



***Rabobank***  
International

# Rabobank Ireland plc

Directors' report and consolidated financial statements

Year ended 31 December 2002

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### Directors

W. J. Kolff (Dutch) - Chairman  
J. E. Callaghan  
H. Jacquand (French)  
F. J. Murphy - Managing Director  
S. N. Schat (Dutch)  
J. Slotema (Dutch, resigned 17 October 2002)  
A. Whiteman (New Zealander, resigned 10 January 2003)

### Registered office

George's Dock House  
IFSC  
Dublin 1

### Secretary

N. McDonagh

### Auditors

KPMG  
Chartered Accountants  
5 George's Dock  
IFSC  
Dublin 1

The directors have pleasure in submitting their report and audited consolidated financial statements for the year ended 31 December 2002.

### Results and dividends

The results for the year ended 31 December 2002 are disclosed on page 9 of the financial statements. The directors do not recommend the payment of a dividend.

### Principal activities, business review and future developments

The company's main activities are in the areas of treasury dealing, structured finance and corporate lending. During 2002 the company's involvement in these areas has significantly increased. The directors expect the company's activities will continue to expand.

### Directors, secretary and their interests

The directors and secretary who held office at 31 December 2002 had no interests in the shares in Rabobank Ireland plc or its subsidiaries or other group companies. Jaap Slotema and Adrian Whiteman resigned as directors on 17 October 2002 and 10 January 2003 respectively.

### Subsidiary companies

Details of the subsidiaries are set out in Note 31 to the consolidated financial statements in accordance with the Companies Act 1963.

### Post balance sheet events

There have been no significant events affecting the company since the year end.

### Safety and health of employees

The safety, health and welfare of the group's employees is safeguarded by adherence to safety and health regulations which are in conformity with the requirements of the Safety, Health and Welfare at Work Act, 1989.

### Accounting records

The directors believe that they have complied with the requirements of Section 202 of the Companies Act 1990 with regard to books of account by employing appropriate accounting personnel and by providing adequate resources to the financial function. The books of account of the company are maintained at George's Dock House, IFSC, Dublin 1, Ireland.

### Auditors

In accordance with Section 160(2) of the Companies Act 1963, the auditors KPMG, Chartered Accountants, will continue in office.

On behalf of the board

|                 |                          |                 |                  |
|-----------------|--------------------------|-----------------|------------------|
| W. J. Kolff     | F. J. Murphy             | H. Jacquand     | N. McDonagh      |
| <i>Chairman</i> | <i>Managing Director</i> | <i>Director</i> | <i>Secretary</i> |

25 April 2003

Company law requires the directors to prepare financial statements, in accordance with applicable Irish law and accounting standards, for each financial year, which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and of the group and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2001, and all Regulations to be construed as one with those Acts. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

On behalf of the board

|                 |                          |                 |                  |
|-----------------|--------------------------|-----------------|------------------|
| W. J. Kolff     | F. J. Murphy             | H. Jacquand     | N. McDonagh      |
| <i>Chairman</i> | <i>Managing Director</i> | <i>Director</i> | <i>Secretary</i> |

25 April 2003

We have audited the financial statements on pages 6 to 43.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether

- the company has kept proper books of account;
- the directors' report is consistent with the financial statements;
- at the balance sheet date a financial situation existed that may require the company to hold an extraordinary general meeting, on the grounds that the net assets of the company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

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

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

# Independent auditor's report to the members of Rabobank Ireland plc

continued

5. Directors' report and consolidated financial statements 2002

## Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the group and the company as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 2 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 11, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2002 a financial situation which, under section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.



*Chartered Accountants*

*Registered Auditors*

25 April 2003

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### Presentation of financial information

The financial statements for the year ended 31 December 2002 have been prepared in accordance with the disclosure requirements and accounting principles of the European Communities (Credit Institutions: Accounts) Regulations, 1992.

The company is availing of the exemption under the European Communities (Credit Institutions: Accounts) Regulations, 1992 not to disclose a profit and loss account for the parent company. The profit for the parent company of €34,583k (2001: €38,512k) is dealt with in the consolidated profit and loss account for the financial year.

### Basis of preparation of financial statements

The company prepares its financial statements in euros (€) in accordance with generally accepted accounting principles and to comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland, and the Statements of Recommended practice (SORPs) issued jointly by the British Bankers Association and the Irish Bankers Federation. The financial statements have been prepared under the historical cost basis of accounting, modified by the revaluation of certain derivative products, in compliance with the special provisions relating to banking groups contained in the Companies (Amendment) Act, 1986 as amended by the European Communities (Credit Institutions: Accounts) Regulations, 1992.

### Consolidation

The consolidated financial statements include the results of the company and its subsidiaries made up to 31 December 2002 after elimination of all intercompany transactions. The subsidiary undertakings are consolidated using the acquisition method of accounting. Details of the subsidiary undertakings are disclosed in Note 31.

### Income recognition

Fees and commissions received for services provided are recognised when earned.

### Interest

All outstanding interest receivable and payable is included in the financial statements in prepayments and accrued income and accruals and deferred income respectively.

### Foreign currencies

Current assets and liabilities arising in foreign currencies are translated into euros at the rate of exchange applicable at the balance sheet date. All exchange differences arising are included in the results for the year.

Trading activities denominated in foreign currencies are recorded in euros at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or at the rate of exchange in a related forward exchange contract where such contracts exist. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account. Where foreign currency equity investments are funded in whole or in part by foreign currency borrowings, the exchange differences arising on the retranslation of such borrowings are also recorded as reserve movements and reflected in the statement of total recognised gains and losses.

Profits and losses in subsidiaries whose financial statements are denominated in foreign currencies are translated at average rates for the period. The adjustment arising on retranslation of amounts at the exchange rates at the balance sheet date is included in the exchange translation adjustment in reserves.

### Depreciation of tangible fixed assets

Depreciation is calculated to write off the original cost of the assets on a straight line basis over their expected useful lives at the following annual rates:

|   |  |
|---|--|
| Motor vehicles                            | 25%                                    |
| Other equipment and fixtures and fittings | 10% - 33 <sup>1</sup> / <sub>3</sub> % |

### Taxation

Current tax, including Irish corporation tax and foreign tax(es), is provided on the group's taxable profits, at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Credit risk

Provision for credit risk is made having regard to both specific and general factors. The general provision is made against risks which, although not specifically identified, may be present in the company's non-Rabobank Group risk weighted asset portfolio. Provisions made (less any amounts released) during the year are charged against profits. Provisions against advances are deducted from loans and advances to customers.

### Debt securities, exchequer bills and other eligible bills

Debt securities, exchequer bills and other eligible bills, which have all been accounted for as investments, are stated in the balance sheet at cost, adjusted for premia and discounts on purchase which are amortised over the period from date of purchase to the date of maturity on a straight line basis, except for those bills maintained for the purpose of hedging, which are accounted for on the same basis as the item hedged.

Profits and losses on disposal are recognised when realised and included in operating income under interest receivable and similar income. Those bills maintained for hedging purposes are amortised over the lives of the underlying transactions and the amortisation is included in interest receivable and similar income.

Debt securities in issue and similar securities are stated at the net issue proceeds adjusted for amortisation of premiums, discounts and expenses related to their issue where the liability is a fixed amount.

### Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The annual charge is calculated as a percentage of pensionable payroll and is charged to the profit and loss account in the year in which it is incurred.

### Derivatives

Off-balance sheet financial instruments, such as forward contracts, forward rate agreements and interest rate swaps are used in trading and hedging transactions. Trading items are valued on a mark to market basis. Profit and losses arising from hedging transactions are recognised in accordance with the accounting treatment for the underlying transactions. Off balance sheet financial instruments that cease to be non-trading hedges as a result of the underlying item or position being derecognised are remeasured at fair value before being reclassified as trading. In common with the derecognised item or position, the income or expense, is recognised in full in the period. In other circumstances, reclassified non trading hedges are remeasured at fair value on their reclassification and any income or expense generated amortised over the life of the underlying item or position. Where the reclassification from trading to non-trading takes place, the fair value on the date of transfer becomes the cost of the non-trading transaction.

### Repurchase agreements

Securities sold subject to repurchase agreements are retained on the balance sheet as the company retains the risks and rewards of ownership. Funds received under such agreements are included in deposits by banks and customer accounts as appropriate. The difference between the sale and repurchase price is recognised on an accruals basis within interest payable or receivable in the profit and loss account.

### Netting

The group enters into master agreements with certain counterparties. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Where the amounts owed by both the group and the counterparty are determinable and in freely convertible currencies, and where the group has the ability to insist on the net settlement which is assured beyond doubt, and is based on a legal right under the netting agreement that would survive the insolvency of the counterparty, transactions with positive values are netted against transactions with negative values.

# Rabobank Ireland plc and subsidiaries

## Consolidated Profit and Loss Account

for the year ended 31 December 2002

9. Directors' report and consolidated financial statements 2002

|   | Note | 2002<br>€'000  | 2001<br>€'000 |
|---|------|----------------|---------------|
| Interest receivable and similar income  | 2    | 1,702,898      | 1,933,963     |
| Interest payable and similar charges  |      | (1,630,006)    | (1,877,033)   |
| <b>Net interest income</b>  |      | <b>72,892</b>  | 56,930        |
| Fees and commissions receivable   |      | 2,069          | 3,201         |
| Fees and commissions payable  |      | (5,079)        | (7,068)       |
| Dealing profit  |      | 196            | 595           |
| <b>Operating income</b>   |      | <b>70,078</b>  | 53,658        |
| Operating expenses  | 3    | (11,161)       | (8,044)       |
| <b>Operating profit - before provisions</b>                                   |      | <b>58,917</b>  | 45,614        |
| Provision for credit risk   | 10   | (20,920)       | (4,900)       |
| <b>Profit on ordinary activities before tax</b>                               | 4    | <b>37,997</b>  | 40,714        |
| Tax on profit on ordinary activities  | 5    | (2,291)        | (4,781)       |
| <b>Retained profit for financial year attributable to equity shareholders</b> |      | <b>35,706</b>  | 35,933        |
| Profit and loss account at beginning of year                                  |      | 156,199        | 120,913       |
| Capitalisation of reserves  | 25   | -              | (647)         |
| <b>Profit and loss account at end of year</b>                                 |      | <b>191,905</b> | 156,199       |

Net interest income and profit before taxation are derived entirely from continuing operations. There were no recognised gains or losses in the financial year or the preceding financial year other than those shown above.

