made charitable donations of £80,475 (2007: £108,933) to a wide range of beneficiaries. No political donations were made (2007: £nil).

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**BRISTOL & WEST PLC**

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**DIRECTORS' REPORT (continued)**

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**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.

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**BRISTOL & WEST PLC**

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**DIRECTORS' REPORT (continued)**

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**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, having earlier held a number of senior management positions within Bank of Ireland Group. 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. 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 and a Director of Bank of Ireland UK Holdings plc. 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

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**BRISTOL & WEST PLC**

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**DIRECTORS' REPORT (continued)**

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**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 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's auditors are unaware, and
- (b) each Director has taken all the steps they ought to have taken as a director, in order to make themselves aware of any relevant audit information, and to establish that the Company'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**

29 July 2008

Disclosures on internal controls specified by the 2006 Combined Code, which incorporates the recommendations of the Turnbull Committee, are provided below. The Company was not required to make other Combined Code disclosures as it was 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 7, the principal risks of the Company were substantially reduced and at 31 March 2008 only relate to the limited non-operational assets and liabilities that remain in the Company. 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 Company'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 Company's operations in undertaking a wide range of financial services that inherently involve varying degrees of risk.

The overall control systems operated by the Company during the financial year included:

- A clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Board which support the maintenance of a strong control environment;
- Appropriate terms of reference for Board committees and sub-committees with responsibility for core policy areas;
- An annual budgeting and monthly financial reporting system, which enables progress against longer-term objectives and the annual plan to be monitored, trends to be evaluated and variances to be acted upon;
- 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 Company, were subject to review by Internal Audit. Emphasis was focused on areas of greatest risk as identified by risk analysis. Internal Audit will continue to have responsibility for reviewing the adequacy of controls of the Company post restructure.

Prior to the corporate restructure the effectiveness of the Company's internal controls was monitored by the Audit Committee and by the Board. Following the corporate restructure referred to above, the Audit Committee was disbanded and 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 both Audit Committees 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 LLP, which contain details of any material control issues identified from their work as auditors, were reviewed by both Audit Committees. After each meeting of the Audit Committees the Board was made aware of all significant issues with the minutes of the meeting being circulated to all members of the Board.

Risk assessments were undertaken across the Company based on management's view of risk throughout the year. The Risk Committee met 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. The minutes of these meetings were reviewed by the Audit Committee and following the corporate restructure will be reviewed by the Divisional Executive Committee.

**Internal control (continued)**

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 Company continue to be subject to the risk assessment and Operational Risk procedures described above.

Throughout the year, the senior executive management reviewed the Audit Committee's and Bank of Ireland Group Audit Committee's conclusions in relation to the Company's system of internal control, and also examined the full range of risks affecting the Company 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 accounts. 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 Company, 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 Company'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 Bristol & West plc and approves, on the Court's behalf, specific remuneration packages for the Executive Directors. The remuneration of Non-Executive directors of Bristol & West plc was determined by the Court. Directors do not participate in any decisions relating to their own remuneration.

**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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 of the profit or loss of the Company for that period.

In preparing the financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make 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 Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

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**BRISTOL & WEST PLC**

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**CORPORATE GOVERNANCE (continued)**

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

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**BRISTOL & WEST PLC**

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**INDEPENDENT AUDITORS' REPORT**

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**Independent Auditors' Report to the members of Bristol & West plc**

We have audited the financial statements of Bristol & West plc for the year ended 31 March 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and related notes. 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 Section 235 of the Companies Act 1985 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Review that is cross referred from the Review of Business and Future Developments section of the Directors' Report.

In addition we 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, Chief Executive's Review 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP*  
*Chartered Accountants and Registered Auditors*  
*Bristol*  
*30 July 2008*

**Notes:**

- The maintenance and integrity of the Bristol & West plc's 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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**BRISTOL & WEST PLC**

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**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	10.4	6.4
Interest expense and similar charges	4	(4.5)	(6.4)
<b>Net interest income</b>		<u>5.9</u>	<u>-</u>
Fee and commission income		-	-
Fee and commission expense		<u>-</u>	<u>-</u>
<b>Net fee and commission income</b>		-	-
Net trading income		-	-
Other operating income		-	-
Impairment losses on loans and advances	10	-	-
Other operating expenses	5	<u>(0.3)</u>	<u>(0.1)</u>
<b>Profit / (loss) before taxation from continuing operations</b>		5.6	(0.1)
Taxation	8	<u>(3.0)</u>	<u>(1.9)</u>
<b>Profit / (loss) for the year from continuing operations</b>		2.6	(2.0)
<b>Discontinued operations</b>			
Post-tax results for the year from discontinued operations*	3,7	<u>10.2</u>	<u>27.2</u>
<b>Profit for the financial year</b>	27	<u><u>12.8</u></u>	<u><u>25.2</u></u>

\*This includes the results for the transferred business up until its disposal on 1 October 2007 (see Note 7).

The notes on pages 19 to 69 are an integral part of these financial statements.

**BRISTOL & WEST PLC**  
**BALANCE SHEET AS AT 31 MARCH 2008**

	Note	2008 £m	2007 £m
<b>ASSETS</b>			
Debt securities	11	-	120.5
Derivative financial instruments	28	-	130.5
Loans and advances to banks	9	129.3	7,953.6
Loans and advances to customers	10	-	23,452.4
Shares in group undertakings	12	-	591.7
Intangible assets	13	-	37.1
Property, plant and equipment	14	-	6.5
Asset classified as held for sale	15	-	3.2
Current income tax asset		-	2.7
Deferred income tax asset	16	0.1	9.2
Other assets	17	1.4	54.7
<b>TOTAL ASSETS</b>		<b>130.8</b>	<b>32,362.1</b>
<b>LIABILITIES</b>			
Deposits from other banks	18	-	21,643.1
Derivative financial instruments	28	-	65.0
Due to customers	20	-	3,593.1
Debt securities in issue	21	-	(1.6)
Other liabilities	23	2.8	5,909.7
Provisions	24	0.7	24.6
Current income tax liabilities		7.7	-
Deferred income tax liabilities	16	-	16.5
Retirement benefit obligations	25	-	26.1
Subordinated liabilities	19	-	440.9
Other borrowed funds	22	32.6	78.6
<b>TOTAL LIABILITIES</b>		<b>43.8</b>	<b>31,796.0</b>
<b>EQUITY</b>			
Share capital	26	0.1	306.6
Retained earnings	27	86.9	240.0
Other reserves	27	-	19.5
<b>TOTAL EQUITY</b>	27	<b>87.0</b>	<b>566.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>130.8</b>	<b>32,362.1</b>

The notes on pages 19 to 69 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 July 2008 and signed on its behalf by:

Kieran Coleman  
**Director**

**BRISTOL & WEST PLC**  
**STATEMENT OF RECOGNISED INCOME AND EXPENSE AT 31 MARCH 2008**

	Note	Profit and loss account £m	Other reserves £m	Total £m
<b>For the year ended 31 March 2007</b>				
Profit for the financial year		25.2	-	25.2
Actuarial valuation of pension fund net of tax	25	4.7	-	4.7
Transfer of reserve following sale of property		1.2	(1.2)	-
Total recognised income / (expense)		31.1	(1.2)	29.9
<b>For the year ended 31 March 2008</b>				
Profit for the financial year		12.8	-	12.8
Actuarial valuation of pension fund net of tax	25	6.0	-	6.0
Transfer of reserve following sale of property		1.0	(1.0)	-
Total recognised income / (expense)		19.8	(1.0)	18.8

The table above includes the results for the transferred business up until its disposal on 1 October 2007 (see Note 7).

The notes on pages 19 to 69 are an integral part of these financial statements.

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**BRISTOL & WEST PLC**

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**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008**

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	Note	2008 £m	2007 £m
<b>Net cash flow from operating activities</b>			
Profit / (loss) before tax			
- continuing operations		5.6	(0.1)
- discontinued operations	7	20.0	31.1
		<u>25.6</u>	<u>31.0</u>
<b>Adjusted for (all discontinued)</b>			
Depreciation and amortisation		3.2	8.2
Impairment losses on loans and advances to customers		0.1	0.1
Profit on disposal of intangible assets and property, plant and equipment		(3.4)	-
Interest expense: subordinated liabilities		21.2	37.2
Release of swap monetisation deferred income on corporate restructure		(12.5)	-
Other non-cash movements		<u>(1.6)</u>	<u>(1.4)</u>
		32.6	75.1
<b>Continuing:</b>			
<b>Changes in operating assets and liabilities</b>			
Loans and advances to banks		766.2	-
Other assets		2.0	-
Other liabilities		<u>(1.4)</u>	<u>-</u>
		766.8	-
Taxes paid		<u>(1.9)</u>	<u>(1.9)</u>
Net cash generated from / (used in) operating activities		764.9	(1.9)
<b>Cash flows from financing activities</b>			
Equity dividends paid		(395.2)	-
Reduction and repayment of share capital		(306.5)	-
Cancellation and repayment of share premium		(18.5)	-
Reduction in other borrowed funds		<u>(46.0)</u>	<u>-</u>
Net cash used in financing activities		(766.2)	-
<b>Discontinued:</b>			
<b>Changes in operating assets and liabilities</b>			
Debt securities		121.6	213.7
Loans and advances to banks		(339.3)	(6,677.4)
Loans and advances to customers		(1,150.6)	(2,181.9)
Other assets		(53.6)	(38.5)
Deposits from other banks		772.5	2,547.9
Due to customers		327.8	651.5
Debt securities in issue		-	(1.6)
Other liabilities		(538.8)	5,573.9
Provisions		<u>(8.0)</u>	<u>(18.4)</u>
		(868.4)	69.2
Taxes paid		<u>6.1</u>	<u>5.0</u>
Net cash (used in) / generated from operating activities		(862.3)	74.2

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**BRISTOL & WEST PLC**

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**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008**

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		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>£m</b>	<b>£m</b>
<b>Cash flows from investing activities</b>			
Net investment in intangible assets and property, plant and equipment		4.4	(3.8)
Proceeds from sale of subsidiaries, net of cash and cash equivalents	7	591.8	-
Proceeds from sale of business, net of cash and cash equivalents	7	(420.2)	-
Net cash generated from / (used in) investing activities		<u>176.0</u>	<u>(3.8)</u>
<b>Cash flows from financing activities</b>			
Subordinated debt issue		-	80.0
Subordinated debt repayment		-	(50.0)
Interest on subordinated liabilities		(24.9)	(36.6)
Equity dividends received		222.3	-
Capital repayment of finance lease		(0.1)	(0.7)
Net cash generated from / (used in) financing activities		<u>197.3</u>	<u>(7.3)</u>
<b>Net increase / (decrease) in</b>			
Continuing cash and cash equivalents		4.3	(2.0)
Discontinued cash and cash equivalents		(462.0)	138.3
Opening cash and cash equivalents		<u>466.1</u>	<u>329.8</u>
Closing cash and cash equivalents	32	<u>8.4</u>	<u>466.1</u>

The notes on pages 19 to 69 are an integral part of these financial statements.

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

### **1.1 Basis of presentation**

Bristol & West plc (the 'Company') is a company incorporated and domiciled in the UK.

The principle 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.

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified to include the re-valuation of certain financial instruments and land and buildings.

The accounts are drawn up in GBP millions except where otherwise indicated.

The preparation of the accounts 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 accounts 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.

