TOGETHER

EBS Annual Report and Accounts 2005

EBS BUILDING SOCIETY

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contents

"Last year I spent some time in this Review talking about EBS's profit optimisation - as distinct from profit maximisation - approach to doing business. One year on, I'm delighted to tell you that the EBS Mutuality Dividend stood at €22.5m for 2005, a 10% increase on 2004. In simple terms the Mutuality Dividend is the pricing benefit members receive from EBS. It is calculated by reference to our competitors' average prices for the basket of products provided by EBS. If we were a plc, we'd price around the market average and the €22.5m would go to shareholders as opposed to members."

brian joyce
chairman's review

Evolving As A Mutual
We have experienced a lot of change in EBS over the last twelve months and continue to make a lot of progress on many fronts. We remain committed to evolving as a mutual and are very optimistic that new legislation which will facilitate us doing so will be enacted before the Dáil's Summer recess. While we await the legislation we have used our time well by broadening the range of best value products we offer, upgrading our skills and capabilities and in particular investing in nurturing a member served culture in our people.

Our Relationship With Our Members
One of the great strengths in the EBS franchise is our relationship with our members. Their involvement on a day to day basis goes beyond the routine business they do with us. It extends into volunteering to participate in member roundtables on product and service topics - often culminating in new product developments. Others volunteer to supervise the 'EBS Member Mark' scheme. This is our own inhouse Plain English approach to member communications. And of course there are the Community Investment Groups, now numbering 52, in all parts of Ireland. During 2005, the Community Investment Groups, comprising some 200 members donated almost €400,000 to 756 community based projects of their choosing - no strings attached.

I would like to thank our members very much for their continued involvement and support for EBS. Sometimes I receive letters to compliment our staff or to scold us because we've let you down somewhere along the way. These letters are valuable to us and do make a difference because we take them and the lessons to be drawn from them very seriously. We've been tracking the satisfaction levels of our members via a number of different research media for some time now. Although results are good, we do know that we make mistakes from time to time. Please do not hesitate to contact myself or any of the Executive Directors (you will see their email addresses on page 16 of this report) if there is something you want to get off your chest about the way we do business. This is the one sure way we can improve.

Board Changes
Your Board has seen a number of changes in the last year. Executive Directors, John Cullen and Joe Ryan retired in May and August respectively. In Joe's case, he was also secretary to the society. We wish them both well in their retirements and thank them for their contributions to EBS's success over the years. Coming on to the Board to replace them as Executive Directors have been Alan Merriman as Finance Director and Tony Moroney as Director of The Membership Business. Emer Finnan is the new secretary to the society. I am happy to be able to tell you the transition to the new team has been a smooth one.

Competition & The Future
The economic backdrop to our business remains positive for 2006. We are very pleased that the bank levy is being discontinued. Because of the way it was calculated it had a disproportionate impact on your society, which we always felt was a bit unfair. Its removal will have a positive impact on the Member Value we will create next year.

We expect a competitive market in 2006, probably more competitive than ever. However we expect to succeed because our business model is robust and offers something consumers want and increasingly cannot get, i.e. a financial institution which is on their side. We spend a lot of time in EBS accentuating our difference from banks. This did not stop us taking great pleasure when in June 2005, EBS was given the award for Retail Banking Excellence at the inaugural Business & Finance KPMG Financial Services Excellence Awards. It's gratifying to know that all the hard work and the unremitting member focus of our people does not go unnoticed.

Brian Joyce
Chairman

“2005 was a year characterised by strong performance in our main lines of business. This translated into a further increase in the Mutuality Dividend transferred to members, strong continuing external endorsement for our strategy and positioning in the marketplace in addition to very acceptable progress in implementing our strategic plan which has as its focus the creation of a distinctive customer-membership organisation.”

ted mcgovern
chief executives's review

Business Performance

Our business performance is covered in more detail in Alan Merriman's Operating and Financial Review on page 8 and Tony Moroney's Review of The Membership Business on page 12. However, in summary we saw:

- 26,000 new members joining the society
- Operating profit before tax of €53.8m, up 9%
- Underlying like-for-like profit is up c.20%
- Mutuality Dividend €22.5m, up c.10%
- Asset growth of 20% plus, with €3.8bn in gross lending
- Customer funding up 20%
- Wholesale funding increasing by €1.3bn
- €600m Euro Medium Term Note (EMTN) programme and €125m Permanent Interest Bearing Shares (PIBS) issuances both of which were oversubscribed
- Efficiency improving once again as the costs to mean total assets ratio moved from 0.66% to 0.59%
- Capital ratios remain strong
- And, most recently the addition of a new Fitch A+ rating for our senior debt.

