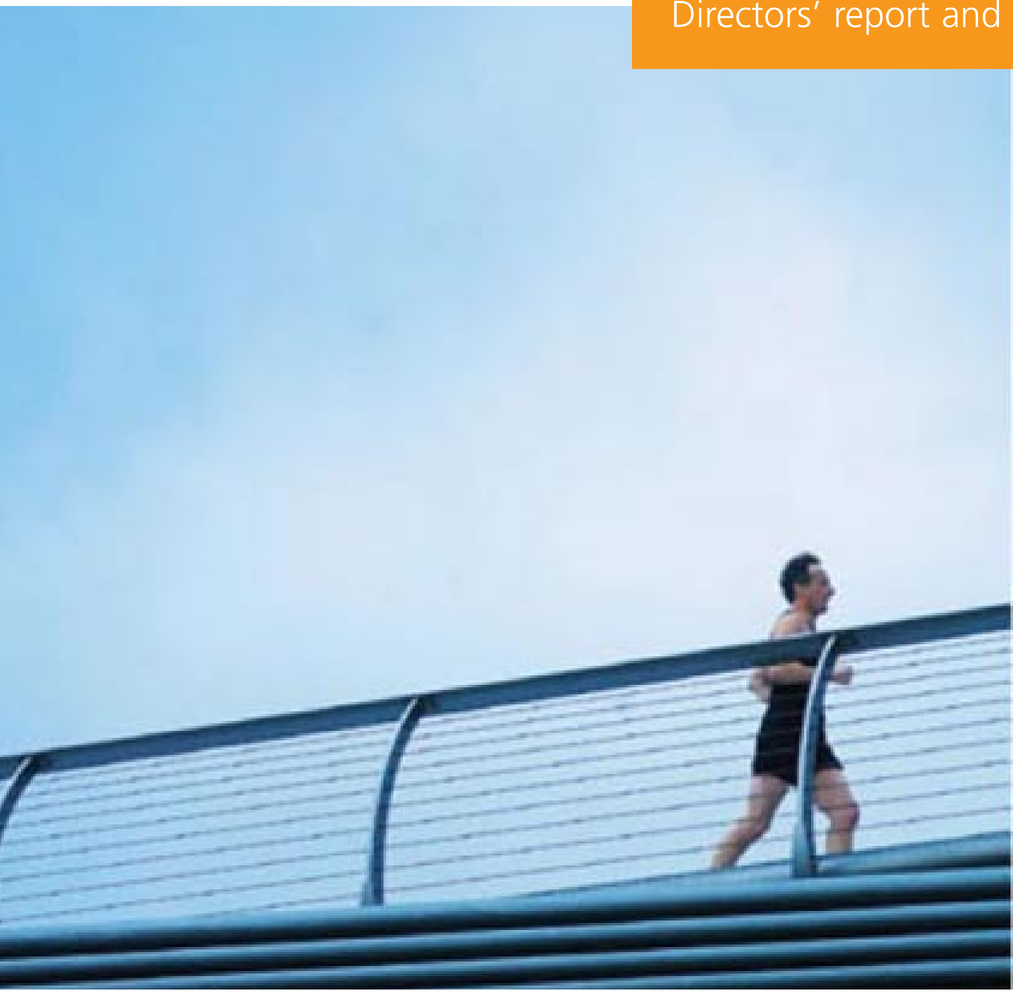
Rabobank

Rabobank Ireland plc

Directors' report and financial statements 2004



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Directors' report and financial statements

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Directors & other information

Directors	W. J. Kolff (Dutch) - Chairman J. E. Callaghan C. Mol (Dutch) H. Kiewiet de Jonge (Dutch) - Managing Director R. Schellens (Dutch)
Registered office	George's Dock House IFSC Dublin 1
Secretary	N. McDonagh
Auditors	KPMG Chartered Accountants 1 Harbourmaster Place IFSC Dublin 1

Directors' report

The directors have pleasure in submitting their report and audited consolidated financial statements for the year ended 31 December 2004.

Results and dividends

The results for the year ended 31 December 2004 are disclosed on page 11 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 2004 the company's involvement in these areas has continued to expand and the directors expect this to continue going forward.

Directors, secretary and their interests

The directors and secretary who held office at 31 December 2004 had no interests in the shares in Rabobank Ireland plc or its subsidiaries or other group companies.

Subsidiary companies

Details of the subsidiaries are set out in Note 34 to the consolidated financial statements in accordance with the Companies Act 1963.

Post balance sheet events

There have been no significant events affecting the group 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.

Directors' Report (continued)

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 *Chairman*	H. Kiewiet de Jonge *Managing Director*
R. Schellens *Director*	N. McDonagh *Secretary*

14 April 2005

Statement of directors' responsibilities

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 2003, 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 *Chairman*	H. Kiewiet de Jonge *Managing Director*
R. Schellens *Director*	N. McDonagh *Secretary*

14 April 2005

Independent auditors' report to the members of Rabobank Ireland plc

We have audited the financial statements on pages 7 to 52.

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 4, 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.

Independent auditors' report to the members of Rabobank Ireland plc (continued)

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.

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 2004 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 2003 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 to 3 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 13, 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 2004 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.

KPMG
Chartered Accountants
Registered Auditors
Dublin

14 April 2005

Statement of accounting policies

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 2004 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 €37,482k (2003: €39,747k) 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 euro (€) 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 2004 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 34.

Income recognition

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

Interest

Interest income and expense is recognised on an accruals basis.

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 euro 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 euro 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% - 33⅓%

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 of bills which were 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 premia, discounts and expenses related to their issue where the liability is a fixed amount.

Pensions

The company operates a defined contribution and a defined benefit pension scheme.

The assets of the defined contribution 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.

The defined benefit scheme has become the responsibility of the bank since the beginning of 2004 due to the transfer of staff from a group company. This scheme was closed to new members during the year so the bank is only responsible for the maintenance for the existing members. The pension cost for this scheme is assessed in accordance with the advice of a qualified actuary, using the projected unit method. Variations from the regular cost are allocated over the expected average service lives of the members.

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.