### **1.2 Foreign currency translation**

Foreign currency transactions were 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 were recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

The Company held no foreign currency amounts at 31 March 2008.

### **1.3 Business segments**

The Company is outside the scope of IAS 14 Segment Reporting. However, certain information regarding business areas is included in Note 3.

### **1.4 Financial instruments and hedge accounting**

Following the corporate restructure on 1 October 2007 referred to in Note 7, the Company did not hold any derivatives.

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

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.4 Financial instruments and hedge accounting (continued)**

All derivatives were carried as assets when fair value was positive and as liabilities when fair value was negative. Derivatives were de-recognised when the rights to receive cash flows expired or the Company had transferred substantially all the risks and rewards of ownership and the transfer qualifies for de-recognition.

The best evidence of the fair value of a derivative at initial recognition was the transaction price (i.e. the fair value of the consideration given or received) 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 whose variables include only data from observable markets. When such evidence existed, the Company recognised gains from the date of the transaction.

The method of recognising the resulting fair value gain or loss depended on whether the derivative was designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designated certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (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 was used for derivatives designated in this way provided certain criteria were met. At 31 March 2008 the Company did not hold any hedging instruments and at 31 March 2007 the Company only held derivatives designated as cash flow hedges.

The Company documented, 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 Company also documented its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions were highly effective in offsetting changes in fair values of hedged items.

*(a) Fair value hedge*

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

If the hedge no longer met the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method was used was amortised to profit or loss over the period to maturity.

*(b) Derivatives that do not qualify for hedge accounting*

Changes in the fair value of any derivative instrument that did not qualify for hedge accounting were recognised immediately in the income statement.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.5 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 Company 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 Company 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. Prior to the transfer of the business of the Company, no credit was taken in respect of interest due, which was deemed irrecoverable on mortgage advances where a property was taken into possession

**1.6 Fee and commission income**

Following the transfer of its business the Company did not have any fee and commission income.

Fees and commissions which were not an integral part of the effective interest rate, were recognised on an accruals basis when the service had been provided. Loan commitment fees for loans that were likely to be drawn down, were deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

**1.7 Financial assets**

Prior to the corporate restructure the Company classified its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. Following the corporate restructure the Company only held financial assets that were designated as loans and receivables. Management determined the classification of its financial assets at initial recognition.

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

This category had two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset was classified in this category if it was acquired principally for the purpose of selling in the short term (trading) or if so designated by management. Derivatives were also categorised as held for trading unless they were designated as hedges. Assets in this category were classified as current assets. Fair values were obtained using available market data or valuation techniques including discounted cash flow models and other pricing models as appropriate.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.7 Financial assets (continued)****(b) Loans and receivables**

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

Purchases and sales of financial assets at fair value through profit or loss were recognised on trade-date – the date on which the Company committed to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets not carried at fair value through the income statement were initially recognised at fair value plus transaction costs.

Financial assets were de-recognised when the rights to receive cash flows from the financial assets expired or where the Company had transferred substantially all risks and rewards of ownership. Loans and receivables were carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss were carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category were included in the income statement in the period in which they arose.

The fair values of quoted investments in active markets were based on current bid prices. If the market for a financial asset was not active (and for unlisted securities), fair value was established by using valuation techniques. These included the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

**1.8 Impairment of financial assets**

The majority of financial assets held by the Company were transferred under the corporate restructure, and those that remain, which relate to deposits placed with other Bank of Ireland Group entities, will continue to be assessed for impairment. The following narrative relates to the financial assets which were transferred.

**(a) Assets carried at amortised cost**

Financial assets or groups of financial assets are assessed for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and before the balance sheet date and had a reliably measurable impact on the estimated future cash flows of the financial assets or groups of financial assets.

(b) Objective evidence that a financial asset or group of assets was impaired included observable data that came to the attention of the management about the following loss events:

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.8 Impairment of financial assets (continued)**

- (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 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 would enter bankruptcy or other financial reorganisation;
  - (v) the disappearance of an active market for that financial asset because of financial difficulties;
- or
- (vi) observable data indicating that there was 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 could yet be identified with the individual financial assets in the Company, including:
    - adverse changes in the payment status of borrowers in the Company; or
    - national or local economic conditions that correlate with defaults on the assets in the Company

The Company first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Company determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognised were not included in a collective assessment of impairment.

If there was objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost had been incurred, the amount of the loss was 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 was reduced through the use of an allowance account and the amount of the loss was recognised in the income statement. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Company may have measured 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 have result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considered asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics were 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 were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience was 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 was based and to remove the effects of conditions in the historical period that did not exist at that time.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.8 Impairment of financial assets (continued)**

Estimates of changes in future cash flows for groups of assets needed to reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a loan was uncollectable, it was written off against the related provision for loan-impairment. Such loans were written off after all the necessary procedures had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off decreased the amount of the provision charged for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was reversed by adjusting the allowance account. The amount of the reversal was recognised in the income statement.

**1.9 Intangible assets**

Following the corporate restructure the Company did not hold any intangible assets. Prior to this date the Company measured intangible assets at cost less accumulated amortisation and any impairment losses.

**(a) Computer software**

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

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

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

**(b) Other intangible assets**

During 2003/04, 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. As part of this agreement, Bristol & West plc, which was anticipated to be the major supplier of products within the Bank of Ireland Group, 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 was being amortised over the life of the agreement with the Post Office.

**1.10 Property, plant and equipment**

Following the corporate restructure the Company did not hold any property plant and equipment. Prior to this date the Company initially recognised freehold land and buildings at cost, and subsequently revalued them annually at open market value.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.10 Property, plant and equipment (continued)**

All other property, plant and equipment, including freehold and leasehold adaptations, was stated at historical cost less accumulated depreciation. Historical cost included expenditure that was directly attributable to the acquisition of the items. Subsequent costs were included in the asset's carrying amount or were recognised as a separate asset, as appropriate, only when it was probable that future economic benefits associated with the item would flow to the Company and the cost of the item would be measured reliably. All other repairs and maintenance were 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 were credited to revaluation reserves in shareholders' equity, unless the increase represented a reversal of a previous revaluation decrease of the same asset which was recognised as an expense, in which case the increase was recognised in the income statement to the extent of the previously recognised decrease. Decreases that offset previous increases on the same asset were charged against property revaluation reserve; all other decreases were charged to the income statement.

Depreciation was 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:

Adaptation works on freehold and leasehold property	- 15 years, or the remaining period of the lease
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Computer and other equipment	- Maximum of ten years
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The following useful lives were determined for the intangible assets acquired during the year:

Computer software	- 5 years.
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The Directors considered that residual values of freehold and long leasehold property based on prices at the balance sheet date are such that depreciation was not material.

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

Gains and losses on disposal of property and equipment were determined by reference to their carrying amount and are taken into account in determining operating profit.

When revalued assets were sold, the amounts included in other reserves were transferred to retained earnings.

**1.11 Leases**

Following the corporate restructure the Company held no leases. Prior to this date the total payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease. When an operating lease was terminated before the lease period had expired, any payment required to be made to the lessor by way of penalty was recognised as an expense in the period in which termination took place.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.11 Leases (continued)**

Leases of property, plant and equipment where the Company had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was allocated between the liability and finance charges so as to achieve a constant pre-tax rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, were included in long term payables. The interest element of the finance costs was 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. Accounting for the leased asset follows the general rules for accounting for tangible or intangible assets.

Rental income was recognised as it accrued.

**1.12 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances with central banks and post office banks which can be withdrawn on demand. It also comprises the following balances with an original maturity of less than 3 months: treasury bills and other bills eligible for refinancing with the central banks, loans and advances to banks and trading securities.

**1.13 Provisions**

Provisions are recognised by the Company when there is 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.

**1.14 Employee benefits**

As mentioned in the Directors' Report as part of the corporate restructure all contracts of employment held by the Company were amended to reflect a change of employer to The Governor and Company of Bank of Ireland. Consequently from 1 October 2007 the Company did not provide any employee benefits.

**(a) Pension obligations**

Prior to the corporate restructure the Company operated three pension schemes for its employees; one defined benefit scheme and two defined contribution schemes. The schemes which were transferred to The Governor and Company of Bank of Ireland, were funded and the assets of the schemes were held in separate trustee administered funds. 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. The defined contribution plans were pension plans under which the Company paid fixed contributions into separate entities (funds) and which had no legal or constructive obligations relating to employee service in the period to the restructure and prior periods.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.14 Employee benefits (continued)**

The liability recognised in the balance sheet in respect of defined benefit pension plans was the present value of the defined benefit obligation at that date minus the fair value of plan assets, together with adjustments for unrecognised past service cost. The defined benefit obligation was calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation was determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that were 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.

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

For defined contribution plans, once the contributions were paid, the Company had no further payment obligations. The contributions were recognised as an employee benefit expense when they were due. Prepaid contributions were recognised as an asset to the extent that a cash refund or a reduction in the future payments was available.

**(b) Equity compensation benefits**

Prior to the corporate restructure the Company's employees were able to participate in the Bank of Ireland share based payment schemes. The fair value of the employee services received in exchange for the grant of options or shares was recognised as an expense as recharged from the Bank of Ireland Group to the Company. The total amount to be expensed over the vesting period was 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 were 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 revised its estimate of the number of options or shares that were expected to vest. Bank of Ireland Group recognised 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.

**1.15 Deferred income 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 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.

Prior to the corporate restructure the principal temporary differences arose 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 was not accounted for if it arises from initial recognition of an asset or liability in a 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.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.15 Deferred income tax (continued)**

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income 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.

**1.16 Non-current assets held for sale**

A non-current asset or a disposal group was classified as held for sale if the following conditions were met:

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

When a non-current asset was initially classified as held for sale, it was measured at the lower of its carrying amount and fair value less costs to sell at the date of reclassification. Any adjustment to the measurement of the asset was taken to the income statement at that date. Gains or losses on subsequent remeasurement were also taken to the income statement when they arose. Prior period amounts were not reclassified.

During the year and prior to the corporate restructure the Company disposed of its only non-current asset held for sale (see Note 15).

**1.17 Financial liabilities**

Following the corporate restructure the Company ceased to hold any financial liabilities from that date other than those relating to preference shares.

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.

Prior to the restructure the Company initially recognised financial liabilities at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities were subsequently measured at either amortised cost or fair value through profit and loss. For liabilities subsequently carried at amortised cost, any difference between the proceeds net of transaction costs and the redemption value was recognised in the income statement using the effective interest method.

In certain instances the Company elected to record financial liabilities at fair value in order to reduce the effect of valuation mismatches between the liability and the related economic hedge derivative. The basis of measurement of fair value was determined with reference to market rates.

Where financial liabilities were in a hedging relationship with a derivative which qualifies for hedge accounting the policy set out in note 1.4 was adopted.

Issue expenses incurred in connection with the issue of subordinated debt were deducted from the proceeds of the issue and amortised to the income statement.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.18 Share capital**

Ordinary shares are classified as equity.

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

**1.19 Impact of new accounting standards**

The following standards, amendments and interpretations have been approved by the IASB, are effective in the current period and have been adopted by the Company.

IFRS 7 – Financial Instrument: Disclosures (effective for periods beginning on or after 1 January 2007). It updates and augments the disclosure requirements of IAS 30, IAS 32 and IFRS 4 and requires additional qualitative and quantitative disclosures relating to risk management policies and processes. As a disclosure standard, its application has not had any impact on the amounts recognised in the financial statements.

