THE CHURCH OF IRELAND CLERGY PENSIONS FUND

FINANCIAL STATEMENTS – PAGE 1

YEAR ENDED 31 DECEMBER 2008

CONTENTS

CONSTITUTION OF THE FUND

The Fund is established under Chapter XIV of the Constitution of the Church of Ireland as amended from time to time by the General Synod. The Representative Church Body is the Trustee of the Fund which is administered by the Church of Ireland Pensions Board in accordance with the provisions of Chapter XIV.

Last year, the Executive Committee established a small working group comprising members from the Executive and the Clergy Pensions Board with its prime objective that the constitution of the Clergy Pension Fund be clearly articulated and conform with Pension Legislation of the Republic of Ireland and of Northern Ireland, as appropriate. This work is not yet complete. However a progress report is included in the Report from the Clergy Pensions Board (page 110).

The Fund has been approved by the Revenue Commissioners as a retirement benefits scheme under Part 30, Chapter I of the Taxes Consolidation Act, 1997, and is treated as an "exempt approved scheme" for the purposes of that Act. In addition, the Fund, exclusive of the part relating to the Republic of Ireland, has been approved by the Board of the Inland Revenue of the United Kingdom as a retirement benefits scheme for the purposes of Chapter I, Part XIV, Income and Corporation Taxes Act 1988 and is treated as an "exempt approved scheme" for the purposes of Section 592 of that Act.

The Financial Statements are expressed in euro currency for balance sheet reporting purposes but the Fund is maintained in separate currency subdivisions.

The financial development of the Fund over the year 2008 was as follows:

	€'000	€'000
Contributions and other receipts		4,492
Investment income		254
Benefits paid and other expenses		(6,803)
Net deficit		(2,057)
Value of fund at 31 December 2007	121,279	
Currency translation adjustment	(1,513)	119,766
Realised/unrealised investment losses		(40,464)
Value of fund at 31 December 2008		77,245

The Representative Body, as Trustee of the Fund, is responsible for investment policy and meetings are held with the Investment Manager to review strategy and performance on a regular basis. The Investment Manager is remunerated on a fee basis calculated by reference to asset values and in accordance with formal fund management agreement between the manager and the Trustee. Management fees and attributed costs of administration are charged to the Fund by the Trustee.

Following a review in 2007, it was decided to transfer management of the assets of the Fund to Irish Life Investment Managers, and this took place on 24 January, 2008.

The investment objectives are to maximise total returns through diversified portfolios of equity, fixed interest, property and cash investments having regard to liability restraints, cash flow, interest rate and currency movements. The Trustee reviews investment objectives to ensure that these are appropriate to the profile of the Clergy Pensions Fund.

ACTUARIAL VALUATION

The Actuary's certificate is included in the annual report of the Church of Ireland Pensions Board (page 121). The certificate states that, at 31 December 2008, the Clergy Pensions Fund was in deficit and the funding arrangements in place were unlikely to be sufficient to enable the statutory minimum funding standard to be achieved by 30 September 2011, in accordance with the plan agreed with the Irish Pensions Board.

A revised plan should be agreed with the Irish Pensions Board by 31 December 2009, subject to the outcome of the triennial actuarial valuation as at 30 September 2009. Such a plan will be required to set out the proposals of the Trustee to enable the fund to meet the statutory minimum funding standard within a timeframe acceptable to the Irish Pensions Board.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Representative Body is Trustee of the Church of Ireland Clergy Pensions Fund.

The financial statements are the responsibility of the Trustee. Irish pension legislation requires the Trustee to make available for each scheme year the annual report of the scheme, including audited financial statements and the report of the auditor. The financial statements are required to show a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the financial transactions for the scheme year and the asset and liabilities (other than liabilities to pay benefits in the future) at the end of the scheme year and include a statement whether the financial statements have been prepared in accordance with Statement of Recommended Practice - Financial Reports of Pension Schemes (revised November 2002) (SORP), subject to any material departures disclosed and explained in the financial statements.

Accordingly, the Trustee must ensure that in the preparation of the scheme financial statements:

- suitable accounting policies are selected and then applied consistently;
- reasonable and prudent judgements and estimates are made; and
- the SORP is followed, or particulars of any material departures are disclosed and explained.

THE CHURCH OF IRELAND CLERGY PENSIONS FUND
TRUSTEE'S REPORT
FINANCIAL STATEMENTS - CONTINUED **PAGE 5**

The Trustee is required by law to have appropriate procedures in place throughout the year under review, to ensure that:

- contributions payable during the Plan year are received by the Trustee in accordance with the timetable set out in section 58A of the Act where applicable to the contributions and otherwise within 30 days of the end of the scheme year; and

- contributions payable are paid in accordance with the rules of the Plan and the recommendation of the actuary.