Consolidated profit and loss account

for year ended 31 December 2004

	Note	**2004** **€'000**	**2003** €'000
Interest receivable and similar income	*3*	**1,216,811**	1,389,191
Interest payable and similar charges		**(1,167,329)**	(1,323,028)
Net interest income		**49,482**	66,163
Dividend income		**12,549**	-
Fees and commissions receivable		**3,292**	4,345
Fees and commissions payable		**(3,989)**	(5,638)
Dealing (losses)/ profit	*36*	**(131)**	156
Other income	*4*	**9,985**	-
Operating income		**71,188**	65,026
Operating expenses	*5*	**(24,937)**	(11,811)
Operating profit - before provisions		**46,251**	53,215
Provision for credit risk	*12*	**3,509**	(12,159)
Profit on ordinary activities before tax	*6*	**49,760**	41,056
Tax on profit on ordinary activities	*7*	**(3,559)**	(1,517)
Retained profit for financial year attributable to equity shareholders		**46,201**	39,539
Profit and loss account at beginning of year	*28*	**231,444**	191,905
Profit and loss account at end of year		**277,645**	231,444

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	H. Kiewiet de Jonge	R. Schellens	N. McDonagh
Chairman	*Managing Director*	*Director*	*Secretary*

Consolidated balance sheet

at 31 December 2004

	Note	2004 €'000	2003 €'000
Assets			
Cash and balances at central banks		**203,554**	187,322
Central government bills and other eligible bills	9	**2,361,074**	999,728
Loans and advances to banks	10	**10,840,817**	8,652,924
Loans and advances to customers	11	**6,300,871**	6,613,133
Debt securities	13	**4,673,417**	3,991,733
Other investments	14	**25,658**	17,748
Tangible fixed assets	15	**1,776**	961
Other assets	16	**1,591**	1,568
Prepayments and accrued income	18	**385,623**	338,901
Finance lease receivables	19	**172**	3,970
		24,794,553	20,807,988
Liabilities			
Deposits by banks	20	**15,398,385**	13,470,424
Customer accounts	21	**6,165,614**	4,693,258
Debt securities in issue	22	**1,628,584**	1,455,012
Other liabilities	23	**38,778**	2,045
Accruals and deferred income	24	**691,069**	361,327
Provision for other liabilities and charges	12	**18,484**	18,484
Subordinated liabilities	25	**230,000**	230,000
Called up share capital	26	**7,060**	7,060
Capital contribution reserve	27	**338,934**	338,934
Profit and loss account		**277,645**	231,444
Shareholders' funds		**623,639**	577,438
		24,794,553	20,807,988
Memorandum items			
Guarantees issued	29	**363,083**	253,552
Commitments	29	**98,348**	133,631

On behalf of the board

W. J. Kolff	H. Kiewiet de Jonge	R. Schellens	N. McDonagh
Chairman	*Managing Director*	*Director*	*Secretary*

Company balance sheet

at 31 December 2004

Assets	*Note*	**2004 €'000**	2003 €'000
Cash and balances at central banks		**187,716**	187,322
Central government bills and other eligible bills	*9*	**2,361,074**	999,728
Loans and advances to banks	*10*	**10,840,81**	8,652,924
Loans and advances to customers	*11*	**6,508,703**	6,656,860
Debt securities	*13*	**3,134,756**	2,498,288
Shares in group undertakings	*34*	**1,814,839**	1,703,861
Other investments	*14*	**25,658**	12,509
Tangible fixed assets	*15*	**1,090**	961
Other assets	*16*	**2,431**	1,568
Prepayments and accrued income	*18*	**376,634**	333,844
Finance lease receivables	*19*	**172**	3,970
Total Assets		**25,253,890**	21,051,835

Liabilities	*Note*	**2004 €'000**	2003 €'000
Deposits by banks	*20*	**15,398,385**	13,465,185
Customer accounts	*21*	**6,696,896**	4,956,157
Debt securities in issue	*22*	**1,628,584**	1,455,012
Other liabilities	*23*	**2,070**	1,069
Accruals and deferred income	*24*	**670,060**	353,999
Provision for other liabilities and charges	*12*	**18,484**	18,484
Subordinated liabilities	*25*	**230,000**	230,000
Called up share capital	*26*	**7,060**	7,060
Capital contribution reserve	*27*	**338,934**	338,934
Profit and loss account		**263,417**	225,935
Shareholders' funds		**609,411**	571,929
		25,253,890	21,051,835
Memorandum items			
Guarantees issued	*29*	**363,083**	253,552
Commitments	*29*	**98,348**	133,631

On behalf of the board

W. J. Kolff	H. Kiewiet de Jonge	R. Schellens	N. McDonagh
Chairman	*Managing Director*	*Director*	*Secretary*

Consolidated cash flow statement

for the year ended 31 December 2004

	Note	2004 €'000	2003 €'000
Net cash (outflow)/ inflow from operating activities	*30*		
Net cash flow from trading activities		**365,562**	30,871
Net cash flow from other operating activities		**(365,250)**	(49,934)
		312	(19,063)
Taxation		**(2,688)**	(2,431)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(1,446)**	(327)
Receipts from sales of fixed assets		**179**	83
Increase/(decrease) in cash in the year	*3*	**(3,643)**	(21,738)

1 Turnover

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

2 Segmental analysis
Geographical segments

	2004 €'000	2003 €'000
Interest receivable and similar income		
Ireland	**614,452**	626,794
Rest of Europe	**520,866**	684,421
Rest of world	**81,493**	77,976
	1,216,811	1,389,191
Total assets		
Ireland	**12,659,160**	10,501,618
Rest of Europe	**9,732,586**	7,764,854
Rest of world	**2,402,807**	2,541,516
	24,794,553	20,807,988

Interest receivable and total assets were split on a geographical basis.

3 Interest receivable and similar income

	2004 €'000	2003 €'000
Arising from debt securities and other fixed income securities	**268,073**	214,889
Other interest receivable and similar income	**948,738**	1,174,302
	1,216,811	1,389,191

4 Other income

	2004	2003
IT support	**9,985**	-

This relates to income from other group companies for IT services provided.

5 Operating expenses

	2004 €'000	2003 €'000
Staff costs		
- wages and salaries	**7,623**	5,579
- social welfare costs	**860**	567
- other pension costs	**755**	537
- other staff costs	**1,282**	617
	10,520	7,300
Other administrative expenses	**13,965**	4,097
Depreciation of tangible fixed assets	**517**	309
(Profit)/ loss on sale of fixed assets	**(65)**	105
	24,937	11,811

During the year the average number of employees (including executive directors) was 91 (2003: 62).

Staff numbers and costs

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

	Number of employees 2004	2003
Management	**6**	5
Front office	**11**	10
Back office	**23**	25
Support	**26**	22
IT Support	**25**	-
	91	62

6 Profit on ordinary activities before tax is stated after charging the following items:

	2004 €'000	2003 €'000
Directors' remuneration:		
Fees	**32**	32
Other emoluments including pensions	**636**	730
	668	762
Auditors' remuneration (including expenses)	**107**	76
Operating lease charges on premises	**1,170**	627

7 Taxation

	2004 €'000	2003 €'000
Corporation tax on ordinary activities	**1,059**	2,160
Withholding tax	**1,873**	883
Prior year over provision in respect of prior years	**(188)**	(468)
Deferred tax (note 17)	**815**	(1,058)
	3,559	1,517

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.