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 Section on page 60.

IFRIC 9 – Reassessment of Embedded Derivatives (effective 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 a 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 financial statements.

The following amendment has been approved by the IASB, has been adopted by the EU and is effective in the current period but is not relevant to the Company's financial statements.

IFRIC 10 – Interim Financial Reporting and Impairment (effective 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.

The following standards have been approved by the IASB and have been adopted by the EU but have not been adopted early by the Company prior to the restructure.

IFRS 8 – Operating Segments (effective 1 January 2009). This standard replaces IAS 14 Segment Reporting and requires an entity to base their segmental reporting on the information that is reported internally to management. The impact is not expected to be significant for the Company.

Amendment to IFRS2 – Share-based payments: Vesting Conditions and Cancellations (effective 2009). This amendment clarifies the accounting treatment of cancellations and vesting conditions and following the corporate restructure is not expected to have any impact on the Company.

The following standards, amendments and interpretations have been approved by the IASB, have not yet been adopted by the EU and have not been early adopted by the Company.

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 Company.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****1.19 Impact of new accounting standards (continued)**

The following amendments have been approved by the IASB, are not yet effective but are not relevant to the Company.

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 Company.

IFRIC 13 – Customer Loyalty Programmes (effective 1 July 2008). This interpretation addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services, hence it is not expected to impact on the Company.

IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective periods beginning on or after 1 January 2008). This interpretation addresses the interaction between a minimum funding requirement and the limit placed by paragraph 58 of IAS 19 on the measurement of the defined benefit asset or liability, hence it is not expected to impact on the Company.

**1.20 Dividend income policy**

Dividend income is recognised in the period in which it is received or when the company's right to receive payment is established.

**2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES****(a) Impairment losses on loans and advances**

In determining whether an impairment loss should be recorded in the Income Statement, the Company made judgements as to whether there is any observable data indicating that there was a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease could be identified with an individual loan in that portfolio. This evidence may have included observable data indicating that there had been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlated with defaults on assets in the group. Management used 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 were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**(b) Fair value of derivatives**

The fair value of financial instruments that were not quoted in active markets were determined by using valuation techniques. Where valuation techniques (e.g. models) were used to determine fair values, they were validated and periodically reviewed by qualified personnel independent of the area that created them. All models were certified before they were used and models were calibrated to ensure that outputs reflected actual data and comparative market prices. To the extent practical, models used only observable data. However areas, such as credit risk (both own and counterparty), volatilities and correlations, required management to make estimates. Changes in assumptions about these factors affected reported fair value of financial instruments.

**(c) Provisions**

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

**(d) Pensions**

The present value of the pensions obligations was dependent upon an actuarial calculation which included a number of assumptions. These assumptions included the discount rate which is used to determine the present value of the estimated future cash flows that will be required to meet the pension obligation. In determining the appropriate discount rate to use, the Company considered market yields of high quality corporate bond denominated in sterling that had terms to maturity approximating the terms of the pension liability.

**(e) Income taxes**

Significant judgement is required in determining the Company's income 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 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.

Note that items (a), (b), (c) and (d) apply only to the business of the Company which was transferred as part of the corporate restructure referred to in Note 7.

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**3 BUSINESS AREAS**

Until the completion of the corporate restructure referred to in Note 7 the Company had two principal business areas, Mortgages and Consumer. The Consumer business comprises customer deposits and Guaranteed Equity Bond Savings deposits.

<b>At 31 March 2008</b>	<b>Mortgages</b>	<b>Consumer</b>	<b>Divisional Centre</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Continuing operations</b>				
Revenue	-	-	5.9	5.9
Area result	-	-	5.6	5.6
Profit before tax	-	-	5.6	5.6
Taxation	-	-	(3.0)	(3.0)
Profit for the financial year	-	-	2.6	2.6
<b>Discontinued operations</b>				
Revenue	42.9	2.9	14.9	60.7
Area result	20.5	2.3	(2.8)	20.0
Profit / (loss) before tax	20.5	2.3	(2.8)	20.0
Taxation	(6.1)	(0.7)	(3.0)	(9.8)
Profit / (loss) for the financial year	14.4	1.6	(5.8)	10.2
Assets	-	-	130.8	130.8
Liabilities	-	-	43.8	43.8
<b>Other items</b>				
Capital expenditure	2.0	-	0.5	2.5
Depreciation	0.3	-	0.6	0.9
Amortisation	1.2	-	1.1	2.3

Revenue comprises the net income from interest, fees, commissions, trading income 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 areas are made at cost on a consistent basis year on year.

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**3 BUSINESS AREAS (continued)**

<b>At 31 March 2007</b>	<b>Mortgages</b>	<b>Consumer</b>	<b>Divisional Centre</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Continuing operations</b>				
Revenue	-	-	-	-
Area result	-	-	(0.1)	(0.1)
Loss before tax	-	-	(0.1)	(0.1)
Taxation	-	-	(1.9)	(1.9)
Loss for the year	-	-	(2.0)	(2.0)
<b>Discontinued operations</b>				
Revenue	100.1	5.0	11.6	116.7
Area result	45.3	8.0	(22.2)	31.1
Profit/(loss) before tax	45.3	8.0	(22.2)	31.1
Taxation	(13.6)	(2.4)	12.1	(3.9)
Profit/(loss) for the year	31.7	5.6	(10.1)	27.2
Assets	23,452.4	-	8,900.5	32,352.9
Liabilities	19,859.3	3,593.1	8,334.4	31,786.8
<b>Other items</b>				
Capital expenditure	4.9	-	2.4	7.3
Depreciation	0.7	-	1.8	2.5
Amortisation	2.2	-	3.5	5.7

**4 NET INTEREST INCOME**

	<b>2008 £m</b>	<b>2007 £m</b>
On amounts due from parent company and fellow group undertakings	10.4	6.4
By category		
Loans and receivables	10.4	6.4
	<b>2008 £m</b>	<b>2007 £m</b>
Other borrowed funds	4.5	6.4
By category		
Preference share dividends	4.5	6.4

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**5 OTHER OPERATING EXPENSES**

Other Operating Expenses consist of audit fees in relation to the continuing business of £0.1m (2007: £0.1m) and other costs of £0.2m (2007: £nil).

Auditor's remuneration includes fees in respect of the audit of financial statements of the Company of £54,290 (2007: £65,000), fees in respect of taxation services of nil (2007: £78,000) and fees in respect of other services of £32,000 (2007: £8,000).

The 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.

**6 STAFF COSTS**

As part of the corporate restructure (see Note 7) on 1 October 2007 the contracts of employment of the Company's employees were transferred to The Governor and Company of Bank of Ireland. Consequently the Company ceased to have any employees from that date.

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	21.1	44.0
Social security costs	1.8	3.7
Pension costs:		
-Defined contribution schemes	0.4	0.3
-Defined benefit schemes (Note 25)	0.4	2.4
Share based payment schemes	1.2	(1.8)
	<u>24.9</u>	<u>48.6</u>

The average number of persons including directors employed by the Company up to the date of the corporate restructure was 1,038 (2007: 1,023).

**7 DISCONTINUED OPERATIONS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Result for the period from discontinued operations</b>	<u>10.2</u>	<u>27.2</u>

Discontinued operations contributed £20.0m (2007: £31.1m) to pre-tax profit, comprising £60.7m (2007: £116.7m) to revenue, impairment provision charge of £0.1m (2007: £0.1m) and expenses of £40.6m (2007: £85.5m). The taxation relating to discontinued trading operations was £9.8m (2007: £3.9m).

On 1 October 2007, with the exception of a limited number of non-operational assets and liabilities, the entire business of the Company, referred to within these financial statements as "Discontinued Operations", was transferred to other statutory entities within the Bank of Ireland Group.

The detail of this corporate restructure is as follows:

- a) The business of the Company was transferred to The Governor and Company of Bank of Ireland on 1 October 2007 at its book value. In addition all of the subsidiaries of the Company were transferred to the Company's parent, Bank of Ireland UK Holdings plc, at their historic cost value, generating nil profit or loss for the Company.
- b) In accordance with section 135 of the Companies Act 1985, the Company 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.

**BRISTOL & WEST PLC****NOTES TO THE FINANCIAL STATEMENTS (continued)****7 DISCONTINUED OPERATIONS (continued)**

	Balance Sheet as at 1 October 2007 £m	Restructuring Transactions			Dividends paid £m	Balance Sheet post restructuring £m
		Effect of transfer of disposal group £m	Capital reduction £m	Other * £m		
<b>ASSETS</b>						
Derivative financial instruments	130.3	(130.3)	-	-	-	-
Loans and advances to banks	7,588.7	(6,767.9)	(372.4)	0.8	(325.2)	124.0
Loans and advances to customers	24,602.9	(24,602.9)	-	-	-	-
Investments in group undertakings	591.8	(591.8)	-	-	-	-
Intangible assets	36.8	(36.8)	-	-	-	-
Property, plant and equipment	5.7	(5.7)	-	-	-	-
Retirement benefit asset	10.6	(10.6)	-	-	-	-
Current tax asset	5.8	-	-	(2.6)	-	3.2
Other assets	106.6	(104.9)	-	(1.7)	-	-
	<b>33,079.2</b>	<b>(32,250.9)</b>	<b>(372.4)</b>	<b>(3.5)</b>	<b>(325.2)</b>	<b>127.2</b>
<b>LIABILITIES</b>						
Deposits from other banks	22,415.6	(22,403.1)	-	(12.5)	-	-
Derivative financial instruments	54.8	(54.8)	-	-	-	-
Due to customers	3,929.7	(3,929.7)	-	-	-	-
Debt securities in issue	(1.3)	1.3	-	-	-	-
Other liabilities	5,400.2	(5,391.1)	(1.4)	(4.9)	-	2.8
Provisions	16.7	(15.9)	-	(0.1)	-	0.7
Deferred tax liabilities	16.5	(16.6)	-	-	-	(0.1)
Subordinated liabilities	441.0	(441.0)	-	-	-	-
Other borrowed funds	78.6	-	(46.0)	-	-	32.6
<b>Total liabilities</b>	<b>32,351.8</b>	<b>(32,250.9)</b>	<b>(47.4)</b>	<b>(17.5)</b>	<b>-</b>	<b>36.0</b>
<b>EQUITY</b>						
Share capital	306.6	-	(306.5)	-	-	0.1
Retained earnings	402.3	-	-	14.0	(325.2)	91.1
Other reserves	18.5	-	(18.5)	-	-	-
<b>Total equity</b>	<b>727.4</b>	<b>-</b>	<b>(325.0)</b>	<b>14.0</b>	<b>(325.2)</b>	<b>91.2</b>
<b>Total equity and liabilities</b>	<b>33,079.2</b>	<b>(32,250.9)</b>	<b>(372.4)</b>	<b>(3.5)</b>	<b>(325.2)</b>	<b>127.2</b>

\* Other relates to balances that no longer need to be retained by the Company as a result of the transfer of its business.

