

Bank Group

First time adoption of International Financial Reporting Standards ("IFRS")

Up to and including the year ended December 31, 2004, the Group's primary financial statements were prepared in accordance with Previous GAAP. On January 1, 2005, the Group implemented the requirements of International Financial Reporting Standards and International Accounting Standards (collectively, "IFRS") for the first time and these are used for the purpose of preparing the financial statements for the year ended December 31, 2005. These financial statements have been prepared based on the recognition and measurement requirements of IFRS issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU").

In accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), there have been no adjustments to the estimates made at the time of the approval of the Previous GAAP financial statements for the year ended December 31, 2004. IFRS 1 provides first time adopters of IFRS with certain exemptions. IFRS 1 also allows or requires a number of other exceptions to its general principle that the standards in force at the reporting date should be applied retrospectively. The Group has availed of certain exemptions as set out below:-

First time application relating to financial instruments and insurance contracts

The Group has availed of transitional provisions for IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32"), IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and IFRS 4 "Insurance Contracts" ("IFRS 4") and has not presented comparative information in accordance with these standards in its 2005 financial statements. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts has been prepared on the basis of the Group's accounting policies under Previous GAAP.

Share based payments

The Group has implemented the requirements of IFRS 2 "Share Based Payment" ("IFRS 2") to all equity settled share based payments granted after November 7, 2002 that had not vested by January 1, 2005.

Property, plant & equipment

The Group has retained its existing carrying value of occupied properties, plant and equipment at January 1, 2004 as deemed cost, as permitted by IFRS 1, rather than either reverting to historical cost or carrying out a valuation at the date of transition.

Cumulative exchange differences

The Group has elected to deem cumulative exchange differences on the net investments in foreign branches and subsidiaries to be zero at January 1, 2004, as permitted by IFRS 1.

Employee benefits

The Group has recognised the cumulative actuarial gains and losses of defined benefit pension schemes and other post retirement benefits upon transition at January 1, 2004.

Business combinations

The Group has elected not to apply IFRS 3 "Business Combinations" to business combinations that arose prior to January 1, 2004.

Derecognition of financial instruments

Financial instruments derecognized prior to January 1, 2004 have not been subsequently recognised by the Group under IFRS.

Effects of the transition to IFRS

A description of the differences between Previous GAAP and IFRS accounting policies is set out in note 59. Reconciliations of balance sheets prepared under Previous GAAP and IFRS at January 1, 2005 and December 31, 2004 are included in note 59. A reconciliation of the profit and loss accounts prepared in accordance with Previous GAAP and prepared in accordance with IFRS for the period ended December 31, 2004 is included in note 59. In addition, a reconciliation of the amount of shareholders' equity at January 1, 2005, before and after the application of IAS 32, IAS 39 and IFRS 4, detailing the effects of their application on the January 1, 2005 balance sheet, is presented in note 1.

Bank Group

Accounting policies

The accounting policies that the Group applied in the preparation of the financial statements for the year ended December 31, 2005 are set out below. Because the Group has availed of the transitional provisions for IAS 32 'Financial Instruments: Disclosure and Presentation' ("IAS 32"), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IFRS 4 'Insurance Contracts' ("IFRS 4"), it has not presented comparative information in accordance with these standards in its 2005 financial statements. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts has been prepared on the basis of the Group's accounting policies under Previous GAAP.

1 Statement of compliance

The consolidated financial statements have been presented in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as adopted by the EU and applicable at December 31, 2005.

The Group has early adopted the fair value option under IAS 39 and amendments to IAS 19 - Actuarial Gains and Losses, Group Plans and Disclosures, both of which have been adopted by the EU.

2 Basis of preparation

The financial statements are presented in euro, rounded to the nearest million. They have been prepared under the historical cost basis, with the exception of the following assets and liabilities and derivatives which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities, financial instruments held for trading and financial assets classified as available for sale.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of impairment of financial assets, retirement benefit liabilities, share based payments and fair value of certain financial assets and financial liabilities.

Except as described above in respect of financial instruments and insurance contracts, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2004 for the purpose of transition to IFRS.

The accounting policies have been consistently applied by all Group entities.

3 Basis of consolidation

Subsidiary undertakings

The Group financial information includes the accounts of Bank Company (the parent company) and its subsidiary undertakings, including certain special purpose entities where appropriate, made up to the end of the financial year. A subsidiary is one where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the transaction, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Associated undertakings

An associate is generally one in which the Group's interest is greater than 20% and less than 50% and in which the Group has significant influence, but not control, over the entity's operating and financial policies.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in the equity of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment (net of any accumulated impairment loss). When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations to make payments on behalf of the entity.

The Group's share of the results of associates after tax reflects the Group's proportionate interest in the associates and is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group.

Transactions eliminated on consolidation

Intra-group balances and any unrealized gains and losses, or income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealized gains on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

4 Foreign currency translation

The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except for qualifying cash flow hedges. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets are included directly in equity.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the Euro are translated into Euro as follows:-

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into Euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions; and
- all resulting exchange differences are included in cumulative translation reserves within shareholders' equity.

Exchange differences arising after January 1, 2004, the date of transition to IFRS, from the translation of the net investment in foreign operations, and of borrowings designated as hedges of such investments, are taken to a separate component of shareholders' equity and included in the profit or loss on disposal or partial disposal of the foreign operations.

5 Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected 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. The application of the method has the effect of recognizing income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

6 Fee and commission income

Fees and commissions are generally recognized on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation. Loan syndication fees are recognized as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees related to investment funds are recognized over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment.

7 Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets.

Purchases and sales of financial assets are recognized on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value, however, with the exception of financial assets at fair value through profit or loss, the initial fair value includes direct and incremental transaction costs.

The fair value of assets traded in active markets is based on current bid prices. In the absence of current bid prices, the Group establishes a fair value using valuation techniques. These include the use of recent arm's-length transactions, reference to other similar instruments, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available-for-sale equity securities are recognised in the income statement when the entity's right to receive payment is established. Impairment losses and translation differences on monetary items are recognized in the income statement.

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

Financial assets at fair value through profit or loss

This category has two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is held primarily for the purpose of selling in the short term, or if it is so designated by management, subject to certain criteria.

The assets are recognized initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within other financial income.

Derivatives are also classified in this category unless they have been designated as hedges.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs and are subsequently carried on an amortized cost basis.

Held to maturity

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

Available for sale

Available for sale investments are non-derivative financial investments that are designated as available for sale and are not categorized into any of the other categories described above. Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement.

8 Financial liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognized at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortized cost, any difference between the proceeds net of transaction costs and the redemption value is recognized in the income statement using the effective interest method.

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

9 Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic life.

The Group uses the following useful lives when calculating depreciation:

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|--|-------------------------------|
| Freehold buildings and long-leasehold property | 50 years |
| Short leasehold property | Life of lease, up to 50 years |
| Costs of adaptation of freehold and leasehold property | |
| Branch properties | up to 10 years* |
| Office properties | up to 15 years* |
| Computers and similar equipment | 3 – 5 years |
| Fixtures and fittings and other equipment | 3 – 10 years |

* Subject to the maximum remaining life of the lease.

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life. Gains and losses on disposal of property, plant and equipment are included in the income statement.

It is Group policy not to revalue its property, plant and equipment.

10 Intangible assets

Goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings. Purchased goodwill is the excess of the fair value of the purchase consideration and direct costs of making the acquisition, over the fair value of the Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is performed by using either market rates or by using risk-free rates and risk adjusted expected future cash flows.

Goodwill is capitalized and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold. Capitalized goodwill was tested for impairment as at January 1, 2004, the date of transition to IFRS.

Goodwill previously written off to reserves under Previous GAAP has not been reinstated and will not be included in calculating any subsequent profit or loss on disposal.

Computer software

Computer software is stated at cost, less amortization on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalized where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognized as an expense when incurred. Capitalised computer software is amortized over 3 to 5 years.

11 Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements are used for trading and for hedging purposes.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows, and are accounted for on an amortized cost basis.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, valuation techniques, discounted cash flow models and options pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle net. Profits or losses are only recognized on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

The best evidence of the fair value of a derivative at initial recognition is 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.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognized in the income statement.

Hedging

All derivatives are carried at fair value in the balance sheet and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39, the Group designates certain derivatives as either: -

- (1) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or
- (2) hedges of the exposure to variability of cash flows attributable to a recognized asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- (3) hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group discontinues hedge accounting when:

- a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- b) the derivative expires, or is sold, terminated, or exercised;
- c) the hedged item matures or is sold or repaid; or
- d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortized cost, amortized over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale items the fair value hedging adjustment remains in equity until the hedged item affects profit or loss. If the hedged item is sold or repaid, the unamortized fair value adjustment is recognized immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognized directly in shareholders' equity and recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

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

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

12 Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the balance sheet date, ("a loss event") and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset, or a portfolio of financial assets, is impaired includes observable data that comes to the attention of the Group about the following loss events:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
- d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - i. adverse changes in the payment status of borrowers in the portfolio;
 - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account and the amount of the loss is included in the income statement.

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

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR) financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Assets acquired in exchange for loans and receivables in order to achieve an orderly realization are accounted for as a disposal of the loan and an acquisition of an asset. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset and not as an impairment of the original instrument.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the instrument below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had been previously recognized directly in equity is removed from equity and recognised in the income statement. Reversals of impairment of equity shares are not recognized in the income statement and increases in the fair value of equity shares after impairment are recognized directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt securities are recognized in the income statement.

13 Employee benefits

Retirement benefit obligations

The Group provides employees with post retirement benefits mainly in the form of pensions.

The Group provides a number of defined benefit and defined contribution retirement benefit schemes. In addition, the Group contributes, according to local law in the various countries in which it operates, to Governmental and other plans which have the characteristics of defined contribution plans. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each balance sheet date. Scheme assets are valued at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date is recognised in the balance sheet. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes are shown as liabilities. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

The cost of providing defined benefit pension schemes to employees, comprising the current service cost, past service cost, the expected return on plan assets and the change in the present value of scheme liabilities arising from the passage of time is charged to the income statement within employee expenses.

The costs of the Group's defined contribution schemes, are charged to the income statement in the accounting period in which they are incurred. Any contributions unpaid at the balance sheet date are included as a liability. The Group has no further obligation under these plans once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognized to the extent that the Group has a present obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans and preferential rates on staff deposits is charged within employee expenses.

Share based compensation

The Group operates a number of share based compensation plans. For grants of options after November 7, 2002, the fair value of the employee services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in exchange for the shares or share options granted is recognized in the income statement over the period during which the employees become unconditionally entitled to the options, which is the vesting period. The amount expensed is determined by reference to the fair value of the options granted. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the share price at date of grant of the option, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

The expense related to share based payments is credited to shareholders' equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium when the options are exercised. When the share based payments give rise to the reissue of shares from treasury shares, the proceeds of issue are credited to shareholders' equity. In addition, there is a transfer between the share based payment reserve and profit and loss account, reflecting the cost of the share based payment recognized in the income statement.

14 Non-credit risk provisions

Provisions are recognized for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Payments are deducted from the present value of the provision and interest at the relevant discount rates is charged annually to interest expense. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring, by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reasonably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events giving rise to present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless they are remote.

15 Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided, using the balance sheet liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantially enacted at the balance sheet date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post retirement benefits, tax losses carried forward, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

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 Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

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

Deferred tax relating to items that are charged or credited to equity, is charged or credited directly to equity.

16 Impairment of property, plant and equipment and intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset, or its cash generating unit, with its recoverable amount. The recoverable amount is determined as the higher of the net selling price of the asset and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when this is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews in respect of goodwill, the recoverable amount is determined as the higher of the net selling price of the cash-generating unit and its value in use. Cash-generating units are the lowest level at which management monitors the return on investment in assets.

17 Construction contracts

Revenue from construction contracts is recognised when it is probable that the economic benefits of the transaction will flow to the Group and when the revenue, the costs, (both incurred and in the future), the outcome of the contract and its stage of completion can all be measured reliably. Once the above criteria are met, both contract revenue and contract costs are recognised by reference to the stage of completion of the contract.

When the outcome of a construction contract cannot be estimated reliably, no profit is recognised, but revenue is recognised to the extent of costs incurred that are probable of recovery. Costs are recognised as an expense in the income statement in the accounting period in which the work is performed.

18 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement. No reclassifications are made in respect of prior periods.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement (including comparatives) as a separate amount, comprising the total of the post tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on disposal of the assets/disposal groups constituting discontinued operations.

19 Collateral & netting

The Group enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability or asset. These items are assigned to deposits received from banks or other counterparties in the case of cash collateral received. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the balance sheet. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case with master agreements, and the related assets and liabilities are presented gross in the balance sheet.

20 Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

21 Sale and repurchase agreements (including stock borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the balance sheet as appropriate.

Similarly, when securities are purchased subject to a commitment to resell ('reverse repos'), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralized loans, and the securities are not included in the balance sheet.

The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

22 Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the Group's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

23 Share capital

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved by the Board of directors. Dividends declared after the balance sheet date are disclosed in the dividends note.

Treasury shares

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

24 Insurance and investment contracts

The Group has classified its Long Term Assurance business in accordance with IFRS 4 "Insurance Contracts". Insurance contracts are those contracts containing significant insurance risk. In the case of a life contract, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the balance sheet date there may be no excess of the original premium over the backing assets. Investment contracts are contracts that do not have significant insurance risk. There are no contracts with discretionary participating features.

Insurance contracts

The Group accounts for its insurance contracts using the embedded value basis. The embedded value comprises two components: the net assets attributable to the Group and the present value of the in-force business ("VIF"). The change in the VIF before tax is accounted for as revenue. The value is estimated as the net present value of future cash flows attributable to the Group before tax, based on the market value of the assets at the balance sheet date, using assumptions that reflect experience and a long-term outlook for the economy and then discounting at an appropriate risk discount rate.

Insurance contract liabilities are calculated on the modified statutory basis. Premiums are recognised as revenue when due from the policyholder. Claims, which together with the increase in insurance contract liabilities are recognised in the income statement as they arise, are the cost of all claims arising during the period.

Investment contracts

Investment contracts are primarily unit-linked. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the balance sheet date. The liability is measured at fair value, which is the bid value of the assets held to match the liability, less an amount in respect of tax. Increases in investment contract liabilities are recognised in the income statement as they arise. Revenue in relation to investment management services is recognised as the services are provided. Certain upfront fees and charges have been deferred and are recognised as income over the life of the contract. Premiums and claims are accounted for directly in the balance sheet as adjustments to the investment contract liability.

25 Segment reporting

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those of components operating in other economic environments. The Group has determined that business segments are the primary reporting segments.

26 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

27 Trust activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from the financial statements, as they are not assets of the Group.

28 Prospective accounting changes

The following standards/amendments to standards have been approved by the IASB, and were adopted by the EU in January 2006 but not early adopted by the Group. These will be adopted in 2006 and thereafter:-Amendment to IAS 1 - Capital disclosures (effective January 1, 2007). This amendment requires disclosure, both quantitative and qualitative, of an entity's objectives, policies and processes for managing capital. The impact is not expected to be material in terms of Group reporting.

Amendments to IAS 39 - Cash Flow Hedge Accounting of Forecast Intragroup transactions (effective January 1, 2006). This amendment, which is not expected to have a material impact on Group reporting, will allow the foreign currency risk of intragroup monetary items qualify as the hedge item in certain circumstances in the consolidated financial statements.

Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts (effective January 1, 2006). This amendment will be adopted by the Group in the accounting period commencing on 1 January 2006 and requires financial guarantee contracts to be accounted for as financial instruments under IAS 39 unless they have been explicitly dealt with as insurance contracts in the past in which case the previous accounting may continue. This standard is not expected to have a material impact on the Group.

IFRS 7 - Financial Instrument disclosures (effective January 1, 2007). This standard updates and augments the disclosure requirements of IAS 30, IAS 32 and IFRS 4 and will require additional disclosures relating to risk management policies and processes.

The Group has taken advantage of the transitional arrangements of IFRS, not to restate corresponding amounts in accordance with the above policies on Financial assets; Financial liabilities; Derivatives and hedge accounting; impairment of financial assets; and collateral & netting. Comparative information was prepared under Previous GAAP and the relevant accounting policies for these are set out as follows:

Provisions for impairment of loans and receivables

It is Group policy to make provisions for bad and doubtful debts to reflect the losses inherent in the loan portfolio at the balance sheet date. The charge to the profit and loss account reflects new provisions made during the year, plus write-offs not previously provided for, less existing provisions no longer required and recoveries of bad debts already written off.

Specific provisions are made when, in the judgment of management, the recovery of the outstanding balance is in serious doubt. The amount of the specific provision is intended to cover the difference between the balance outstanding on the loan or advance and the estimated recoverable amount. In certain portfolios, provisions are applied to pools of loans on a formula driven basis depending on levels of delinquency.

When a loan has been subjected to a specific provision, and the prospects for recovery do not improve, a point will come when it may be concluded that there is no realistic prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off.

General provisions are also made to cover loans which are impaired at balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of bank advances. The Group holds general provisions at a level deemed appropriate by management taking into account a number of factors including:- the credit grading profiles and movements within credit grades; historic loan loss rates; local and international economic climates and portfolio sector profiles/industry conditions. The level of general provisions is reviewed quarterly to ensure that it remains appropriate.

Loans and receivables to banks and customers are reported in the balance sheet having deducted the total provisions for impairment of loans and receivables.

Loans are deemed non-performing where interest is 90 days overdue and not taken to profit (i.e. non-accrual) or where a provision exists in anticipation of a loss. Interest is not taken to profit when recovery is doubtful.

Debt securities

Debt securities held as financial fixed assets are those held on a continuing use basis by the Group and those held to hedge positions which are accounted for on a historic cost basis. These debt securities are stated in the balance sheet at cost, adjusted for the amortisation of any premiums or discounts arising on acquisition or provisions for impairment. The amortisation of premiums and discounts is included in net interest income. Profits and losses on disposal of securities held for investment purposes are recognised immediately in other operating income. Profits and losses on disposal of securities held for hedging purposes are amortised over the lives of the underlying transactions and included in net interest income.

Debt securities held for trading purposes are stated in the balance sheet at market value. Both realised and unrealized profits on trading securities are taken directly to the profit and loss account and included within dealing profits.

Equity shares

Equity shares intended to be held on a continuing basis are classified as financial fixed assets and included in the balance sheet at cost less provision for any impairment. Profits and losses on disposal of equity shares held as financial fixed assets are recognised immediately in the profit and loss account. Equity shares held for trading purposes are marked to market with full recognition in the profit and loss account of changes in market value.

Derivatives

The Group uses derivatives, such as interest rate swaps, options, forward rate agreements and financial futures for trading and non-trading purposes. The accounting treatment of these derivative instruments is dependent on the purpose for which they are entered into.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers while others represent proprietary trading with a view to generating incremental income. Trading instruments and hedges thereof are recognised in the accounts at fair value with the adjustment arising included in other assets and other liabilities as appropriate. Gains and losses arising from trading activities are included in dealing profits in the profit and loss account using the mark to market method of accounting. Interest and dividend income arising together with the funding costs relating to trading activities are included in net interest income.

Non-trading derivative transactions, comprise transactions held for hedging purposes as part of the Group's risk management strategy, against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account immediately as they arise. Derivative transactions entered into for hedging purposes are recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged. Except as described below, in respect of hedges of the income stream on Group capital, upon early termination of derivative financial instruments, classified as hedges, any realised gain or loss is deferred and amortised to net interest income over the life of the original hedge as long as the designated assets or liabilities remain. Upon early termination of derivative transactions classified as hedges of the income stream on Group capital, any realised gain or loss is taken to profit and loss account as it arises.

A derivative will only be classified as a hedge where it is designated as a hedge at its inception and where it is reasonably expected that the derivative substantially matches or eliminates the exposure being hedged. Transactions designated as hedges are reviewed and where a transaction originally entered into for hedging purposes no longer represents a hedge, its value is restated at fair value and any change in value is taken to profit and loss account immediately. Interest rate swaps, forward rate agreements and option contracts are generally used to modify the interest rate characteristics of balance sheet instruments and are linked to specific assets or groups of similar assets or specific liabilities or groups of similar liabilities. Futures contracts are designated as hedges when they reduce risk and there is high correlation between the futures contracts and the item being hedged, both at inception and throughout the hedge period. Amounts paid or received over the life of a futures contract are deferred and amortised over the life of the contract.

Bank Group
Consolidated Statements of Income

| | Notes | Years ended December 31, | |
|---|--------|--------------------------|---------|
| | | 2005 | 2004 |
| | | (Euro in millions) | |
| Interest income and similar income | 5 | 5,151 | 4,018 |
| Less: interest expense | 6 | (2,621) | (1,946) |
| Net interest income | | 2,530 | 2,072 |
| Dividend income | 7 | 17 | 27 |
| Fees and commissions income | | 1,061 | 1,067 |
| Less: fees and commissions expense | | (145) | (131) |
| Trading income | 8 | 112 | 96 |
| Other operating income | 9 | 72 | 109 |
| Other income | | 1,117 | 1,168 |
| Total operating income | | 3,647 | 3,240 |
| Administrative expenses | 10 | 1,881 | 1,724 |
| Depreciation of property, plant and equipment | 33 | 83 | 82 |
| Amortization/impairment of intangible assets and goodwill | 32 | 47 | 63 |
| Total operating expenses | | 2,011 | 1,869 |
| Operating income before provisions | | 1,636 | 1,371 |
| Provisions for impairment of loans and receivables | 26 | 115 | 114 |
| Provisions for liabilities and commitments | 41 | 20 | 20 |
| Amounts written off /(written back) financial investments | 11 | 8 | (1) |
| | | 143 | 133 |
| Operating income | | 1,493 | 1,238 |
| Share of results of associated undertakings | 31 | 149 | 132 |
| Gain on disposal of property | | 14 | 9 |
| Construction contract income | 12 | 45 | — |
| Gain on disposal of businesses | 15 | 5 | 17 |
| Income before taxes - continuing operations | | 1,706 | 1,396 |
| Applicable taxes | 16 | 319 | 270 |
| Income after taxes - continuing operations | 2 & 35 | 1,387 | 1,126 |
| Discontinued operation, net of taxation | | 46 | 53 |
| Net income for the period | | 1,433 | 1,179 |
| Attributable to: | | | |
| Equity holders of the parent | | 1,343 | 1,150 |
| Minority interests in subsidiaries | 17 | 90 | 29 |
| | | 1,433 | 1,179 |
| Basic earnings per share - continuing operations | | 145.7c | 128.3c |
| Basic earnings per share - discontinued operations | | 5.3c | 6.2c |
| Total | 20(a) | 151.0c | 134.5c |
| Diluted earnings per share - continuing operations | | 144.6c | 127.8c |
| Diluted earnings per share - discontinued operations | | 5.2c | 6.2c |
| Total | 20(b) | 149.8c | 134.0c |

The results for the year ended December 31, 2004 have been restated to represent the results of Life Assurance as a discontinued operation (note 2) and the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from January 1, 2005. See First time adoption of International Financial Reporting Standards ("IFRS").

The accompanying notes are an integral part of these consolidated financial statements.