On behalf of the board

W. J. Kolff  
Chairman

F. J. Murphy  
Managing Director

H. Jacquand  
Director

N. McDonagh  
Secretary

# Rabobank Ireland plc and subsidiaries

## Consolidated Balance Sheet

at 31 December 2002

10. Directors' report and consolidated financial statements 2002

| Assets  | Note      | 2002<br>€'000     | 2001<br>€'000     |
|---|-----------|-------------------|-------------------|
| Cash and balances at central banks                |           | 218,959           | 208,584           |
| Central government bills and other eligible bills | 7         | 1,605,608         | 2,183,314         |
| Loans and advances to banks                       | 8         | 5,634,081         | 3,425,640         |
| Loans and advances to customers                   | 9         | 7,440,020         | 9,590,009         |
| Debt securities                                   | 11        | 3,537,003         | 2,919,878         |
| Other investments                                 | 12        | 4,164             | -                 |
| Tangible fixed assets                             | 13        | 1,131             | 796               |
| Other assets                                      | 14        | 510               | -                 |
| Prepayments and accrued income                    | 16        | 341,076           | 342,700           |
| Finance lease receivables                         | 17        | 9,419             | 11,434            |
| <b>Total assets</b>                               | <b>6</b>  | <b>18,791,971</b> | <b>18,682,355</b> |
| <b>Liabilities</b>                                |           |                   |                   |
| Deposits by banks                                 | 18        | 11,787,614        | 12,258,464        |
| Customer accounts                                 | 19        | 4,865,218         | 4,020,617         |
| Debt securities in issue                          | 20        | 1,194,010         | 1,504,540         |
| Other liabilities                                 | 21        | 1,689             | 4,571             |
| Accruals and deferred income                      | 22        | 386,472           | 391,970           |
| Provision for other liabilities and charges       | 10        | 19,069            | -                 |
| <b>Total liabilities</b>                          |           | <b>18,254,072</b> | <b>18,180,162</b> |
| <b>Capital and reserves</b>                       |           |                   |                   |
| Called up share capital                           | 23        | 7,060             | 7,060             |
| Capital contribution reserve                      | 24        | 338,934           | 338,934           |
| Profit and loss account                           |           | 191,905           | 156,199           |
| <b>Shareholders' funds</b>                        | <b>25</b> | <b>537,899</b>    | <b>502,193</b>    |
| <b>Total liabilities and shareholders' funds</b>  | <b>6</b>  | <b>18,791,971</b> | <b>18,682,355</b> |
| <b>Memorandum items</b>                           |           |                   |                   |
| Guarantees issued                                 | 26        | 408,615           | 545,845           |
| Commitments                                       | 26        | 150,195           | 116,349           |

On behalf of the board

W. J. Kolff  
*Chairman*

F. J. Murphy  
*Managing Director*

H. Jacquand  
*Director*

N. McDonagh  
*Secretary*

# Rabobank Ireland plc

## Company Balance Sheet

at 31 December 2002

11. Directors' report and consolidated financial statements 2002

| <b>Assets</b>                                     | <b>Note</b> | <b>2002</b><br><b>€'000</b> | <b>2001</b><br><b>€'000</b> |
|---|-------------|-----------------------------|-----------------------------|
| Cash and balances at central banks                |             | <b>218,959</b>              | 208,584                     |
| Central government bills and other eligible bills | 7           | <b>1,474,934</b>            | 2,052,890                   |
| Loans and advances to banks                       | 8           | <b>5,634,081</b>            | 3,425,640                   |
| Loans and advances to customers                   | 9           | <b>8,275,947</b>            | 10,301,630                  |
| Debt securities                                   | 11          | <b>2,065,630</b>            | 1,603,864                   |
| Shares in group undertakings                      | 31          | <b>832,578</b>              | 778,254                     |
| Tangible fixed assets                             | 13          | <b>1,131</b>                | 796                         |
| Other assets                                      | 14          | <b>510</b>                  | -                           |
| Prepayments and accrued income                    | 16          | <b>344,529</b>              | 343,481                     |
| Finance lease receivables                         | 17          | <b>9,419</b>                | 11,434                      |
| <b>Total assets</b>                               | <b>6</b>    | <b>18,857,718</b>           | <b>18,726,573</b>           |
| <b>Liabilities</b>                                |             |                             |                             |
| Deposits by banks                                 | 18          | <b>11,783,450</b>           | 12,258,464                  |
| Customer accounts                                 | 19          | <b>4,945,477</b>            | 4,076,084                   |
| Debt securities in issue                          | 20          | <b>1,194,010</b>            | 1,504,540                   |
| Other liabilities                                 | 21          | <b>860</b>                  | 3,396                       |
| Accruals and deferred income                      | 22          | <b>382,670</b>              | 386,490                     |
| Provisions for liabilities and charges            | 10          | <b>19,069</b>               | -                           |
| <b>Total liabilities</b>                          |             | <b>18,325,536</b>           | <b>18,228,974</b>           |
| <b>Capital and reserves</b>                       |             |                             |                             |
| Called up share capital                           | 23          | <b>7,060</b>                | 7,060                       |
| Capital contribution reserve                      | 24          | <b>338,934</b>              | 338,934                     |
| Profit and loss account                           |             | <b>186,188</b>              | 151,605                     |
| <b>Shareholders' funds</b>                        |             | <b>532,182</b>              | <b>497,599</b>              |
| <b>Total liabilities and shareholders' funds</b>  | <b>6</b>    | <b>18,857,718</b>           | <b>18,726,573</b>           |
| <b>Memorandum items</b>                           |             |                             |                             |
| Guarantees issued                                 | 26          | <b>408,615</b>              | 545,845                     |
| Commitments                                       | 26          | <b>150,195</b>              | 116,349                     |

On behalf of the board

W. J. Kolff  
*Chairman*

F. J. Murphy  
*Managing Director*

H. Jacquand  
*Director*

N. McDonagh  
*Secretary*

# Rabobank Ireland plc and subsidiaries

## Consolidated Cash Flow Statement

for the year ended 31 December 2002

12. Directors' report and consolidated financial statements 2002

|  | Note | 2002<br>€'000 | 2001<br>€'000 |
|--|------|---------------|---------------|
| <b>Net cash inflow/(outflow) from operating activities</b> | 27   |               |               |
| Net cash flow from trading activities                      |      | 54,789        | 229,222       |
| Net cash flow from other operating activities              |      | (27,885)      | (233,039)     |
|  |      | 26,904        | (3,817)       |
| <b>Taxation</b>  |      | (5,160)       | (2,409)       |
| <b>Capital expenditure and financial investments</b>       |      |               |               |
| Purchase of tangible fixed assets                          |      | (687)         | (315)         |
| Receipts from sales of fixed assets                        |      | 83            | 28            |
|  |      | 21,140        | (6,513)       |
| <b>Financing</b>   |      |               |               |
| Issue of deferred ordinary share capital                   |      | -             | 20            |
| Non-returnable capital contribution received               |      | -             | 868           |
| Increase/(decrease) in cash in the year                    | 28   | 21,140        | (5,625)       |

|  | 2002              | 2001              |
|--|-------------------|-------------------|
|  | €'000             | €'000             |
| <b>1 Segmental analysis</b>                                    |                   |                   |
| <b>Geographical segments</b>                                   |                   |                   |
| Interest receivable and similar income                         |                   |                   |
| Ireland  | 939,236           | 778,663           |
| Rest of Europe   | 685,091           | 985,367           |
| Rest of world  | 78,571            | 169,933           |
|  | <b>1,702,898</b>  | <b>1,933,963</b>  |
| Total assets   |                   |                   |
| Ireland  | 9,327,911         | 10,000,042        |
| Rest of Europe   | 6,932,056         | 6,133,054         |
| Rest of world  | 2,532,004         | 2,549,259         |
|  | <b>18,791,971</b> | <b>18,682,355</b> |
| <b>2 Interest receivable and similar income</b>                |                   |                   |
|  | 2002              | 2001              |
|  | €'000             | €'000             |
| Arising from debt securities and other fixed income securities | 242,973           | 289,727           |
| Other interest receivable and similar income                   | 1,459,925         | 1,644,236         |
|  | <b>1,702,898</b>  | <b>1,933,963</b>  |
| <b>3 Operating expenses</b>                                    |                   |                   |
|  | 2002              | 2001              |
|  | €'000             | €'000             |
| Staff costs  |                   |                   |
| - wages and salaries   | 5,276             | 4,012             |
| - social welfare costs   | 623               | 432               |
| - other pension costs  | 424               | 412               |
| - other staff costs  | 106               | 194               |
|  | <b>6,429</b>      | <b>5,050</b>      |

|   | 2002          | 2001         |
|---|---------------|--------------|
|   | €'000         | €'000        |
| <b>3 Operating expenses (continued)</b> |               |              |
| Other administrative expenses           | 4,463         | 2,127        |
| Depreciation of tangible fixed assets   | 287           | 875          |
| Profit on sale of fixed assets          | (18)          | (8)          |
|   | <b>11,161</b> | <b>8,044</b> |

During the year the average number of employees (including executive directors) was 55 (2001: 49).