## 7 DISCONTINUED OPERATIONS (continued)

## 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	7,588.7
Loans and advances to customers	24,602.9
Investments in group undertakings	591.8
Intangible assets	36.9
Property, plant and equipment	5.6
Retirement benefit asset	10.6
Other assets	104.9
Deposits from other banks	(22,403.1)
Derivative financial instruments	(54.8)
Due to customers	(3,929.7)
Debt securities in issue	1.3
Other liabilities	(5,391.1)
Provisions	(15.9)
Deferred tax liabilities	(16.6)
Subordinated liabilities	(441.0)
<b>Total value of assets / (liabilities) disposed</b>	<b>820.8</b>
Less: cash and cash equivalents of disposal group	(649.2)
<b>Total value of assets / (liabilities) disposed, net of cash and cash equivalents</b>	<b>171.6</b>
Loss / (profit) on disposal	-
<b>Cash flow from disposal group</b>	<b>171.6</b>

## 8 TAXATION

	<b>2008 £m</b>	<b>2007 £m</b>
Current income tax		
- Continuing operations	3.0	1.9
- Discontinued operations (Note 7)	3.2	1.4
	<u>6.2</u>	<u>3.3</u>
Deferred income tax (Note 16)		
- Discontinued operations (Note 7)	6.6	2.5
	<u>12.8</u>	<u>5.8</u>
	<b>2008 £m</b>	<b>2007 £m</b>
<b>Tax on continuing operations</b>		
Current income tax	<u>3.0</u>	<u>1.9</u>

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**8 TAXATION (continued)**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Current income tax:</b>		
UK Corporation tax at 30% (2007: 30%)	(3.9)	1.7
Corporation tax adjustments in respect of prior years	10.1	1.6
	<u>6.2</u>	<u>3.3</u>
<b>Deferred income tax:</b>		
Current year	6.8	5.4
Adjustments in respect of prior years	(0.2)	(2.9)
	<u>6.6</u>	<u>2.5</u>
	<u>12.8</u>	<u>5.8</u>

Further information about deferred tax is presented in Note 16. The tax on the Company's profit before tax from continuing operations 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>
Continuing operations	5.6	(0.1)
Profit before tax	<u>5.6</u>	<u>(0.1)</u>
Tax calculated at a rate of 30% (2007: 30%)	1.7	-
Expenses not deductible for tax purposes	1.3	1.9
Taxation	<u>3.0</u>	<u>1.9</u>

**9 LOANS AND ADVANCES TO BANKS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Placements with other banks	-	13.0
Due from parent company and fellow group undertakings	8.4	452.3
Due from subsidiaries	-	0.8
Included in cash equivalents (Note 32)	<u>8.4</u>	<u>466.1</u>
Mandatory reserve deposits	-	32.0
Due from parent company and fellow group undertakings	120.9	7,361.4
Due from subsidiaries	-	94.1
	<u>129.3</u>	<u>7,953.6</u>

Loans and advances to banks with the remaining period at balance sheet date to the contractual maturity date less than 12 months is £62.4m (2007: £6,637.2m).

**10 LOANS AND ADVANCES TO CUSTOMERS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Loans to individuals: mortgages	-	16,752.9
Due from subsidiaries	-	6,709.0
Gross loans and advances	-	23,461.9
Less: allowance for losses on loans and advances	-	(9.5)
	-	23,452.4

**Allowance for losses on loans and advances**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Balance at 1 April	9.5	9.9
Provision for loan impairment	0.1	0.1
Loans written off during the year as uncollectable	(1.2)	(1.1)
Amounts recovered during the year	0.9	0.6
Transfer of business (Note 7)	(9.3)	-
At 31 March	-	9.5

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

**11 DEBT SECURITIES**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Euro denominated floating rate notes	-	120.5

**12 SHARES IN GROUP UNDERTAKINGS****Principal subsidiary undertakings**

On 1 October 2007 all the subsidiaries of the Company were transferred to its parent company, Bank of Ireland UK Holdings plc, at their historic cost value. Until this date the Company owned the total issue share capital of all of its subsidiary undertakings except in the case of Shipshape Residential Mortgages No. 1 plc ("Shipshape") and Brunel Residential Mortgage securitisations No. 1 plc ("Brunel"), as explained below.

Following the introduction of IFRS and a change in UK Companies legislation, securitisation special purpose entities, such as Shipshape and Brunel, were deemed to be legal subsidiaries.

Securitised advances are subject to non-recourse finance arrangements. Under the terms of separate agreements, the Company continued to administer the mortgages, for which it received fees and income. The Company was not obliged, nor did it intend, to support any losses in respect of the sold mortgages. Repayment of the funding was made solely from the cash flows generated by the underlying mortgage portfolios. This is clearly stated in the agreements with the providers of the funding. The proceeds generated by the mortgage assets were used to pay the interest and capital on the securitisation notes and any other administrative expenses and taxation. Substantially all of any residue was payable to the Company.

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

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.

Following the corporate restructure The Governor and Company of Bank of Ireland now administers the Company's mortgages under a similar arrangement to that which the Company previously had with Brunel. Consequently Brunel is now deemed to be a legal subsidiary of The Governor and Company of Bank of Ireland.

Until the date of the corporate restructure the principal subsidiary undertakings were all incorporated and operated in England and Wales. Information is only given for those subsidiaries that in the Directors' opinion principally affect the figures shown in the financial statements.

**The principal subsidiary undertakings transferred were:**

Bank of Ireland Home Mortgages Limited  
One Temple Quay Limited  
B&W Services Number 1 Limited  
B&W Services Number 2 Limited

**Nature of business**

Mortgage lending  
Property management  
Investment  
Investment

**13 INTANGIBLE ASSETS**

	<b>Brand licence £m</b>	<b>Software £m</b>	<b>Total £m</b>
<b>2007/08</b>			
<b>Cost</b>			
At 1 April 2007	29.4	33.3	62.7
Additions	-	2.0	2.0
Disposals	-	(3.8)	(3.8)
Transfer of business (Note 7)	(29.4)	(31.5)	(60.9)
At 31 March 2008	<u>-</u>	<u>-</u>	<u>-</u>
<b>Aggregate amortisation</b>			
At 1 April 2007	8.9	16.7	25.6
Amortisation for year	0.8	1.5	2.3
Disposals	-	(3.8)	(3.8)
Transfer of business (Note 7)	(9.7)	(14.4)	(24.1)
At 31 March 2008	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value</b>			
At 31 March 2008	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2007	<u>20.5</u>	<u>16.6</u>	<u>37.1</u>

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**13 INTANGIBLE ASSETS (continued)**

	<b>Brand licence £m</b>	<b>Software £m</b>	<b>Total £m</b>
<b>2006/07</b>			
<b>Cost</b>			
At 1 April 2006	29.4	30.6	60.0
Additions	-	5.3	5.3
Reclassification from property, plant and equipment	-	0.3	0.3
Disposals	-	(2.9)	(2.9)
At 31 March 2007	<u>29.4</u>	<u>33.3</u>	<u>62.7</u>
<b>Aggregate amortisation</b>			
At 1 April 2006	6.0	16.7	22.7
Amortisation for year	2.9	2.8	5.7
Disposals	-	(2.8)	(2.8)
At 31 March 2007	<u>8.9</u>	<u>16.7</u>	<u>25.6</u>
<b>Net book value</b>			
At 31 March 2007	<u>20.5</u>	<u>16.6</u>	<u>37.1</u>
At 31 March 2006	<u>23.4</u>	<u>13.9</u>	<u>37.3</u>

**14 PROPERTY, PLANT AND EQUIPMENT**

Following the corporate restructure referred to in Note 7, the Company's properties and finance leased assets were transferred to other entities within the Bank of Ireland Group. At 31 March 2007 the Company's properties were valued at £0.1m and would have been included at £0.1m had they been carried at historic cost less depreciation. The net book value of the financed leased assets at that date was £0.7m.

	<b>Land and buildings £m</b>	<b>Adaptations £m</b>	<b>Equipment £m</b>	<b>Total £m</b>
<b>2007/08</b>				
<b>Cost or valuation</b>				
At 1 April 2007	0.1	0.3	29.1	29.5
Additions	-	-	0.5	0.5
Disposals	-	-	(4.0)	(4.0)
Transfer of business (Note 7)	<u>(0.1)</u>	<u>(0.3)</u>	<u>(25.6)</u>	<u>(26.0)</u>
At 31 March 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Accumulated depreciation</b>				
At 1 April 2007	-	0.1	22.9	23.0
Charge for year	-	-	0.9	0.9
Disposals	-	-	(3.6)	(3.6)
Transfer of business (Note 7)	<u>-</u>	<u>(0.1)</u>	<u>(20.2)</u>	<u>(20.3)</u>
At 31 March 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value</b>				
At 31 March 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2007	<u>0.1</u>	<u>0.2</u>	<u>6.2</u>	<u>6.5</u>

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

	<b>Land and buildings £m</b>	<b>Adaptations £m</b>	<b>Equipment £m</b>	<b>Total £m</b>
<b>2006/07</b>				
<b>Cost or valuation</b>				
At 1 April 2006	5.3	0.4	30.7	36.4
Additions	-	-	2.0	2.0
Reclassification to intangible assets	-	-	(0.3)	(0.3)
Reclassification to available for sale	(3.2)	-	-	(3.2)
Disposals	(2.0)	(0.1)	(3.3)	(5.4)
At 31 March 2007	<u>0.1</u>	<u>0.3</u>	<u>29.1</u>	<u>29.5</u>
<b>Accumulated depreciation</b>				
At 1 April 2006	-	0.1	22.4	22.5
Charge for year	-	0.1	2.4	2.5
Disposals	-	(0.1)	(1.9)	(2.0)
At 31 March 2007	<u>-</u>	<u>0.1</u>	<u>22.9</u>	<u>23.0</u>
<b>Net book value</b>				
At 31 March 2007	<u>0.1</u>	<u>0.2</u>	<u>6.2</u>	<u>6.5</u>
At 31 March 2006	<u>5.3</u>	<u>0.3</u>	<u>8.3</u>	<u>13.9</u>

**15 ASSET CLASSIFIED AS HELD FOR SALE**

	<b>2008 £m</b>	<b>2007 £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.

**16 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>2008 £m</b>	<b>2007 £m</b>
At 1 April	(7.3)	(2.7)
Income statement charge	(6.6)	(2.5)
Deferred tax impact charged/(credited) direct to reserves of:		
Actuarial gains relating to pensions	(2.6)	(2.0)
Other	-	(0.1)
Transfer of business (Note 7)	16.6	-
At 31 March	<u>0.1</u>	<u>(7.3)</u>

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**16 DEFERRED INCOME TAX (continued)**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Deferred income tax assets</b>		
Accelerated tax depreciation	-	0.9
Pensions and other post retirement benefits	-	7.8
Other provisions	0.1	0.5
	<u>0.1</u>	<u>9.2</u>
<b>Deferred income tax liabilities</b>		
Other temporary differences	-	(16.5)
	<u>0.1</u>	<u>(7.3)</u>

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

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Accelerated tax depreciation	(0.2)	0.5
Pensions and other post retirement benefits	(8.4)	(4.0)
Other provisions	2.0	(0.8)
Other temporary differences	-	1.8
	<u>(6.6)</u>	<u>(2.5)</u>
Attributable to		
Discontinued operations (Note 8)	<u>(6.6)</u>	<u>(2.5)</u>
	<u>(6.6)</u>	<u>(2.5)</u>

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 income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

**17 OTHER ASSETS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Amounts due from parent company and fellow group undertakings	1.4	44.0
Amounts due from subsidiaries	-	0.2
Prepayments and accrued income	-	3.5
Other	-	7.0
	<u>1.4</u>	<u>54.7</u>

**18 DEPOSITS FROM OTHER BANKS**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Deposits from other banks	-	32.0
Due to parent company and fellow group undertakings	-	21,559.5
Due to subsidiaries	-	51.6
	<u>-</u>	<u>21,643.1</u>

All deposits from other banks at 31 March 2007 had variable interest rates.