Bank Group
Consolidated Balance Sheets

| | Notes | December 31, 2005 | January 1, 2005 | December 31, 2004 |
|---|--------|----------------------|--------------------|----------------------|
| (Euro in millions) | | | | |
| ASSETS | | | | |
| Cash and balances at central banks | | 742 | 887 | 887 |
| Treasury bills and other eligible bills | 22 | 201 | — | — |
| Items in course of collection | | 402 | 368 | 368 |
| Trading portfolio financial assets | 23 | 10,113 | 7,957 | — |
| Financial assets designated at fair value through profit or loss | 24 | — | 1,871 | — |
| Derivative financial instruments | 49 | 2,439 | 2,581 | — |
| Loans and receivables to banks | 25 | 7,129 | 2,538 | 2,540 |
| Gross loans and receivables to customers | 26 | 86,049 | 66,435 | 65,625 |
| Allowance for loan losses | | (674) | (614) | (758) |
| Unearned interest | | (143) | (129) | (129) |
| Loans and receivables to customers net | | 85,232 | 65,692 | 64,738 |
| Financial investments available for sale | 28 | 16,864 | 15,720 | — |
| Debt securities | 29 | — | — | 24,501 |
| Equity shares | 30 | — | — | 1,641 |
| Interests in associated undertakings | 31 | 1,656 | 1,395 | 1,379 |
| Intangible assets and goodwill | 32 | 517 | 540 | 540 |
| Property, plant and equipment | 33 | 706 | 745 | 745 |
| Other assets | | 778 | 1,435 | 2,597 |
| Current taxation | | 18 | 25 | 25 |
| Deferred taxation | 34 | 253 | 204 | 228 |
| Prepayments and accrued income | | 801 | 861 | 920 |
| Disposal group and assets classified as held for sale | 2 & 35 | 5,363 | — | — |
| | | <u>133,214</u> | <u>102,819</u> | <u>101,109</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Deposits by banks | 36 | 29,329 | 20,428 | 20,428 |
| Customer accounts | 37 | 62,580 | 50,151 | 50,151 |
| Trading portfolio financial liabilities | 38 | 240 | 332 | — |
| Derivative financial instruments | 49 | 1,967 | 2,541 | — |
| Investment and insurance contract liabilities | 35 | — | 3,887 | 3,286 |
| Debt securities in issue | 39 | 17,611 | 11,805 | 11,805 |
| Current taxation | | 133 | 197 | 175 |
| Other liabilities | 40 | 1,599 | 1,593 | 3,387 |
| Accruals and deferred income | | 1,092 | 705 | 913 |
| Retirement benefit liabilities | 14 | 1,227 | 886 | 886 |
| Provisions for liabilities and commitments | 41 | 140 | 122 | 122 |
| Deferred taxation | 34 | 32 | 38 | 52 |
| Subordinated liabilities and other capital instruments | 42 | 3,756 | 2,451 | 2,766 |
| Disposal group classified as held for sale | 2 & 35 | 5,091 | — | — |
| Memorandum items: contingent liabilities and commitments | 48 | | | |
| Stockholders' equity | | | | |
| Ordinary shares of €0.32 each: 1,160 million authorized (2004: 1,160 million), 918.4 million issued and outstanding as at December 31, | | | | |
| 2005 and 2004 respectively | 45 | 294 | 294 | 294 |
| Share premium account | | 1,693 | 1,693 | 1,693 |
| Other equity interests | 44 | 497 | 497 | 182 |
| Reserves | | 1,152 | 1,190 | 985 |
| Profit and loss account | | 3,533 | 2,798 | 2,773 |
| Total stockholders' funds | | 7,169 | 6,472 | 5,927 |
| Minority interests in subsidiaries | 43 | 1,248 | 1,211 | 1,211 |
| | | <u>133,214</u> | <u>102,819</u> | <u>101,109</u> |

The financial position as at December 31, 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from January 1, 2005. See First time adoption of International Financial Reporting Standards ('IFRS').

The accompanying notes are an integral part of these consolidated financial statements.

Bank Group

Consolidated reconciliation of movements in stockholders' equity

| | Share capital | Share premium | Capital reserves | Revaluation reserves | Other equity interests | Treasury shares | Revenue reserves | Share based payments reserves | Available for sale securities reserves | Cash flow hedging reserve | Foreign currency translation | Total |
|--|---------------|---------------|------------------|----------------------|------------------------|-----------------|------------------|-------------------------------|--|---------------------------|------------------------------|-------|
| (Euro in millions) | | | | | | | | | | | | |
| 2004 | | | | | | | | | | | | |
| Balance January 1, 2004 (Previous GAAP) | 290 | 1,694 | 838 | 113 | 196 | (757) | 2,764 | — | — | — | — | 5,138 |
| IFRS transition adjustment | — | — | — | (24) | — | — | 223 | 9 | — | — | — | 208 |
| Balance January 1, 2004 (IFRS) | 290 | 1,694 | 838 | 89 | 196 | (757) | 2,987 | 9 | — | — | — | 5,346 |
| Income attributable to equity holders of the parent | — | — | 59 | — | — | — | 1,070 | — | — | — | — | 1,129 |
| Dividends on ordinary shares | — | — | — | — | — | — | (475) | — | — | — | — | (475) |
| Dividends on other equity interests | — | — | — | — | — | — | (4) | — | — | — | — | (4) |
| Share based payments | — | — | — | — | — | — | — | 5 | — | — | — | 5 |
| Actuarial loss recognized in retirement benefit plans | — | — | — | — | — | — | (198) | — | — | — | — | (198) |
| Other recognized (losses)/gains relating to the period | — | (1) | — | (1) | (14) | — | 28 | — | — | — | (73) | (61) |
| Ordinary shares issued in lieu of cash dividend | 4 | — | — | — | — | — | 130 | — | — | — | — | 134 |
| Other ordinary shares issued | — | — | — | — | — | 71 | — | — | — | — | — | 71 |
| Net movement in own shares | — | — | — | — | — | — | (20) | — | — | — | — | (20) |
| Balance December 31, 2004 | 294 | 1,693 | 897 | 88 | 182 | (686) | 3,518 | 14 | — | — | (73) | 5,927 |
| 2005 | | | | | | | | | | | | |
| Balance December 31, 2004 | 294 | 1,693 | 897 | 88 | 182 | (686) | 3,518 | 14 | — | — | (73) | 5,927 |
| IFRS transition adjustment | — | — | (185) | — | 315 | — | 25 | — | 136 | 254 | — | 545 |
| Balance January 1, 2005 | 294 | 1,693 | 712 | 88 | 497 | (686) | 3,543 | 14 | 136 | 254 | (73) | 6,472 |
| Income attributable to equity holders of the parent | — | — | 46 | — | — | — | 1,297 | — | — | — | — | 1,343 |
| Dividends on ordinary shares | — | — | — | — | — | — | (532) | — | — | — | — | (532) |
| Dividends on other equity interests | — | — | — | — | — | — | (38) | — | — | — | — | (38) |
| Share based payments | — | — | — | — | — | — | — | 16 | — | — | — | 16 |
| Actuarial loss recognized in retirement benefit plans | — | — | — | — | — | — | (285) | — | — | — | — | (285) |
| Other recognized (losses)/gains relating to the period | — | — | — | (3) | — | — | (69) | — | (6) | (76) | 287 | 133 |
| Other ordinary shares issued | — | — | — | — | — | 66 | — | — | — | — | — | 66 |
| Net movement in own shares | — | — | — | — | — | — | (6) | — | — | — | — | (6) |
| Balance December 31, 2005 | 294 | 1,693 | 758 | 85 | 497 | (620) | 3,910 | 30 | 130 | 178 | 214 | 7,169 |

The accompanying notes are integral part of these consolidated financial statements.

Bank Group

Consolidated Statement of Cash Flows

| | Note | Years ended December 31, | |
|---|------|--------------------------|----------------|
| | | 2005 | 2004 |
| (Euro in millions) | | | |
| Reconciliation of income before taxes to net cash inflow from operating activities | | | |
| Income before taxes ⁽¹⁾ | | 1,754 | 1,454 |
| Gain on disposal of businesses | | (5) | (17) |
| Construction contract income | | (45) | — |
| Gain on disposal of property | | (14) | (9) |
| Investment income | | (41) | (37) |
| Share of results of associated undertakings | | (149) | (132) |
| Decrease/(increase) in prepayments and accrued income | | 83 | (282) |
| Increase in accruals and deferred income | | 332 | 369 |
| Provisions for loan losses | | 115 | 114 |
| Provisions for liabilities and commitments | | 20 | 20 |
| Amounts written off/(written back) financial investments | | 8 | (1) |
| Increase in other provisions | | 14 | 33 |
| Depreciation, impairment and amortization | | 130 | 145 |
| Interest on subordinated liabilities and other capital instruments | | 132 | 109 |
| Gain on disposal of available for sale financial instruments | | (19) | (17) |
| Gain on termination of off-balance sheet instruments | | — | (36) |
| Average gains on debt securities held for hedging purposes | | — | (2) |
| Gain on disposal of investments in associated undertakings | | — | (1) |
| Amortization of premiums and discounts | | 64 | 24 |
| Increase in long-term assurance business | | (55) | (62) |
| | | 2,324 | 1,672 |
| Net increase in deposits by banks | | 8,019 | 3,056 |
| Net increase in customer accounts | | 11,414 | 6,041 |
| Net increase in loans and receivables to customers | | (18,350) | (13,721) |
| Net (increase)/decrease in loans and receivables to banks | | (30) | 635 |
| Net increase in trading portfolio financial assets/liabilities | | (1,942) | (2,578) |
| Net decrease in derivative financial instruments | | (447) | — |
| Net increase in treasury bills and other eligible bills | | (177) | — |
| Net increase in items in course of collection | | (29) | (29) |
| Net increase in debt securities in issue | | 5,223 | 8,303 |
| Net increase in notes in circulation | | 21 | 30 |
| Increase in other assets | | (1,467) | (754) |
| Increase in other liabilities | | 419 | 937 |
| Effect of currency translation and other adjustments | | (114) | 117 |
| Net cash inflow from operating assets and liabilities | | 2,540 | 2,037 |
| Net cash inflow from operating activities before taxes | | 4,864 | 3,709 |
| Taxation paid | | (351) | (320) |
| Net cash inflow from operating activities | | 4,513 | 3,389 |
| Investing activities (note a) | | (262) | (4,106) |
| Financing activities (note b) | | 556 | 1,288 |
| Increase in cash and cash equivalents | | 4,807 | 571 |
| Opening cash and cash equivalents | | 2,773 | 2,152 |
| Effect of currency translation adjustments | | 90 | 50 |
| Closing cash and cash equivalents | 47 | 7,670 | 2,773 |

The accompanying notes are integral part of these consolidated financial statements.

Bank Group
Consolidated Statement of Cash Flows

| | Years ended December 31, | |
|---|---------------------------------|----------------|
| | 2005 | 2004 |
| (Euro in millions) | | |
| (a) Investing activities | | |
| Net increase in financial investments | (264) | (4,038) |
| Additions to property, plant and equipment | (100) | (68) |
| Disposal of property, plant and equipment | 89 | 20 |
| Additions to intangible fixed assets | (36) | (66) |
| Investment in associated undertaking | (3) | (7) |
| Disposal of associated undertakings | 4 | 1 |
| Disposal of investment in subsidiary | 7 | 15 |
| Dividends received from associated undertakings | 41 | 37 |
| Cash flows from investing activities | (262) | (4,106) |
| (b) Financing activities | | |
| Issue of ordinary share capital | 47 | 53 |
| Redemption of subordinated liabilities | (630) | (32) |
| Issue of new subordinated liabilities | 1,813 | 733 |
| Issue of preferred securities | — | 990 |
| Interest paid on subordinated liabilities | (90) | (105) |
| Equity dividends paid | (532) | (345) |
| Dividends on other equity interests | (38) | (4) |
| Dividends paid to minority interests | (14) | (2) |
| Cash flows from financing activities | 556 | 1,288 |

⁽¹⁾ Represents income before taxes – continuing activities, as per the Consolidated income statement, adjusted for the income before taxes of Life Assurance of €48 million in 2005 (2004: €58 million).

Bank Group.

Statement of recognized income and expense

| | Years ended December 31, | |
|---|---------------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Foreign exchange translation differences | 287 | (73) |
| Net change in cash flow hedges, net of tax | (76) | — |
| Net change in fair value of available for sale securities, net of tax | (6) | — |
| Net actuarial gains and losses in retirement benefit schemes, net of tax | (285) | (198) |
| Income and expense recognized directly in equity | (80) | (271) |
| Income for the period | <u>1,433</u> | <u>1,179</u> |
| Total recognized income and expense for the period | 1,353 | 908 |
| <i>Transition adjustment at January 1, 2005 arising from IAS 32, IAS 39 and IFRS 4 (note 1)</i> | 545 | — |
| Total recognized income and expense for the period including transition adjustment | <u>1,898</u> | <u>908</u> |
| Attributable to: | | |
| Equity holders of the parent | 1,808 | 879 |
| Minority interest in subsidiaries | 90 | 29 |
| Total recognized income and expense for the period including transition adjustment | <u>1,898</u> | <u>908</u> |

Notes to Consolidated Financial Statements

1. TRANSITION TO IFRS

As set out in the First time Adoption of International Financial Reporting Standards ("IFRS"), the financial information has been prepared based on the requirements of IFRS issued by the IASB, as adopted by the EU. The Group has availed of transitional provisions for IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32"), IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and IFRS 4 "Insurance Contracts" ("IFRS 4") and has not presented comparative information in accordance with these standards. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts is prepared on the basis of the Group's accounting policies under Previous GAAP.

A description of the differences between Previous GAAP and IFRS accounting policies is set out in note 59. Reconciliations of consolidated balance sheets prepared under Previous GAAP and IFRS at December 31, 2004 and January 1, 2005 (after the application of IAS 32, IAS 39 and IFRS 4) are included in note 59. A reconciliation of the consolidated income statement prepared in accordance with Previous GAAP and prepared in accordance with IFRS for the year ended December 31, 2004 is included in note 59 and is summarized below.

The following table sets out the Group reconciliation from previously reported Previous GAAP information for income after taxes and the reconciliation to stockholders' equity at December 31, 2004 and January 1, 2005 (after the application of IAS 32, IAS 39 and IFRS 4).

| | <u>Income after taxes</u> | <u>Stockholders' equity</u> |
|--|---------------------------|-----------------------------|
| | (Euro in millions) | |
| As reported under Previous GAAP, at December 31, 2004 | 1,103 | 5,581 |
| Reconciliation adjustments to IFRS excluding IAS 32, IAS 39 and IFRS 4: | | |
| Associated undertakings | 1 | 12 |
| Finance leases | 2 | 1 |
| Software | 6 | 20 |
| Taxation | (4) | (47) |
| Intangible assets & goodwill | 79 | 79 |
| Dividends | — | 336 |
| Share based payments | (9) | 10 |
| Employee benefits & other | 1 | (65) |
| IFRS excluding IAS 32, IAS 39 and IFRS 4 | <u>1,179</u> | <u>5,927</u> |
| Reconciliation adjustments to IAS 32, IAS 39 and IFRS 4: | | |
| Loans origination | | (65) |
| Loan impairment | | 139 |
| Financial instruments | | 273 |
| Derivatives | | 38 |
| Long-term assurance business | | (185) |
| Financial liabilities ⁽¹⁾ | | 345 |
| | | <u>545</u> |
| Stockholders' equity under IFRS at January 1, 2005 (including IAS 32, IAS 39 and IFRS 4) | | <u>6,472</u> |

⁽¹⁾ Includes Reserve Capital Instrument (RCI) classified to equity from subordinated liabilities of €497 million, Preference Share Capital classified from equity to subordinated liabilities of €182 million and provision for dividends written back to equity of €30 million.

2. DISPOSAL OF LIFE ASSURANCE AND ACQUISITION OF AN INTEREST OF 24.99% IN HIBERNIAN.

On November 22, 2005, the Group announced that it had agreed the terms of a joint venture with a third party for the manufacture and distribution of life and pensions products in the Republic of Ireland. The joint venture brings together Hibernian and Life Assurance. Under the terms of the agreement, the Group will own an interest of 24.99% in the joint venture company and will enter into an exclusive agreement to distribute the life and pensions products of the joint venture. As part of the transaction, the Group will receive a cash payment of up to €205.4 million. The transaction was completed on January 30, 2006.

Under IFRS 5, "Non-current assets held for sale and discontinued operations", the income and expenses of Life Assurance for December 2005 and December 2004 of the activities deemed to be disposed of have been reported net of taxation as discontinued operations below income after taxes. The impact of the December 2004 restatement on the previously reported figures is outlined below on the Income Statement captions impacted. The assets and liabilities of Life Assurance (note 35) as at December 31, 2005 have been classified as held for sale and are separate from other assets and liabilities on the balance sheet. There has been no restatement of prior year balance sheet figures as the assets and liabilities were not held for sale at that date. There was a net decrease of cash and cash equivalents in Life Assurance during 2005 of €29 million (2004: net increase €12 million). All cash flows in both periods were generated as a result of operating activities.

| | December 31, 2004 | | |
|--|---------------------------|--|--------------------------|
| | As previously reported | Discontinued operations (Euro in millions) | Continuing operations |
| Net interest income | 2,134 | 62 | 2,072 |
| Other income | 1,498 | 330 | 1,168 |
| Total operating income | 3,632 | 392 | 3,240 |
| Insurance and investment contract liabilities and claims | 309 | 309 | — |
| Total operating expenses | 1,894 | 25 | 1,869 |
| Provisions | 133 | — | 133 |
| Operating income | 1,296 | 58 | 1,238 |
| Share of results of associated undertakings | 132 | — | 132 |
| Gain on disposal of property and businesses | 26 | — | 26 |
| Income before taxes | 1,454 | 58 | 1,396 |
| Applicable taxes | 275 | 5 | 270 |
| Income after taxes | 1,179 | 53 | 1,126 |

3. OPERATIONS BY GEOGRAPHICAL SEGMENT⁽¹⁾

| | Years ended December 31, | |
|------------------------------------|--------------------------|--------------|
| | 2005 | 2004 |
| (Euro in millions) | | |
| Interest income | | |
| Ireland | 3,101 | 2,464 |
| United States | 139 | 71 |
| United Kingdom | 1,491 | 1,157 |
| Poland | 408 | 323 |
| Rest of the World | 12 | 3 |
| | <u>5,151</u> | <u>4,018</u> |
| Dividend income | | |
| Ireland | 3 | 13 |
| United States | — | — |
| United Kingdom | 2 | 2 |
| Poland | 12 | 12 |
| Rest of the World | — | — |
| | <u>17</u> | <u>27</u> |
| Fees and commissions income | | |
| Ireland | 587 | 561 |
| United States | 70 | 81 |
| United Kingdom | 182 | 245 |
| Poland | 213 | 173 |
| Rest of the World | 9 | 7 |
| | <u>1,061</u> | <u>1,067</u> |
| Trading income | | |
| Ireland | 9 | 14 |
| United States | 4 | 6 |
| United Kingdom | 84 | 66 |
| Poland | 15 | 10 |
| Rest of the World | — | — |
| | <u>112</u> | <u>96</u> |
| Other operating income | | |
| Ireland | 13 | 95 |
| United States | 3 | 15 |
| United Kingdom | 4 | (40) |
| Poland | 51 | 40 |
| Rest of the World | 1 | (1) |
| | <u>72</u> | <u>109</u> |

| | Years ended December 31, | |
|--|--------------------------|-------------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Gross income | | |
| Ireland | 2,250 | 2,004 |
| United States | 117 | 125 |
| United Kingdom | 955 | 821 |
| Poland | 518 | 439 |
| Rest of the World | 16 | 8 |
| | <u>3,856</u> | <u>3,397</u> |
| Total operating expenses | | |
| Ireland | 1,239 | 1,126 |
| United States | 62 | 81 |
| United Kingdom | 413 | 392 |
| Poland | 290 | 266 |
| Rest of the World | 7 | 4 |
| | <u>2,011</u> | <u>1,869</u> |
| Provisions | | |
| Ireland | 70 | 70 |
| United States | 1 | (4) |
| United Kingdom | 54 | 38 |
| Poland | 15 | 29 |
| Rest of the World | 3 | — |
| | <u>143</u> | <u>133</u> |
| Income before taxes - continuing operations⁽²⁾ | | |
| Ireland | 850 | 726 |
| United States | 202 | 174 |
| United Kingdom | 477 | 377 |
| Poland | 171 | 115 |
| Rest of the World | 6 | 4 |
| | <u>1,706</u> | <u>1,396</u> |
| | <u>December 31,</u> | <u>January 1,</u> |
| | 2005 | 2005 |
| | (Euro in millions) | |
| Total assets | | |
| Ireland | 91,622 | 70,484 |
| United States | 5,071 | 2,568 |
| United Kingdom | 28,411 | 22,885 |
| Poland | 7,815 | 6,761 |
| Rest of the World | 295 | 121 |
| | <u>133,214</u> | <u>102,819</u> |
| | <u>December 31,</u> | <u>January 1,</u> |
| | 2005 | 2005 |
| | (Euro in millions) | |
| Stockholders' equity⁽³⁾ | | |
| Ireland | 4,039 | 2,342 |
| United States | 477 | 942 |
| United Kingdom | 1,810 | 2,299 |
| Poland | 320 | 322 |
| Rest of the World | 26 | 70 |
| | <u>6,672</u> | <u>5,975</u> |

⁽¹⁾ With the exception of stockholders' equity, the geographical distribution is based primarily on the location of the office recording the transactions.

⁽²⁾ In December 2004, the preference dividend was included in dividends on non-equity shares. In December 2005, the preference dividend is included within interest payable. This was due to the reclassification of the preference shares because of IAS 32 (see note 1).

⁽³⁾ The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of net assets.

Turnover is not shown as it resulted in the main from the business of banking.

| | | |
|---|------------------------------|----------------------------|
| Total assets | | |
| Ireland | 55,224 | 42,137 |
| United Kingdom | 20,031 | 15,175 |
| Capital Markets | 44,371 | 33,550 |
| Poland | 7,813 | 6,703 |
| Corporate | 5,775 | 5,254 |
| | <u>133,214</u> | <u>102,819</u> |
| Total risk weighted assets | | |
| Ireland | 39,073 | 31,183 |
| United Kingdom | 18,335 | 13,510 |
| Capital Markets | 38,974 | 30,098 |
| Poland | 4,640 | 4,232 |
| Corporate | 634 | 568 |
| | <u>101,656</u> | <u>79,591</u> |
| | December 31, 2005 | January 1, 2005 |
| | (Euro in millions) | |
| Stockholders' equity⁽³⁾ | | |
| Ireland | 2,564 | 2,341 |
| United Kingdom | 1,203 | 1,014 |
| Capital Markets | 2,558 | 2,259 |
| Poland | 305 | 318 |
| Corporate | 42 | 43 |
| | <u>6,672</u> | <u>5,975</u> |

⁽¹⁾ The business segment information is based on management accounts information. Income on capital is allocated to the divisions on the basis of the capital required to support the level of risk weighted assets. Interest income earned on capital not allocated to divisions is reported in Corporate.