The Proposition For Our Members

Two years ago in my review, I stated that EBS was working steadily and commitedly towards providing our members with a basket of financial products which in the aggregate would constitute better value than a comparable basket from any of our competitors.

We have made a lot of progress in the intervening period.

EBS mortgages represent excellent value with our extremely competitively priced standard variable rate being uniquely available to existing borrowers as well as new borrowers. No one else in this market treats existing mortgage customers as favourably as new ones. Our competitors rely on the inertia within the existing customer base not to move their loan or to demand a better rate. We estimate that this costs Irish borrowers (or benefits our competitors, if you prefer) at least €145m per annum.

And now it's very easy to move your mortgage to EBS too - since we introduced QuickSwitch, our unique, extremely fast and cost effective answer for those who feel locked into higher rates elsewhere.

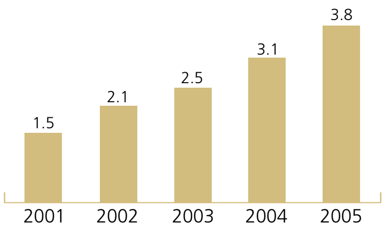
During 2005, the EBS stance in the mortgage market, which is predicated upon fairness and longterm value, was independently recognised by MoneyMate and Investor Magazine as we became their inaugural "Best Mortgage Provider of the Year". I think this reflects the fact that we try to be fair and we try to spread the benefits as equitably as we can across all our borrowers.

For the past two years our savers have had access to an attractively priced Members Bond and a third Members Bond has just been launched. For investors our SSIA equity product is one of only two in the market which attracted the Savermark from the Consumers' Association of Ireland. Meanwhile our Summit investment products which have a market leading charging structure have enjoyed excellent returns during 2005, with the Summit Mutual Growth Fund being up 21.4%.

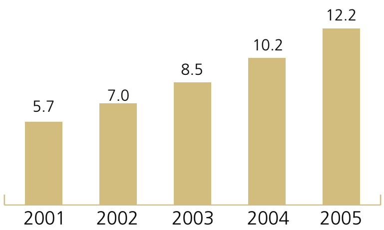
Away from the traditional EBS product suite, we have negotiated in the market to get the best deals for our members. This has resulted in new Best Buy Offers such as the Members Credit Card, Members Personal Loan, Travel Insurance, Buy To Let Insurance and most recently Health Insurance.

During 2006, we are committed to broadening the range of value added products and services available to our members. In this regard there are a number of initiatives coming onstream shortly, which will enhance the overall EBS Member Proposition even further. In that regard, you can rely on all new product introductions from EBS occupying a very strong fair value position. That is our commitment to you.

LENDING (€bn):
Another year of strong demand for EBS residential and commercial loans resulted in year on year value growth of 22% to €3.8bn.



LOAN BOOK (€bn):
The total value of the loan book grew by 20% to €12.2bn reflecting our robust lending activity throughout the year.



Progress In Implementing Our Strategic Plan

EBS has a very clear idea of the direction it is moving in and what needs to be done to position us as a distinctive operator in an increasingly competitive marketplace. Each year we update you on recent developments. During the last twelve months, significant progress has been made, in particular:

- The MemberFirst programme has been developed and is in the process of being rolled out across our network. This programme is about investing in a systematic needs based service culture.
- We have fundamentally reviewed our approach to bancassurance, have selected our preferred partners and are about to enter into tied relationships with the global insurer, Allianz and Ireland's leading life assurance company, Irish Life plc. This will improve our product range and our fulfilment capability while also giving our members greater choice.
- We have extended the channels through which we originate mortgage business. Since midway through 2005, EBS has been sourcing mortgage business for the first time via brokers as well as our traditional channels. This has resulted in a very satisfactory new supply of mortgage business, contributing to our strong market share performance this year.

The unique bespoke electronic means of communicating between EBS and the broker channel won our IT department the main award at the BT Inspired IT Awards which is great credit to all concerned.

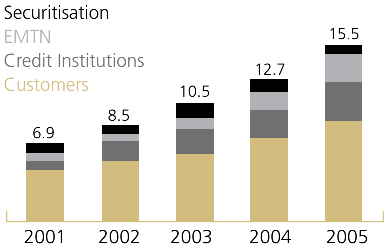
Our People

At EBS we have a very simple business philosophy which starts with investing in the capability of our people. This year once again, we were recognised for the working environment we try to foster. In the 2005 Ireland Great Place To Work awards EBS once again won the 500-1,000 employees category. We are particularly gratified that this recognition is primarily as a result of the responses of our own people to the organiser's standard survey. For the second year in a row, we were also named as one of the top 100 Best Places To Work in Europe.