#### Staff numbers and costs

The average number of persons employed by the company during the year, was as follows:

|              | Number of employees |           |
|--------------|---------------------|-----------|
|              | 2002                | 2001      |
| Management   | 4                   | 4         |
| Front office | 10                  | 10        |
| Back office  | 19                  | 14        |
| Support      | 22                  | 21        |
|              | <b>55</b>           | <b>49</b> |

|   | 2002         | 2001         |
|---|--------------|--------------|
|   | €'000        | €'000        |
| <b>4 Profit on ordinary activities before tax is stated after charging the following items:</b> |              |              |
| Directors' remuneration:  |              |              |
| Fees  | 32           | 31           |
| Other emoluments including pensions   | 1,026        | 1,069        |
|   | <b>1,058</b> | <b>1,100</b> |
| Auditors' remuneration (including expenses)   | 63           | 60           |
| Operating lease charges on premises   | 666          | 406          |

|   | 2002<br>€'000 | 2001<br>€'000 |
|---|---------------|---------------|
| <b>5 Taxation</b>                             |               |               |
| Corporation tax on ordinary activities at 10% | 2,159         | 3,185         |
| Withholding tax                               | 182           | 1,552         |
| Underprovision in respect of prior years      | 460           | 44            |
| Deferred tax (note 15)                        | (510)         | -             |
|   | <b>2,291</b>  | <b>4,781</b>  |

The group qualifies for an effective rate of corporation tax of 10% on qualifying activities under the provisions of Section 446, Taxes Consolidation Act 1997.

|  | 2002<br>€'000 | 2001<br>€'000 |
|--|---------------|---------------|
| Profits on ordinary activities before tax                          | 37,997        | 40,714        |
| Tax on profit on ordinary activities before tax at a standard rate | 3,799         | 4,071         |
| Tax effects:   |               |               |
| Franked investment income/non-taxable income                       | (1,534)       | (316)         |
| Non deductible expenditure at single company level                 | 62            | 636           |
| Tax withheld at source   | 14            | 9             |
| Foreign tax relief   | (182)         | (755)         |
| Understatement of current tax at consolidated level                | -             | (460)         |
| Current tax in the period  | <b>2,159</b>  | <b>3,185</b>  |

| 6 Assets and liabilities    | 2002              |                   | 2001           |                  |
|-----------------------------|-------------------|-------------------|----------------|------------------|
|                             | Group<br>€'000    | Company<br>€'000  | Group<br>€'000 | Company<br>€'000 |
| Assets denominated in:      |                   |                   |                |                  |
| euro                        | 10,144,221        | 11,590,566        | 8,326,564      | 8,327,057        |
| Currencies other than euro  | 8,647,750         | 7,267,152         | 10,355,791     | 10,399,516       |
| <b>Total assets</b>         | <b>18,791,971</b> | <b>18,857,718</b> | 18,682,355     | 18,726,573       |
| Liabilities denominated in: |                   |                   |                |                  |
| euro                        | 10,520,625        | 11,964,958        | 8,140,000      | 8,139,855        |
| Currencies other than euro  | 8,271,346         | 6,892,760         | 10,542,355     | 10,586,718       |
| <b>Total liabilities</b>    | <b>18,791,971</b> | <b>18,857,718</b> | 18,682,355     | 18,726,573       |

|  | 2002             | 2001      |
|--|------------------|-----------|
|  | €'000            | €'000     |
| <b>7 Central government bills and other eligible bills</b> |                  |           |
| <b>Group</b>   |                  |           |
| <i>Held as financial fixed assets</i>                      |                  |           |
| Exchequer bills and similar securities                     | <b>1,605,608</b> | 2,183,314 |

The market value of the securities held at the balance sheet date was €1,665,322,015 (2001: €2,223,809,881).

| <i>Movement in central government bills and other eligible bills</i> | Nominal value<br>€'000 | Discounts and (premia)<br>€'000 | Carrying amount<br>€'000 |
|--|------------------------|---------------------------------|--------------------------|
| At 1 January 2002  | 2,170,472              | 12,842                          | 2,183,314                |
| Exchange adjustments   | (8,389)                | (12)                            | (8,401)                  |
| Acquisitions   | 259,519                | 171                             | 259,690                  |
| Disposals/maturity   | (821,165)              | 1,644                           | (819,521)                |
| Amortisations of discounts and premia                                | -                      | (9,474)                         | (9,474)                  |
| <b>At 31 December 2002</b>   | <b>1,600,437</b>       | <b>5,171</b>                    | <b>1,605,608</b>         |

|  | 2002             | 2001      |
|--|------------------|-----------|
|  | €'000            | €'000     |
| <b>Company</b>                         |                  |           |
| <i>Held as financial fixed assets</i>  |                  |           |
| Exchequer bills and similar securities | <b>1,474,934</b> | 2,052,890 |

The market value of the securities held by the company at the balance sheet date was €1,534,646,751 (2001: €2,093,185,881).

| <i>Movement in central government bills and other eligible bills</i> | Nominal value<br>€'000 | Discounts and (premia)<br>€'000 | Carrying amount<br>€'000 |
|--|------------------------|---------------------------------|--------------------------|
| At 1 January 2002  | 2,040,472              | 12,418                          | 2,052,890                |
| Exchange adjustments   | (8,389)                | (14)                            | (8,403)                  |
| Acquisitions   | 129,219                | (251)                           | 128,968                  |
| Disposals/maturity   | (691,165)              | 1,220                           | (689,945)                |
| Amortisations of discounts and premia                                | -                      | (8,576)                         | (8,576)                  |
| <b>At 31 December 2002</b>   | <b>1,470,137</b>       | <b>4,797</b>                    | <b>1,474,934</b>         |

|  | 2002             | 2001      |
|--|------------------|-----------|
|  | €'000            | €'000     |
| <b>8 Loans and advances to banks</b>       |                  |           |
| <i>Group and company</i>                   |                  |           |
| Repayable on demand                        | 24,459           | 13,694    |
| Other loans and advances                   |                  |           |
| Remaining maturity:                        |                  |           |
| - 3 months or less                         | 4,223,676        | 3,168,505 |
| - 1 year or less but over 3 months         | 300,757          | 166,251   |
| - 5 years or less but over 1 year          | 627,544          | 35,136    |
| - repayable in more than 5 years           | 457,645          | 42,054    |
|  | <b>5,634,081</b> | 3,425,640 |
| Unsubordinated loans and advances          | <b>5,634,081</b> | 3,425,640 |
| <i>Amounts include:</i>                    |                  |           |
| Due from Rabobank Nederland group entities | <b>5,250,642</b> | 3,083,892 |

|  | 2002             |                  | 2001      |            |
|--|------------------|------------------|-----------|------------|
|  | Group            | Company          | Group     | Company    |
|  | €'000            | €'000            | €'000     | €'000      |
| Repayable on demand or at short notice     | 57               | 57               | 56        | 21         |
| Remaining maturity                         |                  |                  |           |            |
| - 3 months or less                         | 890,157          | 2,327,528        | 2,472,190 | 3,758,122  |
| - 1 year or less but over 3 months         | 1,924,781        | 1,936,224        | 1,729,489 | 1,745,375  |
| - 5 years or less but over 1 year          | 4,411,464        | 3,963,066        | 5,146,340 | 4,747,940  |
| - over 5 years                             | 232,162          | 67,673           | 258,684   | 66,922     |
| Provision for credit risk (Note 10)        | (18,601)         | (18,601)         | (16,750)  | (16,750)   |
|  | <b>7,440,020</b> | <b>8,275,947</b> | 9,590,009 | 10,301,630 |
| <i>Amounts include:</i>                    |                  |                  |           |            |
| Due from Rabobank Nederland group entities | <b>6,803,390</b> | <b>7,803,341</b> | 8,982,505 | 9,885,932  |

| 10 Provision for credit risk          | 2002                      |                      |                     |                   |               |
|---------------------------------------|---------------------------|----------------------|---------------------|-------------------|---------------|
|                                       | Specific<br>Other amounts | Specific<br>Advances | General<br>Advances | Total<br>Advances | Total         |
|                                       | €'000                     | €'000                | €'000               | €'000             | €'000         |
| <i>Group and company</i>              |                           |                      |                     |                   |               |
| At the beginning of the year          | -                         | -                    | 16,750              | 16,750            | 16,750        |
| Charge to the profit and loss account | 19,069                    | 4,101                | (2,250)             | 1,851             | 20,920        |
| <b>At the end of the year</b>         | <b>19,069</b>             | <b>4,101</b>         | <b>14,500</b>       | <b>18,601</b>     | <b>37,670</b> |

  

| <i>Group and company</i>              | 2001                      |                      |                     |                   |        |
|---------------------------------------|---------------------------|----------------------|---------------------|-------------------|--------|
|                                       | Specific<br>Other amounts | Specific<br>Advances | General<br>Advances | Total<br>Advances | Total  |
|                                       | €'000                     | €'000                | €'000               | €'000             | €'000  |
| At the beginning of the year          | -                         | -                    | 11,850              | 11,850            | 11,850 |
| Charge to the profit and loss account | -                         | -                    | 4,900               | 4,900             | 4,900  |
| At the end of the year                | -                         | -                    | 16,750              | 16,750            | 16,750 |

*Specific provision – other amounts*

The Bank has guaranteed a loan of approximately US\$47.5m given by a financial institution. This loan is in default. The Bank has security over assets owned by the entity and is currently engaged in litigation proceedings to enforce its right to this security. The Bank has made a specific provision of US\$20m (€19.1m) in respect of this exposure. The Bank has a further contingent loss of US\$27.5m representing the residual exposure under the guarantee.

*Specific provision – advances*

The specific provision for advances arises in respect of two loans. The provision represents management's prudent estimate of the appropriate level of provision against the carrying value of the loans.

| 11 Debt securities                    | 2002             |                  | 2001      |           |
|---------------------------------------|------------------|------------------|-----------|-----------|
|                                       | Group            | Company          | Group     | Company   |
| <i>Held as financial fixed assets</i> | €'000            | €'000            | €'000     | €'000     |
| <i>Investment securities</i>          |                  |                  |           |           |
| Issued by public bodies               |                  |                  |           |           |
| - government securities               | 1,582,808        | 206,580          | 1,259,298 | -         |
| - other public sector securities      | 346,661          | 346,661          | 307,233   | 307,233   |
| Issued by other issuers               |                  |                  |           |           |
| - Group undertakings                  | 107,918          | 107,918          | 103,331   | 103,331   |
| - Banks and building societies        | 1,378,543        | 1,283,398        | 1,042,542 | 985,826   |
| - Other                               | 121,073          | 121,073          | 207,474   | 207,474   |
|                                       | <b>3,537,003</b> | <b>2,065,630</b> | 2,919,878 | 1,603,864 |

€336,470,526 (2001: €122,479,000) of the debt securities held at balance sheet date have a remaining maturity of within one year and €3,200,532,840 (2001: €2,797,399,000) have a remaining maturity of greater than one year.