⁽²⁾ In December 2004 the preference dividend was included in dividends on non-equity shares. In December 2005 the preference dividend is included within interest payable. This was due to the reclassification of the preference shares because of IAS 32 (see note 1).

⁽³⁾ The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of net assets.

5. INTEREST INCOME AND SIMILAR INCOME

| | Years ended December 31, | |
|--|---------------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Interest on loans and receivables to banks | 167 | 98 |
| Interest on loans and receivables to customers | 4,032 | 3,044 |
| Interest on trading portfolio financial assets | 305 | 232 |
| Interest on financial investments | 647 | 644 |
| | <u>5,151</u> | <u>4,018</u> |

Included within interest and similar income is income from listed investments of €931 million (2004: €810 million) and from unlisted investments of €86 million (2004: €83 million).

6. INTEREST EXPENSE

| | Years ended December 31, | |
|--|---------------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Interest on amounts due to banks and customers | 1,944 | 1,582 |
| Interest on debt securities in issue | 545 | 255 |
| Interest on subordinated liabilities and other capital instruments | 132 | 109 |
| | <u>2,621</u> | <u>1,946</u> |

7. DIVIDEND INCOME

The dividend income relates to income from equity shares.

8. TRADING INCOME

| | Years ended December 31, | |
|---|--------------------------|-----------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Foreign currency contracts | 59 | 66 |
| Profits less losses from trading portfolio financial assets | 84 | 55 |
| Interest rate contracts | (32) | (30) |
| Equity index contracts | 1 | 5 |
| | <u>112</u> | <u>96</u> |

9. OTHER OPERATING INCOME

| | Years ended December 31, | |
|--|--------------------------|------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Profit on disposal of available for sale debt securities | 17 | 15 |
| Profit on disposal of available for sale equity shares | 2 | 2 |
| Profit on termination of off-balance sheet instruments | — | 36 |
| Profit on disposal of investments in associated undertakings | — | 1 |
| Miscellaneous operating income | 53 | 55 |
| Total operating income | <u>72</u> | <u>109</u> |

10. OPERATING EXPENSES

(a) Administrative expenses

| | Years ended December 31, | |
|--|--------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Personnel expenses: | | |
| Wages and salaries | 948 | 868 |
| Share-based payment plans (note 13) | 34 | 25 |
| Retirement benefits (note 14) | 133 | 97 |
| Social security costs | 104 | 92 |
| Other personnel expenses | 79 | 54 |
| | <u>1,298</u> | <u>1,136</u> |
| General and administrative expenses: | | |
| Auditors' remuneration (including Value Added Tax): ⁽¹⁾ | | |
| Audit services: Statutory audit | 2 | 2 |
| Audit related services | 2 | — |
| | <u>4</u> | <u>2</u> |
| Other services: Taxation services | 1 | 1 |
| Other consultancy | 1 | — |
| | <u>2</u> | <u>1</u> |
| Operating lease rentals: | | |
| Property | 37 | 37 |
| | <u>37</u> | <u>37</u> |
| Other administrative expenses | 540 | 539 |
| Restructuring costs | — | 9 |
| Administrative expenses | <u>1,881</u> | <u>1,724</u> |

⁽¹⁾ Audit services include fees for the statutory audits of the Group and fees for assignments which are of an audit nature. These fees include assignments where the auditors provide assurance to third parties.

In the year ended December 31, 2005, 43% (2004: 53%) of the total statutory audit fees and 31% (2004: 41%) of audit related services were paid to overseas offices of the Auditors.

The Group policy on the provision of non-audit services to the bank and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditors for non-audit work.

The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender.

11. AMOUNTS WRITTEN OFF/(WRITTEN BACK) FINANCIAL INVESTMENTS

| | Years ended December 31, | |
|-----------------|--------------------------|------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Debt securities | 1 | (4) |
| Equity shares | 7 | 3 |
| | <u>8</u> | <u>(1)</u> |

Debt and equity securities were reclassified at January 1, 2005, as either trading portfolio assets, financial investments available for sale or loans and receivables under IAS 32 and IAS 39. The amounts written off in 2005 relate to financial instruments available for sale. The 2004 amounts relate to the balance sheet captions debt securities and equity shares.

12. CONSTRUCTION CONTRACT INCOME

In 2005, a property development subsidiary of the Group, contracted with the a third party to construct on a fixed price contract basis, a new development on their behalf. At December 31, 2005, contract revenue of €81 million less contract expenses of €36 million have been reported construction contract income. At December 31, 2005, €26 million was due from the consortium in respect of construction contracts in progress.

A subsidiary of the Group has contracted with this third party to lease the property on completion at an initial rent of €16.1 million per annum for a period of 33 years with a break clause at year 23.

13. SHARE-BASED PAYMENT PLANS

The Group operates a number of share-based compensation plans as outlined below on terms approved by the stockholders. The requirements of IFRS 2 "Share-based payment" have been applied to all equity share based payments granted after November 7, 2002 that had not vested by January 1, 2005.

Limitations on profit sharing and share options plans

Under the terms of the employees' profit sharing plans, the aggregate number of shares that may be purchased/held by the Trustees in any ten-year period may not exceed 10% of the issued ordinary share capital. The aggregate number of shares issued under the share option plans in any ten-year period may not exceed 5% of the issued ordinary share capital for the time being, provided, however, that in any year the maximum number of shares made available shall not exceed 0.5% of such share capital. The company complies with guidelines issued by the Irish Association of Investment Managers in relation to these plans.

Group share option plan

With the introduction of the Group Performance Share Plan 2005, the share option plan has been discontinued to the extent that further grants of options over the Company's shares may not be made, except in exceptional circumstances. Options were granted at the market price, being the middle market quotation of the Bank's shares on the Irish Stock Exchange on the day preceding the date on which the option is granted. The exercise of options granted between January 1, 1996 and December 31, 2000 is conditional on the achievement of earnings per share ("EPS") growth of at least 2% per annum, compound, above the increase in the Consumer Price Index ("CPI") over a period of not less than three and not more than five years from date of grant. The exercise of options granted since January 1, 2001 is conditional on the achievement of EPS growth of at least 5% per annum, compound, above the increase in the CPI over a period of not less than three and not more than five years from date of grant. Options may not be transferred or assigned and may be settled through the issue/re-issue of shares. They may be exercised only between the third and seventh anniversaries of their grant in the case of the options granted up to December 31, 2000 and between the third and tenth anniversaries of their grant in the case of options granted subsequent to that date.

The following table summarizes the share option plan activity over each of the three years ended December 31, 2005, 2004 and 2003.

| | 2005 | | 2004 | | 2003 | |
|----------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|
| | Number of options '000 | Weighted average exercise price € | Number of options '000 | Weighted average exercise price € | Number of options '000 | Weighted average exercise price € |
| Outstanding at January 1, | 21,025.2 | 11.90 | 28,553.1 | 12.34 | 29,518.2 | 11.73 |
| Granted | 1,459.0 | 16.21 | 3,223.5 | 12.60 | 3,272.9 | 13.30 |
| Exercised | (3,487.9) | 10.55 | (4,338.4) | 10.14 | (4,038.5) | 8.63 |
| Forfeited | (368.5) | 12.74 | (111.5) | 15.90 | (199.5) | 12.24 |
| Expired | — | — | (6,301.5) | — | — | — |
| Outstanding at December 31 | 18,627.8 | 12.47 | 21,025.2 | 11.90 | 28,553.1 | 12.34 |
| Exercisable at December 31 | 10,924.4 | 11.71 | 11,558.8 | 10.88 | 9,360.0 | 13.93 |

The following tables present the number of options outstanding at December 31, 2005 and December 31, 2004.

| Range of exercise price | December 31, 2005 | | |
|-------------------------|--|------------------------------------|-----------------------------------|
| | Weighted average remaining contractual life in years | Number of options outstanding '000 | Weighted average exercise price € |
| €10.02 - €11.98 | 3.34 | 7,910.3 | 11.00 |
| €12.60 - €13.90 | 7.39 | 9,280.5 | 13.15 |
| €16.20 - €18.63 | 9.32 | 1,437.0 | 16.21 |

| Range of exercise price | December 31, 2004 | | |
|-------------------------|--|------------------------------------|-----------------------------------|
| | Weighted average remaining contractual life in years | Number of options outstanding '000 | Weighted average exercise price € |
| €10.02 - €11.98 | 4.90 | 14,634.8 | 11.24 |
| €12.20 - €13.90 | 7.90 | 6,390.4 | 13.41 |

The binomial option pricing model has been used in estimating the value of the options granted. The expected volatility is based on an analysis of historical volatility over the ten years prior to the grant of the awards. The following table details the assumptions used, and the resulting fair values provided by the option pricing model.

| | 2005 | 2004 |
|--|---------|---------|
| Number of options ('000) | 1,459. | 3,223. |
| Exercise price | € 16.21 | € 12.60 |
| Vesting period (in years) | 3 | 3 |
| Expected volatility | 28.1% | 30.5% |
| Options life (years) | 10 | 10 |
| Risk free rate | 3.37% | 4.25% |
| Expected dividends expressed as a dividend yield | 3.8% | 3.8% |
| Fair value per option | € 4.19 | € 3.24 |

Employee profit sharing plans

The Company operates the "Group Approved Employees Profit Sharing Scheme 1998" on terms approved by the stockholders. There are no vesting conditions. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods (i.e. a continuous employment for at least one year prior to the last day of the relevant accounting period). The directors at their discretion may set aside each year a sum not exceeding 5% of eligible profits of participating companies.

Eligible employees in the Republic of Ireland may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by Trustees for a minimum period of two years and are required to be held for a total period of three years for the employees to obtain the maximum tax benefit. Such employees may also elect to forego an amount of salary, subject to certain limitations, towards the acquisition of additional shares. The maximum market value of shares that may be appropriated to any employee in a year may not exceed €12,700.

In December 2002 a **Share Ownership Plan** was launched in the UK to replace the profit sharing plan that previously operated for UK-based employees. The Plan, which was approved by shareholders at the 2002 Annual General Meeting, provides for the receipt by eligible employees of shares in a number of categories: Partnership Shares, in which employees may invest up to £ 1,500 per annum from salary; Free Shares, involving the award by the Company of shares up to the value of £ 3,000 per annum per employee, and Dividend Shares, which may be acquired by employees by re-investing dividends of up to £ 1,500 per annum.

To participate in the plan eligible employees must have been in the continuous employment of the Group from the July 1, prior to the grant date. During 2005, a total of 274,251 shares with a value of €4.3 million (2004: 342,674 shares with a value of €3.6 million) were awarded under the Free Share plan. Shares are forfeited on a sliding scale should the employee leave the service of the Group within three years of grant date. The market value is determined as the mid market price of the Company's shares on the Irish Stock Exchange daily official list on the relevant date.

The following table summarizes the share ownership plan activity during 2005, 2004 and 2003.

| | 2005 | | 2004 | | 2003 | |
|----------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|
| | Number of options '000 | Weighted average exercise price € | Number of options '000 | Weighted average exercise price € | Number of options '000 | Weighted average exercise price € |
| Outstanding at January 1, | 661.5 | 11.97 | 321.0 | 11.98 | — | — |
| Granted | 274.2 | 15.78 | 342.7 | 11.96 | 324.4 | 11.98 |
| Forfeited | (19.1) | 15.78 | (2.2) | 11.96 | (3.4) | 11.98 |
| Outstanding at December 31 | 916.6 | 13.03 | 661.5 | 11.97 | 321.0 | 11.98 |

Save As You Earn (SAYE) Share Option Scheme UK

The company operates a Save As You Earn Share Option Scheme in the UK. The plan is open to all employees of the Group in the UK who have completed six months continuous service at the date of grant. Under the Scheme employees may opt to save fixed amounts on a regular basis, over a three-year period, subject to a maximum monthly saving of £ 250 per employee. At the end of the three-year period, a tax-free bonus equal to 1.7 times the participant's monthly contribution is added. In addition, at the end of the three-year period the participant has 6 months in which to exercise the option and purchase the shares at the option price (fixed price being the average price per share, on the London Stock Exchange on the day prior to grant date, less 20% discount); or the participant may withdraw the savings and bonus amount.

The following table summarizes option activity during 2005 and 2004.

| | 2005 | | 2004 | |
|----------------------------|------------------------|-----------------------------------|------------------------|-----------------------------------|
| | Number of options '000 | Weighted average exercise price € | Number of options '000 | Weighted average exercise price € |
| Outstanding at January 1 | 1,186.5 | 9.57 | — | — |
| Granted | 299.2 | 13.02 | 1,221.0 | 9.57 |
| Forfeited | (51.0) | 13.02 | (34.5) | 9.57 |
| Outstanding at December 31 | 1,434.7 | 10.17 | 1,186.5 | 9.57 |
| Exercisable at December 31 | — | — | — | — |

The binominal option pricing model has been used in estimating the value of the options granted. The expected volatility is based on historical volatility over the three and a half years prior to the grant of the SAYE options.

The following table details the assumptions used, and the resulting fair values provided by the option pricing model.

| | 2005 | 2004 |
|--|---------|---------|
| Share price at grant date | € 16.28 | € 11.96 |
| Exercise price | € 13.02 | € 9.57 |
| Vesting period (years) | 3 | 3 |
| Expected volatility | 27.3% | 30.5% |
| Options life (years) | 3.5 | 3.5 |
| Expected life (years) | 3 | 3 |
| Risk-free rate | 2.48% | 3.40% |
| Expected dividends expressed as a dividend yield | 3.8% | 3.8% |
| Possibility of ceasing employment before vesting | 17.67% | 17.67% |
| Fair value per option | € 3.99 | € 3.26 |

Long Term Incentive Plans

Under the terms of the **Group Long Term Incentive Plan**, approved by stockholders at the 2000 Annual General Meeting, conditional grants of awards of ordinary shares had been made as at December 31, 2005 in respect of 1,305,200 ordinary shares in aggregate to 234 employees. These awards will vest in full in the award-holders only if (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; *and* (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's core EPS positions the Company outside the top 20% of that Index but still within its top 45%, subject to the criterion at (a) being satisfied. Vested shares must be held until normal retirement date, except that award-holders may dispose of shares sufficient to meet the income tax liability arising on vesting. No awards were granted under this plan and no vesting took place of existing awards during 2005 or 2004.

During 2005, the **Group Performance Share Plan 2005** was introduced on terms approved by the stockholders. This Plan is designed to provide market-competitive incentives for senior executives, in the context of the Company's long-term performance against stretching growth targets and the overall return to shareholders. Conditional awards of shares are made to employees with vesting to take place on the third anniversary of the grant subject to certain performance conditions.

10% of the shares will vest if EPS performance over a three year period achieves the growth in Consumer Price Index ("CPI") plus 5% per annum with up to 50% vesting on a graduated scale if EPS performance over a three year period achieves CPI plus 10%. A further 10% of the shares will vest if the Total Shareholder Return ("TSR") of the Group is in the top half of a peer group of 15 banks, with up to 50% vesting on a graduated scale if the TSR of the Group over the same three year period places the Group in the top three of the peer group. Settlement will take place through the issue/reissue of shares.

During 2005, conditional awards of 290,905 shares in aggregate were granted to nine employees and were outstanding at the end of the period. In respect of the part of the award subject to the EPS vesting criteria, the market value of the shares at the date of grant is used to determine the value of the grant, adjusted to take into account the expected vesting. In respect of the part of the award subject to the Total Shareholder Return vesting criteria, the expense is determined using the expected vesting of the shares.

Income statement expense

The Group attributes a value to the service provided by the employee based on the value of the share option granted. The total expense arising from share based payment transactions amounted to €34 million in the year ended December 31, 2005 (2004: €25 million)

14. RETIREMENT BENEFITS

The Group operates a number of pension and retirement benefits plans for employees, the majority of which are funded. These include defined benefit and defined contribution plans.

Defined benefit plans

The Group operates a number of defined benefit plans, the most significant being the Group Irish Pension Scheme (the Irish plan) and the Group UK Pension Scheme (the UK plan). Approximately fifty per cent of staff in the Republic of Ireland are members of the Irish plan while 47% of staff in the UK are members of the UK plan. Retirement benefits for the defined benefit scheme are calculated by reference to service and pensionable salary at normal retirement date.

Independent actuarial valuations, for the main Irish and UK plan, are carried out on a triennial basis. The last such valuations were carried out on June 30, 2003 using the Projected Unit Method. The plans are funded and contribution rates of 26.0% and 44.6% have been set for the Irish and UK plan respectively with effect from January 1, 2004. The total contribution to the defined benefit plans in 2006 is estimated to be €118 million approximately. As both these plans are closed to new entrants, under the Projected Unit Method the current service cost and the standard contribution rates will increase as members of the plans approach retirement. The actuarial valuations are available for inspection only to the members of the plans.

The following table summarizes the financial assumptions adopted in the preparation of these accounts in respect of the main plans. The assumptions, including the expected long-term rate of return on assets, have been set upon advice of the Group's actuary.

| | December 31, | |
|---|--------------|-----------|
| | 2005 | 2004 |
| | % | % |
| Financial assumptions | | |
| Irish plan | | |
| Rate of increase in salaries | 4.0 | 4.0 |
| Rate of increase of pensions in payment | 2.25 | 2.5 |
| Discount rate | 4.3 | 4.9 |
| Inflation assumptions | 2.25 | 2.5 |
| UK plan | | |
| Rate of increase in salaries | 4.0 | 4.0 |
| Rate of increase of pensions in payment | 2.75 | 2.75 |
| Discount rate | 4.75 | 5.30 |
| Inflation assumptions | 2.5 | 2.5 |
| Other plans | | |
| Rate of increase in salaries | 4.0-4.0 | 4.0-4.25 |
| Rate of increase of pensions in payment | 0.0-2.75 | 0.0-2.75 |
| Discount rate | 4.3-5.75 | 4.90-5.75 |
| Inflation assumptions | 2.25-2.75 | 2.5-2.75 |

The mortality assumptions used in estimating the actuarial value of the liabilities are based on the PM/FA92 (c=2020) table. This reflects the use today of the expected lifetimes of pensioners in the year 2020. The use of this table represents the present best estimate of future mortality, having taken actuarial advice.

With respect to the selection of discount rate, the relevant iBoxx index of euro and sterling denominated AA-rated corporate bonds is used with reference to the average duration of the pension liabilities.

The following table sets out on a combined basis for all plans, the fair value of the assets held by the plans together with the long term rate of return expected for each class of assets.

| | December 31, 2005 | | December 31, 2004 | |
|--|---|---------|---|---------|
| | Long term rate of return expected | Value | Long term rate of return expected | Value |
| | % | € m | % | € m |
| Equities | 7.3 | 2,267 | 7.8 | 1,780 |
| Bonds | 3.6 | 463 | 4.1 | 344 |
| Property | 6.3 | 287 | 6.4 | 274 |
| Cash | 2.6 | 118 | 3.0 | 130 |
| Total market value of assets | 6.5 | 3,135 | 6.9 | 2,528 |
| Actuarial value of liabilities of funded plans | | (4,272) | | (3,356) |
| Deficit in funded plans | | (1,137) | | (828) |
| Unfunded schemes | | (90) | | (58) |
| Net pension deficit | | (1,227) | | (886) |

At December 31, 2005, the pension plan assets within equities included Group shares amounting to €64 million (December 31, 2004: €65 million).

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to €108,341 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the years ended December 31, 2005 and 2004.

| | Years ended December 31, | |
|---|--------------------------|-------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Included in administrative expenses: | | |
| Current service cost | 103 | 91 |
| Past service cost | 14 | 3 |
| Settlements and curtailments | (1) | — |
| Expected return on pension plan assets | (179) | (171) |
| Interest on pension plan liabilities | 171 | 153 |
| Cost of providing defined retirement benefits | 108 | 76 |

The actual return on plan assets during the year ended December 31, 2005 was €553 million (2004: €270 million)

| | Years ended December 31, | |
|---|--------------------------|-------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Movement in defined benefit obligation during the year | | |
| Defined benefit obligation at beginning of year | 3,414 | 2,932 |
| Current service cost | 103 | 91 |
| Past service cost | 14 | 3 |
| Interest cost | 171 | 153 |
| Actuarial gains and losses | 718 | 329 |
| Benefits paid | (84) | (79) |
| Curtailments and settlements | (1) | — |
| Translation adjustment on non-euro plans | 27 | (15) |
| Defined benefit obligation at end of year | 4,362 | 3,414 |

| | Years ended December 31, | |
|--|--------------------------|-------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Movement in the fair value of plan assets during the year | | |
| Fair value of plan assets at beginning of year | 2,528 | 2,249 |
| Expected return | 179 | 171 |
| Actuarial gains and losses | 374 | 99 |
| Contributions by employer | 121 | 102 |
| Benefits paid | (84) | (79) |
| Translation adjustment on non-euro plans | 17 | (14) |
| Fair value of plan assets at end of year | 3,135 | 2,528 |

| | Years ended December 31, | |
|--|--------------------------|-------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Analysis of the amount recognized in the statement of recognised income and expense ("SORIE") | | |
| Actual return less expected return on pension scheme assets | 374 | 99 |
| Experience gains and losses on plan liabilities | (62) | (150) |
| Changes in demographic and financial assumptions | (656) | (179) |
| Actuarial loss recognized under IAS 19 | (344) | (230) |
| Deferred tax | 59 | 33 |
| Recognized in the statement of recognized income and expense | (285) | (197) |

| | Years ended December 31, | | | | |
|--|--------------------------|-------------|-------------|-------------|--------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Euro in millions) | | | | |
| History of experience gains and losses | | | | | |
| <i>Difference between expected and actual return on plan assets:</i> | | | | | |
| Amount | 374 | 99 | 93 | (862) | (438) |
| Percentage of plan assets | 12% | 4% | 4% | 40% | 15% |
| <i>Experience gains and losses on plan liabilities:</i> | | | | | |
| Amount | (62) | (150) | 97 | (18) | (32) |
| Percentage of plan liabilities | 1% | 4% | 3% | 1% | 1% |
| <i>Total amount recognized in SORIE:</i> | | | | | |
| Amount | (344) | (230) | (67) | (1,00) | (502) |
| Percentage of plan liabilities | 8% | 7% | 2% | 35% | 19% |
| | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| | (Euro in millions) | | | | |
| Defined benefit pension plans | | | | | |
| Funded defined benefit obligation | 4,272 | 3,356 | 2,855 | 2,879 | 2,645 |
| Plan assets | 3,135 | 2,528 | 2,225 | 2,169 | 2,903 |
| Deficit/(surplus) within funded plans | <u>1,137</u> | <u>828</u> | <u>630</u> | <u>710</u> | <u>(258)</u> |

Defined contribution plans

The Group operates a number of defined contribution plans. The defined benefit plans in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 8%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). The total cost in respect of defined contribution schemes for 2005 was €25 million (2004: €21 million).

15. GAIN ON DISPOSAL OF BUSINESSES

2005

The gain on disposal of businesses in 2005 of €5 million relates to the sale of one of the Group's subsidiaries for €4 million (tax charge €1 million), and deferred consideration of €1 million (tax charge €0.3 million), arising from a 2003 sale.

2004

The gain on disposal of businesses in 2004 of €17 million relates to the sale of one of the Group's subsidiaries for €13 million (tax charge €2 million), and deferred consideration of €4 million (tax charge €1 million), arising from the 2003 sale.