	2004 €'000	2003 €'000
Profits on ordinary activities before tax	**49,760**	41,056
Tax on profit on ordinary activities at 12.5% (2003: 12.5%)	**6,220**	5,132
Tax effects:		
Franked investment income	**(3,270)**	(3,198)
Group relief	**-**	(473)
Non-deductible expenses	**(322)**	1,493
Manufacturing relief	**(530)**	(624)
Tax withheld at source	**4**	19
Foreign tax adjustments	**(1,071)**	(617)
Excess of depreciation over capital allowances	**28**	428
Current tax in the period	**1,059**	2,160

8 Assets and liabilities

	2004		2003	
	Group €'000	**Company €'000**	Group €'000	Company €'000
Assets denominated in:				
Euro	**14,896,088**	**15,416,708**	14,200,613	13,246,357
Currencies other than euro	**9,898,465**	**9,837,182**	6,607,375	7,805,478
Total assets	**24,794,553**	**25,253,890**	20,807,988	21,051,835
Liabilities denominated in:				
Euro	**14,535,941**	**15,051,904**	14,106,170	13,149,493
Currencies other than euro	**10,258,612**	**10,201,986**	6,701,818	7,902,342
Total liabilities	**24,794,553**	**25,253,890**	20,807,988	21,051,835

9 Central government bills and other eligible bills

	2004 €'000	2003 €'000
Group and Company		
Held as financial fixed assets		
Exchequer bills and similar securities	**2,361,074**	999,728

The market value of the securities held at the balance sheet date was €2,516,690,000 (2003: €1,063,564,000)

Movement in central government bills and other eligible bills	**Nominal value €'000**	**(Discounts) and premia €'000**	**Carrying amount €'000**
At 1 January 2004	995,180	4,548	999,728
Exchange adjustments	(27,542)	-	(27,542)
Acquisitions	1,527,184	6,359	1,533,543
Disposals/maturity	(142,184)	-	(142,184)
Amortisations of discounts and premia	-	(2,471)	(2,471)
At 31 December 2004	**2,352,638**	**8,436**	**2,361,074**

10 Loans and advances to banks

	2004 €'000	2003 €'000
Group and company		
Repayable on demand	**14,483**	34,358
Other loans and advances		
Remaining maturity:		
- 3 months or less	**6,181,867**	6,175,373
- 1 year or less but over 3 months	**482,550**	382,481
- 5 years or less but over 1 year	**3,812,780**	1,571,156
- repayable in more than 5 years	**349,137**	489,556
	10,840,817	8,652,924
Unsubordinated loans and advances	**10,840,817**	8,652,924
Amounts include:		
Due from Rabobank Nederland group entities	**10,231,257**	8,484,715

11 Loans and advances to customers

	2004		2003	
	Group €'000	**Company €'000**	Group €'000	Company €'000
Repayable on demand	**19**	**19**	12,071	12,071
Remaining maturity				
- 3 months or less	**1,371,765**	**1,782,376**	389,948	567,347
- 1 year or less but over 3 months	**766,665**	**751,308**	613,186	585,099
- 5 years or less but over 1 year	**3,381,847**	**3,318,432**	4,895,747	4,921,504
- over 5 years	**808,411**	**684,404**	733,526	602,184
Provision for credit risk (Note 12)	**(27,836)**	**(27,836)**	(31,345)	(31,345)
	6,300,871	**6,508,703**	6,613,133	6,656,860
Amounts include:				
Due from Rabobank Nederland group entities	**5,871,287**	**6,079,119**	5,827,148	5,870,875

12 Provision for credit risk

Group and company	**Specific Other amounts €'000**	**Specific Advances €'000**	**2004 General Advances €'000**	**Total Advances €'000**	**Total €'000**
At the beginning of the year	**18,484**	**15,345**	**16,000**	**31,345**	**49,829**
Charge to the profit and loss account	**-**	**(1,509)**	**(2,000)**	**(3,509)**	**(3,509)**
At the end of the year	**18,484**	**13,836**	**14,000**	**27,836**	**46,320**

Group and company	Specific Other amounts €'000	Specific Advances €'000	2003 General Advances €'000	Total Advances €'000	Total €'000
At the beginning of the year	19,069	4,101	14,500	18,601	37,670
Charge to the profit and loss account	(585)	11,244	1,500	12,744	12,159
At the end of the year	18,484	15,345	16,000	31,345	49,829

12 Provision for credit risk *(continued)*

Specific provision – other amounts

The Bank has guaranteed a loan of approximately €37.6m (original loan 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 €18.4m in respect of this exposure. The Bank has a further contingent loss of €19.2m representing the residual exposure under the guarantee.

During December 2004, Rabobank Ireland plc entered into preliminary agreements which it is hoped will lead to the sale of Exelon and AES Londonderry loans subject to the resolution of a number of outstanding items. Provisions are considered appropriate on the basis of the liquidation value of the collateral. If the sale proceeds are in accordance with the terms of the preliminary agreements, a significant write back of the provisions will occur.

Specific provision – advances

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

13 Debt securities

	2004		2003	
Held as financial fixed assets	**Group**	**Company**	Group	Company
Investment securities	**€'000**	**€'000**	€'000	€'000
Issued by public bodies				
- government securities	**1,931,611**	**479,051**	1,617,611	284,877
-other public sector securities	**561,056**	**561,056**	324,595	324,595
Issued by other issuers				
- Group undertakings	**77,239**	**77,239**	81,989	81,989
- Banks and building societies	**1,977,003**	**1,890,902**	1,824,624	1,663,913
- Other	**126,508**	**126,508**	142,914	142,914
	4,673,417	**3,134,756**	3,991,733	2,498,288

€275,735,000 (2003: €205,126,000) of the debt securities held at balance sheet date have a remaining maturity of within one year and €4,397,682,000 (2003: €3,786,607,000) have a remaining maturity of greater than one year.

The market value of securities at 31 December 2004 was €4,782,759,000 (2003: €4,049,923,000) Company: €3,235,613,000 (2003 : €2,551,433,000).

Subordinated debt securities held by the Group amounted to €40,840,219 (2003: €40,840,219); Company: €40,840,219 (2003: €40,840,219).