The market value of securities at 31 December 2002 was €3,618,065,400 (2001: €2,962,635,264) Company: €2,127,073,222 (2001 : €1,642,567,748).

Subordinated debt securities held by the Group amounted to €40,840,219; Company : €40,840,219 (2001: €40,840,219; Company : €40,840,219).

| Movements in debt securities        | Nominal value    | Discounts and (premia) | Carrying amount  |
|-------------------------------------|------------------|------------------------|------------------|
| <i>Group</i>                        | €'000            | €'000                  | €'000            |
| At 1 January 2002                   | 2,920,585        | (707)                  | 2,919,878        |
| Exchange adjustments                | (353,622)        | (373)                  | (353,995)        |
| Acquisitions                        | 1,741,764        | 4,983                  | 1,746,747        |
| Disposals                           | (777,012)        | 737                    | (776,275)        |
| Amortisation of discount and premia |                  | 648                    | 648              |
| <b>At 31 December 2002</b>          | <b>3,531,715</b> | <b>5,288</b>           | <b>3,537,003</b> |

  

| Movements in debt securities        | Nominal value    | Discounts and (premia) | Carrying amount  |
|-------------------------------------|------------------|------------------------|------------------|
| <i>Company</i>                      | €'000            | €'000                  | €'000            |
| At 1 January 2002                   | 1,605,453        | (1,589)                | 1,603,864        |
| Exchange adjustments                | (110,169)        | 51                     | (110,118)        |
| Acquisitions                        | 780,602          | 2,209                  | 782,811          |
| Disposals                           | (211,958)        | 1,065                  | (210,893)        |
| Amortisation of discount and premia |                  | (34)                   | (34)             |
| <b>At 31 December 2002</b>          | <b>2,063,928</b> | <b>1,702</b>           | <b>2,065,630</b> |

| 12 Other investments | 2002           |                  | 2001           |                  |
|----------------------|----------------|------------------|----------------|------------------|
|                      | Group<br>€'000 | Company<br>€'000 | Group<br>€'000 | Company<br>€'000 |
| Unlisted             |                |                  |                |                  |
| At 1 January         | -              | -                | -              | -                |
| Acquisitions         | 4,164          | -                | -              | -                |
| Exchange adjustments | -              | -                | -              | -                |
| At 31 December       | 4,164          | -                | -              | -                |

Other investments represent the investment in Aqua International Partnership LLP.

Management is satisfied that the carrying value is not less than the net realisable value as a result of a series of agreements entered into with a group company.

| 13 Tangible fixed assets   | Fixture and fittings<br>€'000 | Motor vehicles<br>€'000 | Other equipment<br>€'000 | Total<br>€'000 |
|----------------------------|-------------------------------|-------------------------|--------------------------|----------------|
| <i>Group and company</i>   |                               |                         |                          |                |
| <i>Cost</i>                |                               |                         |                          |                |
| At beginning of year       | 797                           | 438                     | 2,986                    | 4,221          |
| Additions                  | 157                           | 215                     | 315                      | 687            |
| Disposals                  | -                             | (177)                   | -                        | (177)          |
| <b>At end of year</b>      | <b>954</b>                    | <b>476</b>              | <b>3,301</b>             | <b>4,731</b>   |
| <i>Depreciation</i>        |                               |                         |                          |                |
| At beginning of year       | 384                           | 178                     | 2,863                    | 3,425          |
| Charged during year        | 87                            | 122                     | 78                       | 287            |
| Disposals                  | -                             | (112)                   | -                        | (112)          |
| <b>At end of year</b>      | <b>471</b>                    | <b>188</b>              | <b>2,941</b>             | <b>3,600</b>   |
| <i>Net book value</i>      |                               |                         |                          |                |
| <b>At 31 December 2002</b> | <b>483</b>                    | <b>288</b>              | <b>360</b>               | <b>1,131</b>   |
| At 31 December 2001        | 413                           | 260                     | 123                      | 796            |

| 14 Other assets        | 2002           |                  | 2001           |                  |
|------------------------|----------------|------------------|----------------|------------------|
|                        | Group<br>€'000 | Company<br>€'000 | Group<br>€'000 | Company<br>€'000 |
| Deferred tax (note 15) | 510            | 510              | -              | -                |

|                        |              |              |
|------------------------|--------------|--------------|
| <b>15 Deferred tax</b> | <b>2002</b>  | <b>2001</b>  |
|                        | <b>€'000</b> | <b>€'000</b> |

*Group and company**Deferred tax*

|   |            |   |
|---|------------|---|
| At 1 January  | -          | - |
| Credited to profit and loss account during the year | <b>510</b> | - |
| At 31 December                                      | <b>510</b> | - |

The provision comprises the tax impact of the following timing differences:

|  |                |              |
|--|----------------|--------------|
|  | <b>2002</b>    | <b>2001</b>  |
|  | <b>€'000</b>   | <b>€'000</b> |
| Excess of tax allowances over depreciation | <b>(1,010)</b> | (1,453)      |
| General provision                          | <b>1,450</b>   | 1,675        |
| Other timing differences                   | <b>70</b>      | (222)        |
|  | <b>510</b>     | -            |

|  |                |                |              |                |
|--|----------------|----------------|--------------|----------------|
| <b>16 Prepayments and accrued income</b> | <b>2002</b>    |                | <b>2001</b>  |                |
|  | <b>Group</b>   | <b>Company</b> | <b>Group</b> | <b>Company</b> |
|  | <b>€'000</b>   | <b>€'000</b>   | <b>€'000</b> | <b>€'000</b>   |
| Interest receivable                      | <b>315,779</b> | <b>318,732</b> | 284,071      | 284,852        |
| Other prepayments and accrued income     | <b>25,297</b>  | <b>25,797</b>  | 58,629       | 58,629         |
|  | <b>341,076</b> | <b>344,529</b> | 342,700      | 343,481        |

| 17 Finance lease receivables     | 2002         | 2001          |
|----------------------------------|--------------|---------------|
|                                  | €'000        | €'000         |
| <i>Group and company</i>         |              |               |
| Cost of assets on finance leases | 23,354       | 58,279        |
| Net investment in finance leases | 9,419        | 11,434        |
| Receivable as follows:           |              |               |
| Within one year                  | 2,905        | 3,891         |
| After more than one year         | 6,514        | 7,543         |
|                                  | <b>9,419</b> | <b>11,434</b> |

Finance lease interest income for the year ended 31 December 2002 amounted to €692,107 (2001: €1,012,298).

All amounts outstanding at 31 December 2002 and 2001 are receivable from a Rabobank Nederland group entity.

| 18 Deposits by banks   | 2002              |                   | 2001              |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Group             | Company           | Group             | Company           |
|  | €'000             | €'000             | €'000             | €'000             |
| Repayable on demand  | 4,434             | 4,434             | 216,298           | 216,298           |
| With agreed maturity dates or periods of notice by remaining maturity: |                   |                   |                   |                   |
| - 3 months or less but not repayable on demand                         | 7,729,100         | 7,729,100         | 6,810,278         | 6,810,278         |
| - 1 year or less but over 3 months                                     | 2,872,090         | 2,872,090         | 4,277,014         | 4,277,014         |
| - 5 years or less but over 1 year                                      | 1,175,259         | 1,175,259         | 721,114           | 721,114           |
| - over 5 years   | 6,731             | 2,567             | 233,760           | 233,760           |
|  | <b>11,787,614</b> | <b>11,783,450</b> | <b>12,258,464</b> | <b>12,258,464</b> |
| <i>Amounts include:</i>  |                   |                   |                   |                   |
| Received from Rabobank Nederland group entities                        | 11,310,464        | 11,310,464        | 11,238,092        | 11,238,092        |

| 19 Customer accounts   | 2002             |                  | 2001           |                  |
|--|------------------|------------------|----------------|------------------|
|  | Group<br>€'000   | Company<br>€'000 | Group<br>€'000 | Company<br>€'000 |
| Repayable on demand  | 296              | 5,902            | 4,604          | 9,682            |
| With agreed maturity dates or periods of notice by remaining maturity: |                  |                  |                |                  |
| - 3 months or less but not repayable on demand                         | 4,354,349        | 4,399,346        | 3,677,847      | 3,718,904        |
| - 1 year or less but over 3 months                                     | 73,660           | 87,964           | 34,420         | 43,752           |
| - 5 years or less but over 1 year                                      | 410,078          | 425,430          | 109,612        | 109,612          |
| - over 5 years   | 26,835           | 26,835           | 194,134        | 194,134          |
|  | <b>4,865,218</b> | <b>4,945,477</b> | 4,020,617      | 4,076,084        |
| <i>Amounts include:</i>  |                  |                  |                |                  |
| Received from Rabobank Nederland group entities                        | 2,096,358        | 2,176,615        | 3,003,774      | 3,059,241        |

| 20 Debt securities in issue                                  | 2002<br>€'000    | 2001<br>€'000 |
|--|------------------|---------------|
| <i>Group and company</i>                                     |                  |               |
| <i>Medium term notes</i>                                     |                  |               |
| - 5 years or less but over 1 year                            | 633,558          | 415,826       |
| <i>Other debt securities in issue, by remaining maturity</i> |                  |               |
| - 3 months or less   | 507,871          | 417,912       |
| - 1 year or less, but over 3 months                          | 52,581           | 670,802       |
|  | <b>1,194,010</b> | 1,504,540     |

| 21 Other liabilities | 2002           |                  | 2001           |                  |
|----------------------|----------------|------------------|----------------|------------------|
|                      | Group<br>€'000 | Company<br>€'000 | Group<br>€'000 | Company<br>€'000 |
| Irish Taxes:         |                |                  |                |                  |
| Corporation tax      | 829            | -                | 3,185          | 2,010            |
| PAYE/PRSI            | 108            | 108              | 274            | 274              |
| VAT                  | 752            | 752              | 1,112          | 1,112            |
|                      | <b>1,689</b>   | <b>860</b>       | 4,571          | 3,396            |

| 22 Accruals and deferred income      | 2002           |                  | 2001           |                  |
|--------------------------------------|----------------|------------------|----------------|------------------|
|                                      | Group<br>€'000 | Company<br>€'000 | Group<br>€'000 | Company<br>€'000 |
| Interest payable and deferred income | 380,047        | 380,984          | 359,960        | 360,421          |
| Other accrued liabilities            | 6,425          | 1,686            | 32,010         | 26,069           |
|                                      | <b>386,472</b> | <b>382,670</b>   | 391,970        | 386,490          |

| 23 Share capital                                   | 2002<br>€'000 | 2001<br>€'000 |
|--|---------------|---------------|
| <i>Authorised</i>                                  |               |               |
| 50,000,000 ordinary shares<br>of EUR 50 cents each | 25,000        | 25,000        |
| 30,000 deferred ordinary shares<br>of EUR 2 each   | 60            | 60            |
| <i>Allotted, called up and fully paid</i>          |               |               |
| 14,000,000 ordinary shares<br>of EUR 50 cents each | 7,000         | 7,000         |
| 30,000 deferred ordinary shares<br>of EUR 2 each   | 60            | 60            |
|  | <b>7,060</b>  | 7,060         |