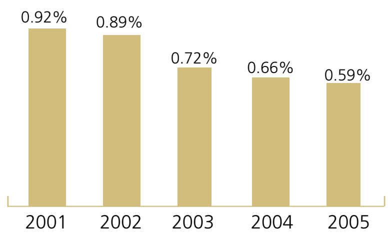
I would like to recognise the daily efforts and commitment of all our people. This is central to our business success. They understand what we are trying to achieve as an organisation and they are the ones who make it happen. As well as the routine, they embrace our change programmes enthusiastically.

This year saw the retirement of two of our most senior and experienced executives. John Cullen, Finance Director, and Joe Ryan, Director, Risk and society secretary, retired after 31 and 16 years respectively. We thank them both for their valued contributions over the years. We have been very fortunate to have as replacements Alan Merriman, our new Finance

TOTAL FUNDING (€bn):
Meanwhile total funding continues to be broadly based and experienced healthy annual growth of 22% to €15.5bn



OPERATING EXPENSES TO ASSETS UNDER MANAGEMENT
Reflecting the strong growth in assets combined with our ongoing cost management initiatives, our overall efficiency ratio has continued to improve.



Director and Chief Risk Officer, who joins us from PricewaterhouseCoopers, while Emer Finnan takes over as secretary to EBS and Director, Strategic Development. Emer was previously with NCB Corporate Finance. Alan and Emer join our Senior Management Board and have already given a fresh perspective and rigour to much of our operational and strategic agenda.

Looking Forward To 2006

2006 has all the hallmarks of being another good year for Irish consumers with commentators predicting a benign economic outlook. We have full employment and confidence remains high. Although interest rates may increase somewhat, this will not be enough to dampen demand or economic activity. For savers rising interest rates are a good thing particularly because savings rates have been historically low for an unprecedented period of time.

This year also sees the start of the wave of SSIA maturities. This will bring with it a plethora of attractive offers as financial institutions, EBS included, strive to be the preferred destination for savers' windfalls. EBS, which was instrumental in conceiving the notion of the SSIA over five years ago, will bring forward an attractive proposition for members who want to continue with the savings habit, make a longer term investment or use their cash as a deposit on something bigger for which they require additional finance. And it will be a long term value offer - not a headline rate for the short term with an uncertain future.

We do see the financial services marketplace as being increasingly competitive. New players have entered the Irish market in recent years and we can expect much more marketing and advertising activity as a result. EBS is confident in its ability to compete. We have a strong franchise, a trusted brand, a robust, commercial business model and a real commitment to get better. We don't follow the herd. We don't behave like a bank. We have a distinct set of financial values which focuses on rewarding our customers who are also our owners. We do not have external shareholders to satisfy with a financial return. That leaves more for our owners i.e. our members who are also our customers. That is EBS's edge. That is what makes us unique in this market. That's the Mutual Difference. That's why you are altogether better with EBS.

Ted McGovern

Ted McGovern
Chief Executive

"In lots of ways 2005 was a record year for us. 26,000 new members and €3.8bn in gross lending are new milestones. Asset growth in excess of 20% and reported headline profit before tax up 9% to €53.8m are both very satisfactory."

alan merriman
operating and financial review

Having spent nearly 17 years with PricewaterhouseCoopers working with clients in banking in Dublin, I joined the society in July of 2005 as Finance Director and now have the privilege of presenting the society's Operating and Financial Review.

Without doubt it has been an eventful first six months, a lot has been happening and I hope this commentary provides a clear overview of how the society has performed this year. I would be happy to provide further insights to members at the AGM. Alternatively I can be contacted by email at alan.merriman@mail.ebs.ie.

Our Financial Values

EBS is different because we're a Mutual. And in today's commercial world that means the financial values and the standards we measure ourselves against must differ too or otherwise our behaviour will be no different to the banking herd.

So what does this mean in reality? Well firstly, and most importantly, we believe the society should be judged in terms of the value today's member is getting. And there's little doubt that our members are best placed to judge this from their own individual experience, i.e. the distinctiveness of the EBS service, the quality and capability of our staff in the front line, our pricing benefits and the importance of our values as a Mutual to them. With 26,000 new members this year, we are satisfied that the long term value of being with EBS is recognised and continuing to make a real difference.