13 Debt securities (continued)

Movements in debt securities ***Group***	**Nominal value €'000**	**(Discounts) and premia €'000**	**Carrying amount €'000**
At 1 January 2004	3,988,487	3,246	3,991,733
Exchange adjustments	(161,513)	769	(160,744)
Acquisitions	1,721,326	(5,463)	1,715,863
Disposals	(860,869)	(11,877)	(872,746)
Amortisation of discount and premia	-	(689)	(689)
At 31 December 2004	**4,687,431**	**(14,014)**	**4,673,417**

Movements in debt securities ***Company***	**Nominal value €'000**	**(Discounts) and premia €'000**	**Carrying amount €'000**
At 1 January 2004	2,496,330	1,958	2,498,288
Exchange adjustments	(46,043)	690	(45,353)
Acquisitions	1,122,644	(5,463)	1,117,181
Disposals	(424,108)	(11,883)	(435,991)
Amortisation of discount and premia	-	631	631
At 31 December 2004	**3,148,823**	**(14,067)**	**3,134,756**

14 Other investments

	2004		2003	
	Group	**Company**	Group	Company
Unlisted	**25,658**	**25,658**	17,748	12,509
At 1 January	**17,748**	**12,509**	4,164	-
Acquisitions	**15,720**	**15,720**	15,568	14,389
Disposals	**(3,889)**	**-**	-	-
Exchange adjustments	**(3,737)**	**(2,387)**	(1,984)	(1,880)
Amortisation of discount/ premia	**(184)**	**(184)**	-	-
At 31 December	**25,658**	**25,658**	17,748	12,509

Other investments represent the investment in a structured investment vehicle. The bank acquired a further US$19.4m and disposed of US$5.2m in structured investment vehicles during the period.

Management is satisfied that the carrying value of the investment is not less than the net realisable value.

15 Tangible fixed assets

Group	Fixture and fittings €'000	Motor vehicles €'000	Other equipment €'000	Total €'000
Cost				
At beginning of year	1,067	547	186	**1,800**
Additions	228	89	1,129	**1,446**
Disposals	-	(215)	(46)	**(261)**
At end of year	**1,295**	**421**	**1,269**	**2,985**
Depreciation				
At beginning of year	638	130	71	**839**
Charged during year	140	159	218	**517**
Disposals	-	(127)	(20)	**(147)**
At end of year	**778**	**162**	**269**	**1,209**
Net book value				
At 31 December 2004	**517**	**259**	**1,000**	**1,776**
At 31 December 2003	137	417	407	961

Other equipment includes computer equipment

Company	Fixture and fittings €'000	Motor vehicles €'000	Other equipment €'000	Total €'000
Cost				
At beginning of year	1,067	547	186	**1,800**
Additions	228	39	358	**625**
Disposals	-	(215)	(46)	**(261)**
At end of year	**1,295**	**371**	**498**	**2,164**
Depreciation				
At beginning of year	638	130	71	**839**
Charged during year	140	154	89	**383**
Disposals	-	(128)	(20)	**(148)**
At end of year	**778**	**156**	**140**	**1,074**
Net book value				
At 31 December 2004	**517**	**215**	**358**	**1,090**
At 31 December 2003	137	417	407	961

Other equipment includes computer equipment

16 Other assets

	2004		2003	
	Group	**Company**	Group	Company
	€'000	**€'000**	€'000	€'000
Deferred tax (note 17)	**753**	**748**	1,568	1,568
Corporation tax	**838**	**1,683**	-	-
	1,591	**2,431**	1,568	1,568

17 Deferred tax

	2004	**2003**
	€'000	€'000
Group		
Deferred tax		
At 1 January 2004	**1,568**	510
(Charged)/ credited to profit and loss account during the year (note 7)	**(815)**	1,058
At 31 December 2004	**753**	1,568

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

	2004	2003
	€'000	€'000
Excess of tax allowances over depreciation	**(313)**	(584)
General provision	**1,400**	1,600
Other timing differences	**(334)**	552
	753	1,568

Company	**2004**	2003
	€'000	€'000
Deferred tax		
At 1 January 2004	**1,568**	510
(Charged)/ credited to profit and loss account during the year (note 7)	**(820)**	1,058
At 31 December 2004	**748**	1,568

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

	2004	2003
	€'000	€'000
Excess of tax allowances over depreciation	**(318)**	(584)
General provision	**1,400**	1,600
Other timing differences	**(334)**	552
	748	1,568

18 Prepayments and accrued income

	2004 Group €'000	2004 Company €'000	2003 Group €'000	2003 Company €'000
Interest receivable	**378,825**	**369,936**	317,173	312,116
Other prepayments and accrued income	**6,798**	**6,698**	21,728	21,728
	385,623	**376,634**	338,901	333,844

19 Finance lease receivables

	2004 €'000	2003 €'000
Group and company		
Cost of assets on finance leases	**14,925**	15,300
Net investment in finance leases	**172**	3,970
Receivable as follows:		
Within one year	**30**	3,798
After more than one year	**142**	172
	172	3,970

Finance lease interest income for the year ended 31 December 2004 amounted to €248,832 (2003: €472,839).

All amounts outstanding at 31 December 2004 and 2003 are receivable from a Rabobank Nederland group entity.

20 Deposits by banks

	2004		2003	
	Group	**Company**	Group	Company
	€'000	**€'000**	€'000	€'000
Repayable on demand	**3,295**	**3,295**	34,742	34,742
With agreed maturity dates or periods of notice by remaining maturity:				
- 3 months or less but not repayable on demand	**10,471,583**	**10,471,583**	8,553,558	8,553,558
- 1 year or less but over 3 months	**1,333,875**	**1,333,875**	2,461,782	2,461,782
- 5 years or less but over 1 year	**3,584,727**	**3,584,727**	2,418,073	2,412,834
- over 5 years	**4,905**	**4,905**	2,269	2,269
	15,398,385	**15,398,385**	13,470,424	13,465,185
Amounts include:				
Received from Rabobank Nederland group entities	**13,954,116**	**13,954,116**	11,814,222	11,814,222

21 Customer accounts

	2004		2003	
	Group	**Company**	Group	Company
	€'000	**€'000**	€'000	€'000
Repayable on demand	-	-	2,801	2,801
With agreed maturity dates or periods of notice by remaining maturity:				
- 3 months or less but not repayable on demand	**4,513,803**	**3,611,830**	3,504,157	2,520,030
- 1 year or less but over 3 months	**421,088**	**424,559**	142,020	121,783
- 5 years or less but over 1 year	**1,031,880**	**2,542,830**	619,491	1,886,754
- over 5 years	**198,843**	**117,677**	424,789	424,789
	6,165,614	**6,696,896**	4,693,258	4,956,157
Amounts include:				
Received from Rabobank Nederland group entities	**3,132,863**	**3,664,145**	1,947,381	2,210,280