16. APPLICABLE TAXES

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| (Euro in millions) | | |
| Bank Company and subsidiaries: | | |
| Domestic corporation tax | | |
| Current tax on income for the period ⁽¹⁾ | 160 | 136 |
| Adjustments in respect of prior periods | 1 | (5) |
| | 161 | 131 |
| Double taxation relief | (10) | (13) |
| | 151 | 118 |
| Foreign tax | | |
| Current tax on income for the period | 163 | 181 |
| Adjustments in respect of prior periods | (11) | (11) |
| | 152 | 170 |
| Total current tax | 303 | 288 |
| Deferred taxation | | |
| Origination and reversal of timing differences | 16 | (10) |
| Other | — | (8) |
| Total deferred taxation | 16 | (18) |
| Taxation expense - continuing operations | 319 | 270 |
| Effective income tax rate - continuing operations | 18.7% | 19.4% |

⁽¹⁾ Includes a charge of €29.5 million (2004: €29.5 million) in relation to a Government bank levy.

Income before taxes – domestic continuing operations amounted to €850 million (2004: €726 million) and in all other jurisdictions amounted to €856 million (2004: €670 million).

Total domestic deferred taxation was €(3) million (2004: €(2) million) and €19 million (2004: €(16) million) in foreign jurisdictions.

Factors affecting the effective income tax rate

The effective income tax rate for 2005 and 2004 is lower than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

| | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|
| | % | % |
| Weighted average corporation tax rate ⁽²⁾ | 20.7 | 20.5 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 0.4 | 3.2 |
| Exempted income, income at reduced rates and tax credits | (1.2) | (1.8) |
| Net effect of differing tax rates overseas | 0.3 | 0.3 |
| Capital allowances in excess of depreciation | 0.2 | 0.2 |
| Other differences | (0.1) | 0.3 |
| Tax on associated undertakings | (3.0) | (4.5) |
| Government Bank levy | 1.7 | 2.1 |
| Adjustments to tax charge in respect of previous periods | (0.3) | (0.9) |
| Effective income tax rate - continuing operations | 18.7 | 19.4 |

⁽²⁾ The weighted average corporation tax rate is derived from the standard tax rate in each jurisdiction multiplied by the net income generated in that jurisdiction.

17. MINORITY INTERESTS IN SUBSIDIARIES

| | Years ended December 31, | |
|---|--------------------------|-----------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| The profit attributable to minority interests is analyzed as follows: | | |
| Equity interest in subsidiaries | 42 | 27 |
| Non-equity interest in subsidiaries (note 43) | 48 | 2 |
| | <u>90</u> | <u>29</u> |

18. DISTRIBUTIONS TO OTHER EQUITY HOLDERS

Distributions to other equity holders are recognized in equity when declared by the Board of Directors. In 2005, the distributions on the €500 million Reserve Capital Instruments (RCIs) which were reclassified to equity on January 1, 2005 amounted to €38 million. The dividend of €4 million in 2004 relates to the US\$ 250 million non-cumulative preference shares which were reclassified to liabilities on January 1, 2005.

19. DISTRIBUTIONS ON EQUITY SHARES

Holders of ordinary shares are entitled to receive such dividends out of the profits of the Group as are available by law for distribution and as may be declared by the stockholders at general meeting, but no dividends may be declared in excess of an amount recommended by the Board of Directors. The Board may, without obtaining prior stockholder approval, pay to the stockholders such interim dividends as appear to the Board to be justified by the net income of the Group.

No dividend can be declared or interim dividend paid unless the dividend on any outstanding preference shares most recently payable shall have been paid in cash.

| | Years ended December 31, | | Years ended December 31, | |
|-------------------------------|--------------------------|-------------|--------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (cent per €0.32 share) | | (Euro in millions) | |
| Ordinary Shares of €0.32 each | | | | |
| Interim dividend 2005 (2004) | 23.0 | 20.9 | 200 | 179 |
| Final dividend 2004 (2003) | 38.5 | 35.0 | 332 | 296 |
| | <u>61.5</u> | <u>55.9</u> | <u>532</u> | <u>475</u> |

20. EARNINGS PER SHARE

| | Years ended December 31, | |
|--|--------------------------------|---------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| (a) Basic | | |
| Net income attributable to equity holders of the parent | 1,343 | 1,150 |
| Distributions to other equity holders (note 18) | (38) | (4) |
| Net income attributable to ordinary stockholders | 1,305 | 1,146 |
| Weighted average number of shares in issue during the period | 864.5m | 852.0m |
| Earnings per share | Eur 151.0c | Eur 134.5c |
| | <u>2005</u> | <u>2004</u> |
| | (Euro in millions) | |
| (b) Diluted | | |
| Net income attributable to ordinary stockholders | 1,305 | 1,146 |
| Dilutive impact of potential ordinary shares in associated company | (1) | — |
| Adjusted net income attributable to ordinary stockholders | 1,304 | 1,146 |
| | (Number of shares in millions) | |
| Weighted average number of shares in issue during the period | 864.5 | 852.0 |
| Dilutive effect of options outstanding | 5.7 | 3.1 |
| Potential weighted average number of shares | 870.2 | 855.1 |
| Earnings per share - diluted | Eur 149.8 | Eur 134.0 |
| | <u>2005</u> | <u>2004</u> |

21. ADJUSTED EARNINGS PER SHARE

| | Basic | | Diluted | |
|-------------------------------|------------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (cent per €0.32 share) | | | |
| (a) Earnings per share | | | | |
| As reported | 151.0 | 134.5 | 149.8 | 134.0 |
| Adjustments: | | | | |
| Construction contract income | (4.4) | — | (4.4) | — |
| Hedge volatility | (0.7) | — | (0.7) | — |
| Effective interest rate | — | (2.5) | — | (2.5) |
| Insurance business | — | (2.4) | — | (2.4) |
| | <u>145.9</u> | <u>129.6</u> | <u>144.7</u> | <u>129.1</u> |

| | Basic | | Diluted | |
|---|------------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (cent per €0.32 share) | | | |
| (b) Earnings per share – continuing operations | | | | |
| As reported | 145.7 | 128.3 | 144.6 | 127.8 |
| Adjustments: | | | | |
| Construction contract income | (4.4) | — | (4.4) | — |
| Hedge volatility | (0.7) | — | (0.7) | — |
| Effective interest rate | — | (2.5) | — | (2.5) |
| | <u>140.6</u> | <u>125.8</u> | <u>139.5</u> | <u>125.3</u> |

Adjusted earnings per share is presented to help understand the underlying performance of the Group. The adjustments in 2005 are items that do not reflect the underlying business performance. As IAS 39 and IFRS 4 have been implemented with effect from January 1, 2005, the adjustments in 2004 reflect the impact that these standards would have had on the effective interest rate and insurance business had they been applied from January 1, 2004.

22. TREASURY BILLS AND OTHER ELIGIBLE BILLS

Treasury bills amounting to €201 million were held as available for sale. Their maturity profile is set out in note 57. There was no fair value gain or loss at December 31, 2005.

23. TRADING PORTFOLIO FINANCIAL ASSETS

| | December 31, 2005 | January 1, 2005 |
|------------------------------------|-------------------------|-----------------------|
| | (Euro in millions) | |
| Loans and receivables to banks | 3 | 2 |
| Loans and receivables to customers | 72 | 45 |
| Debt securities: | | |
| Government securities | 922 | 1,048 |
| Other public sector securities | 19 | 73 |
| Other debt securities | 9,008 | 6,705 |
| | 9,949 | 7,826 |
| Equity shares | 89 | 84 |
| | <u>10,113</u> | <u>7,957</u> |
| | December 31, 2005 | January 1, 2005 |
| | (Euro in millions) | |
| Of which listed: | | |
| Debt securities | 9,949 | 7,826 |
| Equity instruments | 79 | 78 |
| Of which unlisted: | | |
| Loans and receivables to banks | 3 | 2 |
| Loans and receivables to customers | 72 | 45 |
| Equity shares | 10 | 6 |
| | <u>10,113</u> | <u>7,957</u> |

| | 2005 | | | |
|--|--------------------|-------------------------------|------------------------|---------------|
| | Within one year | Between one and five years | Five years and over | Total |
| | (Euro in millions) | | | |
| Analyzed by residual maturity as follows: | | | | |
| Loans and receivables to banks | 3 | — | — | 3 |
| Loans and receivables to customers | 40 | 18 | 14 | 72 |
| Debt securities | 1,884 | 4,652 | 3,413 | 9,949 |
| | <u>1,927</u> | <u>4,670</u> | <u>3,427</u> | <u>10,024</u> |

24. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

On transition to IFRS, certain assets held within Life Assurance were designated at fair value through profit or loss. Arising from the disposal of Life Assurance (note 2), at December 31, 2005 these are included within the caption "Disposal group and assets classified as held for sale" (note 35).

These financial assets were also carried at fair value under Previous GAAP, therefore, there was no change when designated as at fair value through profit or loss under IFRS.

25. LOANS AND RECEIVABLES TO BANKS

| | December 31, | |
|---|--------------------|------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Analyzed by remaining maturity: | | |
| Repayable on demand | 316 | 246 |
| Other loans and advances by remaining maturity: | | |
| Over 5 years | 146 | 127 |
| 5 years or less but over 1 year | 11 | 30 |
| 1 year or less but over 3 months | 376 | 279 |
| 3 months or less but not repayable on demand | 6,282 | 1,86 |
| | 7,131 | 2,54 |
| Allowance for loan losses (note 26) | (2) | (2) |
| | 7,129 | 2,54 |
| Amounts include: | | |
| Reverse repurchase agreements | 2,259 | 272 |
| Due from associated undertakings | — | 1 |

| | December 31, | |
|--|--------------------|------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Loans and receivables to banks by geographical area | | |
| Republic of Ireland | 4,260 | 1,37 |
| United States of America | 1,366 | 81 |
| United Kingdom | 677 | 685 |
| Poland | 824 | 400 |
| Rest of the world | 2 | 2 |
| | 7,129 | 2,54 |

Under reverse repurchase agreements, the Group has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of collateral received amounted to €2,259 million. The collateral received consisted of government securities of €2,171 million and other securities of €88 million. There was no collateral sold or repledged at December 31, 2005.

26. LOANS AND RECEIVABLES TO CUSTOMERS LESS ALLOWANCE FOR LOAN LOSSES

| | December 31, | |
|--|--------------------|--------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Loans and receivables to customers ⁽¹⁾ | 81,988 | 63,130 |
| Amounts receivable under finance lease and hire purchase contracts (note 27) | 2,774 | 2,495 |
| Unquoted securities | 1,287 | — |
| | 86,049 | 65,625 |
| Allowance for loan losses | (674) | (758) |
| Unearned interest | (143) | (129) |
| | 85,232 | 64,738 |
| Analyzed by remaining maturity: | | |
| Over 5 years | 32,583 | 26,349 |
| 5 years or less but over 1 year | 22,110 | 16,932 |
| 1 year or less but over 3 months | 15,192 | 10,177 |
| 3 months or less | 16,021 | 12,038 |
| | 85,906 | 65,496 |
| Allowance for loan losses | (674) | (758) |
| | 85,232 | 64,738 |
| Of which repayable on demand or at short notice | 21,245 | 16,640 |
| Amounts include: | | |
| Due from associated undertakings | — | — |

⁽¹⁾ At December 31, 2005 there were securities purchased under agreements to resell of €4 million (2004: €6 million).

Amounts include reverse repurchase agreements of €4 million (2004: €6 million). The unwind of the impairment provision discount amounting to €19 million is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

| | December 31, 2005 | | |
|--|--------------------|------------|------------|
| | Specific | IBNR | Total |
| | (Euro in millions) | | |
| Allowance for loan losses | | | |
| Allowance at beginning of year | 478 | 282 | 760 |
| IFRS transition adjustment at January 1, 2005 | (3) | (143) | (146) |
| Currency translation adjustments | 13 | 3 | 16 |
| Transfer to provisions for liabilities and commitments | — | — | — |
| Charge against income | — | 115 | 115 |
| Transfer to specific | 95 | (95) | — |
| Amounts charged off | (72) | — | (72) |
| Recoveries of amounts previously charged off | 3 | — | 3 |
| Allowance at end of year | <u>514</u> | <u>162</u> | <u>676</u> |
| Analyzed as to: | | | |
| Loans and receivables to banks (note 25) | 2 | — | 2 |
| Loans and receivables to customers | <u>512</u> | <u>162</u> | <u>674</u> |
| | <u>514</u> | <u>162</u> | <u>676</u> |

| | December 31, 2004 | | |
|--|--------------------|------------|------------|
| | Specific | General | Total |
| | (Euro in millions) | | |
| Allowance at beginning of year | 443 | 323 | 766 |
| Currency translation adjustments | 23 | 2 | 25 |
| Transfer to provisions for liabilities and commitments | — | (15) | (15) |
| Charge against income | — | 114 | 114 |
| Transfer to specific | 142 | (142) | — |
| Amounts charged off | (151) | — | (151) |
| Recoveries of amounts previously charged off | 21 | — | 21 |
| Allowance at end of year | <u>478</u> | <u>282</u> | <u>760</u> |
| Analyzed as to: | | | |
| Loans and receivables to banks (note 25) | 2 | — | 2 |
| Loans and receivables to customers | <u>476</u> | <u>282</u> | <u>758</u> |
| | <u>478</u> | <u>282</u> | <u>760</u> |

| | December 31, | |
|--|--------------------|---------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Loans and receivables to customers by geographical area | | |
| Republic of Ireland | 54,571 | 41,494 |
| United States of America | 2,497 | 1,386 |
| United Kingdom | 24,210 | 18,375 |
| Poland | 3,663 | 3,365 |
| Rest of the world | 291 | 118 |
| | <u>85,232</u> | <u>64,738</u> |

27. AMOUNTS RECEIVABLE UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

| | December 31, | |
|---|--------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Gross receivables | | |
| Not later than 1 year | 1,004 | 939 |
| Later than one year and not later than 5 years | 1,871 | 1,641 |
| Later than 5 years | 146 | 167 |
| Total | <u>3,021</u> | <u>2,747</u> |
| Unearned future finance income | (254) | (257) |
| Deferred costs incurred on origination | 7 | 5 |
| Total | <u>2,774</u> | <u>2,495</u> |
| Present value of minimum payments analyzed by residual maturity | | |
| Not later than 1 year | 916 | 846 |
| Later than one year and not later than 5 years | 1,725 | 1,489 |
| Later than 5 years | 133 | 160 |
| Present value of minimum payments | <u>2,774</u> | <u>2,495</u> |
| Provision for uncollectable minimum payments receivable amounted to: ⁽¹⁾ | 16 | 20 |
| Unguaranteed residual values accruing to the benefit of the Group | <u>12</u> | <u>13</u> |

⁽¹⁾ Included in the allowance for loan losses within loans and receivables to customers (note 26).

28. FINANCIAL INVESTMENTS AVAILABLE FOR SALE

Financial investments in both debt securities (*note 29*) and equity shares (*note 30*) were reclassified at January 1, 2005, as either trading portfolio assets, financial investments available for sale or loans and receivables under IAS 32 and IAS 39.

The following tables give the carrying value (fair value) of available for sale securities by major classifications together with the unrealized gains and losses not recognized in the income statement at December 31, 2005.

| | Fair Value | Unrealized Gross Gains | Unrealized Gross (Losses) | Net unrealized gains/(losses) | Tax effect | Net after tax |
|--|--------------------|---------------------------|------------------------------|----------------------------------|-------------|------------------|
| | (Euro in millions) | | | | | |
| Debt securities | | | | | | |
| Irish government securities | 492 | 10 | — | 10 | (1) | 9 |
| Euro government securities | 3,943 | 41 | (12) | 29 | (6) | 23 |
| Non Euro government securities | 2,877 | 39 | (1) | 38 | (7) | 31 |
| Non European government securities | 1,035 | 13 | (2) | 11 | (1) | 10 |
| U.S. Treasury & U.S. government agencies | 516 | 4 | (1) | 3 | — | 3 |
| Collateralized mortgage obligations | 638 | 1 | (1) | — | — | — |
| Other asset backed securities | 534 | 2 | — | 2 | — | 2 |
| Other investments | 6,658 | 28 | (14) | 14 | (2) | 12 |
| Total debt securities | 16,693 | 138 | (31) | 107 | (17) | 90 |
| Equity shares | 171 | 64 | (3) | 61 | (8) | 53 |
| Total | 16,864 | 202 | (34) | 168 | (25) | 143 |

The amount removed from equity and recognized in the income statement in respect of financial assets available for sale amounted to €91 million during the period.

| | Debt securities | Equity shares | Total |
|--|--------------------|------------------|---------|
| | (Euro in millions) | | |
| Analysis of movements in financial investments available for sale | | | |
| At January 1, 2005 | 15,546 | 174 | 15,72 |
| Currency translation adjustments | 650 | 6 | 656 |
| Purchases | 9,782 | 15 | 9,797 |
| Sales | (5,068) | (18) | (5,086) |
| Maturities | (4,122) | — | (4,122) |
| Provisions for impairment | (1) | (7) | (8) |
| Amortization of (premiums) net of discounts | (64) | — | (64) |
| Movement in unrealized (losses)/gains | (30) | 1 | (29) |
| At December 31, 2005 | 16,693 | 171 | 16,86 |
| Debt securities analyzed by remaining maturity | | | |
| Due within one year | 4,825 | | |
| After one year, but within five years | 7,645 | | |
| After five years, but within ten years | 2,865 | | |
| After ten years | 1,358 | | |
| Total at December 31, 2005 | 16,693 | | |

The following tables give an analysis of the securities portfolio with unrealized losses not recognized in the income statement at December 31, 2005, distinguishing between unrealized losses of less than 12 months and unrealized losses outstanding for periods in excess of 12 months.

| | Fair value | | | Unrealized losses | | |
|--|--|---|-------------|--|--|-------------|
| | Investments with unrealized losses of less than 12 months | Investments with unrealized losses of more than 12 months | Total | Unrealized losses of less than 12 months | Unrealized losses of more than 12 months | Total |
| | (Euro in millions) | | | | | |
| Debt securities | | | | | | |
| Euro government securities | 1,804 | 221 | 2,02 | (10) | (2) | (12) |
| Non Euro government securities | 1,638 | 196 | 1,83 | (1) | — | (1) |
| Non European government securities | 137 | 81 | 218 | — | (2) | (2) |
| U.S. Treasury & U.S. government agencies | 102 | 13 | 115 | (1) | — | (1) |
| Collateralized mortgage obligations | 313 | 43 | 356 | (1) | — | (1) |
| Other investments | 1,931 | 386 | 2,31 | (12) | (2) | (14) |
| Total debt securities | 5,925 | 940 | 6,86 | (25) | (6) | (31) |
| Equity shares | 6 | — | 6 | — | (3) | (3) |
| Total | 5,931 | 940 | 6,87 | (25) | (9) | (34) |

Available for sale financial investments with unrealized losses of more than twelve months have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.

29. DEBT SECURITIES

Financial investments in both debt securities and equity shares were reclassified at January 1, 2005, as either trading portfolio assets, financial investments available for sale or loans and receivables under IAS 32 and IAS 39.

The following tables show the analysis of debt securities under Previous GAAP for 2004.

| | December 31, 2004 | | | Market value |
|---|-------------------|------------------------|-------------------------|---------------|
| | Book amount | Gross unrealized gains | Gross unrealized losses | |
| (Euro in millions) | | | | |
| Held as financial fixed assets | | | | |
| Issued by public bodies: | | | | |
| Government securities | 7,101 | 137 | (11) | 7,227 |
| Other public sector securities | 854 | 13 | — | 867 |
| Issued by other issuers: | | | | |
| Bank and building society certificates of deposit | 585 | — | — | 585 |
| Other debt securities | 7,710 | 119 | (6) | 7,823 |
| | <u>16,250</u> | <u>269</u> | <u>(17)</u> | <u>16,502</u> |
| Held for trading purposes | | | | |
| Issued by public bodies: | | | | |
| Government securities | 1,473 | | | 1,473 |
| Other public sector securities | 73 | | | 73 |
| Issued by other issuers: | | | | |
| Bank and building society certificates of deposit | — | | | — |
| Other debt securities | 6,705 | | | 6,705 |
| | <u>8,251</u> | <u>—</u> | <u>—</u> | <u>8,251</u> |
| | <u>24,501</u> | <u>269</u> | <u>(17)</u> | <u>24,753</u> |

Market value is market price for quoted securities and directors' estimate for unquoted securities.

| | December 31, 2004 |
|---------------------------------------|--------------------|
| | (Euro in millions) |
| Analyzed by remaining maturity | |
| Due within one year | 4,119 |
| Due one year and over | 20,382 |
| Total at December 31, 2004 | <u>24,501</u> |

| | December 31, 2004 | |
|---------------------------------------|-------------------|--------------|
| | Book Amount | Market Value |
| (Euro in millions) | | |
| Analyzed by listing status | | |
| Held as financial fixed assets | | |
| Listed on a recognized stock exchange | 14,076 | 14,32 |
| Quoted elsewhere | 376 | 376 |
| Unquoted | 1,798 | 1,801 |
| | <u>16,250</u> | <u>16,50</u> |
| Held for trading purposes | | |
| Listed on a recognized stock exchange | 7,985 | |
| Quoted elsewhere | 266 | |
| | <u>8,251</u> | |
| | <u>24,501</u> | |

Debt securities subject to repurchase agreements amounted to €8,780 million.

Subordinated debt securities included as financial fixed assets amounted to €126 million.