Equally, we also have to be thinking of tomorrow's member (for example your family and grandchildren) and therefore whilst the society continues to offer good competitive pricing today, it also needs to ensure that we are earning sufficient profits to maintain our financial strength, to compete to attract new members (the lifeblood of most businesses) and most importantly to enable us to keep providing long term value to you our members.

In summary, our overriding objective is to "maximise the sustainable value we create for our members and in so doing only retain the level of profits necessary to ensure the prudent financial stability and growth of the business". For this purpose we define Member Value as the combination of both the estimated pricing benefits we pass on to our members each year and our retained earnings.

How Did We Do In 2005?

At a headline level we grew total Member Value in 2005 by 5% and estimate that underlying profit before tax on a like for like basis grew by circa 20%.

In lots of ways 2005 was a record year for us. 26,000 new members and €3.8bn in gross lending are new milestones. Asset growth in excess of 20% and reported headline profit before tax up 9% to €53.8m are both very satisfactory.

The underlying increase in our profitability was driven by very strong volume growth more than offsetting contracting margins and cost growth.

We are also being careful to ensure we are investing to sustain the long term success of your society - our entry into the broker channel has negatively impacted this year's results by circa €1.7m and our latest phase of six branch conversions to our tied branch model also necessitated upfront costs of €2.0m. These investments will contribute to future profits.

The society also maintained its strong credit ratings. We are rated A2 by Moody's and very recently added a Fitch A+ rating for our senior debt. These ratings together provide a very strong and independent assurance that the society continues to be in a sound financial position with a stable financial outlook.

This was further confirmed by the capital markets as we also very successfully raised external capital of €125m to help fund this year's strong growth and expect to raise more external capital in the future.

International Financial Reporting Standards

The society, in common with other listed institutions in the European Union, has chosen to prepare its Annual Report and Accounts under International Financial Reporting Standards (IFRS). Our 2005 results and comparatives as appropriate have been presented on this basis.

The most material accounting policy differences relate to prescribed changes under IFRS relating to pensions accounting, property revaluations, treatment of derivatives, impairment losses and effective interest rate accounting.

Financial Review

Mutuality Dividend

The Mutuality Dividend relates to the pricing benefits we generate for our members as a result of our mutual financial values and is calculated by comparing the price of our products against equivalent products of our main competitors. The estimated pricing benefit is €22.5m this year up circa 10% on last year (2004 €20.5m). Because we are not a plc - rather than pay our shareholders a dividend - we pass on this saving to our members in the form of lower pricing.

Net Interest Income

Net interest income of €119.9m was up 8% (2004 €110.7m). This reflects the result of strong balance sheet growth up 22% year on year offset by contracting margins and a sizeable reduction in gilt gains in 2005. The net interest margin fell from 0.96% to 0.80% reflecting primarily better pricing for our members, an increase in our cost of funds compared with the ECB rate, the loss of some hedging benefits coinciding with the impact of the low interest rate environment prevailing for longer than anticipated and the net cost to the society of choosing not to pass onto our members increased market rates until January 2006.

Non-Interest Income and Other Operating Income

Non-interest income and other operating income increased by €4.2m or 22% to €23.6m (2004 €19.4m), albeit this benefited from some one-off items including a gain on the sale of credit card rights and additional insurance income amounting in aggregate to €4.2m. These were offset partially by circa €1.7m due to some hedge ineffectiveness in the current year, which we do not expect to recur in 2006. Despite the increase in gross advances, like for like insurance income was lower in 2005 due to falling insurance premiums which directly benefited our members' pockets. As highlighted in our membership business report we are seeing green shoots emerging from various investment initiatives and are investing significantly in our service culture.

Operating Expenses

Total operating expenses increased by €8.8m, or 11%, to €89.3m (2004 €80.5m). Our costs to mean total assets ratio, one of our principal measures of efficiency, improved to a new record low from 0.66% to 0.59% driven by strong asset growth in excess of 20%. Increased costs arose from investing in our future, more staff to service our business growth and increased membership, salary inflation and escalating pension costs. Cost management is a high priority and at a minimum we want to ensure that in the future income growth exceeds cost growth.

Provisions for Impairment

The total charge for bad and doubtful debts is €0.4m. This reflects our excellent asset quality in a very benign environment. Arrears continue to decline as a percentage of loans. We continue to insure our credit risk on higher risk residential and retail buy-to-let lending. Whilst this is expensive, and compresses our short term profitability, we believe this provides us with strong protection should an unexpected downturn arise in the future. We also believe we need to hold less economic capital as a result. The quality of our commercial lending book continues to be excellent.