22 Debt securities in issue

	2004 €'000	2003 €'000
Group and company		
Medium term notes, with remaining maturity of		
- 5 years or less but over 1 year	**226,448**	650,708
Debt securities in issue, by remaining maturity		
- 3 months or less	**1,234,831**	369,710
- 1 year or less, but over 3 months	**167,305**	434,594
	1,628,584	1,455,012

23 Other liabilities

	2004 Group €'000	2004 Company €'000	2003 Group €'000	2003 Company €'000
Irish taxes:				
Corporation tax	-	-	973	(3)
PAYE/PRSI	**207**	**207**	354	354
VAT	**1,863**	**1,863**	718	718
Other non-settled items	**36,708**	**-**	-	-
	38,778	**2,070**	2,045	1,069

24 Accruals and deferred income

	2004 Group €'000	2004 Company €'000	2003 Group €'000	2003 Company €'000
Interest payable and deferred income	**356,973**	**292,397**	313,525	300,899
Cross currency swaps	**312,403**	**357,661**	24,026	29,324
Other accrued liabilities	**21,693**	**20,002**	23,776	23,776
	691,069	**670,060**	361,327	353,999

25 Subordinated Liabilities

	2004 €'000	2003 €'000
Undated Loan Capital		
€230m Subordinated Debt	**230,000**	230,000

The subordinated debt of €230,000,000 was issued to Coöperatieve Centrale Raiffeisen -Boerenleenbank B.A. (Rabobank Nederland) by Rabobank Ireland plc on 2 November 2001. Interest is paid quarterly in arrears on the last day of each Interest Period. The subordinated debt has no final maturity but cannot be repaid prior to 2 November 2007.

26 Share capital

	2004 €'000	2003 €'000
Authorised		
50,120,000 ordinary shares (2003: 50,000,000) of EUR 0.50 each	**25,060**	25,000
30,000 deferred ordinary shares of EUR 2 each	**-**	60
Allotted, called up and fully paid		
14,120,000 ordinary shares (2003: 14,000,000) of EUR 0.50 each	**7,060**	7,000
30,000 deferred ordinary shares of EUR 2 each	**-**	60
	7,060	7,060

During the year, 30,000 of EUR 2 each deferred ordinary shares were sub-divided into 120,000 EUR 0.50 deferred ordinary shares. Subsequently these shares were converted and re-designated to 120,000 of EUR 0.50 ordinary shares.

27 Capital contribution reserve

	2004 €'000	2003 €'000
Capital contribution reserve	**338,934**	338,934

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

28 Reconciliation of shareholders' funds

	2004 €'000 Equity	2004 €'000 Non-equity	2003 €'000 Equity	2003 €'000 Non Equity
Group				
Profit attributed to equity shareholders	**46,201**	**-**	39,539	-
Opening shareholders' funds	**577,378**	**60**	537,839	60
Share conversion (Note 26)	**60**	**(60)**	-	-
Closing shareholders' funds	**623,639**	**-**	577,378	60
Total closing shareholders' funds	**623,639**		577,438	

	2004 €'000 Equity	2004 €'000 Non-equity	2003 €'000 Equity	2003 €'000 Non Equity
Company				
Profit attributed to equity shareholders	**37,482**	-	39,747	-
Opening shareholder funds	**571,869**	**60**	532,122	60
Share conversion (Note 26)	**60**	**(60)**	-	-
Closing shareholder funds	**609,411**	-	571,869	60
Total closing shareholders' funds	**609,411**		571,929	

29 Memorandum items

	2004 €'000	2003 €'000
Contingent liabilities		
Group and company		
Guarantees issued	**363,083**	253,552
Included in the above are: Offsetting guarantees received from Group companies	**225,752**	148,332
Commitments		
Group and company		
Undrawn formal standby facilities, credit lines and other formal commitments to lend with a maturity of:		
- less than one year	**30,349**	57,013
- greater than one year	**67,999**	76,618
	98,348	133,631
Included in the above are: Offsetting commitments received from Group companies	**35,473**	16,448

Additional commitments in respect of non-trading derivatives are included in note 36.

30 Reconciliation of operating profit to net cash flows from operating activities

	2004 €'000	2003 €'000
Operating profit before tax and provisions	**46,251**	53,215
Depreciation	**517**	309
Loss on disposal of fixed assets	**(65)**	105
(Increase)/ Decrease in prepayments and accrued income	**(46,722)**	2,175
Increase/ (Decrease) in accruals and deferred income	**329,742**	(25,145)
(Decrease)/ Increase in other liabilities	**35,839**	212
Net cash inflow from trading activities	**365,562**	30,871
(Increase)/ Decrease in central government and other eligible bills	**(1,361,346)**	605,880
(Increase) in debt securities	**(681,684)**	(454,730)
Decrease in loans and advances to customers	**312,262**	826,887
(Increase) in other investments	**(7,910)**	(13,584)
Decrease in leased assets	**3,798**	5,449
Increase in debt securities in issue	**173,572**	261,002
Decrease in provisions for liabilities and charges	**-**	(585)
Net cash (outflow) from other operating activities	**(365,250)**	(49,934)
Total net cash (outflow)/ inflow from operating activities	**312**	(19,063)

31 Analysis of the balances of cash as shown in the balance sheet

	1 January 2004 €'000	Cash flow €'000	31 December 2004 €'000
Cash and balances with central banks	187,322	16,232	203,554
Loans and advances to other banks repayable on demand	34,358	(19,875)	14,483
	221,680	**(3,643)**	**218,037**

32 Operating lease commitments

At 31 December 2004, the group and company had annual commitments of €1,169,747 (2003: €901,683) under non-cancellable operating leases expiring after five years in respect of land and buildings.

33 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 2004, amounted to: €615,245 (2003: €537,043). Accruals in respect of pension charges at year end 31 December 2004 amounted to €50,000
(2003: €32,000).

The company also operates a defined benefit pension scheme covering 18 permanent employees. The pension cost for the financial year amounted to €139k. The scheme is funded on a current funding level basis. The contributions payable to the scheme are made in accordance with the advice of an actuary (15.8% of pensionable pay).

The valuations of the defined benefit scheme used for the purpose of FRS 17 disclosures have been based on the most recent actuarial valuations (31 December 2003) using the projected unit method and updated by the independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities at the balance sheet date. Scheme assets are stated at their market value at the balance sheet date.