As a result of the corporate restructure (see Note 7) deposits from other banks have been transferred to other statutory entities within the Bank of Ireland Group.

**19 SUBORDINATED LIABILITIES**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Undated Loan Capital</b>		
13 <sup>3</sup> / <sub>8</sub> % Perpetual Subordinated Bonds	-	123.9
<b>Dated Loan Capital</b>		
10 <sup>3</sup> / <sub>4</sub> % Subordinated Bonds 2018	-	72.4
3 month LIBOR +42 bps Subordinated Loan 2014	-	105.0
3 month LIBOR +35 bps Subordinated Loan 2014	-	60.0
3 month LIBOR +35 bps Subordinated Loan 2016	-	80.0
Less: unamortised issue costs	-	(0.4)
	<u>-</u>	<u>317.0</u>
	<u>-</u>	<u>440.9</u>

As a result of the corporate restructure on 1 October 2007 (see Note 7), the subordinated bonds and subordinated loans were transferred to The Governor and Company of Bank of Ireland at their book value.

The undated and dated bonds are stated at amortised cost.

Prior to 31 March 2007 the Dated 10<sup>3</sup>/<sub>4</sub>% Subordinated Bonds were hedged and the bonds revalued in accordance with hedge accounting. During the year to 31 March 2007 the Dated 10<sup>3</sup>/<sub>4</sub>% Subordinated Bonds hedging derivatives were terminated at market price and the bonds were subsequently accounted for at amortised cost.

The 13<sup>3</sup>/<sub>8</sub> % Perpetual Subordinated Bonds had a nominal value of £75m. The bonds were fair valued to £123.9m in 1997 on acquisition and subsequently held at this revised amortised cost.

The subordinated liabilities were redeemable in whole, at the option of the Company, in the event of certain tax changes affecting the treatment of payments of interest on capital securities in the UK, and provided prior relevant supervisory consent had been obtained and adequate notice given, at their principal amount plus accrued interest to the date of redemption.

**19 SUBORDINATED LIABILITIES (continued)**

In addition, the £105m Subordinated Loan 2014, the £60m Subordinated Loan 2014 and the £80m Subordinated Loan 2016 could have been repaid in part or in whole, provided prior relevant supervisory consent had been obtained and adequate notice had been given, on interest payment dates being dates falling after 27 February 2009, 27 July 2009 and 31 July 2011 respectively. All of these subordinated loans were with The Governor and Company of Bank of Ireland as at 31 March 2007.

The Company's loan capital was all denominated in sterling and any claims in respect of it were subordinated to the claims of all other creditors of the issuer.

Interest payable for the period to 1 October 2007 in respect of the subordinated liabilities was £16.7m (2007: £30.8m) and is included in discontinued results. Issue expenses incurred in connection with the issue of subordinated debt were deducted from the proceeds of the issue and amortised to the Income Statement.

**20 DUE TO CUSTOMERS**

	<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
	<u>-</u>	<u>3,593.1</u>

The Company 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 restructure (see Note 7) amounts due to customers were transferred to The Governor and Company of Bank of Ireland.

**21 DEBT SECURITIES IN ISSUE**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Issue costs associated with Brunel mortgage-backed floating rate notes	<u>-</u>	<u>(1.6)</u>

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 12, 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 Bank of Ireland.

**22 OTHER BORROWED FUNDS**

	<b>Rate</b> %	<b>2008</b> £m	<b>2007</b> £m
Preference shares	8.125	<u>32.6</u>	<u>78.6</u>

As part of the corporate restructure (see Note 7) on 1 October 2007, £46.0m 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 the Company to meet future dividend payments as they fall due.

The preference shares, which are non-redeemable, non-equity shares, rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of the Company.

Holders of the preference shares are entitled to receive, in priority to the holders of the ordinary shares in the Company, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. The preference dividend will only be payable to the extent that payment can be made out of profits available for distribution in accordance with the provisions of the Companies Act 1985.

In the event of the winding up of the Company, holders of preference shares will be entitled to receive, out of the surplus assets remaining after payment of the Company's liabilities, an amount equal to the amount paid up or credited as paid up on the preference shares, together with the preference dividend (whether or not declared or earned) which would be payable and is not otherwise paid in cash on a dividend payment date which falls on or after the date of commencement of the winding up but which is payable in respect of a dividend period ending on or before such date; and the proportion (whether or not declared or earned) of the preference dividend that would otherwise be payable and is not otherwise paid in cash in respect of any period that begins before, but ends after, the date of commencement of the winding up and which is attributable to the part of the period that ends on such date.

With respect to the amounts payable or repayable in the event of a winding up of the Company, preference shares will rank equally amongst themselves as regards participation in surplus assets and otherwise in priority to the ordinary shares of the Company. Holders of the preference shares will not otherwise be entitled to any further or other right of participation in the assets of the Company upon a winding up.

Holders of the preference shares will be entitled to receive notice of and to attend any general meeting of the Company if a resolution is proposed varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the preference shares or for, or in relation to, the winding up of the Company.

In addition, if the preference dividend has not been paid in full on the dividend payment date immediately preceding the date of notice of any general meeting of the Company, holders of the preference shares will be entitled to receive notice of and attend that general meeting, and to speak and vote on all resolutions proposed at that general meeting.

**23 OTHER LIABILITIES**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Income tax	-	2.6
Finance leases	-	0.2
Amounts due to parent company and fellow group undertakings	-	303.5
Amounts due to subsidiaries	-	5,521.7
Accruals and deferred income	1.0	38.4
Other	1.8	43.3
	<u>2.8</u>	<u>5,909.7</u>

Amounts due to subsidiaries primarily related to balances with securitisation special purpose entities (see Note 12).

**24 PROVISIONS**

	<b>Branch disposal costs £m</b>	<b>Property costs £m</b>	<b>Other £m</b>	<b>Total £m</b>
At 1 April 2007	8.2	7.4	9.0	24.6
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)	(0.3)	(4.9)
Transfer of business (Note 7)	(5.1)	(2.5)	(8.3)	(15.9)
At 31 March 2008	<u>-</u>	<u>-</u>	<u>0.7</u>	<u>0.7</u>

As a result of the corporate restructure (see Note 7), the majority of provisions balances were transferred to other entities with the Bank of Ireland Group.

**25 RETIREMENT BENEFIT OBLIGATIONS**

As a result of the corporate restructure all employee contracts of employment with the Company were amended to reflect a change of employer to The Governor and Company of Bank of Ireland. Consequently the disclosure provided below in respect of the current financial year is only for the period to 1 October 2007.

Until the corporate restructure the Company operated three pension schemes for its employees, one defined benefit scheme and two defined contribution schemes. With effect from this date the contracts of employment of the Company's employees were transferred to The Governor and Company of Bank of Ireland which became the Principal Employer in relation to these schemes. The Company made a one-off contribution of £22.1m in September 2007 and Bank of Ireland purchased a Stand-by Letter of Credit, providing the Scheme with alternative security to that provided under the Pension Protection Fund which, under a lacuna in current legislation, ceased from 1 October 2007. The Scheme Trustees and Bank of Ireland agreed to review the Stand-by Letter of Credit annually on 31 March.

The pension charge for the period to 1 October 2007 in respect of the defined benefit scheme was £0.4m (2007: £2.5m). £0.1m (2007: £0.4m) of this charge was recovered from other contributing Bank of Ireland companies. The cost of the defined contribution schemes was £nil (2007: £0.1m). The Company also paid contributions of £0.1m (2007: £0.3m) and £0.4m (2007: £nil) into Bank of Ireland defined benefit and defined contribution schemes not operated by the Company.

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**25 RETIREMENT BENEFIT OBLIGATIONS (continued)****IAS 19 Pension Disclosures:**

<b>Financial assumptions (Weighted average)</b>	<b>Period to 1 October 2007 % pa</b>	<b>Twelve months to 31 March 2007 % pa</b>
Inflation rate	3.25	3.00
Discount rate	5.70	5.30
Rate of general increase in salaries	4.75	4.50
Rate of increase in pensions in payment	2.35-3.25	2.30-3.00
Rate of increase to deferred pensions	3.25-3.75	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 deferreds and PMA92/PFA92 (c=2000) for pensioners. These tables have been adjusted to allow for any regional differences (where appropriate).

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:

	<b>2008</b>		<b>2007</b>	
	<b>Expected long term rate of return %</b>	<b>Fair Value £m</b>	<b>Expected long term rate of return %</b>	<b>Fair Value £m</b>
<b>Assets</b>				
Equities	-	-	7.90	146.1
Bonds	-	-	5.10	64.0
Other	-	-	4.00	1.0
Total fair value of scheme assets	-	-	7.00	211.1
<b>Liabilities</b>	<b>Discount Rate %</b>		<b>Discount Rate %</b>	
Actuarial value of liabilities of funded schemes	-	-	5.30	(233.2)
Actuarial value of liabilities of unfunded schemes	-	-	5.30	(4.0)
		-		(237.2)
<b>Net pension deficit</b>		-		(26.1)

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

<b>Components of pension expenses</b>	<b>2008 £m</b>	<b>2007 £m</b>
Current service cost	1.7	4.1
Expected return on pension scheme assets	(7.5)	(13.0)
Interest on pension scheme liabilities	6.2	11.4
<b>Cost of providing defined retirement benefits</b>	<b>0.4</b>	<b>2.5</b>

**25 RETIREMENT BENEFIT OBLIGATIONS (continued)**

<b>Actual return on scheme assets</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Expected return on scheme assets	7.5	13.0
Experience (loss) / gain on scheme assets	(0.7)	1.0
<b>Actual return on scheme assets</b>	<b>6.8</b>	<b>14.0</b>

<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	237.2	233.5
Current service cost	1.7	4.1
Actual member contributions	0.5	0.9
Interest cost	6.2	11.4
Actuarial gain	(9.3)	(5.7)
Benefits paid	(3.6)	(7.0)
Transfer of benefit obligation to Bank of Ireland Group (Note 7)	(232.7)	-
<b>Defined benefit obligation at end of year</b>	<b>-</b>	<b>237.2</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	211.2	190.0
Expected return on assets	7.5	13.0
Actual member contributions	0.5	0.9
Actuarial (loss) / gain	(0.7)	1.0
Contributions by employer		
Planned at start of the year	6.2	13.0
Additional to remove deficit	22.1	-
As benefits	0.1	0.2
Benefits paid	(3.6)	(7.0)
Transfer of scheme assets to Bank of Ireland Group (Note 7)	(243.3)	-
	<b>-</b>	<b>211.1</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	(0.7)	1.0
Experience gain on scheme liabilities	-	0.1
Actuarial gain on change of assumptions (financial and demographic)	9.3	5.6
<b>Total gains recognised in SORIE during the year</b>	<b>8.6</b>	<b>6.7</b>

<b>Cumulative amount of gains recognised in SORIE to the end of year</b>	<b>8.9</b>	<b>0.3</b>
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<b>History of experience gains and losses</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Experience (loss) / gain on scheme assets:		
Amount	(0.7)	1.0
Percentage of scheme assets	-	0.5%
Experience gain on scheme liabilities:		
Amount	-	0.1
Percentage of scheme assets	-	0.0%
Total actuarial (loss) / gain recognised in SORIE:		
Amount	(0.7)	1.1
Percentage of scheme liabilities	-	0.5%

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**25 RETIREMENT BENEFIT OBLIGATIONS (continued)**

	2008	2007
	£m	£m
<b>Defined benefit pension plans</b>		
Present value of funded and unfunded obligations	-	(237.2)
Scheme assets	-	211.1
<b>Deficit within schemes</b>	<u>-</u>	<u>(26.1)</u>

**26 SHARE CAPITAL**

	2008	2007
	£m	£m
<b>Authorised</b>		
86,857,500 units of ordinary shares of £0.50 each (2007: 700,000,000 units of ordinary shares of £0.50 each)	<u>43.4</u>	<u>350.0</u>
<b>Allotted and fully paid</b>		
100,000 units of ordinary shares of £0.50 each (2007: 613,242,500 units of ordinary shares of £0.50 each)	<u>0.1</u>	<u>306.6</u>

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

As part of the corporate restructure referred to in the Directors' report and explained in Note 7, on 1 October 2007 and in accordance with Section 135 of the Companies Act 1985 the Company reduced its authorised ordinary share capital from £350.0m to £43.4m, and reduced its issued ordinary share capital from £306.6m to £50,000 and repaid this to its parent company, Bank of Ireland UK Holdings plc.