The deferred ordinary shares have no voting rights and no entitlement to profits on winding up of the company

| 24 Capital contribution reserve | 2002<br>€'000 | 2001<br>€'000 |
|---------------------------------|---------------|---------------|
| Capital contribution reserve    | 338,934       | 338,934       |

The capital contribution reserve represents contributions made to the company by its parent company.

| 25 Reconciliation of shareholders' funds | 2002           |            | 2001           |            |
|--|----------------|------------|----------------|------------|
|  | €'000          |            | €'000          |            |
|  | Equity         | Non-equity | Equity         | Non-equity |
| <i>Group</i>                             |                |            |                |            |
| Profit attributed to equity shareholders | 35,706         | -          | 35,933         | -          |
| <i>Transactions with shareholders</i>    |                |            |                |            |
| Opening shareholders' funds              | 502,133        | 60         | 465,332        | 40         |
| Issue of share capital                   | -              | -          | 647            | 20         |
| Capital contribution                     | -              | -          | 868            | -          |
| Capitalisation of reserves               | -              | -          | (647)          | -          |
| Closing shareholders' funds              | 537,839        | 60         | 502,133        | 60         |
| <b>Total closing shareholders' funds</b> | <b>537,899</b> |            | <b>502,193</b> |            |
|  | 2002           |            | 2001           |            |
|  | €'000          |            | €'000          |            |
|  | Equity         | Non-equity | Equity         | Non-equity |
| <i>Company</i>                           |                |            |                |            |
| Profit attributed to equity shareholders | 34,583         | -          | 38,512         | -          |
| <i>Transactions with shareholders</i>    |                |            |                |            |
| Opening shareholder funds                | 497,539        | 60         | 458,159        | 40         |
| Issue of share capital                   | -              | -          | 647            | 20         |
| Capital contribution                     | -              | -          | 868            | -          |
| Capitalisation of reserves               | -              | -          | (647)          | -          |
| Closing shareholder funds                | 532,122        | 60         | 497,539        | 60         |
| <b>Total closing shareholders' funds</b> | <b>532,182</b> |            | <b>497,599</b> |            |

| 26 Memorandum items  | 2002           | 2001    |
|--|----------------|---------|
|  | €'000          | €'000   |
| <b>Contingent liabilities</b>  |                |         |
| <i>Group and company</i>   |                |         |
| Guarantees issued  | <b>408,615</b> | 545,845 |
| Included in the above are:   |                |         |
| Guarantees to Group companies  | <b>118,000</b> | 154,904 |
| <b>Commitments</b>   |                |         |
| <i>Group and company</i>   |                |         |
| Undrawn formal standby facilities, credit lines and other formal commitments to lend with a maturity of: |                |         |
| - less than one year   | -              | -       |
| - greater than one year  | <b>150,195</b> | 116,349 |
|  | <b>150,195</b> | 116,349 |
| Included in the above are:   |                |         |
| Commitments to Group companies   | -              | 2,744   |
| <b>27 Reconciliation of operating profit to net cash flows from operating activities</b>                 |                |         |
|  | 2002           | 2001    |
|  | €'000          | €'000   |
| Operating profit before tax and provisions   | <b>58,917</b>  | 45,614  |
| Depreciation   | <b>287</b>     | 875     |
| Profit on disposal of fixed assets   | <b>(18)</b>    | (8)     |
| Decrease in prepayments and accrued income   | <b>1,624</b>   | 139,476 |
| (Decrease)/increase in accruals and deferred income  | <b>(5,498)</b> | 43,976  |
| (Decrease) in other liabilities  | <b>(523)</b>   | (711)   |
| Net cash inflow from trading activities  | <b>54,789</b>  | 229,222 |

| <b>27 Reconciliation of operating profit to net cash flows from operating activities</b> (Continued) | <b>2002</b>        | <b>2001</b>  |
|--|--------------------|--------------|
|  | <b>€'000</b>       | <b>€'000</b> |
| Decrease in central government and other eligible bills  | <b>577,706</b>     | 180,496      |
| (Increase) in debt securities  | <b>(617,125)</b>   | (534,299)    |
| (Decrease)/increase in deposits by banks   | <b>(470,850)</b>   | 109,623      |
| Increase in customer accounts  | <b>844,601</b>     | 1,073,253    |
| (Increase)/decrease in loans and advances to banks   | <b>(2,197,676)</b> | 1,152,873    |
| Decrease/(increase) in loans and advances to customers   | <b>2,148,138</b>   | (3,031,088)  |
| (Increase) in other investments  | <b>(4,164)</b>     | -            |
| Decrease in leased assets  | <b>2,015</b>       | 7,326        |
| (Increase)/decrease in debt securities in issue  | <b>(310,530)</b>   | 808,777      |
| Net cash (outflow) from other operating activities   | <b>(27,885)</b>    | (233,039)    |
| <b>Total net cash inflow/(outflow) from operating activities</b>                                     | <b>26,904</b>      | (3,817)      |

| <b>28 Analysis of the balances of cash as shown in the balance sheet</b> | <b>1 January 2002</b> | <b>Cash flow</b> | <b>31 December 2002</b> |
|--|-----------------------|------------------|-------------------------|
|  | <b>€'000</b>          | <b>€'000</b>     | <b>€'000</b>            |
| Cash and balances with central banks                                     | 208,584               | 10,375           | 218,959                 |
| Loans and advances to other banks repayable on demand                    | 13,694                | 10,765           | 24,459                  |
|  | <b>222,278</b>        | <b>21,140</b>    | <b>243,418</b>          |

**29 Operating lease commitments**

At 31 December 2002, the group and company had annual commitments of €666,215 (2001: €405,897) under non-cancellable operating leases expiring after five years in respect of land and buildings.

**30 Pension liabilities**

The company operates a defined contribution pension scheme for all staff of the company whereby the company pays an annual percentage of an individual's pensionable salary into that individual's pension account. The pension charge in the profit and loss account represents contributions payable to the funds and, for the year ended 31 December 2002, amounted to: €424,043 (2001: €412,287). Accruals in respect of pension charges at year end 31 December 2002 amounted to €90,000 (2001: €60,000).

**31 Subsidiary companies**

The company directly holds 100% of the issued ordinary share capital of the following companies:

| <i>Name</i>          | <i>Country of incorporation</i> | <i>Registered office</i>              | <i>Main activities</i>  |
|----------------------|---------------------------------|---------------------------------------|-------------------------|
| Gosmore Investments  | Ireland                         | George's Dock House<br>IFSC, Dublin 1 | Investing in securities |
| Tullaghought Company | Ireland                         | George's Dock House<br>IFSC, Dublin 1 | Investing in securities |

  

|                                    | <b>2002</b>      | 2001     |
|------------------------------------|------------------|----------|
|                                    | <b>€'000</b>     | €'000    |
| Opening investment in subsidiaries | <b>778,254</b>   | 233,327  |
| Additions                          | <b>596,790</b>   | 597,692  |
| Redemption                         | <b>(492,256)</b> | (29,003) |
| Exchange adjustment                | <b>(50,210)</b>  | (23,762) |
| Closing investment in subsidiaries | <b>832,578</b>   | 778,254  |

**32 Risk management****Organisation**

The Bank has a well developed organisation structure for managing risk. The structure is developed around a set of committees and delegated authorities.

The main committees of the Bank are:

Board of Directors. The Board comprises non-executive directors from within and outside the Rabobank International Group ("the Group") and one executive director. The Board is ultimately responsible for the management of the Bank's business. This is achieved through defining the Bank's purpose and establishing and signing-off on strategic plans and policies. Each director owes a fiduciary duty and a duty of skill and care to the Bank.

Management Team. This comprises the Managing Director and the Bank's Division Heads, ie, Financial Markets, Banking and Structured Finance, Operations and Financial Control. This is the executive decision making platform for the daily management of the Bank. The Management team typically meets on a fortnightly basis.

### 32 Risk management (continued)

The ALCO (Asset and Liability Committee) is responsible for reviewing the Bank's asset and liability strategy within the approved risk policies. The ALCO meets on a monthly basis.

The Credit Committee is responsible for approving the granting of credit (loans, credit facilities, overdraft facilities etc) and any other banking services whereby the Bank has or will acquire a claim against a debtor and monitoring and reviewing the credit portfolio of the Bank. The Credit Committee typically convenes on a fortnightly basis. The Credit Committee has delegated authority from the Board of Directors to approve credit proposals up to a designated limit. Credit proposals above the limit must also be approved by the Rabobank International Credit Committee.

The Audit and Compliance Committee is responsible for reviewing the systems and internal controls and policies/procedures of the Bank and reviewing compliance with policies and laws, including codes of conduct. The committee focuses on business and financial risks and related controls. The committee has a key role in co-ordinating internal and external audit affairs focusing on solid audit coverage of key business and financial risk areas and related risk controls. The Audit and Compliance Committee meet on a quarterly basis. The Audit and Compliance Committee is chaired by a non-executive director.