The principal assumption underlying the actuarial valuation was that the long term rate of return on investments would exceed salary inflation by 2.79% per annum.

At 31 December 2004 the market value of the fund's assets was €4.1m. The contributions to the fund have increased in line with the actuary's recommendations. The actuarial report is available for inspection by members of the scheme.

The company has continued to account for pensions in accordance with SSAP 24. The company has adopted the transition provisions of FRS 17 and the following disclosures are given as required by the transition provisions of that standard, set out as follows:

	2004
Rate of increase in salaries	**4.00%**
Rate of increase in pension payments	**2.00%**
Discount rate	**4.75%**
Inflation assumption	**2.00%**

33 Pension liabilities (continued)

	Long-term rate of return expected at 31 December 2004	Value at 31 December 2004
	%	€'000
Equities	7.75	3,021
Bonds	4.00	632
Property	5.50	252
Other	2.00	168
Total market value of pension assets		4,073
Present value of scheme liabilities		(5,447)
Net deficit in the scheme		(1,374)
Related deferred tax asset		172
Net pension liability		(1,202)
Analysed as:		
Pension scheme assets		4,245
Pension scheme liabilities		(5,447)
		(1,202)

Had FRS 17 been reflected in the primary financial statements, the following are the amounts that would have been included in the Profit and Loss Account and the Statement of Total Recognised Gains and Losses:

	31 December 2004
	€'000
Included in payroll costs:	
Current service costs	217
Death in service costs	-
Net operating profit charge	217
Included in finance costs:	
Expected return on assets	265
Interest cost	(231)
Net finance return	34

33 Pension liabilities (continued)

	31 December 2004 €'000
Included in statement of total recognised gains and losses:	
Difference between expected and actual return on assets	**105**
Effect of changes in actuarial assumptions	**(687)**
Net finance return	**(582)**
History of actuarial gains and losses	
Difference between expected and actual return on assets	**105**
expressed as a percentage of scheme assets	**2.6%**
Experience gains and losses on scheme liabilities	**-**
expressed as a percentage of scheme assets	**0%**
Total actuarial gains	**(687)**
expressed as a percentage of scheme liabilities	**(12.1%)**
Actual loss recognised in STRGL	**(582)**
Net assets	
Net assets before pension scheme asset	**623,639**
Pension scheme asset	**4,245**
Pension scheme liability	**(5,447)**
Net assets after pension scheme assets	**622,437**
Reserves	
Profit and loss account before pension scheme assets	**277,645**
Pension reserve	**(1,202)**
Profit and loss account after pension scheme assets	**276,443**

34 Subsidiary companies

The following companies are 100% subsidiaries of the company:

Name	*Country of incorporation*	*Registered office*	*Main activities*
Gosmore Investments	Ireland	George's Dock House IFSC Dublin 1	Investing in securities
Tullaghought Company	Ireland	George's Dock House IFSC Dublin 1	Investing in securities
Rabo Intl Support Ltd	Ireland	George's Dock House IFSC Dublin 1	IT Support

	2004 **€'000**	2003 €'000
Opening investment in subsidiaries during the year	**1,703,861**	832,578
Additions	**206,974**	981,126
Redemption	**(67,238)**	(57,290)
Exchange adjustment	**(28,758)**	(52,553)
Closing investment in subsidiaries	**1,814,839**	1,703,861

35 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 monthly basis.

-The BRMC (Balance Sheet Risk Management Committee) is responsible for reviewing the Bank's asset and liability strategy within the approved risk policies. The BRMC 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 Nederland 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 appropriate audit coverage of key business and financial risk areas and related risk controls. The Audit and Compliance Committee meets 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.

35 Risk management (continued)

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, BRMC 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, analysed and addressed immediately.

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, and a 97.5% one-tailed confidence interval in calculating VAR.

Based on these parameters the positions as at 31 December 2004 and 31 December 2003 are set out in the table below:

	Value at risk
As at 31 December 2004	**€3,568,408**
As at 31 December 2003	**€4,178,092**

Note: the figures above are the sum of individual VAR's within books and do not take correlation factors between books into account thus presenting a worst case view of the 97.5% VAR.

We can interpret VAR as at 31 December 2004 as follows: the daily negative movement in value of the Bank's portfolios will be less than €3,568,408, 97.5% of the time. Equally we can say that there is a chance that a loss in value greater than €3,568,408 will occur 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 internal and one day holding period.

35 Risk management (continued)

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 exposures 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.

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 2004 and 31 December 2003) and is not necessarily indicative of positions at other dates.

35 Risk Management (continued)

Interest Rate Gap Analysis
At 31 December 2004

	3 months or less	After 3 months but within 6 months	After 6 months but within 1 year	After 1 year but within 5 years	After 5 years	Non Interest Bearing	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Assets							
Cash and balances at central bank	166,846	-	-	-	-	-	**166,846**
Central govt bills and other eligible bills	939,323	206,998	49,345	272,506	892,902	-	**2,361,074**
Loans and advances to banks	9,406,659	423,866	80,708	877,842	51,742	-	**10,840,817**
Loans and advances to customers	3,600,637	116,958	152,214	2,308,311	150,589	(27,838)	**6,300,871**
Other investments	-	-	-	-	25,658	-	**25,658**
Debt securities	882,202	38,615	51,853	1,675,213	2,025,534	-	**4,673,417**
Other assets	-	-	-	-	-	389,162	**389,162**
Total assets	14,995,667	786,437	334,120	5,133,872	3,146,425	361,324	**24,757,845**
Liabilities							
Deposits by banks	13,423,293	440,952	485,901	1,044,609	3,630	-	**15,398,385**
Customer accounts	5,605,288	24,154	1,738	456,606	77,828	-	**6,165,614**
Debt securities in issue	1,271,723	55,691	92,076	209,094	-	-	**1,628,584**
Other liabilities	-	-	-	-	-	711,623	**711,623**
Subordinated Liabilities	230,000	-	-	-	-	-	**230,000**
Shareholders' funds	-	-	-	-	-	623,639	**623,639**
Total liabilities	**20,530,304**	**520,797**	**579,715**	**1,710,309**	**81,458**	**1,335,262**	**24,757,845**
Off-balance sheet items affecting interest rate sensitivity	6,540,740	(522,977)	(1,634,359)	(2,693,463)	(1,689,941)	-	-
Interest rate sensitivity gap	**1,006,103**	**(257,337)**	**(1,879,954)**	**730,100**	**1,375,026**	**(973,938)**	**-**
Cumulative interest rate sensitivity gap	**1,006,103**	**748,766**	**(1,131,188)**	**(401,088)**	**973,938**	**-**	**-**