**27 NOTES OF CHANGES IN EQUITY**

	Share Capital	Share premium	Revaluation reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m
<b>Company</b>					
Actuarial valuation of pension fund	-	-	-	6.7	6.7
Deferred tax on valuation of pension fund	-	-	-	(2.0)	(2.0)
Transfer of reserve following sale of property	-	-	(1.2)	1.2	-
Profit for the year	-	-	-	25.2	25.2
Recognised income and expense for the year	-	-	(1.2)	31.1	29.9
At 1 April 2006	<u>306.6</u>	<u>18.5</u>	<u>2.2</u>	<u>208.9</u>	<u>536.2</u>
At 31 March 2007	<u>306.6</u>	<u>18.5</u>	<u>1.0</u>	<u>240.0</u>	<u>566.1</u>
Actuarial valuation of pension fund	-	-	-	8.6	8.6
Deferred tax on valuation of pension fund	-	-	-	(2.6)	(2.6)
Transfer of reserve following sale of property	-	-	(1.0)	1.0	-
Profit for the year	-	-	-	12.8	12.8
Recognised income and expense for the year	-	-	(1.0)	19.8	19.8
Dividend received on ordinary shares	-	-	-	222.3	222.3
Dividend paid on ordinary shares (Note 29)	-	-	-	(395.2)	(395.2)
Cancellation and repayment of share premium	-	(18.5)	-	-	(18.5)
Capital reduction and repayment of equity shares (Note 26)	(306.5)	-	-	-	(306.5)
Total recognised changes in equity	<u>(306.5)</u>	<u>(18.5)</u>	<u>(1.0)</u>	<u>(153.1)</u>	<u>(479.1)</u>
At 31 March 2007	<u>306.6</u>	<u>18.5</u>	<u>1.0</u>	<u>240.0</u>	<u>566.1</u>
At 31 March 2008	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>86.9</u>	<u>87.0</u>

**27 NOTES OF CHANGES IN EQUITY (continued)****Share premium**

This comprises the premium arising on the issue of all equity shares.

On 1 October 2007, in accordance with Section 135 of the Companies Act 1985, the Company cancelled its share premium and repaid it to its parent company, Bank of Ireland UK Holdings plc.

**Revaluation reserve**

This comprises the revaluation of property to market value. As part of the corporate restructure referred to in Note 7, the remaining balance on the revaluation reserve was transferred to other statutory entities within the Bank of Ireland Group following the transfer of the property to which it related.

**Profit and loss account**

Profit and loss account reserves comprise accumulated retained profits.

**28 FINANCIAL RISK MANAGEMENT**

As a consequence of the corporate restructure referred to in the Directors report and in more detail in Note 7, financial risk associated with the Company significantly reduced following the transfer of its business on 1 October 2007 to The Governor and Company of Bank of Ireland and other Bank of Ireland Group entities.

The table below shows the carrying amount of financial assets and liabilities by balance sheet heading and by category.

**At 31 March 2008**

	Loans and receivables £m	Held at amortised cost £m	Total £m
<b>Financial assets</b>			
Loans and advances to banks	129.3	-	129.3
<b>Financial liabilities</b>			
Other borrowed funds	-	32.6	32.6

## 28 FINANCIAL RISK MANAGEMENT (continued)

At 31 March 2007	At fair value through profit or loss		Loans and receivable s £m	Held at amortised cost £m	Total £m
	Designated upon initial recognition £m	Held for trading £m			
<b>Financial assets</b>					
Debt securities	-	120.5	-	-	120.5
Derivative financial instruments	-	130.5	-	-	130.5
Loans and advances to banks	-	-	7,953.6	-	7,953.6
Loans and advances to customers	-	-	23,452.4	-	23,452.4
<b>Total</b>	<b>-</b>	<b>251.0</b>	<b>31,406.0</b>	<b>-</b>	<b>31,657.0</b>
<b>Financial liabilities</b>					
Deposits from other banks	-	-	-	21,643.1	21,643.1
Derivative financial instruments	-	65.0	-	-	65.0
Due to customers	394.4	-	-	3,198.7	3,593.1
Debt securities in issue	-	-	-	(1.6)	(1.6)
Subordinated liabilities	-	-	-	440.9	440.9
Other borrowed funds	-	-	-	78.6	78.6
<b>Total</b>	<b>394.4</b>	<b>65.0</b>	<b>-</b>	<b>25,359.7</b>	<b>25,819.1</b>

The Company's financial instruments comprised lending and savings products that arose in the course of the Company's ordinary activities, supported by wholesale financial instruments for funding, investment and regulatory purposes; these instruments included deposits, corporate and sovereign 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 Company's financial instruments were credit risk, liquidity risk, market risk, and operational risk. The Company had minimal residual foreign currency exposure.

**Credit Risk**

Credit risk reflects the risk that a counter-party will be unable to meet its contractual obligations to the Company in respect of loans or other financial transactions thereby causing the Company to incur a loss. Due to the corporate restructure the methods of process, control and measurement have varied. The Company's exposure to credit risk was 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 were 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 defined in greater detail the credit approach appropriate to the units concerned, taking account of the markets in which they operated and the products they provided. Procedures for the approval and monitoring of exceptions to policy were clearly set out in each document. In a number of cases these unit policies were supplemented by Sectoral Credit Policies.

**28 FINANCIAL RISK MANAGEMENT (continued)**

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

*Lending Authorities*

The Company had a credit risk management system that operated through a hierarchy of authorities that were related to internal loan ratings. All exposures above certain levels required approval by the Bank of Ireland Group Credit Committee. Exposures below the Credit Committee's authority were approved according to a system of tiered authorities. Individuals were 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 were 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 included Heads of Divisions, Senior Executives and the Bank of Ireland Group Credit Committee. Existing credit risk was reviewed periodically with lower quality exposures subject to greater intensity of supervision and management.

*Rating Methodologies*

The use of credit rating models, which measured the degree of risk inherent in lending to specific counterparties, was central to Credit Risk Management within the Company.

The primary measures by which credits were assessed were probability of default (PD), exposure at default (EAD) and loss given default (LGD) metrics. These measures reflected the Bank of Ireland Group's expected loss (EL) model. The EL model combined 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 Company expected 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 were fully embedded in the Company'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 were used, together with expert judgment, to rate credit risk exposures. Statistical scoring techniques were used to assess the quality of consumer loans, both at the application stage and for ongoing portfolio management.

The scoring system was continuously refined and validated to ensure that all new and existing lending met predefined criteria, which ensured that the level of risk incurred is acceptable to the Company. Risk modelling was also applied at portfolio level in the Company'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 was to allow the Company to further integrate the advances in credit risk measurement into pricing for credit risk and advanced portfolio management.

An Independent Control Unit validated risk rating models to ensure that they were compliant with Basel II requirements. This unit reported 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 Company.

*Settlement risk*

Settlement risk arose 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 were established for each counterparty to cover the aggregate of all settlement risks that arose from the Company's market transactions on any single day.

**28 FINANCIAL RISK MANAGEMENT (continued)***Credit related commitments*

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

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

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

Letters of Offer: Where the Company 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 was assessed and recorded. The likely amount of loss was considerably less than the face value of offer letters, as not all offers were accepted. In some businesses, the value of offer letters expected to result in loan drawdowns was assessed statistically.

*Collateral*

Credit risk mitigation techniques included the requirement to obtain collateral as set out in the Company's policies and procedures. The nature and level of security required from a borrower depended upon:

- Extent of the exposure
- Type of facility provided
- Term of the facility
- Borrower's own cash input
- Evaluation of the level of risk and probability of default.

**Credit Risk Mitigation**

The Company mitigated 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 was undertaken for all credit requests.

*Limits*

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

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

- Residential and commercial real estate
- Other collateral (debtors, guarantees, insurance, etc.)

Collateral that met the eligibility criteria set out in the Credit Risk Mitigation appendix of the Capital Requirements Directive was used in the calculation of the Company's Credit Risk Weighted Assets.

**28 FINANCIAL RISK MANAGEMENT (continued)***Derivatives*

In managing its credit risk, the Company made use of a bilateral agreement called a credit default swap that transferred risk to a third party. Under this agreement the Company made 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 Company following a specified credit event.

*Securitisations*

The Company made some use of securitisation vehicles for its residential mortgages.

*Credit risk avoidance*

The Company chose 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 have lead to increased volatility in the Company's expected outcomes. The avoidance of risk concentrations was therefore a fundamental cornerstone of the Company's approach to risk management. It was the policy of the Company 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 were 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 was 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 Company 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, were regularly reviewed for objective evidence of impairment; where such evidence of impairment exists, the exposure was measured for an impairment provision.

**28 FINANCIAL RISK MANAGEMENT (continued)**

The criteria used to determine that there was 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 were created where there was a shortfall between the amount of the Company's exposure and the likely recoverable amount. The recoverable amount was calculated by discounting the value of expected future cash flows by the exposure's original effective interest rate.

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

All units regularly reviewed and confirmed 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**

Loans and advances were only renegotiated for commercial purposes, where there was evidence of the continuing ability of the client to meet payment obligations. Renegotiation of facilities that would otherwise be past due or impaired in the financial year was not a standard practice. No significant renegotiations have taken place in either the current or preceding year.

**Maximum Exposure to credit risk before collateral held or other credit enhancements**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Loans and advances to banks	129.3	7,953.6
Loans and advances to customers	-	23,461.9
Committed loan facilities (off balance sheet)	-	1,325.5
Total	<u>129.3</u>	<u>32,741.0</u>

The above table represents a worst case scenario of credit risk exposure to the Company, without taking account of any collateral held or other credit enhancements attached. As seen above the main asset class is 'loans and advances to customers' (principally mortgages). Loans and advances to banks relate to Bank of Ireland Group entities.

**Loans and Advances**

Loans and advances to banks (Note 9) are, and loans and advances to customers (Note 10) were the main classes of financial assets that the Company is / was exposed to from a credit risk perspective. The tables below provide further details in relation to loans and advances.