#### **Market risk**

Market risk is the exposure to loss from adverse movements in market prices including interest rates, foreign exchange, credit spread and basis risk.

Market risk is managed by the local Market Risk department of the Bank. The Market Risk department reports directly to both the Managing Director and the Group's Head of Global Market Risk Management who is located in Utrecht.

The principal aims of the Bank's Financial Markets division are to limit the adverse effect of interest rate and foreign exchange price movements on the balance sheet and profitability of the Bank and to enhance earnings within defined risk parameters. The activities of the Financial Markets division are monitored on a daily basis by the Market Risk department in order to ensure that all activities are within the agreed set market risk parameters. Market risk policies have a two fold purpose, to protect the Capital and earnings of Rabobank and to allow traders to take risk without compromising the Bank's capital or the stability of its earnings.

A defined Limit and Control Structure (LCS) is in place for all portfolios within the Financial Markets division. This LCS has been approved by the Board of Directors, ALCO and Balance sheet and Risk Management Committee of Rabobank International. Daily reporting to the local Management team and Global Market Risk takes place on all of the Bank's Financial Markets portfolios. Any excesses or deviations are reported and analysed immediately.

### 32 Risk management (continued)

#### **Market Risk Measurement**

Value at Risk (VAR) is the main measurement of Market Risk used by the Bank. It provides an estimate of the potential loss of value resulting from market movements over a specified period of time within a specified probability of occurrence. The VAR methodology represents risk in equivalent units across the range of products traded in Rabobank Ireland, permitting consolidation and effective comparison of risk across various trading activities. The Bank calculates a VAR figure on a daily basis for all its Financial Markets portfolios, the methodology which is used is the same across all Rabobank International offices. The Group uses historical simulation with a one year price history, a 97.5% one-tailed confidence interval in calculating VAR.

Using these parameters the VAR for the Bank as at 31 December 2002 was €3,429,977 (2001: €2,571,146) and the average, highest and lowest VAR for the Bank during 2002 were €3,016,441, €4,364,587 and €1,775,500 (2001: €2,667,136, €3,485,802 and €1,552,821) respectively. We can interpret VAR as at 31 December 2002 as follows: the daily negative movement in value of the Bank's portfolios will be less than €3,429,977, 97.5% of the time. Equally we can say that there is a chance that a loss in value greater than €3,429,977 will result in the Bank's portfolios once every forty working days (i.e. 2.5% of the time).

VAR calculations are also measured for differing confidence levels and holding periods. The standard Bank for International Settlements (BIS) parameters of a 99% confidence interval, one year history and ten day holding period is calculated along with a worst case loss scenario which is equivalent to a 100% confidence interval and one day holding period.

The Bank carries out event risk analysis on its largest portfolios. Event risk analysis is a risk management tool that examines the effects of large movements in key market risk factors. The objective of event risk analysis is to inform senior management about the sensitivity of the individual and consolidated portfolios in the Bank to extremely large, but plausible, movement in market factors. New scenarios, both hypothetical and historical are developed and existing scenarios are adjusted, based on the outcomes of continuous economic research for market risk and changes in the Bank's risk profile.

Additional information and controls are also produced on a daily basis. These controls are all incorporated in the LCS and include for example:

- limits on the concentration of positions on any particular point on the yield curve
- limits on products, currency denominations and transaction maturities permitted within each book.

#### **Interest rate risk**

The Bank's exposure to interest rate risk is warehoused within the Bank's investment books. Rabobank Ireland Plc is a centre of competence within the Rabobank International Group for Investment Book activity. A detailed LCS is in place to ensure that all interest rate risk exposure are measured on a daily basis. It is Rabobank's policy not to tolerate any limit excesses.

The operations of the Bank are exposed to risk of interest rate fluctuations to the extent that assets and liabilities prepay, mature or reprice at different times or in differing amounts. Derivatives allow the Bank to modify the repricing or maturity characteristics of assets and liabilities in a cost efficient manner. This helps to achieve liquidity and risk management objectives.

### 32 Risk management (continued)

Risk management activities are conducted in the context of the group's sensitivity to interest rate changes. For example, asset sensitivity can arise due to long term fixed interest earning assets being funded by short term interest bearing liabilities. This means that in a rising interest rate environment margins will decline as it becomes more and more expensive to fund the long term assets, the converse applies when interest rates are falling.

The interest rate sensitivity of the Bank's book is shown below in terms of a sensitivity gap. The table sets out details of those assets and liabilities whose values are subject to change as interest rates change within each repricing time band. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Off-balance sheet contracts are also included. The table shows the distribution of interest rate sensitivity at one point in time (31 December 2002 and 31 December 2001) and is not necessarily indicative of positions at other dates.

## 32 Risk management (continued)

Interest Rate Gap Analysis  
Year Ended 31 December 2002

|  | 3 months<br>or less | After<br>3 months<br>but within<br>6 months | After 6<br>months but<br>within 1 year | After 1 year<br>but within<br>5 years | After<br>5 years | Non<br>Interest<br>Bearing | Total             |
|--|---------------------|---|--|---------------------------------------|------------------|----------------------------|-------------------|
|  | €'000               | €'000                                       | €'000                                  | €'000                                 | €'000            | €'000                      | €'000             |
| <b>Assets</b>  |                     |   |  |                                       |                  |                            |                   |
| Cash and balances<br>at central bank                                       | 218,959             | -   | -                                      | -                                     | -                | -                          | <b>218,959</b>    |
| Central govt bills and<br>other eligible bills                             | 386,403             | 514,922                                     | -                                      | 421,934                               | 282,349          | -                          | <b>1,605,608</b>  |
| Loans and advances<br>to banks   | 5,212,529           | 226,516                                     | 71,535                                 | 123,501                               | -                | -                          | <b>5,634,081</b>  |
| Loans and advances<br>to customers   | 1,069,836           | 746,638                                     | 1,172,980                              | 4,409,122                             | 60,045           | (18,601)                   | <b>7,440,020</b>  |
| Participating interests  |                     |   |  |                                       | 4,164            | -                          | <b>4,164</b>      |
| Debt securities  | 1,050,452           | 95,962                                      | 42,733                                 | 567,838                               | 1,780,018        | -                          | <b>3,537,003</b>  |
| Other assets   | -                   | -   | -                                      | -                                     | -                | 352,136                    | <b>352,136</b>    |
| <b>Total assets</b>  | <b>7,938,179</b>    | <b>1,584,038</b>                            | <b>1,287,248</b>                       | <b>5,522,395</b>                      | <b>2,126,576</b> | <b>333,535</b>             | <b>18,791,971</b> |
| <b>Liabilities</b>   |                     |   |  |                                       |                  |                            |                   |
| Deposits by banks  | 8,432,528           | 1,336,798                                   | 1,545,877                              | 465,680                               | 6,731            | -                          | <b>11,787,614</b> |
| Customer accounts  | 4,354,641           | 32,668                                      | 38,300                                 | 394,488                               | 45,121           | -                          | <b>4,865,218</b>  |
| Debt securities in issue   | 507,871             | -   | 52,581                                 | 633,558                               | -                | -                          | <b>1,194,010</b>  |
| Other liabilities  | -                   | -   | -                                      | -                                     | -                | 407,230                    | <b>407,230</b>    |
| Shareholders equity  | -                   | -   | -                                      | -                                     | -                | 537,899                    | <b>537,899</b>    |
| <b>Total liabilities</b>   | <b>13,295,040</b>   | <b>1,369,466</b>                            | <b>1,636,758</b>                       | <b>1,493,726</b>                      | <b>51,852</b>    | <b>945,129</b>             | <b>18,791,971</b> |
| <b>Off-balance sheet items<br/>affecting interest rate<br/>sensitivity</b> |                     |   |  |                                       |                  |                            |                   |
|  | 4,875,818           | 968,057                                     | 904,617                                | (5,874,439)                           | (874,053)        | -                          | -                 |
| <b>Interest rate<br/>sensitivity gap</b>                                   | <b>(481,043)</b>    | <b>1,182,629</b>                            | <b>555,107</b>                         | <b>(1,845,770)</b>                    | <b>1,200,671</b> | <b>(611,594)</b>           | -                 |
| <b>Cumulative interest<br/>rate sensitivity gap</b>                        | <b>(481,043)</b>    | <b>701,586</b>                              | <b>1,256,693</b>                       | <b>(589,077)</b>                      | <b>611,594</b>   | -                          | -                 |