35 Risk management (continued)

Interest Rate Gap Analysis
At 31 December 2003

	3 months or less	After 3 months but within 6 months	After 6 months but within 1 year	After 1 year but within 5 years	After 5 years	Non Interest Bearing	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Cash and balances at central bank	187,322	-	-	-	-	-	**187,322**
Central govt bills and other eligible bills	60,668	62,377	31,765	401,418	443,500	-	**999,728**
Loans and advances to banks	6,728,715	1,476,219	112,871	305,953	29,166	-	**8,652,924**
Loans and advances to customers	1,913,849	203,880	408,163	3,548,701	569,885	(31,345)	**6,613,133**
Other investments	-	-	-	-	17,748	-	**17,748**
Debt securities	861,697	79,204	64,079	778,318	2,208,435	-	**3,991,733**
Other assets	-	-	3,798	172	-	341,430	**345,400**
Total assets	**9,752,251**	**1,821,680**	**620,676**	**5,034,562**	**3,268,734**	**310,085**	**20,807,988**
Liabilities							
Deposits by banks	10,899,133	1,806,969	487,717	274,336	2,269	-	**13,470,424**
Customer accounts	2,747,687	1,344,917	4,477	441,576	154,601	-	**4,693,258**
Debt securities in issue	387,525	139,671	294,924	632,892	-	-	**1,455,012**
Other liabilities	-	-	-	-	-	381,856	**381,856**
Subordinated Liabilities	230,000	-	-	-	-	-	**230,000**
Shareholders' funds	-	-	-	-	-	577,438	**577,438**
Total liabilities	**14,264,345**	**3,291,557**	**787,118**	**1,348,804**	**156,870**	**959,294**	**20,807,988**
Off-balance sheet items affecting interest rate sensitivity	1,108,974	1,781,001	707,172	(1,908,225)	(1,688,922)	-	-
Interest rate sensitivity gap	**(3,403,120)**	**311,124**	**540,730**	**1,777,533**	**1,422,942**	**(649,209)**	**-**
Cumulative interest rate sensitivity gap	**(3,403,120)**	**(3,091,996)**	**(2,551,266)**	**(773,733)**	**649,209**	**-**	**-**

35 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 2004. 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.

Net foreign currency monetary assets/ (liabilities)

	2004	2003
	€'000	€'000
Sterling	**1,178**	1,210
US Dollar	**(1,380)**	(6,768)
Other	**122**	5,665
	(80)	107

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

35 Risk management (continued)

Balance sheet management

The BRMC 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 BRMC 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.

Operational risk

Over the last number of years the Bank has embarked on both group and local initiatives to improve its 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 (Managing Board Rabobank International) has approved the Standardised approach as basis for the development of the operational risk framework in Rabobank International, 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 operational risk 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.

Credit Risk

The Bank has based it's credit risk policy on the Rabobank International Credit Manual. This refers to policies relating to the quality of the counterparty, the market in which they operate, the products required in view of the financing and the protection that can be obtained with regard to the financing.

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 2007. 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.

35 Risk management (continued)

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 expects to start reporting Economic Capital and RAROC numbers in 2005.

Liquidity

The RI Liquidity Policy sets out to ensure that at all times Rabobank International (RI) entities are always in a position, to meet their commitments to external counterparts in a timely manner regardless of any instability of financial markets or where the entity is domiciled. At present, the scope of the Policy is short term i.e. out to 30 days and is not supposed to measure the structural liquidity gap in the RI Balance Sheet. The monitoring of the limit structure is done by Risk Management & Modelling with central reporting to the Treasury Manager RITM and the BRMC RI. Liquidity Limits will be treated the same as trading controls and require the same sign-off procedure.

36 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. Futures 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 in second order derivative products.

36.1 Derivatives portfolio

The following table provides an overview of the Bank's exchange rate related and interest rate related derivative portfolios at 31 December 2004 and 31 December 2003. 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.

	2004	2003
	€'000	€'000
Principal amounts		
Held for trading purposes		
Exchange rate related contracts	**464,415**	928,927
Interest rate related contracts	**5,723,450**	858,970
Held for purposes other than trading		
Exchange rate contracts	**2,684,036**	1,521,623
Interest rate related contracts	**23,005,547**	25,718,453
Credit related contracts	**799,235**	281,742
	32,676,683	29,309,715

36.1Derivatives portfolio (continued)

	2004			
	Exchange rate related €'000	**Interest rate related €'000**	**Credit related €'000**	**Total €'000**
Principal amounts	**3,148,451**	**28,728,997**	**799,235**	**32,676,683**
Gross replacement cost	**146,180**	**235,144**	**877**	**382,201**

	2003			
	Exchange rate related €'000	Interest rate related €'000	Credit related €'000	Total €'000
Principal amounts	2,450,550	26,577,423	281,742	29,309,715
Gross replacement cost	151,785	271,952	562	424,299

	2004 €'000	2003 €'000
By counterparty exposure:		
Financial institutions	**356,735**	370,198
Other	**25,466**	54,101
	382,201	424,299

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

36.2Derivatives 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:

	2004		2003	
	Notional principal €'000	**Net market value €'000**	Notional principal €'000	Net market value €'000
Exchange rate related contracts				
Spot, forwards and futures	**364,725**	**(4,756)**	836,427	7,557
Currency swaps	**99,690**	**31**	92,500	26
	464,415	**(4,725)**	928,927	7,583

	2004		2003	
	Notional principal €'000	**Net market value €'000**	Notional principal €'000	Net market value €'000
Interest rate related contracts				
Interest rate swaps	**2,018,812**	**3,066**	858,970	(171)
Futures and FRAs	**3,704,638**	**110**	-	-
	5,723,450	**3,176**	858,970	(171)

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

	1 year or less €'000	**5 years or less but over 1 year €'000**	**Over 5 years €'000**	**Total €'000**
Exchange rate related contracts				
Spot, forwards and futures	**364,725**	**-**	-	364,725
Currency swaps	**-**	**-**	99,690	9,690
At 31 December 2004	**364,725**	**-**	**99,690**	**464,415**
At 31 December 2003	836,427	-	92,500	928,927

36.2 Derivatives held for trading purposes (continued)

	1 year or less €'000	5 years or less but over 1 year €'000	Over 5 years €'000	Total €'000
Interest rate related contracts				
Interest rate swaps	**3,704,638**	**-**	-	3,704,638
Spots, forwards and futures	**203,238**	**1,587,156**	228,418	2,018,812
At 31 December 2004	**3,907,876**	**1,587,156**	**228,418**	**5,723,450**
At 31 December 2003	31,273	351,965	475,732	858,970

36.3 Dealing (losses)/ profit

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

	2004 €'000	2003 €'000
Foreign exchange	**(248)**	144
Interest rate contracts	**14**	32
Realised result on derivatives - other contracts	**103**	(20)
	(131)	156

36.4 Derivatives held for purposes other than trading

The group uses 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.