Taxation

Our taxation charge at €15.1m is up €3.3m year on year (2004 €11.8m). €1.1m of this increase is attributable to previous years' computations. The bank levy cost €5.8m. The discontinuation of the bank levy for 2006 is very welcome and will assist in improving our retained earnings to fund future growth for our members.

Business Review

Residential Mortgages

We achieved €3.4bn of new gross lending in 2005 representing a market share of 12% in line with our overall market share of balances outstanding. Net lending was also at a record high. Our pricing proposition, product suite, unique distribution model, good service and successful entry into the broker market are all paying dividends. Despite increasing house prices and affordability factors in the market, our average new home loan LTV has remained relatively static year on year at 78%. We have continued to insure our higher LTV mortgage balances and our asset quality is excellent.

Savings
Despite increased competition for retail funds our customer funding is up a very strong 20% year on year. Diversification of our non bank corporate funding supported a lower level of retail savings growth. During the year the Financial Regulator agreed to a revised regulated share deposit ratio of 30% and at year end we were well beyond this level at 47%.

Commercial Lending
Commercial property gross lending (including bigger ticket buy-to-let property lending) was up nearly 25% year on year. Our total book is now €1.6bn. Gross advances exceeded €680m, reflecting a record year for our commercial lending business. Asset quality remains very strong and we are in the process of diversifying our risk further by lending to our Irish customers beyond Ireland and the UK within the European Economic Area.

Treasury & Capital Markets
Total wholesale funding increased by €1.3bn, mainly in support of lending growth. During the year we benefited from a strong appetite from wholesale funding and capital markets' investors with both our €600m Medium Term Note public deal and our €125m Tier 1 deal issuances being well oversubscribed. The EBS name now attracts a diverse range of global investors who are keen to participate in our various funding and capital programmes. We have also recruited and invested further in our treasury and capital markets capability establishing a new dedicated Capital Markets & Investor Relations team.

Risk Review

Risk Management
We have continued to make significant investment in and are making good progress in preparing for Basel II working closely with the Regulator and industry focused groups. Ongoing business as usual included enhancing further our risk management framework across the society, developing a more sophisticated credit grading system, recruiting more risk management expertise including tax and legal expertise and investing in regulatory and compliance technology. A more comprehensive overview of our risk management is set out in the corporate governance section of the Accounts.

Capital and Liquidity
Capital ratios remain strong, with Tier 1 capital at 7.4% and Total Capital at 10.6%. During the year, we successfully raised €125m of Permanent Interest Bearing shares to supplement our capital. This issuance was strongly oversubscribed with keen and well diversified investor appetite. Liquidity balances were strong at year end being 26% of members' shares and total borrowings.

Outlook
The outlook for the Irish economy and the housing market here remains very positive. Our strong franchise in the mortgage and savings market, combined with a clear focus on putting our members first gives us every confidence for the future. We have had a promising start to the year and are working hard on identifying areas where we can provide even more value to our members whilst also improving our profitability.

Despite even greater competition in the Irish marketplace, we are confident of a stronger performance in 2006. The start of the SSIA maturities is also on the horizon and we intend to provide our loyal members with compelling value to encourage them to both optimise their SSIA savings and also to continue their savings habit.

We will be working hard to further improve our efficiency, the quality of our service and to maintain our excellent asset quality. Whilst competition in the mortgage and savings markets will undoubtedly put some further downward pressure on margins, our aim for 2006 is to increase reported total Member Value by 15%.

Alan Merriman
Finance Director

“It is my privilege as Director of The Membership Business to report to you on the progress that has been made in 2005. We have had another good year and the results demonstrate that your society is effectively competing for your business, in terms of both the products and the services we provide, in a market that is highly competitive.”

tony moroney
review of the membership business

EBS is a customer-membership organisation. In 2005 your society established **'The Membership Business'** to pull together all member related products and services under one umbrella. Our Commercial Lending and Treasury businesses are viewed as non-member businesses and are run separately.

The Membership Business, the traditional building society part of EBS, has an absolute focus on growing our business by providing good value products and services to our members.

It is my privilege as Director of The Membership Business to report to you on the progress that has been made in 2005. We have had another good year and the results demonstrate that your society is effectively competing for your business, in terms of both the products and the services we provide, in a market that is highly competitive.