## 32 Risk management (continued)

## Interest Rate Gap Analysis

Year Ended 31 December 2001

|  | 3 months<br>or less | After<br>3 months<br>but within<br>6 months | After 6<br>months but<br>within 1 year | After 1 year<br>but within<br>5 years | After<br>5 years | Non<br>Interest<br>Bearing | Total             |
|--|---------------------|---|--|---------------------------------------|------------------|----------------------------|-------------------|
|  | €'000               | €'000                                       | €'000                                  | €'000                                 | €'000            | €'000                      | €'000             |
| <b>Assets</b>  |                     |   |  |                                       |                  |                            |                   |
| Cash and balances<br>at central bank                                       | 208,584             | -   | -                                      | -                                     | -                | -                          | <b>208,584</b>    |
| Central govt bills and<br>other eligible bills                             | 420,087             | 1,088,939                                   | 61,974                                 | 486,560                               | 125,754          | -                          | <b>2,183,314</b>  |
| Loans and advances<br>to banks   | 3,251,637           | 93,082                                      | 63,440                                 | 17,481                                | -                | -                          | <b>3,425,640</b>  |
| Loans and advances<br>to customers   | 2,676,834           | 621,933                                     | 1,103,956                              | 5,137,114                             | 66,922           | (16,750)                   | <b>9,590,009</b>  |
| Debt securities  | 1,523,384           | 76,233                                      | 78,020                                 | 525,891                               | 716,350          | -                          | <b>2,919,878</b>  |
| Other assets   | -                   | -   | -                                      | -                                     | -                | 354,930                    | <b>354,930</b>    |
| <b>Total assets</b>  | <b>8,080,526</b>    | <b>1,880,187</b>                            | <b>1,307,390</b>                       | <b>6,167,046</b>                      | <b>909,026</b>   | <b>338,180</b>             | <b>18,682,355</b> |
| <b>Liabilities</b>   |                     |   |  |                                       |                  |                            |                   |
| Deposits by banks  | 7,697,429           | 1,966,082                                   | 2,522,130                              | 69,064                                | 3,759            | -                          | <b>12,258,464</b> |
| Customer accounts  | 3,683,620           | 30,925                                      | 16,606                                 | 272,811                               | 16,655           | -                          | <b>4,020,617</b>  |
| Debt securities in issue   | 417,912             | 330,389                                     | 340,413                                | 415,826                               | -                | -                          | <b>1,504,540</b>  |
| Other liabilities  | -                   | -   | -                                      | -                                     | -                | 396,541                    | <b>396,541</b>    |
| Shareholders equity  | -                   | -   | -                                      | -                                     | -                | 502,193                    | <b>502,193</b>    |
| <b>Total liabilities</b>   | <b>11,798,961</b>   | <b>2,327,396</b>                            | <b>2,879,149</b>                       | <b>757,701</b>                        | <b>20,414</b>    | <b>898,734</b>             | <b>18,682,355</b> |
| <b>Off-balance sheet items<br/>affecting interest rate<br/>sensitivity</b> |                     |   |  |                                       |                  |                            |                   |
|  | 5,003,753           | (98,836)                                    | 747,980                                | (5,079,226)                           | (573,671)        | -                          | -                 |
| <b>Interest rate<br/>sensitivity gap</b>                                   | <b>1,285,318</b>    | <b>(546,045)</b>                            | <b>(823,779)</b>                       | <b>330,119</b>                        | <b>314,941</b>   | <b>(560,554)</b>           | -                 |
| <b>Cumulative interest<br/>rate sensitivity gap</b>                        | <b>1,285,318</b>    | <b>739,273</b>                              | <b>(84,506)</b>                        | <b>245,613</b>                        | <b>560,554</b>   | -                          | -                 |

**32 Risk management (continued)****Liquidity risk**

Liquidity risk is the exposure to loss from not having sufficient funds at an economic price to meet actual and contingent customer commitments. The objective of liquidity management is to ensure the availability of sufficient funds to meet all claims at an economic price. The Bank has its own USD 2 billion Euro Commercial Paper programme and is an authorised issuer under the Group's EUR 30 billion Global Medium Term Note programme.

**Foreign exchange risk**

Rabobank Ireland does not actively trade spot foreign exchange on a proprietary basis. All of the Bank's residual foreign exchange risk is hedged on a monthly basis.

**Currency exposures**

The table below shows the Group's currency exposures as at 31 December 2002. These exposures give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the group.

| <b>Net foreign currency monetary assets/(liabilities)</b> | <b>2002</b>  | 2001  |
|---|--------------|-------|
|   | <b>€'000</b> | €'000 |
| Sterling  | <b>(388)</b> | 968   |
| US Dollar   | <b>1,016</b> | 57    |
| Other   | <b>(932)</b> | 28    |
|   | <b>(304)</b> | 1,053 |

The amounts shown take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

**Balance sheet management**

The ALCO is responsible for reviewing the Bank's asset and liability strategy within the approved risk policies. It comprises of the Management team of the Bank plus other functional managers. The ALCO meets on a monthly basis, and covers all issues relating to the balance sheet and the internal and external environment that the Bank is working within including

- Economic climate and market view
- Monthly report of Financial Markets division, revenues, notable events/deals
- Overview of the interest rate mismatch of the Bank
- Commercial Banking and Structured Finance developments
- Balance sheet make-up, liquidity, solvency, key ratios
- Credit risk limit monitoring
- Legal and compliance issues.

### 32 Risk management (continued)

#### **Operational risk**

Over the last number of years the Bank has embarked on both group and local initiatives to improve the operating systems/platforms and policies/procedures.

The Bank's approach to managing operational risk includes maintaining documented procedures, training of staff, careful selection of new staff, monitoring various performance indicators and ensuring close review of financial results. Operational risk measurement methods are also under review in the context of the Basel Committee's proposals for a capital charge on organisations based on an operational risk assessment, and the Regulation on Organisation and Control (ROC) by the Dutch Central Bank – the MBRI has approved the Standardised approach as basis for the development of the operational risk framework RI, with a view to work towards more sophisticated structure and measurement techniques in order to qualify for the Advanced Measurement Approach in the future. The responsibility for the management of the operations of the Bank is within the portfolio of the Chief Administration Officer, who is also a full member of the Management Team of the Bank.

#### **Basel II**

The Bank is undergoing a review of the implications of Basel II on all the components of risk within the balance sheet of the Bank, including operational, market, credit and country risk. The Bank expects to implement either the Foundation Internal Ratings Based (IRB) approach or the Advanced IRB approach in calculating capital requirements under Basel II which is expected to be operational in January 2006. Rabobank has also initiated a Group Economic Capital project which is being introduced across all business divisions with the ultimate aim of self-regulation in the future.

#### **Economic Capital**

Rabobank has initiated a Group Economic Capital project which is being introduced across all business divisions. Driven by Basel II requirements the Bank has chosen to adopt an Economic Capital framework for a comprehensive and consistent assessment of all risk categories. Economic Capital and Risk Adjusted Return on Capital (RAROC) are to become the main drivers in the business steering process within the bank in the future. A group project is already underway, Project RAROC, whose aim is to build a group wide true economic risk model. This will be the basis for performance measurement going forward and will supersede the present Return on Solvency calculations and hurdle rates. At present, Economic Capital must be clearly distinguished from BIS II regulatory capital, although there are clearly similarities one is an internal group calculation and the other is a global regulatory requirement. Economic Capital is meant as a cushion of funds against (unexpected) events, having a very small but defined chance of occurring. The level of Economic Capital is calibrated to Rabobank's credit rating, a higher rating requires a higher amount of Economic Capital as the probability that the capital cushion would be sufficient to cover the unexpected loss needs to be extremely high for a AAA rated bank. The Group expect to start reporting Economic Capital and RAROC numbers in 2005.

#### **IAS 39**

Under International Accounting Standards (IAS) all EU member states will be required to prepare their annual consolidated financial statements in accordance with a common set of accounting standards. In general, IAS 39 requires that all derivatives are recognised on balance sheet and measured at fair value. The consolidated Rabobank Ireland accounts will be required to be reported on an IAS basis starting January 1, 2005. Comparative financial information is needed for 2004 and year end 2003 balance sheet is also required. This supports the need to start implementing IAS in 2003. One of the key challenges IAS presents is the level of potential profit and loss volatility introduced by the IAS requirement to fair value derivatives. Rabobank Ireland plc is currently looking at target hedging strategies for some portfolios, and also hedge effectiveness methodologies that can be used to decrease potential volatility in the future.

### 33 Derivatives

The Bank uses financial instruments, including derivatives, to service customer requirements, to manage the Group's interest and foreign exchange rate exposures and for trading purposes.

The Bank uses derivatives as an integral part of its asset and liability management and trading activities.

Derivative contracts entered into for hedging purposes are accounted for in accordance with the accounting treatment for the item or items being hedged. Future contracts are designated as hedges when they reduce risk and there is high correlation between the futures contract and the item being hedged, both at inception and throughout the hedge period. Interest rate swaps, forward rate agreements and option contracts are generally used to modify the interest rate characteristics of the balance sheet instruments and are linked to specific assets or groups of similar assets or specific liabilities or groups of similar liabilities.

It is not permitted to buy or sell options in Rabobank Ireland unless the Market Risk department specifically approves the deals. It is not part of the day to day business or mandate of Rabobank Ireland to deal second order derivative products.

#### 33.1 Derivatives portfolio

The following table provides an overview of the Bank's exchange rate related and interest rate related derivative portfolios at 31 December 2002 and 31 December 2001. It includes all trading and non-trading contracts. Notional principal amounts are the amounts of the underlying physical or financial commodity on which the contract is based and represent volumes of outstanding transactions. The gross replacement cost ("GRC") is the sum of the market-to-market value of all contracts with positive values. This measure makes no allowance for netting arrangements.

|   | 2002<br>€'000     | 2001<br>€'000     |
|---|-------------------|-------------------|
| <b>Principal amounts</b>                    |                   |                   |
| <i>Held for trading purposes</i>            |                   |                   |
| Exchange rate related contracts             | 533,172           | 1,936,979         |
| Interest rate related contracts             | 1,377,737         | 3,419,886         |
| <i>Held for purposes other than trading</i> |                   |                   |
| Exchange rate related contracts             | 1,043,426         | 1,594,895         |
| Interest rate related contracts             | 30,412,073        | 23,169,875        |
|   | <b>33,366,408</b> | <b>30,121,635</b> |

## 33.1 Derivatives portfolio (continued)

|                                  | 2002                           |                                |                | 2001                           |                                |                |
|----------------------------------|--------------------------------|--------------------------------|----------------|--------------------------------|--------------------------------|----------------|
|                                  | Exchange rate related<br>€'000 | Interest rate related<br>€'000 | Total<br>€'000 | Exchange rate related<br>€'000 | Interest rate related<br>€'000 | Total<br>€'000 |
| Principal amounts                | 1,576,598                      | 31,789,810                     | 33,366,408     | 3,531,874                      | 26,589,761                     | 30,121,635     |
| Gross replacement cost           | 14,417                         | 390,178                        | 404,595        | 63,794                         | 206,915                        | 270,709        |
|                                  |                                |                                |                |                                | <b>2002</b><br>€'000           | 2001<br>€'000  |
| <i>By counterparty exposure:</i> |                                |                                |                |                                |                                |                |
| Financial institutions           |                                |                                |                | 283,843                        |                                | 78,021         |
| Other                            |                                |                                |                | 120,752                        |                                | 192,688        |
|                                  |                                |                                |                | <b>404,595</b>                 |                                | 270,709        |

The GRC for derivatives is derived from the differential between current market rates and those prevailing at the inception of the contract.