The unamortized premiums net of discounts on debt securities held as financial fixed assets amounted to €53 million. The cost of debt securities held for trading purposes amounted to €8,186 million.

| | Cost | Discounts and premiums | Amounts written off | Book amount |
|--|--------------------|------------------------------|---------------------------|----------------|
| | (Euro in millions) | | | |
| Analysis of movements in debt securities held as financial fixed assets | | | | |
| At January 1, 2004 | 12,430 | 33 | (18) | 12,445 |
| Currency translation adjustments | (294) | 1 | (1) | (294) |
| Purchases | 14,281 | — | — | 14,281 |
| Realizations/maturities | (10,174) | 7 | 5 | (10,16) |
| Credit to statement of income (note 11) | — | — | 4 | 4 |
| Amortization of (premiums) net of discounts | — | (24) | — | (24) |
| At December 31, 2004 | <u>16,243</u> | <u>17</u> | <u>(10)</u> | <u>16,250</u> |

30. EQUITY SHARES

The following tables show the analysis of equity shares under Previous GAAP for 2004.

| | December 31, 2004 | | | |
|---------------------------------------|--------------------|------------------------------|-------------------------------|-----------------|
| | Book amount | Gross unrealized gains | Gross unrealized losses | Market value |
| | (Euro in millions) | | | |
| Held as financial fixed assets | | | | |
| Listed on a recognized stock exchange | 5 | 15 | (1) | 19 |
| Unquoted | 106 | 9 | (3) | 112 |
| | <u>111</u> | <u>24</u> | <u>(4)</u> | <u>131</u> |
| Held for trading purposes | | | | |
| Listed on a recognized stock exchange | 1,524 | — | — | 1,524 |
| Unquoted | 6 | — | — | 6 |
| | <u>1,530</u> | <u>—</u> | <u>—</u> | <u>1,530</u> |
| | <u>1,641</u> | <u>24</u> | <u>(4)</u> | <u>1,661</u> |

Market value is market price for quoted securities and directors' estimate for unquoted securities.

| | Cost | Amounts written off | Book amount |
|--|--------------------|---------------------------|----------------|
| | (Euro in millions) | | |
| Analysis of movements in equity shares held as financial fixed assets | | | |
| At January 1, 2004 | 158 | (42) | 116 |
| Charge against statement of income | — | (3) | (3) |
| Currency translation adjustments | 2 | — | 2 |
| Purchases | 6 | — | 6 |
| Disposals | (15) | 5 | (10) |
| At December 31, 2004 | <u>151</u> | <u>(40)</u> | <u>111</u> |

31. INTERESTS IN ASSOCIATED UNDERTAKINGS

| | Years ended December 31, | |
|---|--------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Share of net assets including goodwill | | |
| At January 1 | 1,379 | 1,361 |
| IFRS transition adjustments | 16 | — |
| Currency translation adjustments | 225 | (101) |
| Purchases | 3 | 7 |
| Disposals | (4) | — |
| Income for the period | 149 | 132 |
| Dividends | (41) | (37) |
| Unrealized losses on available for sale assets | (13) | — |
| Actuarial loss recognized in retirement benefit plans | — | (1) |
| Share based payment | 7 | 6 |
| Other movements | (65) | 12 |
| At December 31 | <u>1,656</u> | <u>1,379</u> |

Included in the Group's share of net assets of associates is goodwill as follows:

| | Years ended December 31, | |
|--------------------------------------|--------------------------|------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Goodwill | | |
| Balance at January 1 | 917 | 981 |
| Additions during year ⁽¹⁾ | — | 8 |
| Currency translation adjustments | 141 | (72) |
| At December 31 | <u>1,058</u> | <u>917</u> |

⁽¹⁾ €5 million of the goodwill arising during 2004 relates to the finalization of the fair value adjustments reflecting an adjustment to other liabilities, in respect of the dilutive impact of the employee stock options outstanding on the Group's interest in the associate. The remainder relates to acquisitions during the year.

⁽²⁾ The Group interest is held directly by Bank Company and carried at cost at €891 million in the parent company balance sheet. The Group accounts for its share of profits of associates on the basis of its average interest throughout the period, which amounted to 23.5% during 2005 (2004: 22.7%). The agreement provides for the maintenance of the Group's interest at 22.5% through share repurchase programmes and through rights provided to the Group which allow it to subscribe for additional shares at fair market value.

The fair value of the investment in the Group's principal associated undertaking at December 31, 2005 was €2,468 million (2004: €2,114 million).

The summary consolidated income statement, summary balance sheet and contribution for 2005 and 2004 under IFRS are as follows:

| Year ended December 31, 2004 | Year ended December 31, 2005 | | Year ended December 31, 2005 | Year ended December 31, 2004 |
|---|---------------------------------------|---|---------------------------------------|---------------------------------------|
| (US\$ in millions) | | | (Euro in millions) | |
| Summary of consolidated income statement | | | | |
| 1,613 | 1,713 | Net interest income | 1,372 | 1,293 |
| 949 | 967 | Other income | 775 | 761 |
| 2,562 | 2,680 | Total operating income | 2,147 | 2,054 |
| 1,409 | 1,410 | Total operating expenses | 1,129 | 1,130 |
| 1,153 | 1,270 | Group operating income before impairment provisions | 1,018 | 924 |
| 95 | 43 | Impairment provisions | 34 | 76 |
| 1,058 | 1,227 | Group income before taxation | 984 | 848 |
| 335 | 409 | Taxation | 328 | 269 |
| 723 | 818 | Group income after taxation | <u>656</u> | <u>579</u> |
| | | | | |
| December 31, 2004 | December 31, 2005 | | December 31, 2005 | December 31, 2004 |
| (US\$ in millions) | | | (Euro in millions) | |
| Summary of consolidated balance sheet | | | | |
| 39,508 | 41,698 | Cash, loans and receivables | 35,346 | 29,005 |
| 8,516 | 8,400 | Investment securities | 7,120 | 6,252 |
| 367 | 337 | Fixed assets | 286 | 270 |
| 1,685 | 1,990 | Other assets | 1,687 | 1,237 |
| 50,076 | 52,425 | Total assets | 44,439 | 36,764 |
| 35,493 | 37,144 | Deposits | 31,486 | 26,058 |
| 11,221 | 11,495 | Other borrowings | 9,744 | 8,238 |
| 762 | 903 | Other liabilities | 765 | 559 |
| 2,600 | 2,883 | Stockholders' funds | 2,444 | 1,909 |
| 50,076 | 52,425 | Total liabilities and stockholders' funds | <u>44,439</u> | <u>36,764</u> |
| | | | | |
| Year ended December 31, 2004 | Year ended December 31, 2005 | | Year ended December 31, 2005 | Year ended December 31, 2004 |
| (US\$ in millions) | | | (Euro in millions) | |
| Contribution | | | | |
| 240 | 288 | Gross contribution | 230 | 192 |
| (82) | (103) | Taxation | (82) | (65) |
| 158 | 185 | Contribution to Group income before taxation | <u>148</u> | <u>127</u> |

32. INTANGIBLE ASSETS AND GOODWILL

| | <u>Goodwill</u> | <u>Software</u> | <u>Total</u> |
|---|--------------------|-----------------|--------------|
| | (Euro in millions) | | |
| At January 1, 2004 | 420 | 192 | 612 |
| Additions | — | 66 | 66 |
| Currency translation adjustments | (2) | 1 | (1) |
| At December 31, 2004 | 418 | 259 | 677 |
| Additions | — | 36 | 36 |
| Currency translation adjustments | 4 | 8 | 12 |
| Disposals | (17) | — | (17) |
| At December 31, 2005 | 405 | 303 | 708 |
| Amortization and impairment losses | | | |
| At January 1, 2004 | — | 75 | 75 |
| Amortization for the year | — | 50 | 50 |
| Impairment charge | 13 | — | 13 |
| Currency translation adjustments | (2) | 1 | (1) |
| Balance at December 31, 2004 | 11 | 126 | 137 |
| Amortization for the year | — | 45 | 45 |
| Impairment charge | 2 | — | 2 |
| Currency translation adjustments | 2 | 5 | 7 |
| At December 31, 2005 | 15 | 176 | 191 |
| Net book value | | | |
| At January 1, 2004 | 420 | 117 | 537 |
| At December 31, 2004 | 407 | 133 | 540 |
| At December 31, 2005 | 390 | 127 | 517 |

The goodwill relates principally to the acquisition of the holding in a publicly listed entity. The investment has been assessed for impairment at December 31, 2005 and 2004. The market value at December 31, 2005 of the shareholding of €1.9 billion exceeds the carrying amount including goodwill of the investment by €0.6 billion.

The remaining goodwill amounts which relate to unquoted investments, have been assessed for impairment through discounting projected cash flows with the resultant impairment charge, if any, recognized in the period.

Other intangible assets comprising computer software which is not integral to hardware were reclassified on IFRS transition from property, plant and equipment. Additionally, internally generated intangible assets were capitalized. Internally generated intangible assets under construction at December 31, 2005 amounted to €21 million (2004: €5 million).

33. PROPERTY, PLANT AND EQUIPMENT

| | <u>Property</u> | | | <u>Equipment</u> | <u>Total</u> |
|--|--------------------|-----------------------|---------------------------------|------------------|--------------|
| | <u>Freehold</u> | <u>Long leasehold</u> | <u>Leasehold under 50 years</u> | | |
| | (Euro in millions) | | | | |
| Cost: | | | | | |
| At January 1, 2005 | 537 | 93 | 139 | 517 | 1,28 |
| Disposals/transfers of Group undertaking | (51) | — | (1) | (2) | (54) |
| Additions | 21 | 7 | 8 | 64 | 100 |
| Disposals | (19) | (1) | — | (45) | (65) |
| Currency translation adjustments | 10 | — | 4 | 16 | 30 |
| At December 31, 2005 | 498 | 99 | 150 | 550 | 1,29 |
| Accumulated depreciation: | | | | | |
| At January 1, 2005 | 90 | 16 | 85 | 350 | 541 |
| Disposal of Group undertaking | — | — | — | (2) | (2) |
| Depreciation charge for the year | 16 | 2 | 8 | 57 | 83 |
| Disposals | (12) | — | — | (33) | (45) |
| Currency translation adjustments | 2 | — | 2 | 10 | 14 |
| At December 31, 2005 | 96 | 18 | 95 | 382 | 591 |
| Net book value: | | | | | |
| At December 31, 2005 | 402 | 81 | 55 | 168 | 706 |

| | Property | | | Equipment | Total |
|----------------------------------|------------|----------------|--|------------|-------------|
| | Freehold | Long leasehold | Leasehold under 50 years (Euro in millions) | | |
| Cost: | | | | | |
| At January 1, 2004 | 513 | 90 | 130 | 631 | 1,36 |
| Disposal of Group undertaking | — | — | — | (7) | (7) |
| Additions | 19 | 3 | 13 | 33 | 68 |
| Disposals | (16) | — | (3) | (174) | (193) |
| Currency translation adjustments | 21 | — | (1) | 34 | 54 |
| At December 31, 2004 | <u>537</u> | <u>93</u> | <u>139</u> | <u>517</u> | <u>1,28</u> |
| Accumulated depreciation: | | | | | |
| At January 1, 2004 | 69 | 13 | 79 | 450 | 611 |
| Disposals of Group undertaking | — | — | — | (6) | (6) |
| Depreciation charge for the year | 14 | 3 | 6 | 59 | 82 |
| Impairment losses | 9 | — | — | — | 9 |
| Disposals | (10) | — | — | (172) | (182) |
| Currency translation adjustments | 8 | — | — | 19 | 27 |
| At December 31, 2004 | <u>90</u> | <u>16</u> | <u>85</u> | <u>350</u> | <u>541</u> |
| Net book value: | | | | | |
| At December 31, 2004 | <u>447</u> | <u>77</u> | <u>54</u> | <u>167</u> | <u>745</u> |

At January 1, 2004, on transition to IFRS, computer software which was not integral to hardware was reclassified from equipment to intangible assets (net book value €88 million).

The net book value of property occupied by the Group for its own activities was €531 million (2004: €516 million). Property leased to others had a book value of €7 million (2004: €11 million). Included in the carrying amount of property and equipment is expenditure recognized for both property and equipment in the course of construction amounting to €4 million and €6 million respectively (2004: €19 million and €3 million).

34. DEFERRED TAXATION

The tax effects of temporary timing differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 are presented below.

| | December 31, | |
|--|--------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Deferred tax assets: | | |
| Allowance for loans losses | (84) | (99) |
| Amortized income | (3) | (28) |
| Debt securities | — | (11) |
| Retirement benefits | (221) | (165) |
| Timing difference on provisions for future commitments | (9) | (10) |
| Other | (30) | — |
| Total gross deferred tax assets | <u>(347)</u> | <u>(313)</u> |
| Deferred tax liabilities: | | |
| Assets leased to customers | 45 | 46 |
| Assets used in the business | 34 | 7 |
| Debt securities | 19 | 22 |
| Cash flow hedges | 28 | — |
| Other | — | 62 |
| Total gross deferred tax liabilities | <u>126</u> | <u>137</u> |
| Net deferred tax assets | <u>(221)</u> | <u>(176)</u> |
| Represented on the balance sheet as follows: | | |
| Deferred tax assets | (253) | (228) |
| Deferred tax liabilities | 32 | 52 |
| | <u>(221)</u> | <u>(176)</u> |

For each of the years ended December 31, 2005 and 2004 full provision has been made for capital allowances and other temporary timing differences.

| | Years ended December 31, | |
|---|--------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Analysis of movements in deferred taxation: | | |
| At January 1 | (176) | (107) |
| IFRS transition adjustment | 10 | — |
| Currency translation and other adjustments | (11) | (22) |
| Deferred tax through equity | (60) | (29) |
| Income statement taxation (charge)/credit (note 16) | 16 | (18) |
| At December 31 | <u>(221)</u> | <u>(176)</u> |

Deferred tax assets have not been recognized in respect of tax losses amounting to €49 million (2004: €43 million). The majority of these tax losses relate to capital losses that have no expiration date. The net deferred tax asset on items recognized directly in equity amounted to €144 million (2004: €142 million).

The following is a breakdown of deferred tax assets and deferred tax liabilities by jurisdiction;

Deferred tax assets: Republic of Ireland - €95 million: Northern Ireland/Great Britain - €129 million: Isle of Man/Channel Islands - €1 million: Poland - €28 million.

Deferred tax liabilities: United States of America - €32 million.

35. LONG-TERM ASSURANCE BUSINESS

On November 22, 2005, the Group announced that it had agreed the terms of a joint venture for the manufacture and distribution of life and pensions products in the Republic of Ireland. The joint venture brings together Hibernian and Life Assurance.

As set out in note 2, the income from Life Assurance that is determined to relate to discontinued operations is shown, on an after tax basis, as a one line item on the face of the income statement. Prior year numbers have been restated.

Life Assurance assets and liabilities have been included in the balance sheet at December 31, 2005 as a disposal group classified as held for sale. Comparatives have not been restated.

Methodology

2005

International Financial Reporting Standard 4, Insurance Contracts, ("IFRS 4") requires all products issued to be classified for accounting purposes as either insurance or investment contracts, depending on whether significant insurance risks exist. In the case of a life contract, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the balance sheet date there may be no excess of the original premium over the backing assets. Insurance contracts will continue to be accounted under the Company's existing accounting policies, namely the embedded value method.

For contracts which are not insurance contracts the appropriate IFRS standards, and in particular IAS 18 'Revenue' ("IAS 18") and IAS 39 'Financial instruments: recognition and measurement', ("IAS 39") are applied. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the balance sheet date. Certain upfront fees and charges have been deferred and included within an explicit deferred income reserve. Whilst IAS 18 does allow for the deferral of directly variable acquisition costs such as commissions, no such deferrable costs exist upon Group consolidation.

2004

The value of the stockholder's interest in the long-term assurance business ("the embedded value") is comprised of the net tangible assets of Life Assurance, including any surplus retained in the long-term business funds, which could be transferred to stockholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting future surpluses and other net cash flows attributable to the stockholders arising from business written by the balance sheet date and discounting the result at a risk discount rate.

Surpluses arise following annual actuarial valuations of the long-term business funds, which are carried out in accordance with the statutory requirements designed to ensure and demonstrate the solvency of the funds. Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and administrative expenses. Surpluses can be projected by making realistic assumptions about future experience, having regard to both actual experience and forecast long-term economic trends. Other net cash flows principally comprise annual management charges and other fees levied upon the policyholders by Life Assurance.

Income and expense from long-term assurance business included in the income statement is set out below:

| | Years ended December 31, | |
|--|--------------------------|------------|
| | 2005 | 2004 |
| Income and expense from Life Assurance's long-term assurance business | (Euro in millions) | |
| Net interest income | 113 | 62 |
| Other income | 740 | 342 |
| Total operating income | 853 | 404 |
| Increase in insurance and investment contract liabilities, and claims | 762 | 309 |
| Total operating expenses | 27 | 26 |
| Income before taxation | 64 | 69 |
| Taxation | 4 | 6 |
| Income after taxation | 60 | 63 |
| Analysed as to: | | |
| Continuing operations | 14 | 10 |
| Discontinued operations | 46 | 53 |

Some elements of the Life Assurance business are being retained within the Group and this gives rise to the difference between the amounts recognized above and those disclosed as discontinued operations.

The taxation expense is analysed as follows: Continuing operations €1 million (2004: €1 million); discontinued operations €3 million (2004: €5 million).

Assumptions

As explained on the previous page insurance contracts continue to be valued using embedded value principles. Following a review of demographic experience and having regard to the less than 50 bp change in bond yields during the year the demographic and economic assumptions were left unchanged. Maintenance expense assumptions were increased for one year's inflation.

| | Years ended December 31, | |
|------------------------------------|--------------------------|-------|
| | 2005 | 2004 |
| | % | % |
| Risk adjusted discount rate | 7.5 | 7.5 |
| Weighted average investment return | 5.875 | 5.875 |
| Future expense inflation | 4.0 | 4.0 |
| Corporation tax rate | 12.5 | 12.5 |

Balance sheet

The assets and liabilities of Life Assurance included in the consolidated balance sheet of the Group are as follows:

| | December 31, 2005 | January 1, 2005 | December 31, 2004 |
|---|----------------------|--------------------|----------------------|
| | (Euro in millions) | | |
| Assets | | | |
| Loans and receivables to banks | 191 | 220 | 220 |
| Assets held at fair value through profit or loss | 2,638 | 1,871 | — |
| Debt securities | — | — | 425 |
| Equity shares | — | — | 1,446 |
| Property, plant and equipment | 52 | 51 | 51 |
| Reinsurance assets | 748 | 601 | — |
| Placings with group companies | 1,428 | 1,246 | 1,246 |
| Other assets | 371 | 255 | 440 |
| Total assets | 5,428 | 4,244 | 3,828 |
| Liabilities | | | |
| Investment contract liabilities | 2,953 | 2,422 | 2,422 |
| Insurance contract liabilities | 1,923 | 1,465 | 864 |
| Other liabilities | 215 | 75 | 75 |
| Total liabilities | 5,091 | 3,962 | 3,361 |
| Stockholder's equity | 337 | 282 | 467 |
| Total liabilities and stockholders' equity | 5,428 | 4,244 | 3,828 |

Presentation in the Group balance sheet

Holdings of shares in the Group, (by the parent or subsidiary companies), for any reason, are deducted in arriving at stockholder's equity. At December 31, 2005, shares in the Group with a value of €77 million (2004: €74 million) were held within the long-term business funds to meet the liabilities to policyholders.

Long-term assurance assets attributable to policyholders are presented in the Group balance sheet net of the carrying value of the shares in the Group held within the fund. Group stockholders' equity has been reduced by a similar amount.

36. DEPOSITS BY BANKS

| | December 31, | |
|--|--------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Securities sold under agreements to repurchase | 11,038 | 8,523 |
| Other borrowings from banks | 18,291 | 11,90 |
| | <u>29,329</u> | <u>20,42</u> |
| Of which: | | |
| Domestic offices | 27,401 | 18,45 |
| Foreign offices | 1,928 | 1,978 |
| | <u>29,329</u> | <u>20,42</u> |
| With agreed maturity dates or periods of notice, by remaining maturity: | | |
| Over 5 years | 53 | 555 |
| 5 years or less but over 1 year | 517 | 50 |
| 1 year or less but over 3 months | 2,271 | 6,456 |
| 3 months or less but not repayable on demand | 25,843 | 13,01 |
| | <u>28,684</u> | <u>20,07</u> |
| Repayable on demand | 645 | 353 |
| | <u>29,329</u> | <u>20,42</u> |
| Amounts include: | | |
| Due to associated undertakings | — | 2 |

At December 31, 2005 €930 million (2004: €920 million) of the deposits by credit institutions comprise the bank's obligations to the Central Bank under the terms of the Mortgage Backed Promissory Note ("MBPN") programme. These obligations have been secured by way of a first floating charge to the Central Bank over all its right, title, interest and benefit, in €1,193 million (2004: €1,192 million) of loans and receivables to customers. Otherwise than with the prior written consent of the Central Bank, the bank has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets.

Securities sold under agreements to repurchase are secured by Irish Government stock, US Treasury and US Government agency securities and mature within three months.

The aggregate market value of all securities sold under agreements to repurchase did not exceed 10% of total assets and the amount at risk with any individual counterparty or group of related counterparties did not exceed 10% of total stockholders' equity.

The carrying amount of financial assets pledged as security for liabilities amounted to €11,265 million.

37. CUSTOMER ACCOUNTS

| | December 31, | |
|---|--------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Current accounts | 20,90 | 17,09 |
| Demand deposits | 8,013 | 7,321 |
| Time deposits | 28,11 | 22,73 |
| | <u>57,04</u> | <u>47,15</u> |
| Securities sold under agreements to repurchase | 6 | 77 |
| Other short-term borrowings | 5,534 | 2,918 |
| | <u>5,540</u> | <u>2,995</u> |
| | <u>62,58</u> | <u>50,15</u> |
| Of which: | | |
| Non-interest bearing current accounts | | |
| Domestic offices | 7,816 | 6,522 |
| Foreign offices | 2,086 | 1,920 |
| Interest bearing deposits, current accounts and short-term borrowings | | |
| Domestic offices | 32,97 | 25,42 |
| Foreign offices | 19,70 | 16,28 |
| | <u>62,58</u> | <u>50,15</u> |
| Analyzed by remaining maturity: | | |
| Over 5 years | 200 | 276 |
| 5 years or less but over 1 year | 2,308 | 2,321 |
| 1 year or less but over 3 months | 3,573 | 2,297 |
| 3 months or less but not repayable on demand | 28,13 | 20,81 |
| | <u>34,21</u> | <u>25,70</u> |
| Repayable on demand | 28,36 | 24,44 |
| | <u>62,58</u> | <u>50,15</u> |
| Amounts include: | | |
| Due to associated undertakings | <u>38</u> | <u>23</u> |

38. TRADING PORTFOLIO FINANCIAL LIABILITIES

| | December 31, | January 1, |
|-----------------------------|--------------------|------------|
| | 2005 | 2005 |
| | (Euro in millions) | |
| Debt securities: | | |
| Government securities | 219 | 309 |
| Corporate listed | 2 | 4 |
| | <u>221</u> | <u>313</u> |
| Equity instruments - listed | 19 | 19 |
| | <u>240</u> | <u>332</u> |

At December 31, 2005 and January 1, 2005 the debt securities within trading portfolio financial liabilities had a residual maturity of less than one year.

39. DEBT SECURITIES IN ISSUE

| | December 31, | |
|---|---------------|---------------|
| | 2005 | 2004 |
| (Euro in millions) | | |
| Bonds and medium term notes: | | |
| European medium term note programme | 6,656 | 3,250 |
| Other medium term notes | 209 | 288 |
| | <u>6,865</u> | <u>3,538</u> |
| Other debt securities in issue: | | |
| Commercial paper | 718 | 1,187 |
| Commercial certificates of deposit | 10,028 | 7,080 |
| | <u>10,746</u> | <u>8,267</u> |
| | <u>17,611</u> | <u>11,805</u> |
| Maturity analysis | | |
| Bonds and medium term notes, by remaining maturity: | | |
| 5 years or less but over 1 year | 6,792 | 3,423 |
| 1 year or less but over 3 months | 51 | 115 |
| 3 months or less | 22 | — |
| | <u>6,865</u> | <u>3,538</u> |
| Other debt securities in issue, by remaining maturity: | | |
| 5 years or less but over 1 year | 1,578 | 676 |
| 1 year or less but over 3 months | 3,402 | 2,016 |
| 3 months or less | 5,766 | 5,575 |
| | <u>10,746</u> | <u>8,267</u> |
| | <u>17,611</u> | <u>11,805</u> |

40. OTHER LIABILITIES

| | December 31 | January 1 |
|---|--------------|--------------|
| | 2005 | 2005 |
| (Euro in millions) | | |
| Notes in circulation | 484 | 450 |
| Provisions for future funding commitments | 69 | 78 |
| Other | 1,046 | 1,065 |
| | <u>1,599</u> | <u>1,593</u> |

⁽¹⁾ The provision represents the present value of the cost of the future funding commitments arising under a 1992 agreement. A discount rate of 3.21% was applied in the year ended December 31, 2005 (2004: 4.185%), in discounting the cost of the future commitments arising under this agreement. As at December 31, 2005 the undiscounted amount was €78 million (2004: €89 million). Of the €78 million, €11 million is due within 1 year and €45 million is payable between 1 and 5 years, with the remaining €22 million payable thereafter. The unwinding of the discount on the provision amounted to € 2 million (2004 €3.4 million).