Our Commitment to Providing Best Value in the Aggregate

To meet our members' broader needs, we introduced a number of market leading products. In addition to mortgages and savings & investments, EBS is now competing effectively for personal loans, credit cards, insurance and health insurance. While price is only one aspect of the value we provide to members, it is encouraging that many of our products regularly feature in the national newspapers' 'Best Buy' tables. Our ambition is to meet our members' broader financial services needs through a basket of products and services which provides best value in aggregate in comparison with our competitors.

We know that convenient access to products and services is critically important to members. Your society continues to provide longer opening hours, including Saturday opening, in many of its branches. We have also enhanced our phone and web service through 'EBS Member Direct' and more recently entered the mortgage intermediary channel to extend our geographic reach. Having spent some twenty-four years in financial services, of which the last three have been with EBS, it is evident to me that your society is unique in terms of its customer philosophy. EBS does not have external shareholders so in effect, it can and does put all of its resources into meeting the needs of its members.

Our challenge is to build on this competitive advantage so that we consistently meet the needs of our members in a way that makes EBS stand out as a customer-membership organisation that is our members' financial services provider of choice.

Mortgages - Our Benign Economy has its Challenges

Our economy continues to perform very well with growth in 2005 in the order of 4.5%. Our population is at its highest level since the nineteenth century and our workforce has reached a new high of 1.981m. Last year alone, Ireland created 87,000 new jobs.

The economy continues to benefit from low interest rates and favourable tax structures despite recent rate increases. Real income and real wealth is growing, partly supported by house price inflation which, notwithstanding a new record of 81,000 new house starts in 2005, increased in the order of 9% last year. While this is clearly good news for home owners, it creates challenges for our younger members, aspiring to get on the property ladder.

Your society has long recognised the need to do more for First Time Buyers and launched a range of new products and initiatives in this area during 2005. Over 2,250 members and potential members attended EBS's acclaimed First Time Buyers' Seminars across the country to receive impartial advice from EBS, local solicitors and estate agents on the process of buying their first home. For those unable to attend, EBS produced a comprehensive DVD for members to watch at a time of their own choosing.

New mortgage products introduced included:

- **Home Access:** EBS is one of only two lenders to introduce a mortgage offering specifically geared to affordable housing i.e. the government initiative to make housing available to First Time Buyers at a lower than market price.

- **Young Professional:** A mortgage designed with a range of flexible options to assist aspiring young home owners onto the property ladder.
- **Self-Build:** An innovative mortgage that reduces outgoings for members as they build their home.

EBS prides itself on consistently providing a range of competitive and innovative mortgages through its branches, agents, over the phone and web and more recently through intermediaries. Over the past 10 years, EBS has provided better value than any other mortgage lender, saving our members in the order of €90m in mortgage interest payments.

Unlike the majority of lenders, EBS offers equal access to all of its mortgage products. To meet member requests to remove barriers to switching their mortgage, we introduced EBS QuickSwitch last September. This product eliminates legal fees and enables members to avail of a better deal, release equity to improve their home, buy a second or holiday home and/or pay off more expensive debt. Member reaction has been very positive.

Total mortgages advanced to members passed the landmark €10bn in balances in June. New mortgage advances for the year amounted to €3.4bn representing an increase of 27% on the previous year. EBS accounted for c.12% of all new mortgages in 2005 and was independently voted "Best Mortgage Provider of the Year" by Moneymate & Investor Magazine.

Savings & Investments

Our savings accounts remain popular even in the present climate of low interest rates and by December member savings had reached a record of €4.2bn.

In March 2005, to reward our long-term savers, we introduced our second Members Bond. As with our first Members Bond, it has proven to be very popular and we have recently launched our third Members Bond.

We also launched a range of new investment products including Irish and UK property funds, a number of capital guaranteed tracker bonds and the 'Perfect Balance' fund which combined our very popular Sure Certificate with our equity based Summit Funds. I am happy to report that 2005 was a good year for investors with strong market performance across all investment categories.

It can be hard to know what's the best option when you have some money to invest. To address this challenge, in addition to one-on-one personal advice we also hosted several Savings & Investments Seminars around the country and carried out comprehensive research with our members in advance of SSIA maturities. While the needs of members vary depending on their life stage, in general SSIA savers have expressed a desire to:

- Spend a little
- Continue to save
- Invest some for the future

EBS has been busy behind the scenes developing a range of products and services to respond to SSIA member needs. We see this as an important time for our members and we will be there to advise them on their options and to reward them for their continued membership.

Personal Loans, Credit Cards and Insurance - More Best Value Products from EBS

EBS continues to partner institutions that support our ambition of being able to offer our members better value in aggregate across a basket of financial products.