## 33.2 Derivatives held for trading purposes

At the year end the notional principal amounts and market values (which are the carrying values) of trading instruments entered into were:

|                                 | 2002                        |                           | 2001                        |                           |
|---------------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
|                                 | Notional principal<br>€'000 | Net market value<br>€'000 | Notional principal<br>€'000 | Net market value<br>€'000 |
| Exchange rate related contracts |                             |                           |                             |                           |
| Spot, forwards and futures      | 435,265                     | -                         | 1,780,834                   | -                         |
| Currency swaps                  | 97,907                      | 35                        | 156,145                     | 130                       |
|                                 | <b>533,172</b>              | <b>35</b>                 | <b>1,936,979</b>            | <b>130</b>                |

## 33.2 Derivatives held for trading purposes (continued)

|  | 2002                        |                           | 2001                        |                           |
|--|-----------------------------|---------------------------|-----------------------------|---------------------------|
|  | Notional principal<br>€'000 | Net market value<br>€'000 | Notional principal<br>€'000 | Net market value<br>€'000 |
| <b>Interest rate related contracts</b> |                             |                           |                             |                           |
| Interest rate swaps                    | 1,377,737                   | (578)                     | 3,090,826                   | (37)                      |
| Futures and FRAs                       | -                           | -                         | 329,060                     | 69                        |
|  | <b>1,377,737</b>            | <b>(578)</b>              | <b>3,419,886</b>            | <b>32</b>                 |

At the year end, the maturity of the notional principal amounts of trading contracts entered into was:

|                            | 1 year or less<br>€'000                | 5 years or less but over 1<br>€'000 | Over 5 years<br>€'000 | Total<br>€'000 |
|----------------------------|--|-------------------------------------|-----------------------|----------------|
|                            | <b>Exchange rate related contracts</b> |                                     |                       |                |
| Spot, forwards and futures | 435,265                                | -                                   | -                     | 435,265        |
| Currency swaps             | -                                      | -                                   | 97,907                | 97,907         |
| <b>At 31 December 2002</b> | <b>435,265</b>                         | <b>-</b>                            | <b>97,907</b>         | <b>533,172</b> |
| At 31 December 2001        | 1,827,664                              | -                                   | 109,315               | 1,936,979      |

|                            | 1 year or less<br>€'000                | 5 years or less but over 1<br>€'000 | Over 5 years<br>€'000 | Total<br>€'000   |
|----------------------------|--|-------------------------------------|-----------------------|------------------|
|                            | <b>Interest rate related contracts</b> |                                     |                       |                  |
| Interest rate swaps        | 235,000                                | 602,373                             | 540,364               | 1,377,737        |
| <b>At 31 December 2002</b> | <b>235,000</b>                         | <b>602,373</b>                      | <b>540,364</b>        | <b>1,377,737</b> |
| At 31 December 2001        | 369,479                                | 1,374,626                           | 1,675,781             | 3,419,886        |

**33.3 Trading book profits**

The following table summarises the Bank's dealing profits by category of instrument.

|  | <b>2002</b>  | 2001  |
|--|--------------|-------|
|  | <b>€'000</b> | €'000 |
| Foreign exchange contracts                       | <b>166</b>   | 177   |
| Interest rate contracts                          | <b>88</b>    | 589   |
| Realised result on derivatives - other contracts | <b>(58)</b>  | (171) |
|  | <b>196</b>   | 595   |

**33.4 Derivatives held for purposes other than trading**

The group used derivative contracts including interest rate and currency swaps, futures, forwards and options to control its interest rate risk that arises as a result of timing differences in the repricing of interest-earning assets and interest-bearing liabilities and exchange rate risk. At the year end, the notional principal amounts, by maturity, of the Bank's non-trading derivatives were:

|  | 1 year or<br>less | 5 years or<br>less but<br>over 1 | Over 5<br>years  | Total             |
|--|-------------------|----------------------------------|------------------|-------------------|
|  | €'000             | €'000                            | €'000            | €'000             |
| <i>Exchange rate related contracts</i> |                   |                                  |                  |                   |
| Currency swaps                         | 92,509            | 849,251                          | 101,666          | 1,043,426         |
| <b>At 31 December 2002</b>             | <b>92,509</b>     | <b>849,251</b>                   | <b>101,666</b>   | <b>1,043,426</b>  |
| At 31 December 2001                    | 494,139           | 969,852                          | 130,904          | 1,594,895         |
| <i>Interest rate related contracts</i> |                   |                                  |                  |                   |
| Interest rate swaps                    | 11,452,731        | 11,111,909                       | 3,156,853        | 25,721,493        |
| Futures and forward rate agreements    | 2,887,100         | 1,800,406                        | -                | 4,687,506         |
| Options                                | 3,074             | -                                | -                | 3,074             |
| <b>At 31 December 2002</b>             | <b>14,342,905</b> | <b>12,912,315</b>                | <b>3,156,853</b> | <b>30,412,073</b> |
| At 31 December 2001                    | 9,502,174         | 11,461,152                       | 2,206,549        | 23,169,875        |

**33.5 Unrecognised gains and losses on derivatives held for purposes other than trading**

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged.

The unrecognised net loss on instruments used for purposes other than trading as at 31 December 2002 was €245.1m (2001: net loss of €123.6m).

The net loss arising in 2001 and earlier years and recognised in 2002 amounted to €129m (2001: €34.9m).

**33.6 Fair value of financial instruments**

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2002 and 31 December 2001.

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 securities. In certain cases, including some lending 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 this data to evaluate the Bank's financial position or to make comparisons with other institutions.

|   | 2002            |            |
|---|-----------------|------------|
|   | Carrying amount | Fair value |
|   | €'000           | €'000      |
| <b>Assets:</b>                                    |                 |            |
| Central government bills and other eligible bills | 1,605,608       | 1,665,322  |
| Debt securities                                   | 3,537,003       | 3,618,065  |
| <b>Liabilities:</b>                               |                 |            |
| Debt securities in issue                          | 1,194,010       | 1,194,010  |
| <i>Non trading financial instruments</i>          |                 |            |
| <b>Off balance sheet assets/(liabilities)</b>     |                 |            |
| Interest rate contracts                           | (62,766)        | (293,828)  |
| Exchange rate contracts                           | (8,219)         | (22,330)   |
| <i>Trading financial instruments</i>              |                 |            |
| <b>Off balance sheet assets/(liabilities)</b>     |                 |            |
| Interest rate contracts                           | (578)           | (578)      |
| Exchange rate contracts                           | 35              | 35         |

## 33.6 Fair value of financial instruments (continued)

|   | 2001            |            |
|---|-----------------|------------|
|   | Carrying amount | Fair value |
|   | €'000           | €'000      |
| <b>Assets:</b>                                    |                 |            |
| Central government bills and other eligible bills | 2,183,314       | 2,223,810  |
| Debt securities                                   | 2,919,878       | 2,962,635  |
| <b>Liabilities:</b>                               |                 |            |
| Debt securities in issue                          | 1,504,540       | 1,504,540  |
| <i>Non trading financial instruments</i>          |                 |            |
| <b>Off balance sheet assets/(liabilities)</b>     |                 |            |
| Interest rate contracts                           | (30,521)        | (70,213)   |
| Exchange rate contracts                           | (8,400)         | (92,328)   |
| <i>Trading financial instruments</i>              |                 |            |
| <b>Off balance sheet assets/(liabilities)</b>     |                 |            |
| Interest rate contracts                           | 32              | 32         |
| Exchange rate contracts                           | 130             | 130        |

**33.7 Glossary of terms on derivatives**

|  |   |
|--|---|
| <b>Derivative</b>                        | A derivative is a contract whose value is derived from an underlying physical or financial commodity.   |
| <b>Market value/<br/>mark to market</b>  | Market value is the amount for which a derivative could be exchanged in an arm's length transaction between informed and willing parties. It is based on quoted market prices when available. If no quoted price exists for a particular instrument, market value is determined from market prices for its components using appropriate models. |
| <b>Forward</b>                           | A forward agreement is a contract to buy (or sell) a specified amount of the physical or financial commodity, at an agreed price, at an agreed date.  |
| <b>Forward foreign exchange contract</b> | A contract to pay or receive specific amounts of a currency at a future date in exchange for another currency at an agreed exchange rate.   |
| <b>Forward rate agreement</b>            | An agreement to pay the difference between a specified interest rate and a reference rate on a notional deposit at a specified future date.   |
| <b>Future</b>                            | A future is an exchange traded contract to buy (or sell) a standardised amount of the underlying physical or financial commodity at an agreed price on a set date.  |
| <b>Gross replacement cost</b>            | This represents the sum of the positive replacement values for a portfolio of trades.   |
| <b>Notional principal amount</b>         | The notional principal amount is the amount of the underlying physical or financial commodity on which the derivative contract is based.  |
| <b>Option</b>                            | An option is a contract that gives the holder the right but not the obligation to buy (or sell) a specified amount of the underlying physical or financial commodity, at a specific price, at an agreed date or over an agreed period.  |
| <b>Swap</b>                              | A swap is an agreement to exchange cashflows in the future according to a pre-arranged formula.   |
| <b>Value-at-risk</b>                     | The value-at-risk is the range of profit/loss that a particular deal or group of deals is likely to face given defined fluctuations in variables such as interest rates or exchange rates. Changes in each of these are determined by statistical analyses of historic market movements.  |

### 34 Group membership

The company is a wholly owned subsidiary of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland). Rabobank Nederland is incorporated in The Netherlands. Its registered office is Croeselaan 18, 3521 CB Utrecht, The Netherlands.

The smallest and largest group in which the results of the company are consolidated is that headed by Rabobank Nederland. The Rabobank Nederland group financial statements are filed at the Amsterdam Chamber of Commerce in The Netherlands.

### 35 Related party disclosure

The company is availing of the exemption under Financial Reporting Standard No. 8 "Related Party Disclosure" not to disclose details of transactions with companies within the Rabobank Nederland group

### 36 Approval of financial statements

The financial statements were approved by the board of directors on 25 April 2003.

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