41. PROVISIONS FOR LIABILITIES AND COMMITMENTS

| | Liabilities and commitments | Other provisions | Total |
|---|-----------------------------------|---------------------|------------|
| | (Euro in millions) | | |
| At January 1, 2005 | 47 | 75 | 122 |
| Currency translation adjustments | — | 1 | 1 |
| Amounts charged to statement of income | 28 | 47 | 75 |
| Amounts written back to statement of income | (8) | (15) | (23) |
| Provisions utilized | (17) | (18) | (35) |
| At December 31, 2005 | <u>50</u> | <u>90</u> | <u>140</u> |

42. SUBORDINATED LIABILITIES AND OTHER CAPITAL INSTRUMENTS

| | December 31, | January 1, | December 31, |
|--|--------------|--------------|--------------|
| | 2005 | 2005 | 2004 |
| (Euro in millions) | | | |
| Bank Company | | | |
| Undated capital notes | 868 | 346 | 346 |
| Dated capital notes | 2,678 | 1,923 | 1,923 |
| US\$250 million non-cumulative preference shares | 210 | 182 | — |
| Reserve capital instruments | — | — | 497 |
| | <u>3,756</u> | <u>2,451</u> | <u>2,766</u> |

| Undated capital notes | | | |
|--|------------|------------|------------|
| US\$100 million Floating Rate Notes, Undated | — | 74 | 74 |
| US\$100 million Floating Rate Primary Capital Perpetual Notes, Undated (a) | 85 | 73 | 73 |
| €200 million Fixed Rate Perpetual Subordinated Notes (b) | 199 | 199 | 199 |
| Stg£400 million Perpetual Callable Step-Up Subordinated Notes (c) | 584 | — | — |
| | <u>868</u> | <u>346</u> | <u>346</u> |

Dated capital notes

Bank Company

European Medium Term Note Programme:

| | | | |
|--|--------------|--------------|--------------|
| US\$250 million Floating Rate Notes due January 2010 | — | 184 | 184 |
| €250 million Floating Rate Notes due January 2010 | — | 250 | 250 |
| €100 million Floating Rate Notes due August 2010 | — | 100 | 100 |
| €200 million Floating Rate Notes due June 2013 (d) | 200 | 200 | 200 |
| US\$400 million Floating Rate Notes due July 2015 (e) | 338 | 293 | 293 |
| €400 million Floating Rate Notes due March 2015 (f) | 400 | 400 | 400 |
| €500 million Callable Subordinated Step-Up Floating Rate Notes due 2017 (g) | 499 | — | — |
| Stg£500 million Callable Subordinated Fixed/Floating Rate Notes due 2025 (h) | 730 | — | — |
| Stg£350 million Fixed Rate Notes due November 2030 (i) | 511 | 496 | 496 |
| | <u>2,678</u> | <u>1,923</u> | <u>1,923</u> |

The dated loan capital outstanding is repayable as follows:

| | | | |
|-----------------------|--------------|--------------|--------------|
| In one year or less | — | 434 | 434 |
| Between 1 and 2 years | — | — | — |
| Between 2 and 5 years | — | — | — |
| In 5 years or more | 2,678 | 1,489 | 1,489 |
| | <u>2,678</u> | <u>1,923</u> | <u>1,923</u> |

The loan capital of the Bank is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank.

Undated capital notes

The US\$ 100 million Floating Rate Notes, Undated were redeemed on November 30, 2005. The US\$ 100 million Floating Rate Primary Capital Perpetual Notes have no final maturity but may be redeemed at par at the option of the Bank, with the prior approval of the Financial Regulator. Interest is payable quarterly on the US\$ 100 million Floating Rate Primary Capital Perpetual Notes. The €200 million Fixed Rate Perpetual Subordinated Notes, with interest payable annually, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the Financial Regulator, on each coupon payment date on or after August 3, 2009. The Stg £400 million Perpetual Callable Step-Up Subordinated Notes with interest payable annually up to September 1, 2015, and with interest payable quarterly thereafter, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the Financial Regulator, on September 1, 2015 and every interest payment date thereafter.

Dated capital notes

The European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The US\$ 250 million Floating Rate Notes were redeemed on January 24, 2005, the €250 million Floating Rate Notes were redeemed on January 25, 2005 and the €100 million Floating Rate Notes were redeemed on August 2, 2005. The €200 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on June 12, 2008 and on each interest payment date thereafter. The US\$ 400 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after July 2010. The €400 million Floating Rate Notes with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after March 2010. The €500 million Callable Subordinated Step-Up Floating Rate Notes with interest payable quarterly may be redeemed in whole but not in part on any interest payment date falling in or after October 24, 2017. The Stg £ 500 million Subordinated Callable Fixed/Floating Rate Notes, with interest payable annually, up to March 10, 2020 and with interest payable quarterly from June 10, 2020 thereafter may be redeemed, in whole but not in part on any interest payment date falling in or after March 10, 2025. The Stg £ 350 million Fixed Rate Notes, with interest payable annually in arrears on November 26 in each year, may be redeemed, in whole but not in part, on November 26, 2025 and on each interest payment date thereafter. In all cases, redemption prior to maturity is subject to the necessary prior approval of the Financial Regulator. There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

US\$ 250m non-cumulative preference shares

In 1998, 250,000 non-cumulative preference shares of US\$ 25 each were issued at a price of US\$ 995.16 per share raising US\$ 248.8 million before expenses. The holders of the non-cumulative preference shares are entitled to a non-cumulative preferential dividend, payable quarterly in arrears, at a floating rate equal to 3 month dollar LIBOR plus 0.875% on the liquidation preference amount of US\$ 1,000 per share. The preference shares are redeemable at the option of the Bank, and with the agreement of the Financial Regulator, on or after July 15, 2008 (i) in whole or in part or (ii) prior to that date in certain circumstances in whole, but not in part. In each case, the preference shares will be redeemed at a price equal to US\$ 1,000 per share (consisting of a redemption price of US\$ 995.16 plus a special dividend of US\$ 4.84 per share), plus accrued dividends.

Prior to transition to IFRS, at January 1, 2005, the US\$ 250 million non-cumulative preference shares were included in stockholders' equity, however, because of the terms within this instrument they have been reclassified to subordinated liabilities under IFRS.

Reserve capital instruments (RCIs)

On transition to IFRS at January 1, 2005, the Reserve capital instruments were reclassified to equity and are included in other equity interests (*note 44*).

The interest rates applicable on the undated and dated capital notes are as follows:

- Libor plus 50 basis points.
- 3 month Euribor plus 225 basis points.
- 5.25% fixed until September 1, 2015; 3 month Sterling Libor plus 155 basis points thereafter.

- (d) 3 month Euribor plus 60 basis points until June 12, 2008; Euribor plus 110 basis points thereafter.
- (e) 3 month US\$ Libor plus 30 basis points until July 30, 2010; 3 month US\$ Libor plus 80 basis points thereafter.
- (f) 3 month Euribor plus 30 basis points until March 20, 2010; 3 month Euribor plus 80 basis points thereafter.
- (g) 3 month Euribor plus 25 basis points until November 2012; 3 month Euribor plus 75 basis points thereafter.
- (h) 5.25% fixed until March 10, 2010; Sterling Libor plus 128 basis points thereafter.
- (i) 5.625% fixed, reset to 3 month sterling Libor plus 145 basis points if not called on the first call date - November 26, 2025.

43. MINORITY INTERESTS IN SUBSIDIARIES

| | December 31, | |
|-------------------------------------|--------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Equity interest in subsidiaries | 258 | 221 |
| Non-equity interest in subsidiaries | 990 | 990 |
| | <u>1,248</u> | <u>1,211</u> |

Non-equity interest in subsidiaries

In December 2004, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ("Preferred Securities") in the amount of €1,000,000,000 were issued through a Limited Partnership. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of the Group. The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the IFSRA (i) upon the occurrence of certain events, or (ii) on or after December 17, 2014, subject to the provisions of the Limited Partnership Act, 1907.

Distributions on the Preferred Securities are non-cumulative. The distributions will be payable at a rate of 4.781% per annum up to December 17, 2014 and thereafter at the rate of 1.10% per annum above 3 month EURIBOR, reset quarterly. The discretion of the Board of Directors to resolve that a distribution should not be paid is unfettered.

In the event of the dissolution of the Limited Partnership, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of the Group at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by the Group, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of the Group including subordinated liabilities.

44. OTHER EQUITY INTERESTS

In February 2001, Reserve Capital Instruments (RCIs) of €500 million were issued by the Group at an issue price of 100.069%. The RCIs are perpetual securities and have no maturity date. The RCIs are redeemable, in whole but not in part, at the option of the Bank and with the agreement of the Financial Regulator, (i) upon the occurrence of certain events, or (ii) on or after February 28, 2011, an authorized officer having reported to the Trustees within the previous six months that a solvency condition is met.

The RCIs bear interest at a rate of 7.50% per annum from (and including) February 5, 2001 to (but excluding) February 28, 2011 and thereafter at 3.33% per annum above three month EURIBOR, reset quarterly.

The rights and claims of the RCI holders and the coupon holders are subordinated to the claims of the senior creditors and the senior subordinated creditors of the issuer. In the event of a winding up of the issuer, the RCI holders will rank *pari passu* with the holders of the classes of preference shares (if any) from time to time issued by the issuer and in priority to all other stockholders.

45. SHARE CAPITAL

| | December 31, | |
|---|---|---------|
| | 2005 | 2004 |
| | (Euro in millions except share amounts) | |
| Ordinary shares of €0.32 each | | |
| Number of shares authorized (millions) | 1,160.0 | 1,160.0 |
| Number of shares issued (millions) | 918.4 | 918.4 |
| Issued and fully paid | 294 | 294 |
| Non-cumulative preference shares of €1.27 each | | |
| Number of shares authorized (millions) | 200.0 | 200.0 |
| Number of shares issued (millions) | — | — |
| Non-cumulative preference shares of US\$25 each | | |
| Number of shares authorized (millions) | 20.0 | 20.0 |
| Number of shares issued (millions) | 0.25 | 0.25 |
| Issued and fully paid | 5 | 5 |
| Non-cumulative preference shares of Stg£1 each | | |
| Number of shares authorized (millions) | 200.0 | 200.0 |
| Number of shares issued (millions) | — | — |
| Non-cumulative preference shares of Yen 175 each | | |
| Number of shares authorized (millions) | 200.0 | 200.0 |
| Number of shares issued (millions) | — | — |

During the year ended December 31, 2004, the number of ordinary shares in issue was increased from 907,621,316 to 918,435,570, through the allotment of 10,814,254 shares under the Company's dividend reinvestment plan, as follows:

- (a) 6,443,950 shares were allotted to shareholders, at €12.20 per share, in respect of the final dividend for the year ended December 31, 2003; and
- (b) 4,370,304 shares were allotted to shareholders, at €12.77 per share, in respect of the interim dividend for the year ended December 31, 2004.

These allotments were made in lieu of dividends amounting to €134.4 million.

46. OWN SHARES

Share Repurchases

At the 2005 Annual General Meeting, stockholders granted authority to the Parent Company, or any subsidiary, to make market purchases of up to 90 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During the year ended December 31, 2005, ordinary shares previously purchased under a similar authority, and held as Treasury shares, were re-issued as follows:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| Treasury shares held, January 1 | 48,889,78 | 55,534,15 |
| Shares re-issued under: | | |
| Group Share Option Plans | 3,487,950 | 4,338,350 |
| Acquired Company Stock Option Plan | 26,400 | 29,600 |
| Group Approved Employee Profit Sharing Plans | 1,835,842 | 2,276,417 |
| | <u>5,350,192</u> | <u>6,644,367</u> |
| Treasury shares held, December 31 | <u>43,539,59</u> | <u>48,889,78</u> |

In addition, 5.6 million ordinary shares were purchased by a subsidiary undertaking in 1997 at a cost of €42 million, on which the related dividend entitlements have been waived.

The cost of share repurchases less proceeds of shares reissued has been charged to the profit and loss account reserve. The shares issued during 2005 to participants in the Group share option plans were issued at prices of € 10.02, € 11.90 and € 12.20 per share. The total consideration received for these shares was € 36.8 million.

The consideration received for the shares issued during 2005 on the exercise of converted options to participants in the Acquired Company Stock Option Plan was € 0.2 million.

During 2005, the Company re-issued from its pool of Treasury Shares 1,835,842 ordinary shares to the Trustees of the employees' profit sharing plans, at € 15.78 per share. The consideration received for these shares was € 29 million.

Acquired company stock option plan

At December 31, 2005, converted options were outstanding over 80,598 ordinary shares.

Employee share plans and trusts

The Group sponsors a number of employee share plans whereby purchases of shares are made in the open market to satisfy commitments under the plans.

At December 31, 2005, 2.2 million shares (2004: 2.5 million) were held by trustees with a book value of €26.0 million (2004: €25.5 million), and a market value of €39.9 million (2004: €38.5 million). The book value is deducted from the profit and loss account reserve while the shares continue to be held by the Group.

The Group sponsors SAYE plans for eligible employees in the UK, the Isle of Man and Channel Islands. The trustees of the schemes have borrowed funds from Group companies, interest free, to enable them to purchase Group ordinary shares in the open market. These shares are used to satisfy commitments arising under the plans. The trustees receive dividends on the shares which are used to meet the expenses. The cost of providing these shares is charged to the statement of income on a systematic basis over the period that the employees are expected to benefit. At December 31, 2005, 1.4 million shares (2004: 1.0 million) were held by the trustees with a book value of €17.9 million (2004: €10.5 million) and a market value of €25.1 million (2004: €15.2 million).

In 2001, the Group Employee Share Trust was established to satisfy commitments arising under the Group Long-Term Incentive Plan (LTIP). Funds are provided to the trustees to enable them to purchase Group ordinary shares in the open market. The trustees have waived their entitlement to dividends. At December 31, 2005, 0.2 million shares (2004: 0.2 million) were held by the trustees with a book value of €1.3 million (2004: €1.3 million) and a market value of €3.6 million (2004: €3.1 million).

Subsidiary companies

Certain subsidiary companies hold shares in the Group for customer facilitation and in the normal course of business. At December 31, 2005, 4.5 million shares (2004: 4.8 million) with a book and market value of €81.6 million (2004: €73.7 million) were held by subsidiary companies.

At December 31, 2005, the accounting treatment of own shares gave rise to a deduction against Stockholders' Equity - Profit and Loss account in the amount of €108 million (2004: €99 million).

The accounting treatment is not intended to affect the legal characterisation of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares as a deduction against stockholders' equity on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.

47. ANALYSIS OF CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition:

| | Years ended December 31, | |
|------------------------------------|--------------------------|--------------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| Cash and balances at central banks | 742 | 887 |
| Loans and receivables to banks | 6,598 | 1,886 |
| Short term investments | 330 | — |
| At December 31 | <u>7,670</u> | <u>2,773</u> |

The Group is required to maintain balances with the Central Bank and Financial Services Authority of Ireland which amounted to €2,694 million (2004: €446 million). The Group is also required by law to maintain reserve balances with the Bank of England and with the National Bank of Poland. At December 2005, such reserve balances amounted to €505 million (2004: €621 million).

48. MEMORANDUM ITEMS: CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated balance sheet. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The risk weighted amount is obtained by applying credit conversion factors and counterparty risk weightings in accordance with the IFSRA guidelines implementing the EC Own Funds and Solvency Ratio Directives.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending.

The following table gives for the Group the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments.

| | December 31, 2005 | | December 31, 2004 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Contract amount | Risk weighted amount | Contract amount | Risk weighted amount |
| | (Euro in millions) | | | |
| Contingent liabilities | | | | |
| Acceptances ⁽¹⁾ | — | — | 12 | 12 |
| Endorsements | — | — | 2 | 2 |
| Guarantees and assets pledged as collateral security: | | | | |
| Guarantees and irrevocable letters of credit | 7,157 | 7,142 | 5,394 | 5,287 |
| Other contingent liabilities | 1,396 | 982 | 830 | 420 |
| | <u>8,553</u> | <u>8,124</u> | <u>6,238</u> | <u>5,721</u> |
| Commitments | | | | |
| Documentary credits and short-term trade-related transactions | 297 | 111 | 267 | 103 |
| Forward asset purchases and forward deposits placed | — | — | 88 | 18 |
| Undrawn note issuance and revolving underwriting facilities | 173 | 86 | 108 | 54 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | | |
| Less than 1 year ⁽²⁾ | 6,579 | — | 5,665 | — |
| 1 year and over | 12,509 | 6,223 | 9,999 | 4,944 |
| | <u>19,558</u> | <u>6,420</u> | <u>16,127</u> | <u>5,119</u> |
| | <u>28,111</u> | <u>14,544</u> | <u>22,365</u> | <u>10,840</u> |

⁽¹⁾ On transition to IFRS, at January 1, 2005, IAS 39 required the recognition of a liability for acceptances from the date of acceptance. A corresponding asset due from the originator is also recognized. Under Previous GAAP, acceptances were accounted for on a net basis and shown as a contingent liability.

⁽²⁾ Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

| | December 31, 2005 | | December 31, 2004 | |
|----------------------------------|------------------------|---------------|------------------------|---------------|
| | Contingent liabilities | Commitments | Contingent liabilities | Commitments |
| (Euro in millions) | | | | |
| Concentration of exposure | | | | |
| Ireland | 3,860 | 9,165 | 2,580 | 7,945 |
| United States of America | 3,366 | 3,007 | 2,614 | 1,820 |
| United Kingdom | 1,287 | 6,069 | 1,004 | 4,970 |
| Poland | 40 | 1,237 | 40 | 1,392 |
| Rest of the world | — | 80 | — | — |
| | <u>8,553</u> | <u>19,558</u> | <u>6,238</u> | <u>16,127</u> |

There exists a contingent liability to repay in whole or in part grants received on equipment leased to customers if certain events set out in the agreements occur.

Following the foreign exchange pricing issue in 2004, the Group agreed a management action plan with the Financial Regulator which included:- the introduction of a speak up policy as an additional channel to help staff raise concerns; the improvement and simplification of product delivery processes; and the strengthening of enterprise-wide quality assurance, risk and compliance functions. This program is well advanced but not complete. When issues have come to light, the Financial Regulator has been briefed and appropriate remedial action initiated. The Group has estimated the likely financial effect of such issues and this has been provided for at December 31, 2005.

Except as set out below, the Group is not, nor has been, involved in, nor are there, so far as the Company is aware, pending or threatened by or against the Group any legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of the Group.

Class action and purported stockholder derivative action

On March 5, 2002 and on April 24, 2002, separate class action lawsuits under the Securities Exchange Act, 1934 of the United States were filed in the United States District Court for the Southern District of New York against the Group and others seeking compensatory damages, legal fees and other costs and expenses relating to alleged misrepresentations in filings of the Group. On May 3, 2002, a motion to consolidate both cases and to appoint a lead plaintiff was filed with the Court. On December 7, 2004 the Court granted this motion. In accordance with the direction of the Court, the plaintiffs filed an amended and consolidated complaint on February 7, 2005. Certain of the defendants (including the Group) filed a motion to dismiss the consolidated amended complaint on April 8, 2005. In December 2005 a settlement was reached, under which all claims are to be dismissed without any admission of liability or wrongdoing by any defendant. The class of security holders will receive a cash payment of US\$ 2.5 million, out of which the Court will be asked to award Attorneys' fees to class counsel. The settlement must be approved by the Court.

There are no other material legal proceedings pending or, as far as the Group is aware, threatened against the Group.

49. DERIVATIVE FINANCIAL INSTRUMENTS

The objectives, policies and strategies in managing the risks that arise in connection with the use of financial instruments, including derivative financial instruments, are set out in the Financial review.

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate and equity exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices. The majority of the Group's derivative activities are undertaken at the parent company level and the discussion below applies equally to the parent company and Group.

These instruments involve, to varying degrees, elements of market risk and credit risk which are not reflected in the consolidated balance sheet. Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates. Credit risk arises to the extent that the default of a counterparty to the derivative transaction exposes the Group to the need to replace existing contracts at prices that are less favourable than when the contract was entered into. The potential loss to the Group is known as the gross replacement cost. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

Credit risk in derivatives contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract. The Group would then have to replace the contract at the current market rate, which may result in a loss.

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at December 31, 2005 and 2004.

| | December 31, 2005 | | December 31, 2004 | |
|--|---------------------------|------------------------|---------------------------|------------------------|
| | Notional principal amount | Gross replacement cost | Notional principal amount | Gross replacement cost |
| | (Euro in millions) | | | |
| Interest rate contracts⁽¹⁾ | | | | |
| Trading | 126,885 | 685 | 109,372 | 765 |
| Non-trading | 51,441 | 461 | 31,695 | 294 |
| | <u>178,326</u> | <u>1,146</u> | <u>141,067</u> | <u>1,059</u> |
| Exchange rate contracts⁽¹⁾ | | | | |
| Trading | 19,799 | 238 | 15,870 | 599 |
| Non-trading | — | — | — | — |
| | <u>19,799</u> | <u>238</u> | <u>15,870</u> | <u>599</u> |
| Equity contracts⁽¹⁾ | | | | |
| Trading | 4,386 | 253 | 3,575 | 112 |
| Non-trading | — | — | — | — |
| | <u>4,386</u> | <u>253</u> | <u>3,575</u> | <u>112</u> |

⁽¹⁾ Interest rate contracts are entered into for both trading and hedging purposes. Equity and exchange rate contracts are entered into for trading purposes only.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, in relation to derivative instruments, the Group's exposure to market risk is controlled within the risk limits in the Group's Interest Rate Risk and Foreign Exchange Risk Policies and is further constrained by the risk parameters incorporated in the Group's Derivatives Policy as approved by the Board.