A credit default swap is a credit derivative transaction undertaken by the group where it enters into an agreement with a counterparty, whereby the counterparty pays the group a fixed periodic coupon for the specified life of the agreement (assuming that the group is selling protection, the reverse would be the case if the group is buying protection). No payments are made unless a credit event occurs, when the swap will terminate. The size of the payment is usually linked to the decline in the reference assets market value following the determination of the occurrence of a credit event.

At the year end, the notional principal amounts, by maturity, of the Bank's non-trading derivatives were:

	1 year or less €'000	5 years or less but over 1 year €'000	Over 5 years €'000	Total €'000
Exchange rate related contracts				
Currency swaps	**775,272**	**1,512,952**	**395,812**	**2,684,036**
At 31 December 2004	**775,372**	**1,512,952**	**395,812**	**2,684,036**
At 31 December 2003	38,043	1,348,940	134,640	1,521,623
Interest rate related contracts				
Interest rate and credit related swaps	**6,706,143**	**11,823,319**	**2,028,744**	**20,558,206**
Spots, Forward and Futures	**2,305,507**	**141,834**	**-**	**2,447,341**
At 31 December 2004	**9,011,650**	**11,965,153**	**2,028,744**	**23,005,547**
At 31 December 2003	10,944,132	11,525,445	3,248,876	25,718,453
Credit related contracts				
Credit default swaps	**101,783**	**624,036**	**73,416**	**799,235**
At 31 December 2004	**101,783**	**624,036**	**73,416**	**799,235**
At 31 December 2003	11,876	226,318	43,548	281,742

36.5 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 2004 was €152.6m (2003: net loss of €75.7m).

The net loss arising in 2003 and earlier years and recognised in 2004 amounted to €182.4m (2003: €42.7m).

36.6 Fair value of financial instruments

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2004 and 31 December 2003.

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.

	2004	
	Carrying amount €'000	**Fair value €'000**
Assets		
Central government bills and other eligible bills	**2,361,074**	**2,516,690**
Debt securities	**4,673,417**	**4,782,759**
Liabilities:		
Debt securities in issue	**1,628,584**	**1,651,054**
Non trading financial instruments		
Off balance sheet assets/(liabilities)		
Interest rate contracts	**(59,831)**	**(190,804)**
Exchange rate contracts	**(356,796)**	**(378,539)**
Credit default swaps	**14**	**133**

36.6 Fair Value of Financial Instruments (continued)

Trading financial instruments

Off balance sheet assets/(liabilities)		
Interest rate contracts	**3,176**	**3,176**
Exchange rate contracts	**(4,725)**	**(4,725)**

	2003	
	Carrying amount €'000	Fair value €'000
Assets:		
Central government bills and other eligible bills	999,728	1,063,564
Debt securities	3,991,733	4,049,923
Liabilities:		
Debt securities in issue	1,455,012	1,455,012
Non trading financial instruments		
Off balance sheet assets/(liabilities)		
Interest rate and credit related contracts	(76,409)	(225,784)
Exchange rate contracts	(5,753)	67,572
Credit default swaps	12	349
Trading financial instruments		
Off balance sheet assets/(liabilities)		
Interest rate contracts	(171)	(171)
Exchange rate contracts	7,583	7,583

36.7 Glossary of terms on derivatives

Derivative	A derivative is a contract whose value is derived from an underlying physical or financial commodity.
Market value/ mark to market	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.
Forward	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.
Forward foreign exchange contract	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.
Forward rate agreement	An agreement to pay the difference between a specified interest rate and a reference rate on a notional deposit at a specified future date.
Future	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.
Gross replacement cost	This represents the sum of the positive replacement values for a portfolio of trades.
Notional principal amount	The notional principal amount is the amount of the underlying physical or financial commodity on which the derivative contract is based.
Option	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.
Swap	A swap is an agreement to exchange cashflows in the future according to a pre-arranged formula.
Value-at-risk	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.

37 International Financial Reporting Standards (IFRS)

Under a European Union regulation, companies with listed securities are required to prepare their consolidated financial statements in accordance with IFRS for accounting periods starting on, or after, 1 January 2005. Guidance has been issued by the Committee of European Securities Regulators on how listed European companies can effectively communicate to investors the financial impact of the transition to IFRS in 2005 and, in connection with that guidance, the Irish Financial Services Authority has encouraged companies to provide disclosure and information necessary to assess their progress with the transition to IFRS. In accordance with this guidance, an overview of the Group's current position as regards progress to the 2005 transition is provided below:

The directors believe that the Group has sufficient qualified internal resources to manage and perform the required transition to IFRS in 2005. Significant progress has been made on transition matters during 2004 allowing the Group to report under IFRS in 2005.

Staff performing key roles in the transition have already received, and will continue to receive, IFRS training provided by suitably qualified external organisations; and the Group is currently discussing with its auditors the assistance and advice that they can provide throughout the transition period, including the initial identification of likely differences arising on the transition; external professional advice will be taken on specific IFRS matters as they arise where considered necessary by the directors.

Based on our assessments carried out to date on IFRS, the key differences likely to apply to the Group's consolidated financial statements are:

- The presentation of primary statements is likely to be different in respect of format and content.
- We anticipate changes in accounting treatment for the following items; general bad debt provisions, employee defined benefit pensions, the treatment of unrealised gains and losses on derivatives and other investments.

The bank will adopt IFRS in the consolidated financial statements for the full year to 31 December 2005 (with 2004 IFRS comparatives).

Under IAS 39 all derivatives are required to be recognised on balance sheet and measured at fair value. Rabobank Ireland plc are currently considering target hedging strategies for some portfolios, and also hedge effectiveness methodologies that can be used to decrease potential volatility in the future.

38 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.

39 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.

40 Comparative figures

Comparative figures have been reclassified, where necessary, to conform with the current year presentation.

41 Approval of financial statements

The financial statements were approved by the board of directors on 14 April 2005.

Rabobank Ireland plc and subsidiaries

Directors' report and consolidated financial statements

Year ended 31 December 2004

Registered number 213349