Our Members Personal Loan offers the best value in Ireland. This was confirmed by the Financial Regulator in their survey of personal loans last August. Our members' rate is available as a benefit to all members.

Our Members Credit Card remains one of the most competitive standard credit cards in Ireland and offers additional benefits such as fraud protection together with a credit card cheque book.

During the year, we carried out an extensive review of our insurance with a view to providing a broader range of services to members. Many new products including Travel, Buy-to-Let and Health Insurance have been introduced.

As we move into 2006, your society is committed to broadening the range of value added products and services available to members.

Putting Members First

Understanding our members and their individual needs is fundamental to our future success. Our extensive member satisfaction survey directs us in terms of the areas that are most important. The feedback that we receive and the growth in both new business and the number of members suggests that the great majority are satisfied with what we are doing and indeed, would like to do more business with EBS.

We don't always get it right, however, we do take member complaints very seriously. When they occur, we objectively look at complaints as an opportunity to improve our service. I would encourage members to contact me about EBS services that work well and on the other hand about any shortcomings in our service offerings at tony.moroney@mail.ebs.ie.

Throughout 2005 our staff undertook, on average, four days of training to improve their service capability. We also independently benchmark our service through our 'Member Mystery Shop' programme. The latter enables EBS to pinpoint gaps in service by specific location and to tailor training interventions. We want to get our service right for you.

Your society has also embarked on a three year programme to equip all front-line staff with the necessary skills and supporting technology. This programme called 'MemberFirst' commenced in late 2005 and will roll-out across EBS in 2006. Over time, this will increase our ability to understand and serve your needs better.

Involving Members

As a member owned organisation it is our firm belief that it is imperative to actively seek out and listen to the views of members. During 2005, we consulted over 3,000 members to gain a better understanding and insight into their needs.

The feedback has enabled us to develop member propositions in several areas - such as QuickSwitch and our balanced portfolio products. Your feedback also highlighted a need to be able to offer financial services relating to retirement planning. Your society will comprehensively respond to these identified needs in 2006.

Providing advice to members throughout their lifetime is the cornerstone of our member focus. As part of this, we are committed to improving member communications. We worked alongside the National Adult Literacy Agency to develop a Plain English Mark and have adopted this standard for a number of our brochures. Furthermore, our key member communications were approved by our member panel and received our 'Members Mark' of approval.

Finally, EBS is proud of its involvement in local communities. Last year, many members worked with their local offices' Community Investment Groups to support 756 initiatives nationwide. I would like to take this opportunity to thank those members for their time and commitment in this regard.

Going forward, I believe your society is well positioned to grow, prosper and meet your needs even better. That's certainly my focus and the focus of my team. I would like to take this opportunity to thank you for your continued support, your membership and for helping to make your society altogether better.

Tony Moroney

Tony Moroney
Director, The Membership Business

ebs management team

Management Board

Ted McGovern, BACC, FCA, FIB
CHIEF EXECUTIVE
ted.mcgovern@mail.ebs.ie

Emer Finnan, BComm, FCA
DIRECTOR, STRATEGIC DEVELOPMENT
& SECRETARY
emer.finnan@mail.ebs.ie

John Flanagan, MCIPD
DIRECTOR, OPERATIONS & I.T.
john.flanagan@mail.ebs.ie

Dave Keenan, BA, MBA, FIB, FCIPD
DIRECTOR, PEOPLE, COMMUNICATIONS & CHANGE
dave.keenan@mail.ebs.ie

Alan Merriman, BComm, FCA
FINANCE DIRECTOR
alan.merriman@mail.ebs.ie

Tony Moroney, MBA, FIB
DIRECTOR, MEMBERSHIP BUSINESS
tony.moroney@mail.ebs.ie

Management

Norman Burns, FIB
HEAD OF CREDIT
norman.burns@mail.ebs.ie

Fidelma Clarke, BA Hons (Econ), M Litt (Econ)
HEAD OF RISK
fidelma.clarke@mail.ebs.ie

Audrey Collins, ACA
HEAD OF REGULATORY COMPLIANCE
audrey.collins@mail.ebs.ie

Neil Copland, BA Hons, FIB
HEAD OF DIRECT BUSINESS
neil.copland@mail.ebs.ie

Dara Deering, BSc (Mgmt)
HEAD OF MORTGAGE BUSINESS
dara.deering@mail.ebs.ie

Enda Devine, FCCA, FIB
HEAD OF FINANCE
enda.devine@mail.ebs.ie

Tom Doherty, BSc
HEAD OF INFORMATION TECHNOLOGY
tom.doherty@mail.ebs.ie

Helen Dooley, LLB
HEAD OF LEGAL
helen.dooley@mail.ebs.ie

Jackie Gilroy, BComm, FCA
HEAD OF CAPITAL MARKETS & INVESTOR RELATIONS
jackie.gilroy@mail.ebs.ie