**28 FINANCIAL RISK MANAGEMENT (continued)****Loans and advances to Customers**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Good book	-	22,919.9
Past due	-	470.8
Impaired	-	71.2
Total	<u>-</u>	<u>23,461.9</u>

*Loans and advances to customers neither impaired nor past due*

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Good Quality	<u>-</u>	<u>22,919.9</u>

Loans and advances were deemed to be 'Good Quality' if the accounts did not have any amount outstanding as arrears.

*Loans and advances to customers past due but not impaired*

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Past due 1 - 30 days	-	372.9
Past due 31 - 60 days	-	64.9
Past due 61- 90 days	-	33.0
Total	<u>-</u>	<u>470.8</u>

Loans and advances less than or equal to 90 days past due were not considered impaired unless other information was available to indicate the contrary.

*Loans and advances to customers impaired balances.*

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Impaired balances	<u>-</u>	<u>71.2</u>

Impaired balances included accounts that were greater than 90 days in arrears and account balances on which a specific provision had been raised.

Included within interest income is £2.1m (2007: £3.2m) in respect of impaired loans and advances to customers.

**Loans and Advances to Banks**

The total gross amount of impaired loans and advances to banks as at 31 March 2008 was £nil (2007: £nil). All loans and advances to banks are with Group entities of The Governor and Company of Bank of Ireland.

**28 FINANCIAL RISK MANAGEMENT (continued)****Reposessed Collateral**

The Company had possession of collateral held as security (at carrying value) as follows:

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Nature of asset:		
Residential Mortgages	-	17.5

Reposessed property was sold as soon as practicable, with the proceeds used to reduce indebtedness.

**Concentration of risks of financial assets with credit risk exposure***Geographical sectors*

The Company's credit exposure was entirely within the UK.

*Industry sectors*

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Loans and Advances to Banks		
- Financial Institutions	129.3	7,953.6
Loans and Advances to Customers		
- Mortgages	-	23,461.9
Total	<u>129.3</u>	<u>31,415.5</u>

**Liquidity Risk**

Liquidity risk is the risk that a credit institution will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity distress is almost invariably associated with a severe deterioration in financial performance or from unexpected adverse events or systemic difficulties. Prior to the corporate restructure the Company had in place a risk management framework to manage that risk.

The Board of Directors approved a funding policy for the business that permitted funding via the use of residential mortgage backed securities, deposit taking and borrowing from the Bank of Ireland Group. Changes to the funding policy required the prior approval of the Board of Directors of the Company and had to be in compliance with the Bank of Ireland Group policy.

It was Company policy to ensure that resources were available during all reasonably foreseeable circumstances to meet its obligations. Up to the corporate restructure on 1 October 2007 obligations included those arising from customer asset expansion and withdrawal of customer demand, notice or term deposits. Development, implementation and monitoring of this policy was the responsibility of the Asset and Liability Committee.

Liquidity was held in the form of Eurobond reverse repurchase agreements in order to meet regulatory requirements. The Company also held a portfolio of supplementary liquidity which was generally realisable within a short period of time. Daily cash needs were met by The Governor and Company of Bank of Ireland and by general overdraft facilities. The term structure of wholesale borrowings was managed in conjunction with liquidity risk management.

## 28 FINANCIAL RISK MANAGEMENT (continued)

A cash flow mismatch approach was used to determine the level of liquidity required to meet the Company's obligations. When measuring liquidity risk, contractual cash flows were adjusted to reflect behavioural characteristics of assets and the sensitivity of liabilities to credit and interest rate risks.

The table below analyses liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the undiscounted contractual maturity date. In line with the requirements of IFRS 7, the liabilities table below shows principal balances and undiscounted interest cashflows over the life of the liabilities. It excludes non cash items such as fair value adjustments. Eliminating these adjustments would result in agreement with the balance sheet on page 15. Where subordinated loan funding is undated projected interest flows have only been included for one year. Cashflows associated with derivatives are undiscounted cashflows anticipated over the life of the derivatives based on interest and foreign exchange rates as at year end. Derivative cash flows are included for the pay leg of gross settled contracts and for net settled contracts with negative fair values.

The tables below shows customer accounts in the demand period 0 to 3 months by their contractual maturity; however, the Company would not anticipate an outflow of this level given the past history on the accounts. The Company managed its liquidity based on assumptions concerning the behavioural flows on these accounts, which would have been longer than represented on the table below.

## At 31 March 2008

Liabilities	Demand £m	Within 3 months £m	After 3 months but within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Undated £m	Total £m
Other borrowed funds	-	1.3	1.3	-	-	32.6	35.2
Total liabilities	-	1.3	1.3	-	-	32.6	35.2

## At 31 March 2007

Liabilities	Demand £m	Within 3 months £m	After 3 months but within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Undated £m	Total £m
Deposits by banks	-	4,920.3	4,343.7	12,774.7	1,960.0	-	23,998.7
Derivative financial instruments	-	5.8	16.9	52.1	0.2	-	75.0
Due to customers	2,053.6	762.4	404.4	499.6	14.6	-	3,734.6
Subordinated liabilities	-	16.7	16.1	89.0	397.9	75.0	594.7
Other borrowed funds	-	3.2	3.2	-	-	78.6	85.0
Committed loan facilities	1,085.3	-	-	-	-	-	1,085.3
Total liabilities	3,138.9	5,708.4	4,784.3	13,415.4	2,372.7	153.6	29,573.3

**28 FINANCIAL RISK MANAGEMENT (continued)****Market Risk**

Market risk is the potential adverse change in Company income or the value of the Company net worth resulting from movements in interest rates or other market prices and arose from the structure of the balance sheet.

Following the corporate restructure on 1 October 2007 the Company's exposure to market risk is insignificant.

Prior to that date the Company recognised that the effective management of market risk was essential to the maintenance of stable earnings, the preservation of shareholder value and the achievement of the Company's corporate objectives.

The Company considered that the three most significant aspects of market risk for the Company were interest rate risk, equity risk and foreign currency risk. These are discussed in detail below.

The Company's exposure to market risk was governed by policy approved by the Board of Directors. This policy set 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 was assigned by the Board of Directors. Compliance with this structure was monitored by the Asset and Liability Committee. Reports were reviewed monthly showing the Company's exposure to market risk. Market risk management was 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 Company'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.

The limit structure within which interest rate risk was managed was based upon the expected loss in fair value arising from a 1% shift in interest rates and option volatility. The effect on the Company fair value at 31 March that such an interest rate shift would produce is shown below.

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
1% increase	-	(0.2)
1% decrease	-	1.0

*Equity risk*

Up until the corporate restructure on 1 October 2007, the Company 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 Company's policy was to eliminate such risks by means of an equity swap arrangement, save for a very small limit on unmatched exposures.

**28 FINANCIAL RISK MANAGEMENT (continued)**

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 Company to performance of stock market indices was not significant.

*Currency risk*

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

The Company 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 Company as at 31 March 2008.

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

**Operational Risk**

Operational risk is the risk that human error, systems failure, and inadequate controls and procedures will result in unexpected loss. Following the corporate restructure on 1 October 2007 the remaining operational risk exposure in the Company is not thought to be significant. The Company's exposure to operational risk was governed by the Bank of Ireland Operational Risk Committee. The Company operated measures of risk identification, assessment and monitoring as were necessary to ensure that Operational Risk management was consistent with the approach, aims and strategic goals of the Company and the Bank of Ireland Group.

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

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

**Capital Management**

The objectives of the Company's capital management policy were to:

- Align capital management within the Company to the strategy of the Company and that of the Bank of Ireland Group.
- Achieve the optimal mix of capital to meet the Company's regulatory requirements and rating ambitions.
- Manage capital ensuring that capital is only invested in business meeting or exceeding the Bank of Ireland Group's hurdle rates.

Up to the corporate restructure on 1 October 2007 the Company, in managing its capital, used as its basis, the capital adequacy requirements set by the Financial Services Authority which reflected the requirements as set out in the Capital Requirements Directive and its preceding directives. It sought to maintain sufficient capital to ensure that even under stressed conditions that these requirements are not breached.

**28 FINANCIAL RISK MANAGEMENT (continued)**

The Company's capital includes the Company's equity stockholders' funds (subject to regulatory adjustments) together with preference share capital and, up to the corporate restructure on 1 October 2007, dated and undated subordinated debt. The regulatory capital requirements and actual capital held were compared to the risk weighted assets of the Company.

The Company met its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the Financial Services Authority. Should it have been necessary the Bank of Ireland Group had an agreement in place with the Company to meet any capital shortfalls. The Bank of Ireland Group stress tested the capital held within the Company to ensure that under stressed conditions that the Company continued to comply with regulatory minima ratios.

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

The Company had a portfolio approach to its businesses to ensure that optimum returns were targeted and earned with strategy focused on ensuring growth in value enhancing activities. New lending activity and transactions were subject to RAROC (Risk Adjusted Return on Capital) return criteria.

The following table sets out the Company's capital resources:

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Equity	87.0	566.1
Preference shares (Note 22)	32.6	78.6
Dated loan capital (Note 19)	-	123.9
Undated loan capital (Note 19)	-	317.0
Total capital resources	<u>119.6</u>	<u>1,085.6</u>

Note: During the year the total capital resources of the Company decreased by £966.0m as a result of the corporate restructure (see Note 7).

Up to the corporate restructure on 1 October 2007 the Company complied with all externally required capital requirements. Included in regulatory capital is investment share capital, revenue reserves, revaluation reserves, subordinated debt capital and provisions for impairment.

**Fair values of Financial Assets and Liabilities**

Full explanation of accounting treatment of Financial Instruments into amortised cost and fair value (whether at initial recognition or as held for trading) can be found at Note 1.7 'Accounting Policies'.

The following table represents the fair value and carrying value of financial assets and liabilities:

		<b>2008</b>		<b>2007</b>	
		<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
		<b>value</b>	<b>value</b>	<b>value</b>	<b>value</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets</b>					
Debt securities		-	-	120.5	120.5
Loans and advances to banks	(1)	129.3	127.4	7,953.6	7,901.9
Loans and advances to customers	(2)	-	-	23,452.4	23,417.5
Total		<u>129.3</u>	<u>127.4</u>	<u>31,526.5</u>	<u>31,439.9</u>

## 28 FINANCIAL RISK MANAGEMENT (continued)

		2008		2007	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Financial liabilities</b>					
Deposits from other banks	(3)	-	-	21,643.1	21,480.6
Due to customers	(4)	-	-	3,593.1	3,591.7
Debt securities in issue	(5)	-	-	(1.6)	(1.6)
Subordinated liabilities	(6)	-	-	440.9	512.9
Other borrowed funds		32.6	34.7	78.6	103.5
Total		32.6	34.7	25,754.1	25,687.1

**Change in credit risk of loans and receivables**

The change in fair value of loans or receivables attributable to change in underlying credit risk amounts to £nil (2007: £nil) in the year and £nil (2007: £nil) cumulatively.

The change in the fair value of loans and receivables attributable to credit risk is determined as the amount of the change in fair value not attributable to market conditions that give rise to market risk.

**Financial liabilities designated at fair value**

The contractual undiscounted amount that will be required to be paid at maturity of the customer accounts designated at fair value through profit and loss is £nil (2007: £344.0m).

The following notes summarise the methods and assumptions used in estimating the fair values of financial instruments shown above;

## (1) Loans and Advances to Banks

This includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is estimated to be not materially different from its carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates.