The Trustee is responsible for ensuring that proper membership and financial records are kept on a timely basis sufficient to enable an Annual Report to be prepared for the scheme containing the information specified in regulation 7 of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006, including financial statements which show a true and fair view of the financial transactions of the Plan in the year under review and of the assets and liabilities at the year end, other than liabilities for pensions and other benefits payable after the year end. It is also responsible for safeguarding the assets of the pension scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

S Gamble
Chairman, RCB Executive Committee

THE CHURCH OF IRELAND CLERGY PENSIONS FUND
REPORT OF IRISH LIFE INVESTMENT MANAGERS 2008
FINANCIAL STATEMENTS **PAGE 6**

REVIEW OF 2008

The last 12 months have been one of the most difficult for the global banking industry and equity markets since the 1930s. The investment landscape has changed and investors will have to adjust to a new environment which will consist of greater regulatory and government influence, particularly within the banking industry.

Global markets fell sharply throughout 2008 due to the ongoing fallout from the subprime crisis, the credit crunch, falling commodity prices and fears of a protracted global recession. The ongoing decline of the Irish stock market continued throughout the year culminating in a fall of 66.2% for the year to 31 December 2008.

Other markets also suffered significant falls with no developed world equity market delivering a positive return. In the US, Japan and Europe, markets were down - 33.7%, -42.3% and -24.9% respectively in Euro terms. Currency movements impacted significantly on returns where in the UK, for example, the market was down -29.9% in sterling terms but -46.8% in Euro terms reflecting the weakness in sterling relative to Euro.

With output and employment indicators collapsing, central banks cut interest rates throughout the year. The most aggressive was the US Federal Reserve who cut the Federal Funds Rate from 4.25% in January to 2.0% by early May before ending the year with a target range of between zero and 0.25% in December. The UK rate was cut from 5.5% to 2.0%, with the reduction from 5.0% to 2.0% happening in the fourth quarter alone.

In the Eurozone, inflation remained above the ECB target rate of “near but below 2%” for the majority of the year, reaching over 4.0% in July. As a result, the ECB left rates unchanged at 4.0% for the first half of 2008 before increasing to 4.25% in July. However, inflation fell sharply in the second half of the year due to the collapse in energy and commodity prices. This fall in inflation combined with the weaker macroeconomic environment saw a coordinated rate cut by global Central Banks in Q4 2008. The ECB rate ended the year at 2.5%.

Government bonds had a volatile year. In Europe, yields fell during Q1 in response to record Euro-Dollar rates and weak consumer demand. This picture was reversed in Q2 as inflation hit a 16 year high of 4% and rate cut expectations were exchanged for rate hikes. In the second half of the year, government bonds benefited from a flight to quality as the US government bailed out Fannie Mae and Freddie Mac[1] while Lehman Brothers had to seek rescue in Chapter 11 filing. Besides the financial crisis, government bonds were also helped by an improved outlook on inflation as commodity prices fell substantially following the highs seen in Q2. Economic data continued to weaken and Q4 saw co-ordinated rate cuts by global Central Banks. UK bond returns were also impacted by a significant weakening in sterling in Q4.

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[1] Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac)

OUTLOOK FOR 2009

Throughout 2008, we saw a number of significant Government-led interventions aimed at calming markets, increasing liquidity, and stimulating economic growth. In the US, the Troubled Asset Relief Program (TARP) was established with a budget of €700 billion to address sub-prime and illiquid assets.

In addition to the troubled financial markets, the global economy is continuing to slow with many developed economies now having entered technical recession including the US, Europe, UK and Japan. Data at the end of December indicates that others including China and Canada will follow.

Equity markets continue to be very volatile as investors wait for the monetary stimuli and support packages of lower interest rates and increased government spending to boost the global economy. In the meantime, the deteriorating economic backdrop and rising unemployment is likely to put further pressure on earnings forecasts into 2009.

Increased volatility is expected to remain a key theme throughout the year ahead with significant moves up and down before the economic outlook becomes clearer and the market regains confidence.

The picture for bonds is mixed with two extreme scenarios possible in 2009. Firstly, the combination of very low interest rates combined with deflation could lead to bond returns in excess of 8%. However, on the other hand, the substantial increase in government and government-guaranteed bond issuance that is expected throughout Europe (to help fund all these stimulus packages) should put upward pressure on yields due to a supply-demand imbalance. In this case, we would expect bonds to return close to 2%.