The following table analyzes the notional amount and gross replacement cost of interest rate, exchange rate and equity contracts by maturity.

| | Residual maturity | | | |
|------------------------|--------------------|------------|---------|--------|
| | < 1 year | 1 < 5 year | 5 years | Total |
| | (Euro in millions) | | | |
| 2005 | | | | |
| Notional amount | 131,78 | 54,060 | 16,671 | 202,51 |
| Gross replacement cost | 557 | 645 | 435 | 1,637 |
| 2004 | | | | |
| Notional amount | 100,30 | 46,330 | 13,879 | 160,51 |
| Gross replacement cost | 758 | 655 | 357 | 1,770 |

The Group has the following concentration of exposures in respect of notional amount and gross replacement cost of all interest rate, exchange rate and equity contracts. The concentrations are based primarily on the location of the office recording the transaction.

| | December 31, 2005 | | December 31, 2004 | |
|--------------------------|--------------------|------------------------|-------------------|------------------------|
| | Notional amount | Gross replacement cost | Notional amount | Gross replacement cost |
| | (Euro in millions) | | | |
| Republic of Ireland | 161,58 | 1,318 | 121,89 | 1,316 |
| Unites States of America | 4,134 | 40 | 3,268 | 43 |
| United Kingdom | 18,449 | 184 | 26,798 | 219 |
| Poland | 18,339 | 95 | 8,550 | 192 |
| | <u>202,51</u> | <u>1,637</u> | <u>160,51</u> | <u>1,770</u> |

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These financial instruments include interest rate, foreign exchange and equity futures, interest rate swaps, interest rate caps and floors, forward rate agreements, and interest rate, foreign exchange and equity index options. Most of these positions arise as a result of activity generated by corporate customers while others represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income. The managers and traders involved in financial derivatives have the technical expertise to trade these products and the active involvement of the traders in these markets allows the Group to offer competitive pricing to customers.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The Group's credit exposure at 31 December 2005 and 2004 from derivatives held for trading purposes is represented by the fair value of instruments with a positive fair value (assets in the table on page 152). The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, futures, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount. Forward rate agreements are also used by the Group in its trading activities. Forward rate agreements settle in cash at a specified future date based on the difference between agreed market rates applied to a notional principal amount. Most of these contracts have maturity terms up to one year.

The following table shows the notional principal amounts of derivative financial instruments, analyzed by product and purpose as at December 31, 2005 and the fair values of derivative financial instruments, analyzed by product and purpose, as at December 31 and January 1, 2005.

| | December 31, 2005 | | | January 1, 2005 | |
|---|-------------------|--------------|----------------|-----------------|----------------|
| | Notional amount | Fair values | | Fair values | |
| | | Assets | Liabilities | Assets | Liabilities |
| (Euro in millions) | | | | | |
| Derivatives held for trading | | | | | |
| <i>Interest rate derivatives - over the counter (OTC)</i> | | | | | |
| Interest rate swaps | 91,154 | 556 | (642) | 577 | (637) |
| Cross-currency interest rate swaps ⁽¹⁾ | 1,509 | 766 | (754) | 679 | (508) |
| Forward rate agreements | 17,056 | 8 | (7) | 14 | (14) |
| Interest rate options | 2,716 | 4 | (4) | 8 | (8) |
| Other interest rate contracts | 178 | — | — | — | — |
| Total OTC interest rate contracts | 112,61 | 1,334 | (1,407) | 1,278 | (1,167) |
| <i>Interest rate derivatives - exchange traded</i> | | | | | |
| Interest rate futures | 14,272 | — | (5) | — | (2) |
| Interest rate contracts total | 126,88 | 1,334 | (1,412) | 1,278 | (1,169) |
| <i>Foreign exchange derivatives - (OTC)</i> | | | | | |
| Currency forwards | 2,451 | 8 | (11) | — | — |
| Currency swaps | 14,640 | 232 | (216) | 567 | (826) |
| Currency options bought & sold | 2,664 | 21 | (17) | 24 | (25) |
| Total OTC foreign exchange derivatives | 19,755 | 261 | (244) | 591 | (851) |
| <i>Foreign exchange derivatives - exchange traded</i> | | | | | |
| Foreign exchange traded options | 44 | — | — | — | — |
| Foreign exchange derivatives total | 19,799 | 261 | (244) | 591 | (851) |
| <i>Equity index contracts (OTC)</i> | | | | | |
| Equity index options | 4,386 | 254 | (123) | 112 | (136) |
| Equity index contracts total | 4,386 | 254 | (123) | 112 | (136) |
| Total trading contracts | 151,07 | 1,849 | (1,779) | 1,981 | (2,156) |
| Derivatives designated as fair value hedges | | | | | |
| <i>Interest rate swaps (OTC)</i> | 32,923 | 368 | (170) | 263 | (340) |
| Derivatives designated as cash flow hedges | | | | | |
| <i>Interest rate swaps (OTC)</i> | 18,518 | 222 | (18) | 337 | (45) |
| Total hedging contracts | 51,441 | 590 | (188) | 600 | (385) |
| Total derivative financial instruments | 202,51 | 2,439 | (1,967) | 2,581 | (2,541) |

⁽¹⁾ Cross currency interest rate swaps have an exchange of nominals on settlement. Such nominals are therefore shown gross on the balance sheet.

The total hedging ineffectiveness charged to the income statement on cash flow hedges amounted to €4.3 million.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate risks.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange and equity derivatives can be used to hedge the Group's exposure to foreign exchange and equity risk, as required.

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, will generally be offset by the unrealised depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The tables on the pages 154 and 155 present the notional and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group at December 31, 2005 and 2004. The table relating to December 31, 2004 was prepared under Previous GAAP.

These tables present the notional principal and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group for 2005 and 2004.

The table for 2004 was prepared under Previous GAAP and accordingly the classification is that reported in the 2004 Report and Accounts.

| | December 31, 2005 | | | | |
|--|---------------------------------------|---|-----------------------|-------------|--|
| | Notional amount (Euro in millions) | Weighted average maturity in years | Weighted average rate | | Fair value (Euro in millions) |
| | | | Receive % | Pay % | |
| Interest rate derivatives designated as fair value hedges | | | | | |
| Interest rate swaps: | | | | | |
| Pay fixed | | | | | |
| 1 year or less | 1,248 | 0.42 | 2.81 | 3.99 | (21) |
| 1 - 5 years | 1,902 | 2.52 | 3.09 | 4.40 | (53) |
| 5 years or more | 872 | 12.85 | 3.44 | 5.10 | (62) |
| | <u>4,022</u> | <u>4.11</u> | <u>3.08</u> | <u>4.42</u> | <u>(136)</u> |
| Receive fixed | | | | | |
| 1 year or less | 19,874 | 0.27 | 3.14 | 2.98 | 153 |
| 1 - 5 years | 170 | 3.56 | 5.00 | 4.33 | 14 |
| 5 years or more | 1,834 | 14.63 | 5.34 | 5.11 | 155 |
| | <u>21,878</u> | <u>1.50</u> | <u>3.33</u> | <u>3.17</u> | <u>322</u> |
| Pay/receive floating | | | | | |
| 1 year or less | 10 | 0.75 | 3.69 | 3.88 | — |
| 1 - 5 years | 5,231 | 2.28 | 2.56 | 2.51 | 8 |
| 5 years or more | 1,782 | 8.17 | 2.71 | 2.67 | 4 |
| | <u>7,023</u> | <u>3.77</u> | <u>2.60</u> | <u>2.55</u> | <u>12</u> |
| Interest rate derivatives designated cash flow hedges | | | | | |
| Interest rate swaps: | | | | | |
| Pay fixed | | | | | |
| 1 year or less | 284 | 0.59 | 2.27 | 2.99 | — |
| 1 - 5 years | 2,311 | 2.97 | 2.45 | 3.05 | (5) |
| 5 years or more | 266 | 6.93 | 2.38 | 3.82 | (9) |
| | <u>2,861</u> | <u>3.10</u> | <u>2.42</u> | <u>3.12</u> | <u>(14)</u> |
| Receive fixed | | | | | |
| 1 year or less | 2,121 | 0.52 | 4.11 | 2.64 | 12 |
| 1 - 5 years | 10,714 | 2.66 | 3.87 | 2.68 | 131 |
| 5 years or more | 2,822 | 6.71 | 4.62 | 2.56 | 75 |
| | <u>15,657</u> | <u>3.10</u> | <u>4.04</u> | <u>2.65</u> | <u>218</u> |
| December 31, 2004 | | | | | |
| | Notional amount (Euro in millions) | Weighted average maturity in years | Weighted average rate | | Estimated Fair value (Euro in millions) |
| | | | Receive % | Pay % | |
| Interest rate swaps: | | | | | |
| Receive fixed | | | | | |
| 1 year or less | 16,640 | 0.31 | 2.84 | | 100 |
| 1 - 5 years | 1,210 | 2.84 | 4.53 | | 60 |
| 5 years or more | 2,304 | 9.38 | 3.46 | | 107 |
| | <u>20,154</u> | <u>1.50</u> | <u>3.01</u> | <u>2.11</u> | <u>267</u> |
| Pay fixed | | | | | |
| 1 year or less | 1,339 | 0.55 | | 3.95 | (20) |
| 1 - 5 years | 3,234 | 2.94 | | 4.47 | (132) |
| 5 years or more | 1,640 | 9.51 | | 4.14 | (124) |
| | <u>6,213</u> | <u>4.16</u> | <u>2.13</u> | <u>4.27</u> | <u>(276)</u> |
| Pay/receive floating | | | | | |
| 1 year or less | 500 | 0.42 | 4.26 | | — |
| 1 - 5 years | 1,610 | 2.73 | 2.14 | | 3 |
| 5 years or more | 600 | 10.10 | 2.18 | | — |
| | <u>2,710</u> | <u>3.94</u> | <u>2.54</u> | <u>2.49</u> | <u>3</u> |
| Forward rate agreements: | | | | | |
| Loans | | | | | |
| 1 year or less | 1,931 | 0.61 | 2.52 | — | 1 |
| | <u>1,931</u> | <u>0.61</u> | <u>2.52</u> | <u>—</u> | <u>1</u> |
| Deposits | | | | | |
| 1 year or less | 665 | 0.99 | — | 3.38 | (2) |
| | <u>665</u> | <u>0.99</u> | <u>—</u> | <u>3.38</u> | <u>(2)</u> |
| Other interest rate derivatives: | | | | | |
| 1 year or less | 22 | 0.75 | 2.17 | 6.75 | (5) |
| 1 - 5 years | — | — | — | — | — |
| 5 years or more | — | — | — | — | — |
| | <u>22</u> | <u>0.75</u> | <u>2.17</u> | <u>6.75</u> | <u>(5)</u> |

The carrying value of the interest rate derivative financial instruments held for risk management purposes was €48 million.

Netting financial assets and financial liabilities

Derivatives financial instruments are shown on the balance sheet at their fair value, those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

The Group has a number of master netting agreements in place which allow it to net positive and negative fair values on derivatives contracts in the event of default by the counterparty. The effect of netting contracts subject to master netting agreements would reduce the balance sheet carrying amount of derivative assets and liabilities by € 502 million.

50. COMMITMENTS

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €188 million (2004: €99 million). Capital expenditure authorized, but not yet contracted for, amounted to €140 million (2004: €214 million). The general purpose of the capital commitments is buildings, predominantly the development of Bankcentre, and technology related expenditure.

Operating lease rentals

The annual commitments in respect of land and buildings under non-cancelable operating leases are set out below:

| | December 31, | |
|-------------------|--------------------|------|
| | 2005 | 2004 |
| | (Euro in millions) | |
| One year | 18 | 19 |
| One to five years | 130 | 72 |
| Over five years | 513 | 210 |
| Total | 661 | 301 |

The total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date were €13 million (2004: €8million).

Operating lease payments recognized as an expense for this period were €37 million (2004: €37 million). Sublease income amounted to €1 million (2004: €1 million).

51. REPORT ON DIRECTORS' REMUNERATION AND INTERESTS

Information relating to Directors' remuneration and interests is included in Item 6 of this Report.

52. CURRENCY INFORMATION

| | Assets | | Liabilities | |
|-------|--------------------|---------|--------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| | (Euro in millions) | | (Euro in millions) | |
| Euro | 75,806 | 55,469 | 76,831 | 55,655 |
| Other | 57,408 | 45,640 | 56,383 | 45,454 |
| | 133,214 | 101,109 | 133,214 | 101,109 |

53. REPORTING CURRENCY AND EXCHANGE RATES

The currency used in these accounts is the euro which is denoted by "EUR" or the symbol €. Each euro is made up of one hundred cent, denoted by the symbol "c" in these accounts.

The exchange rates used in the preparation of the Consolidated Financial Statements for the years ended December 31, 2005 and 2004 were as follows:

| | December 31, | |
|---------|--------------|--------|
| | 2005 | 2004 |
| €/US\$ | | |
| Closing | 1.1797 | 1.3621 |
| Average | 1.2484 | 1.2474 |
| €/Stg£ | | |
| Closing | 0.6853 | 0.7051 |
| Average | 0.6851 | 0.6813 |
| €/PLN | | |
| Closing | 3.8600 | 4.0845 |
| Average | 4.0276 | 4.5314 |

54. CAPITAL ADEQUACY INFORMATION

| | December 31, 2005 | January 1, 2005 |
|-----------------------------------|----------------------|---------------------|
| (Euro in millions) | | |
| Risk weighted assets | | |
| Banking book: | | |
| On balance sheet | 79,520 | 62,770 |
| Off-balance sheet | 14,682 | 10,960 |
| | <u>94,202</u> | <u>73,730</u> |
| Trading book: | | |
| Market risks | 6,891 | 5,149 |
| Counterparty and settlement risks | 563 | 712 |
| | <u>7,454</u> | <u>5,861</u> |
| Total risk weighted assets | <u>101,656</u> | <u>79,591</u> |
| Capital | | |
| Tier 1 | 7,275 | 6,510 |
| Tier 2 | 4,089 | 2,312 |
| | <u>11,364</u> | <u>8,822</u> |
| Supervisory deductions | <u>487</u> | <u>302</u> |
| Total Capital | <u><u>10,877</u></u> | <u><u>8,520</u></u> |

56. FAIR VALUE OF FINANCIAL INSTRUMENTS

The term "financial instruments" includes both financial assets and financial liabilities and also derivatives. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some lendings to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Group's financial position or to make comparisons with other institutions.

Fair value information is not provided for certain financial instruments or for items that do not meet the definition of a financial instrument. These items include short-term debtors and creditors, intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at December 31, 2005.

The following table gives details of the carrying amounts and fair values of financial instruments at December 31, 2005 and 2004. As permitted by IFRS 1 "First time adoption of International Financial Reporting Standards" the carrying amount and fair value for 2004 are disclosed as previously reported in the 2004 Annual Report and on Form 20-F.

| | December 31, 2005 | | December 31, 2004 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| (Euro in millions) | | | | |
| Assets | | | | |
| Trading financial instruments⁽¹⁾ | | | | |
| Trading portfolio financial assets | 10,113 | 10,113 | — | — |
| Trading derivative financial instruments | 1,849 | 1,849 | — | — |
| Debt securities | — | — | 7,826 | 7,826 |
| Equity shares | — | — | 84 | 84 |
| Non-trading financial instruments | | | | |
| Cash and balances at central banks ⁽¹⁾ | 742 | 742 | 887 | 887 |
| Treasury bills and other eligible bills | 201 | 201 | — | — |
| Items in course of collection ⁽¹⁾ | 402 | 402 | 368 | 368 |
| Loans and receivables to banks ⁽²⁾ | 7,129 | 7,129 | 2,320 | 2,336 |
| Loans and receivables to customers ⁽²⁾ | 83,614 | 83,673 | 63,211 | 63,536 |
| Financial investments available for sale | 16,864 | 16,864 | — | — |
| Hedging derivative financial instruments | 590 | 590 | — | — |
| Debt securities and equity shares | — | — | 16,361 | 16,633 |
| Liabilities | | | | |
| Trading financial instruments | | | | |
| Trading portfolio financial liabilities | 240 | 240 | — | — |
| Trading derivative financial instruments | 1,779 | 1,779 | — | — |
| Short positions in securities ⁽¹⁾ | — | — | 332 | 332 |

| Non-trading financial instruments | | | | |
|--|--------|--------|--------|--------|
| Deposits by banks | 29,329 | 29,328 | 20,428 | 20,447 |
| Customer accounts | 62,580 | 62,604 | 51,397 | 51,476 |
| Debt securities in issue | 17,611 | 17,609 | 11,805 | 11,805 |
| Hedging derivative financial instruments | 188 | 188 | — | — |
| Subordinated liabilities and other capital instruments | 3,756 | 3,859 | 2,766 | 2,882 |
| Off-balance sheet assets/(liabilities) | | | | |
| Trading financial instruments⁽¹⁾ | | | | |
| Interest rate contracts | — | — | 152 | 152 |
| Exchange rate contracts | — | — | 19 | 19 |
| Equity contracts | — | — | 70 | 70 |
| Non-trading financial instruments | | | | |
| Interest rate contracts | — | — | 48 | (12) |

⁽¹⁾ The fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value, or have minimal credit losses and are either short-term in nature or repriced frequently.

⁽²⁾ Finance leases with carrying amount totalling €1,618 million and €1,625 million at December 31, 2005 and 2004, respectively, are excluded. The fair values of the finance leases were €1,617 million, and €1,612 million at December 31, 2005 and 2004 respectively. The carrying values are net of the allowances for loan losses and related unearned income.

The following methods and assumptions were used by the Group in estimating the fair value for its financial instruments.

Trading portfolio financial assets/liabilities

Trading portfolio financial assets/liabilities are measured at fair value by reference to quoted market prices where available.

Loans and receivables to banks and loans and receivables to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans. Where secondary market prices were available, these were used. The carrying amount of variable rate loans was considered to be at market value if there was no significant change in the credit risk of the borrower. The fair value of fixed rate loans was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

The fair value of money market funds and loans and advances to banks was estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Financial investments available for sale

The fair value of listed financial investments is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted financial investments is based on the anticipated future cashflows arising from these items.

Debt securities and equity shares

The fair value of listed debt securities and equity shares is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted debt securities and equity shares is based on the anticipated future cashflows arising from these items.

Deposits by banks, customer accounts and debt securities in issue

The fair value of current accounts and deposit liabilities payable on demand is equal to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Subordinated liabilities and other capital instruments

The estimated fair value of subordinated liabilities is based upon quoted market rates.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 48. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

Derivative financial instruments

Derivatives used for trading purposes are marked to market using independent prices and are included in the consolidated balance sheet at 31 December 2005 and 2004. The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used for valuing similar instruments used for trading purposes. Derivatives classified as fair value or cash flow hedges are included in the Balance Sheet at 31 December 2005 at fair value. In 2004, hedging derivatives were carried at amortised cost. Details of derivatives in place, including fair values, are included in note 49.

57. INTEREST RATE SENSITIVITY

The net interest rate sensitivity of the Group at December 31, 2005 and 2004 is illustrated in the tables below. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are also included. The tables show the sensitivity of the balance sheet at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

| | December 31, 2005 | | | | | | | Total |
|--|-------------------|-----------------|-----------------|----------------|---------------|----------------------|---------------|----------------|
| | 0-3 Months | 3-6 Months | 6-12 Months | 1-5 Years | 5 + Years | Non-interest bearing | Trading | |
| (Euro in millions) | | | | | | | | |
| Assets | | | | | | | | |
| Treasury bills and other eligible bills | 24 | 177 | — | — | — | — | — | 201 |
| Loans and receivables to banks | 5,947 | 72 | 222 | — | — | 888 | — | 7,129 |
| Trading portfolio financial assets | — | — | — | — | — | — | 10,113 | 10,113 |
| Loans and receivables to customers | 69,956 | 2,523 | 2,274 | 7,169 | 2,716 | 594 | — | 85,232 |
| Financial investments available for sale | 4,412 | 1,796 | 2,219 | 5,776 | 2,486 | 175 | — | 16,864 |
| Other assets | — | — | — | — | — | 11,818 | 1,857 | 13,675 |
| Total assets | 80,339 | 4,568 | 4,715 | 12,945 | 5,202 | 13,475 | 11,970 | 133,214 |
| Liabilities | | | | | | | | |
| Deposits by banks | 26,728 | 1,103 | 1,207 | 78 | — | 213 | — | 29,329 |
| Trading portfolio financial liabilities | — | — | — | — | — | — | 240 | 240 |
| Customer accounts | 47,653 | 1,708 | 1,622 | 1,638 | 74 | 9,885 | — | 62,580 |
| Debt securities in issue | 14,479 | 984 | 1,814 | 334 | — | — | — | 17,611 |
| Subordinated liabilities and other capital instruments | 1,149 | 85 | — | — | 2,522 | — | — | 3,756 |
| Other liabilities | — | — | — | — | — | 10,829 | 1,700 | 12,529 |
| Stockholders' equity | — | — | — | — | — | 7,169 | — | 7,169 |
| Total liabilities | 90,009 | 3,880 | 4,643 | 2,050 | 2,596 | 28,096 | 1,940 | 133,214 |
| Derivative financial instruments affecting interest rate sensitivity | 9,327 | (1,785) | (3,423) | (112) | (4,007) | — | — | — |
| Interest sensitivity gap | (18,997) | 2,473 | 3,495 | 11,007 | 6,613 | (14,621) | 10,030 | |
| Cumulative interest sensitivity gap | (18,997) | (16,524) | (13,029) | (2,022) | 4,591 | (10,030) | — | |
| | Euro m | Euro m | Euro m | Euro m | Euro m | Euro m | Euro m | |
| Interest sensitivity gap | (8,234) | 959 | 2,607 | 6,764 | 4,683 | (12,620) | 4,816 | |
| Cumulative interest sensitivity gap | (8,234) | (7,275) | (4,668) | 2,096 | 6,779 | (5,841) | (1,025) | |
| | US \$m | US \$m | US \$m | US \$m | US \$m | US \$m | US \$m | |
| Interest sensitivity gap | (6,338) | 909 | 575 | 2,107 | 433 | 2,064 | 1,702 | |
| Cumulative interest sensitivity gap | (6,338) | (5,429) | (4,854) | (2,747) | (2,314) | (250) | 1,452 | |
| | Stg m | Stg m | Stg m | Stg m | Stg m | Stg m | Stg m | |
| Interest sensitivity gap | (1,344) | 214 | 51 | 1,789 | 1,441 | (3,590) | 1,417 | |
| Cumulative interest sensitivity gap | (1,344) | (1,130) | (1,079) | 710 | 2,151 | (1,439) | (22) | |
| | PLN m | PLN m | PLN m | PLN m | PLN m | PLN m | PLN m | |
| Interest sensitivity gap | (1,652) | 588 | 250 | 228 | — | (503) | 573 | |
| Cumulative interest sensitivity gap | (1,652) | (1,064) | (814) | (586) | (586) | (1,089) | (516) | |

As permitted by IFRS 1 'First time adoption of International Financial Reporting Standards' the following interest rate sensitivity table for 2004 is disclosed as previously reported in the 2004 Annual Report and Accounts.

| | December 31, 2004 | | | | | | | Total |
|---|-------------------|--------------|--------------|---------------|--------------|----------------------|--------------|----------------|
| | 0-3 Months | 3-6 Months | 6-12 Months | 1-5 Years | 5 years + | Non-interest bearing | Trading | |
| (Euro in millions) | | | | | | | | |
| Assets | | | | | | | | |
| Loans and advances to banks | 1,251 | 186 | 85 | — | — | 798 | — | 2,320 |
| Loans and advances to customers | 54,984 | 2,184 | 1,683 | 3,456 | 2,529 | — | — | 64,836 |
| Debt securities | 3,687 | 898 | 1,344 | 6,806 | 3,515 | — | 7,826 | 24,076 |
| Other assets | — | — | — | — | — | 10,102 | 906 | 11,008 |
| Total assets | 59,922 | 3,268 | 3,112 | 10,262 | 6,044 | 10,900 | 8,732 | 102,240 |
| Liabilities | | | | | | | | |
| Deposits by banks | 13,716 | 3,360 | 3,086 | — | 183 | 83 | — | 20,428 |
| Customer accounts | 37,253 | 1,275 | 1,100 | 2,662 | 226 | 8,881 | — | 51,397 |
| Debt securities in issue | 9,501 | 1,087 | 1,068 | 149 | — | — | — | 11,805 |
| Subordinated liabilities | 1,500 | 73 | — | — | 1,192 | — | — | 2,765 |
| Other liabilities | — | — | — | — | — | 9,053 | 1,211 | 10,264 |
| Stockholders' equity | — | — | — | — | — | 5,581 | — | 5,581 |
| Total liabilities | 61,970 | 5,795 | 5,254 | 2,811 | 1,601 | 23,598 | 1,211 | 102,240 |
| Off-balance sheet items affecting interest rate sensitivity | 5,131 | (4,560) | (1,835) | 1,933 | (669) | — | — | — |
| | 67,101 | 1,235 | 3,419 | 4,744 | 932 | 23,598 | 1,211 | 102,240 |

| | | | | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Interest sensitivity gap | (7,179) | 2,033 | (307) | 5,518 | 5,112 | (12,698) | 7,521 |
| Cumulative interest sensitivity gap | (7,179) | (5,146) | (5,453) | 65 | 5,177 | (7,521) | — |
| | <u>Euro m</u> | <u>Euro m</u> | <u>Euro m</u> | <u>Euro m</u> | <u>Euro m</u> | <u>Euro m</u> | <u>Euro m</u> |
| Interest sensitivity gap | (960) | 2,313 | 102 | 2,676 | 3,222 | (11,149) | 3,675 |
| Cumulative interest sensitivity gap | (960) | 1,353 | 1,455 | 4,131 | 7,353 | (3,796) | (121) |
| | <u>US \$m</u> | <u>US \$m</u> | <u>US \$m</u> | <u>US \$m</u> | <u>US \$m</u> | <u>US \$m</u> | <u>US \$m</u> |
| Interest sensitivity gap | (4,087) | 147 | 198 | 458 | 341 | 2,195 | 1,122 |
| Cumulative interest sensitivity gap | (4,087) | (3,940) | (3,742) | (3,284) | (2,943) | (748) | 374 |
| | <u>Stg m</u> | <u>Stg m</u> | <u>Stg m</u> | <u>Stg m</u> | <u>Stg m</u> | <u>Stg m</u> | <u>Stg m</u> |
| Interest sensitivity gap | (615) | 88 | (590) | 1,713 | 1,411 | (3,463) | 1,392 |
| Cumulative interest sensitivity gap | (615) | (527) | (1,117) | 596 | 2,007 | (1,456) | (64) |
| | <u>PLN m</u> | <u>PLN m</u> | <u>PLN m</u> | <u>PLN m</u> | <u>PLN m</u> | <u>PLN m</u> | <u>PLN m</u> |
| Interest sensitivity gap | (1,267) | (98) | (26) | 510 | 116 | 187 | 345 |
| Cumulative interest sensitivity gap | (1,267) | (1,365) | (1,391) | (881) | (765) | (578) | (233) |

59. RECONCILIATIONS OF IRISH GAAP TO IFRS

As stated in First time adoption of International Financial Reporting Standards (“IFRS”) and in Note 1 to the consolidated financial statements, these are the Group’s first Financial Statements prepared in accordance with IFRS.