## (2) Loans and Advances to Customers

Loans and advances were net of provisions for impairment. The fair value of floating rate loans and advances was estimated to be not materially different from its carrying amount. The estimated fair value of fixed and capped rate loans and advances represented the estimated amounts of future cash flows to be received, discounted at current market rates. Assumptions on early repayment of loans and advances were incorporated in the fair value.

## (3) Deposits from other Banks

These were largely placements from The Governor and Company of Bank of Ireland, the ultimate parent company. The fair value of floating rate borrowings was estimated to be not materially different from its carrying amount. The estimated fair value of fixed interest bearing borrowings was based on discounted cash flows using prevailing money market interest rates.

## (4) Due to Customers

The Company provided customer accounts of varying rates to personal customers. Fair values were estimated for portfolios of accounts with similar financial characteristics. Accounts were segregated by type; each account category was further segmented into fixed and variable rate interest terms. The carrying amount of variable rate accounts was considered to be at market rate. The fair value of fixed rate accounts was estimated by discounting future cash flows.

## (5) Debt Securities in Issue

These were the issue costs of mortgage backed floating rate notes issued through securitisation.

**28 FINANCIAL RISK MANAGEMENT (continued)**

(6) Subordinated Liabilities

The fair value of floating rate debt was estimated to be not materially different from its carrying amount. The fair value of fixed rate debt was calculated using quoted market prices.

The fair value of financial assets and liabilities is based on the following assumptions:

**At 31 March 2008**

	<b>Quoted prices £m</b>	<b>Non- observable inputs £m</b>	<b>Face value £m</b>	<b>Total £m</b>
<b>Financial assets</b>				
Loans and advances to banks	-	65.0	62.4	127.4
Total	-	65.0	62.4	127.4
<b>Financial liabilities</b>				
Other borrowed funds	34.7	-	-	34.7
Total	34.7	-	-	34.7

**At 31 March 2007**

	<b>Quoted prices £m</b>	<b>Non- observable inputs £m</b>	<b>Face value £m</b>	<b>Total £m</b>
<b>Financial assets</b>				
Debt securities	120.5	-	-	120.5
Loans and advances to banks	-	7,758.0	143.9	7,901.9
Loans and advances to customers	-	16,708.5	6,709.0	23,417.5
Total	120.5	24,466.5	6,852.9	31,439.9
<b>Financial liabilities</b>				
Deposits from other banks	-	21,271.0	209.6	21,480.6
Due to customers	-	3,591.7	-	3,591.7
Debt securities in issue	-	-	(1.6)	(1.6)
Subordinated liabilities	267.9	-	245.0	512.9
Other borrowed funds	103.5	-	-	103.5
Total	371.4	24,862.7	453.0	25,687.1

**Derivative Financial Instruments**

Prior to the corporate restructure on 1 October 2007 the Company used derivative instruments for the purposes of hedging credit risk and different forms of market risk. A derivative is an agreement that defines certain financial rights and obligations that are contractually linked to interest rates, exchange rates or other market prices. Derivatives allowed the Company to modify the currency, credit, re-pricing and maturity characteristics of assets and liabilities in order to manage market risk and to limit counterparty credit exposures in an efficient and cost-effective manner. The Company held no derivatives financial instruments following the corporate restructure on 1 October 2007.

The Company's derivative activities were governed by policies approved by the Board of Directors. These policies related to the management of the various types of risk associated with derivatives including market risk and credit risk. Any material change in the nature of the Company's derivatives business was subject to Board approval.

**28 FINANCIAL RISK MANAGEMENT (continued)****At 31 March 2007**

	<b>Notional £m</b>	<b>Positive Fair Value £m</b>	<b>Negative Fair Value £m</b>
Foreign exchange derivatives	121.6	1.7	0.5
Interest rate derivatives	1,639.0	3.5	0.1
Credit derivatives	38.0	-	0.1
Equity derivatives	420.2	125.3	64.3
Total derivatives	<u>2,218.8</u>	<u>130.5</u>	<u>65.0</u>

As at 31 March 2007 £130.5m of fair valued derivative assets and £64.9m of fair valued derivative liabilities were with The Governor and Company of Bank of Ireland and fellow group undertakings.

All derivatives were carried as assets when the fair value was positive, as liabilities when fair value was negative and included amounts for associated interest and fees.

According to IFRS 7, all derivatives not in an effective hedge relationship are classed as held for trading. All the derivatives listed above fall into this category.

**Post corporate restructure financial risk management**

As a result of the corporate restructure referred to in Note 7, the principal risks of the Company were substantially reduced and at 31 March 2008 only relate to the limited non-operational assets and liabilities that remain in the Company.

**29 DIVIDENDS**

	<b>2008 £m</b>	<b>2007 £m</b>
<b>Equity shares</b>		
On units of £0.50 ordinary shares in issue:		
Interim dividend 11.44p (2007: £nil)	70.0	-
Interim dividends paid after the reduction in issued share capital £3,252 (2007: £nil)	<u>325.2</u>	<u>-</u>
	<u>395.2</u>	<u>-</u>

**30 CONTINGENT LIABILITIES AND COMMITMENTS**

The Company's commitments to lend at 31 March 2008 totalled £nil (2007: £1,085.3m) following the transfer of the related mortgage book (see Note 7).

Unfunded pension commitments in respect of past directors (which were transferred as part of the corporate restructure on 1 October 2007, see Note 7) were:

Provided £nil (2007: £4.0m).

Unprovided £nil (2007: £nil).

**Assets pledged**

Prior to their transfer as part of the corporate restructure on 1 October 2007 (see Note 7), mandatory reserve deposits were held with local central banks in accordance with statutory requirements. These deposits were not available to finance the Company's day to day operations.

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Balances with central banks	<u>-</u>	<u>32.0</u>

**Finance lease commitments**

The maturity of obligations under finance leases is as follows:

	<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>-</u>
	<u>-</u>	<u>0.2</u>

The amount of interest receivable on finance leases was £nil (2007: £nil).

**Operating lease commitments**

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

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Leases expiring:</b>		
No later than 1 year	-	5.0
Later than 1 year and no later than 5 years	-	17.3
Later than 5 years	<u>-</u>	<u>13.9</u>
	<u>-</u>	<u>36.2</u>

As a result of the corporate restructure (see Note 7) both finance and operating lease commitments were transferred to other statutory entities within the Bank of Ireland Group.

**31 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 Company, which for the Company is the Divisional Executive Committee of Bristol & West plc together with its executive directors and non-executive directors.

The table below details, on an aggregated basis, key management personnel compensation. This contains compensation up to and including 1 October 2007. After this date, directors and key management personnel of the Company ceased to be paid by the Company.

	<b>Directors and key management personnel</b>	
	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Staff costs</b>		
Salaries and other short-term benefits	1.5	3.2
Post-employment benefits	0.1	0.2
Termination benefits	-	-
Share based payments	0.3	0.4
<b>Total</b>	<u>1.9</u>	<u>3.8</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 Company and its key management personnel.

Assets comprise loans and advances to banks (Note 9), loans and advances to customers (Note 10), other assets (Note 17) and derivatives (Note 28).

	<b>Directors and key management personnel</b>		<b>Parent</b>		<b>Fellow group undertakings</b>	
	<b>2008</b>	<b>2007</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>£m</b>	<b>£m</b>
<b>Assets</b>						
At the beginning of the year	0.7	0.8	7,986.9	1,200.3	1.3	7.9
Net amount (repaid) / advanced	(0.3)	(0.1)	(201.4)	6,786.6	(0.2)	(6.6)
Transfer of business	(0.4)	-	(7,654.8)	-	(1.1)	-
At the end of the year	<u>-</u>	<u>0.7</u>	<u>130.7</u>	<u>7,986.9</u>	<u>-</u>	<u>1.3</u>
Interest income	<u>-</u>	<u>-</u>	<u>215.9</u>	<u>82.8</u>	<u>-</u>	<u>-</u>

**Subsidiaries**

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Assets</b>		
At the beginning of the year	6,804.1	6,107.7
Net amount advanced	544.7	696.4
Transfers	(7,348.8)	-
At the end of the year	<u>-</u>	<u>6,804.1</u>
Interest income	<u>182.2</u>	<u>305.7</u>

**31 RELATED PARTY TRANSACTIONS (continued)**

Liabilities comprise deposits from other banks (Note 18), subordinated liabilities (Note 19), other liabilities (Note 23) and derivatives (Note 28).

	Parent		Fellow group undertakings	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Liabilities</b>				
At the beginning of the year	22,055.7	19,415.7	117.2	115.7
Net amount advanced / (repaid)	929.8	2,640.0	(5.9)	1.5
Transfer of business	(22,988.5)	-	(111.3)	-
At the end of the year	<u>-</u>	<u>22,055.7</u>	<u>-</u>	<u>117.2</u>
Interest expense	<u>567.2</u>	<u>980.8</u>	<u>1.9</u>	<u>1.9</u>
Net trading income receivable from parent or ultimate parent company	<u>6.3</u>	<u>18.6</u>	<u>(1.4)</u>	<u>(0.3)</u>

**Subsidiaries**

	2008 £m	2007 £m
<b>Liabilities</b>		
At the beginning of the year	5,573.3	53.8
Net amount (repaid) / advanced	(654.7)	5,519.5
Transfers	(4,918.6)	-
At the end of the year	<u>-</u>	<u>5,573.3</u>
Interest expense	<u>159.2</u>	<u>22.8</u>
Net trading income receivable from parent or ultimate parent company	<u>-</u>	<u>(1.3)</u>

Included within these liabilities are loans 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 33.

As a result of the corporate restructure (see Note 7), staff employed and associated costs were transferred to other statutory entities within the Bank of Ireland Group.

**32 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.

	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
Loans and advances to banks (Note 9)	<u>8.4</u>	<u>466.1</u>

Following the corporate restructure (see Note 7) the remaining loans and advances to banks have been made by the Company to ensure that it is in a position to meet its liabilities as they fall due, including future dividends to preference shareholders.

**33 DIRECTORS EMOLUMENTS**

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

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
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 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).

**34 SHARE BASED PAYMENTS**

Up until the transfer of the business on 1 October 2007 as referred to in Note 7, the Company participated in the Bank of Ireland Group employee share schemes. From this date the Company's employees were transferred to The Governor and Company of Bank of Ireland and the Company ceased to have any involvement in this scheme.

The amount recognised in the income statement for the Company as an expense in relation to the employee share scheme relates only to the period to 1 October 2007 and is £0.4m (2007 full year: £0.8m). These amounts relate entirely to discontinued activities.

Full details of the Bank of Ireland Group employee stock scheme are disclosed in The Governor and Company of Bank of Ireland Group accounts (see Note 35).

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**BRISTOL & WEST PLC**

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**35 ULTIMATE PARENT COMPANY**

The Company is a wholly owned subsidiary of Bank of Ireland UK Holdings plc. The Company's ultimate parent company is The Governor and Company of Bank of Ireland, a charter company incorporated in the Republic of Ireland.

These financial statements are included in the consolidated accounts of both the above entities.

A copy of the Group accounts for The Governor and Company of Bank of Ireland may be obtained from Bank of Ireland, Lower Baggot Street, Dublin 2.

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Bristol & West plc was authorised and regulated by the Financial Services Authority (FSA). As part of the corporate restructure on 1 October 2007 (see Note 7) Bristol & West plc ceased to be an authorised entity. The Company also relinquished its Banking Licence from that date.