There are many uncertainties surrounding both scenarios but given the weakening global economic picture combined with a sustained downturn in inflation, we would anticipate that short-term yields will decline further as the ECB cuts rates further.

However, long-end bond yields will experience upward pressure from increased supply and deteriorating country fundamentals in 2009. As such, we would expect that bonds will yield around 4% in 2009.

PERFORMANCE

Investment management of the equity and fixed interest elements of the Clergy Pension Fund transferred to Irish Life Investment Managers with effect from 24 January 2008. Property and Venture Capital investments continue to be managed by other managers.

Equities and fixed interest bonds for both the Irish and UK funds are managed on an indexed (passive) basis replicating the performance of a particular index. Certain equities are excluded on socially responsible investing (SRI) grounds. The composite return for the equity and bonds funds for the period 24 January 2008 to 31 December 2008 was -29.7%.

VALUATION & ASSET DISTRIBUTION

Including property and venture capital values provided by other managers :

Valuation at 31 December 2008	**€ 000's**
ILIM Irish Fund	36,927
ILIM UK Fund	37,052
Property & Venture Capital	3,158
	€77,137

Asset Distribution at 31 December 2008		
Equity		
Europe	37.5%	
UK	28.4%	
US / Rest of World	10.7%	**76.6%**
Fixed Interest		
Europe	10.8%	
UK8	8.5%	**19.3%**
Property		
		3.9%
Venture Capital		
		0.2%

Irish Life Investment Managers
6 February 2009

AUDITOR'S REPORT

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Independent Auditors' Report to the Trustees of the Clergy Pension Fund

We have audited the financial statements on pages 10 to 19. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on page 10.

Respective responsibilities of trustees and auditors
As described in the trustees' responsibility statement on pages 4 and 5, the trustees are responsible for making available the audited financial statements prepared in accordance with applicable Irish pension law and accounting standards issued by the Accounting Standards Board and published by The Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

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 opinions, has been prepared for and only for the fund's trustees as a body in accordance with Section 56 of the Pensions Act 1990 and for no other purpose. We do not, in giving this report including the opinions, 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 show a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the financial transactions of the fund during the fund year and of the amount and disposition of its assets and liabilities, other than liabilities to pay benefits in the future, and whether the financial statements contain the information specified in Schedule A to the Occupational Pension Schemes (Disclosure of Information) Regulations, 2006. We also report to you whether in our opinion the contributions payable to the fund have been received by the trustees within 30 days of the fund year end and, in our opinion, have been paid in accordance with the fund rules and the recommendation of the actuary.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the trustees' report and the investment manager's report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of 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 judgements made by or on behalf of the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the fund's circumstances, consistently applied and adequately disclosed. Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the fund and the timing of those payments.

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, and that contributions have been paid in accordance with the fund rules and the recommendation of the actuary and received within 30 days of the fund year end. 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 show a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the financial transactions of the fund during the year ended 31 December 2008, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay benefits in the future, and contain the information specified in Schedule A to the Occupational Pension Schemes (Disclosure of Information) Regulations, 2006.

In our opinion the contributions payable to the fund during the year ended 31 December 2008 have been received by the trustees within 30 days of the end of the fund year and, in our opinion, such contributions have been paid in accordance with the fund rules and the recommendation of the actuary.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
24 March 2009

THE CHURCH OF IRELAND CLERGY PENSIONS FUND
ACCOUNTING POLICIES **PAGE 10**

The significant accounting policies adopted by the Trustee are as follows:

(i) Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Funds (Disclosure of Information) (No. 2) Regulations, 1998, and Statement of Recommended Practice, "Financial Reports of Pensions Schemes".

(ii) Investment Income

Income on investments includes all dividends and interest receivable during the year adjusted to reflect bought and sold interest on bond transactions in the accounting period.

(iii) Investments

Invested assets are held in a unitised fund which is managed by Irish Life Investment Managers. This fund tracks a range of published equity and bond indices. The value of the units at the year end reflects the relative performance of these indices and the value of the relevant underlying stocks.

(iv) Foreign Currencies

Balances and transactions denominated in foreign currencies have been translated into Euro at the rate of exchange ruling at the year end. (2008 €1 = £0.9525
2007 €1 = £0.7333).

(v) Benefits

The pension benefits are secured by contributions to a separately administered defined benefits scheme in accordance with the provisions of Chapter XIV of the Constitution of the Church of Ireland as amended from time to time by the General Synod.