In order to prepare the IFRS opening balance sheet, it was necessary to adjust the amounts reported in the Financial Statements prepared in accordance with Previous GAAP to reflect the application of the International Financial Reporting Standards.

Reconciliations of the transition from Previous GAAP to IFRS are set out below, and explain how the transition has affected the financial position and performance of the Group.

The balance sheet reconciliations present the restatement of the Group balance sheets at December 31, 2004 from Previous GAAP to IFRS including the impacts of IAS 32, IAS 39 and IFRS 4 at January 1, 2005.

The Income statement reconciliation presents for the Group the restatement from Previous GAAP Profit and Loss account to IFRS Income statement for the year ended December 31, 2004.

Reconciliations between Previous GAAP and IFRS are summarized in note 1 of stockholders’ equity at December 31, 2004 before the implementation of IAS 32, IAS 39 and IFRS 4 and at January 1, 2005 following the implementation of IAS 32, IAS 39 and IFRS 4.

Additionally, detailed explanations of the key differences between Previous GAAP and IFRS impacting the Group’s financial statements are set out in this note.

Consolidated balance sheets

| | December 31, 2004 IFRS adjustments | | | January 1, 2005 IAS 32, 39 & IFRS 4 | | | |
|---|---------------------------------------|-----------------------|--------------|--|-----------------------|--------------|----------------|
| | Previous GAAP | Reclassi- fication | To equity | IFRS | Reclassi- fication | To equity | IFRS |
| (Euro in millions) | | | | | | | |
| Assets | | | | | | | |
| Cash and balances at central banks | 887 | — | — | 887 | — | — | 887 |
| Items in course of collection | 368 | — | — | 368 | — | — | 368 |
| Trading portfolio financial assets | — | — | — | — | 7,957 | — | 7,957 |
| Financial assets designated at fair value through profit or loss | — | — | — | — | 1,871 | — | 1,871 |
| Derivative financial instruments | — | — | — | — | 2,419 | 162 | 2,581 |
| Loans and receivables to banks | 2,320 | 220 | — | 2,540 | (2) | — | 2,538 |
| Loans and receivables to customers | 64,836 | (98) | — | 64,738 | 894 | 60 | 65,692 |
| Financial investments available for sale | — | — | — | — | 15,397 | 323 | 15,720 |
| Debt securities and equity shares | 24,271 | 1,871 | — | 26,142 | (26,142) | — | — |
| Interests in associated undertakings | 1,317 | — | 62 | 1,379 | (1) | 17 | 1,395 |
| Intangible assets and goodwill | 380 | 109 | 51 | 540 | — | — | 540 |
| Property, plant and equipment | 785 | (40) | — | 745 | — | — | 745 |
| Other assets | 2,247 | 350 | — | 2,597 | (963) | (199) | 1,435 |
| Current taxation | — | 25 | — | 25 | — | — | 25 |
| Deferred taxation | 198 | 23 | 7 | 228 | — | (24) | 204 |
| Prepayments and accrued income | 918 | — | 2 | 920 | — | (59) | 861 |
| Long-term assurance business attributable to shareholders | 467 | (467) | — | — | — | — | — |
| Long-term assurance business attributable to policyholders | 3,246 | (3,246) | — | — | — | — | — |
| Total assets | 102,240 | (1,253) | 122 | 101,109 | 1,430 | 280 | 102,819 |
| Liabilities | | | | | | | |
| Deposits by banks | 20,428 | — | — | 20,428 | — | — | 20,428 |
| Customer accounts | 51,397 | (1,246) | — | 50,151 | — | — | 50,151 |
| Trading portfolio financial liabilities | — | — | — | — | 332 | — | 332 |
| Derivative financial instruments | — | — | — | — | 2,318 | 223 | 2,541 |
| Investment and insurance contract liabilities | — | 3,286 | — | 3,286 | 601 | — | 3,887 |
| Debt securities in issue | 11,805 | — | — | 11,805 | — | — | 11,805 |
| Current taxation | — | 175 | — | 175 | — | 22 | 197 |
| Other liabilities | 3,899 | (184) | (328) | 3,387 | (1,794) | — | 1,593 |
| Accruals and deferred income | 911 | — | 2 | 913 | (27) | (181) | 705 |
| Retirement benefit liabilities | 676 | 187 | 23 | 886 | — | — | 886 |
| Provisions for liabilities and charges | 122 | — | — | 122 | — | — | 122 |
| Deferred taxation | 123 | (151) | 80 | 52 | — | (14) | 38 |
| Subordinated liabilities and other capital instruments | 2,766 | — | — | 2,766 | — | (315) | 2,451 |
| Long-term assurance business attributable to policyholders | 3,320 | (3,320) | — | — | — | — | — |
| Total liabilities | 95,447 | (1,253) | (223) | 93,971 | 1,430 | (265) | 95,136 |
| Stockholders' equity | | | | | | | |
| Issued share capital | 294 | — | — | 294 | — | — | 294 |
| Share premium account | 1,693 | — | — | 1,693 | — | — | 1,693 |
| Other equity interests | 182 | — | — | 182 | — | 315 | 497 |
| Reserves | 977 | — | 8 | 985 | — | 205 | 1,190 |
| Profit and loss account | 2,435 | — | 338 | 2,773 | — | 25 | 2,798 |
| Stockholders' equity | 5,581 | — | 346 | 5,927 | — | 545 | 6,472 |
| Minority interests | 1,212 | — | (1) | 1,211 | — | — | 1,211 |
| Stockholders' equity (including minority interests) | 6,793 | — | 345 | 7,138 | — | 545 | 7,683 |
| Total liabilities, stockholders' equity and minority interests | 102,240 | (1,253) | 122 | 101,109 | 1,430 | 280 | 102,819 |

| | December 31, 2004 Previous GAAP | IFRS adjustments (Euro in millions) | December 31, 2004 IFRS |
|---|--|---|------------------------------|
| Consolidated income statement | | | |
| Net interest income | 2,036 | 98 | 2,134 |
| Other finance income | 18 | (18) | — |
| Other non-interest income | 1,234 | 264 | 1,498 |
| Total operating income | 3,288 | 344 | 3,632 |
| Insurance claims | — | 309 | 309 |
| Operating expenses | 1,886 | 8 | 1,894 |
| Operating income before provisions | 1,402 | 27 | 1,429 |
| Provisions | 135 | (2) | 133 |
| Operating income | 1,267 | 29 | 1,296 |
| Share of results of associated undertakings | 201 | (69) | 132 |
| Amortization of goodwill on acquisition of associated undertaking | (52) | 52 | — |
| Gain on disposals | 26 | — | 26 |
| Income before taxes | 1,442 | 12 | 1,454 |
| Taxation | 339 | (64) | 275 |
| Income after taxes | 1,103 | 76 | 1,179⁽¹⁾ |
| Income attributable to minority interests | 30 | (1) | 29 |
| Dividends on non-equity shares | 5 | (1) | 4 |
| Net income applicable to ordinary stockholders | 1,068 | 78 | 1,146 |

⁽¹⁾ Reflects the December 31, 2004 IFRS income statement prior to the restatement to represent the results of Life Assurance as a discontinued operation (note 2).

The key differences between Previous GAAP and IFRS impacting the Group's financial statements are as follows:

(a) Basis of consolidation

In order to reflect the different nature of the stockholders' and policyholders' interests in the long-term assurance business, these were classified under separate headings in the consolidated balance sheet under Previous GAAP.

Movements in the value of the long-term assurance business attributable to stockholders, were presented in the profit and loss account grossed up at the statutory tax rate.

IAS 27 "Consolidated and separate financial statements" requires that all entities are consolidated on a line by line basis, except in very limited circumstances. The assets and liabilities of the life assurance subsidiary are consolidated on a line by line basis and all intra group transactions are eliminated. The income and expense of the life assurance subsidiary is shown within each relevant line item of the income statement whereas under Previous GAAP it was shown as a one line item. Movements in the value of the long-term assurance business is presented net of tax.

IFRS also requires the consolidation of certain entities that were not required under Previous GAAP, including securitization vehicles where appropriate.

(b) Cash and cash equivalents

Under Previous GAAP, cash comprised cash and balances at central banks and loans and receivables to banks repayable on demand.

Under IFRS, this is a presentation change on the face of the cash flow statement, resulting in an increase in the amount of cash and cash equivalents reported, as it now includes short-term non-equity investments and bank overdrafts.

(c) Financial instruments

Debt securities held as financial fixed assets were accounted for on a historic cost basis under Previous GAAP. These debt securities were stated in the balance sheet at cost, adjusted for the amortization of any premiums or discounts arising on acquisition and provisions for impairment. Debt securities held for trading purposes were stated in the balance sheet at market value. Both realized and unrealized profits on trading securities were taken directly to the statement of income and included within dealing profits.

Under IAS 32 and 39, all debt securities and equity shares are classified and disclosed within one of the following three categories: held-to-maturity; available-for-sale; or held at fair value through profit or loss.

Held-to-maturity financial instruments are stated in the balance sheet at cost, adjusted on an effective interest basis for the amortization of any premiums or discounts arising on acquisition and provisions for impairment. The amortization of premiums and discounts is included in net interest income. Provisions for impairment are included in the income statement.

Available-for-sale financial instruments are stated in the balance sheet at fair value with unrealized holding gains and losses reported net of applicable taxes as a separate component in stockholders' equity.

Debt securities held at fair value through profit or loss are stated in the balance sheet at market value with unrealized gains and losses recognized immediately in the income statement. This has two sub categories: financial assets held for trading; and those designated at fair value through profit or loss.

Almost all of the Group's financial instruments, which were previously held as financial fixed assets, were classified as available-for-sale on transition to IFRS. This gave rise to an adjustment to equity on transition.

(d) Derivatives

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) were not recognized in the profit and loss account immediately as they arose. Derivative transactions entered into for hedging purposes were recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged.

IAS 39 "Financial instruments: recognition and measurement" requires all derivatives be recognized as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation, this being either fair value hedges or cash flow hedges.

Interest income and expense on derivatives classified as hedges is recorded within interest income or expense as appropriate.

The mark to market of derivatives classified as fair value hedges is recognised in the income statement within other financial income. The mark to market of derivatives designated as cash flow hedges is accounted for in equity, net of the deferred tax impact.

Because hedge effectiveness rules within IAS 39 have a stricter definition of qualifying hedges, this has resulted in the recognition of current hedging derivatives at fair value with no matching offset where the associated hedging relationship has not met the IAS 39 hedging requirements. There was also an impact on transition due to fair value movements on derivatives in existing hedge relationships that are designated as cash flow hedges being taken to the cash flow hedging reserve in equity.

(e) Netting

Under Previous GAAP, where the amounts owed by the Group and the counterparty are determinable and in freely convertible currencies and where the Group had the ability to insist on net settlement which is assured beyond doubt and is based on a legal right to settle net that would survive the insolvency of the counterparty, the amounts were shown in the balance sheet as net assets or net liabilities as appropriate.

Under IAS "Financial instruments: disclosure and presentation", netting is only allowed if the entity currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(f) Loan impairment - allowance and provision for losses

Under IAS 39, impairment provisions are recognized on an incurred loss basis if there is objective evidence that the Group will be unable to collect all amounts due on a loan according to the original contractual terms. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

Where no objective evidence of impairment exists for an individual asset but there are indications of incurred losses in the portfolio, IAS 39 permits the creation of provisions for credit losses on an incurred loss basis.

Application of the IFRS incurred loss model to the Group results in a reduction in the overall level of provisions carried at the balance sheet date and a transition adjustment to equity. In addition, on recognition of individual impairment, the impairment loss will be higher than that recorded under current GAAP due to the requirement to discount the recoverable cash flows.

The higher impairment loss will be offset by the recognition of income on the net recoverable amount due to the passage of time.

(g) Loan origination - interest income and expense recognition

Under Previous GAAP, interest income and expense was recognized in the profit and loss on an accruals basis over contract lives except in respect of non-performing loans where interest was not taken to the profit and loss account when recovery was doubtful. Fees which are considered to increase the yield on transactions were spread over the lives of the underlying transactions on a level yield basis. All costs associated with mortgage incentive schemes were charged in the period in which the expense was incurred. Fees and commissions received for services provided were recognized when earned. Fees and commissions payable to third parties in connection with lending arrangements were charged to the profit and loss account as incurred.

On transition to IFRS, certain fees receivable, and fees and commissions payable that had previously been taken to the profit and loss account were treated as deferred income and deferred costs and shown within loans and receivables. This gave rise to a reclassification from liabilities and a transition adjustment to equity. These deferred fees and costs will be amortized on an effective interest basis to the statement of income over the expected residual lives of the financial instruments. The change in policy gave rise to a reclassification from fee income/fee expense and administrative expenses to interest income with an impact on the net interest margin.

(h) Finance leases

Income from finance leasing transactions was apportioned over the primary leasing period on an after tax basis in proportion to the net cash investment using the investment period method for Previous GAAP. Rentals received in advance but not yet amortized to the profit and loss account were included in other liabilities.

Under IAS 17 "Leases", income from finance leasing transactions is apportioned over the primary leasing period at a rate calculated to give a constant rate of return on the investment in the lease, without taking into account the taxation flows generated by the lease.

Finance lease receivables are stated in the balance sheet at the gross rentals receivable, less income allocated to future periods and provisions for impairment. The reclassification of rentals received in advance from liabilities to assets reduces the size of the balance sheet.

(i) Interests in associated undertakings

Under Previous GAAP, the attributable share of income of associated undertakings was included in the consolidated profit and loss account using the equity method of accounting.

The Group share of tax of associates was included within the Group's tax charge in the Group profit and loss account and disclosed separately in the notes to the accounts.

IAS 1 "Presentation of Financial Statements" requires the Group to include its share of the income of associated undertakings as a single item on a net of tax basis in the consolidated statement of income.

(j) Intangible assets and goodwill

Under Previous GAAP, goodwill was amortized to the profit and loss account over its estimated useful economic life.

Under IFRS, from January 1, 2004, there was no amortization of goodwill recorded at December 31, 2003 (after adjusting for intangible assets required to be recognized under IFRS and any adjustments made to provisional fair values on acquisitions). However, goodwill will be the subject of impairment testing at least annually under IFRS. In the event of impairment, the absence of previous amortization would lead to larger impairment charges than would have been necessary under Previous GAAP.

Goodwill previously written off to reserves prior to 1998 will not be taken into account in the calculation of profit or loss on disposal of subsidiary or associated undertakings. This will generate a higher profit, or lower loss, on disposal of subsidiary or associated undertakings acquired prior to 1998, under IFRS. The cessation of goodwill amortization had a positive impact on the income statement for the year ended December 31, 2004.

(k) Software and software development costs

For Previous GAAP reporting, operating software and application software were capitalized with computer hardware within tangible fixed assets. The Group capitalized software development costs under IFRS 15, when it lead to the creation of a definable software asset, subject to a de-minimise limit.

IAS 38 "Intangible assets & system development costs" requires capitalization of computer software development costs as an intangible asset, where the entity will generate future economic benefits from the asset that will flow to the entity, and the cost of the asset can be measured reliably. Capitalized costs are amortized over the software's estimated useful life.

The classification criteria of IFRS gave rise to a reclassification from tangible fixed assets to intangible assets, being the carrying value of previously recognized operating software.

The recognition requirements within IAS 38 increased stockholders' equity due to an increase in capitalized assets.

(l) Acceptances

Acceptances were accounted for on a net basis under Previous GAAP. There was no gross up of the amount to be paid and the amount receivable from the originator and thus no balance appeared in the balance sheet in relation to these products.

IAS 39 requires the recognition of a liability for acceptances from the date of acceptance. A corresponding asset due from the originator is also recognized.

(m) Taxation

Under IFRS, additional deferred tax balances arise on transition in respect of temporary differences not previously recognized. These include temporary differences relating to the revaluation of properties and the roll over of taxable gains and the additional tax that may arise on unremitted profits of associated and subsidiary companies.

There will be continuing income statement implications from IAS 12, particularly the requirement to reflect the additional tax that would be payable on the remittance of profits by associated companies.

(n) Long term assurance business

Accounting for contracts meeting the IFRS definition of insurance business is not impacted by IFRS 4.

Accounting for investment products under IAS 39 serves to delay the recognition of income for a number of reasons. There is a narrower definition of costs that can be deferred on the sale of investment products. Initial charges on the sale of investment products are deferred and accrued over the expected life of the product. There is no opportunity to account for the future surpluses on an embedded value basis.

As a consequence, there was a reduction in equity on transition, as the valuation of the discounted future earnings expected to emerge from the business currently in force in the balance sheet will decrease. Income will be recognized on these contracts in later periods due to the change in the valuation basis.

(o) Classification of financial liabilities

Under Previous GAAP capital instruments that are not shares were treated as liabilities if they involved an obligation to transfer economic benefits. All other capital instruments were reported in stockholders' funds.

Under IFRS, financial instruments with an obligation to pay interest or repay principal are classified in the balance sheet as liabilities. Financial instruments with no obligation to pay interest or repay principal are classified as equity.

The impact on the balance sheet was as follows:

The US \$ 250 million non-cumulative preference shares are now classified as debt while the Reserve Capital Instruments are classified as equity. This is a presentation change that will impact the face of the income statement and the balance sheet.

(p) Employee and retirement benefits

Under FRS 17 "Retirement Benefits" the current service cost and past service cost of the defined benefit plans was charged to operating income and the expected return on assets, net of the change in the present value of the plan liabilities arising from the passage of time, was credited to other finance income. Pension scheme assets were recognized in the balance sheet at their fair value based on current mid prices. The net pension scheme liabilities were shown in the balance sheet net of deferred taxation.

(q) Dividends

Equity dividends declared after the balance sheet date but before the accounts were approved by the Directors were treated as a deduction on the face of the profit and loss account and as a liability at the balance sheet date.

Dividends on preference shares were included in the profit and loss account on an accruals basis in accordance with FRS 4 "Capital Instruments".

Under IAS 10 "Events after the balance sheet date" dividends declared after the balance sheet date are not recognized as a liability at the balance sheet date.

In respect of preference shares recognised as stockholders' equity, dividends are accounted for as a movement in stockholders' equity and as a charge against earnings per share when they are declared.

(r) Share based payments

Under Previous GAAP, no expense was recognized for grants of options under the share option plans.

An expense was recognized for grants awarded under the long term incentive plan schemes, equivalent to the intrinsic value of the shares awarded. This was charged to the profit and loss account over the vesting period, based on the number of options that were expected to vest. An expense was recognized in respect of Save-As-You-Earn schemes.

IFRS 2 "Share-based Payment" requires a fair value based method of accounting for all share-based payments. This value is determined using an options pricing model.

the Group elected to apply IFRS 2 to all equity settled share based payments occurring after November 7, 2002 that had not vested by January 1, 2005.

Applying IFRS 2 to the Group's share based payment plans gave rise to a higher expense than that arising under Previous GAAP. It also gave rise to some changes in the timing of recognition of the expense with a transition adjustment at January 1, 2004.

(s) Foreign currency

IFRS 1 permits companies to deem cumulative exchange differences as zero at January 1, 2004. This will primarily be a presentation change within stockholders' equity.

60. POST-BALANCE SHEET EVENTS

There have been no material post-balance sheet events which would require disclosure or adjustment to the December 31, 2005 Financial Statements. On February 21, 2006, the Board of Directors reviewed the Financial Statements and authorized them for issue. These Financial Statements were approved at the Annual General Meeting of Shareholders on April 26, 2006.

Mortgage Bank

On February 13, 2006 home mortgages in the amount of €13.6 billion were transferred from the Group to Mortgage Bank, a wholly owned subsidiary and a designated mortgage credit institution for the purposes of the Asset Covered Securities Act, 2001.

61. DIVIDENDS

Final dividends were not accounted for until they were approved at the Annual General Meeting of Shareholders on April 26, 2006. It was recommended that a final dividend of Eur 42.30c per ordinary share, amounting to a total of €368 million, be paid on April 27, 2006. The Financial Statements for the year ended December 31, 2005 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending December 31, 2006.