Brian Healy, BComm
HEAD OF COMMERCIAL BUSINESS
brian.healy@mail.ebs.ie

Kevin Johnson, MBA, FIB, FSII
HEAD OF INVESTMENTS & PROTECTION BUSINESS
kevin.johnson@mail.ebs.ie

Joe Kerrane, MITI
HEAD OF TAX
joe.kerrane@mail.ebs.ie

Sarah Loftus, BBS, FCA, FIB
HEAD OF EBS ASSET MANAGERS
sarah.loftus@mail.ebs.ie

Gerry Murray, BComm
GROUP TREASURER
gerry.murray@mail.ebs.ie

Brian Nugent, BAAF, ACA
HEAD OF INTERNAL AUDIT
brian.nugent@mail.ebs.ie

Owen Purcell, BComm, FIB
HEAD OF NEW CHANNEL DEVELOPMENT
owen.purcell@mail.ebs.ie

board of directors*

BRIAN A. JOYCE
BA, BComm, FCMA

Non-Executive Chairman *(Age 65)*

Appointed director in 1989. Brian has extensive experience in business and in the cooperative movement, and is a former Managing Director of Bord Bainne.

Principal other directorships:
Mater Private Hospital Ltd.,
Celtic Anglian Water (Ireland) Ltd.,
Clancourt Holdings Ltd.,
Kingspan Group plc.

TED MCGOVERN
B ACC, FCA, FIB

Chief Executive *(Age 52)*

Appointed Chief Executive in 2001.Ted has more than 20 years experience in banking, including 15 years with the Bank of Ireland Group in a number of senior positions. Prior to joining EBS, he was Chief Executive of ICS Building society.

Principal other directorships:
Summit Investment Funds plc.,
Summit Mutual Funds plc.

RONALD J. BOLGER
BA, FCA, AITI, F Inst D

Non-Executive Vice-Chairman and Senior Independent Director *(Age 58)*

Appointed director in 1999. Ron is a former Managing Partner of KPMG and has wide experience in the financial services industry. He served on the Taoiseach's IFSC Committee, 1987-2002.

Principal other directorships:
Ely Capital Ltd.,Irish Food Processors,
C & D Foods Ltd.,
Galway Clinic Doughiska Ltd.,
AerCap BV,
Summit Investment Funds plc.,
Summit Mutual Funds plc.

CATHAL MAGEE
BA (Mgt), MSc

Non-Executive Director *(Age 52)*

Appointed director in 2002. Cathal is Managing Director of Eircom Retail, the Eircom voice, data and internet communications business. His previous business experience includes periods in banking and manufacturing, mainly in the Human Resources area.

Principal other directorships:
Eircom plc.,
Eircom Employee Share Ownership Trust,
VHI,
Tetra Ireland Communications Ltd.

ALAN MERRIMAN
BComm, FCA

Executive Director *(Age 38)*

Appointed director in 2005. Alan joined the society in July 2005 from PricewaterhouseCoopers, where he was a partner. He has extensive experience in financial services having led PricewaterhouseCoopers Audit and Advisory Banking business and their Financial Services Regulatory Services practice. Alan has executive responsibility for finance, treasury, commercial lending, risk, and regulatory compliance.

Principal other directorships: None

MARK MORAN
BE, MBA

Non-Executive Director *(Age 43)*

Appointed director in 2002. Mark is the Chief Executive of the Mater Private Hospital. Before joining the Mater Private Hospital, Mark held senior positions in international pharmaceutical and financial services firms.

Principal other directorships:
Mater Private Hospital Ltd.,
Common Purpose (Ireland) Ltd,
Irish Blood Transfusion Service,
Mater Foundation.

** The board is fully satisfied that all non-executive directors are independent.*

MICHAEL MORONEY
PhD, M Litt, BA, HDE

Non-Executive Director *(Age 69)*

Appointed director in 1988. Michael served as General Treasurer of the Irish National Teachers Organisation for 19 years until his retirement in 1997.

Principal other directorship:
EBS Asset Managers Ltd.,
Juvent Limited.

TONY MORONEY
MBA, FIB

Executive Director *(Age 41)*

Appointed director in 2005, Tony has 24 years experience in financial services. Before joining EBS, he was Executive Director of ICS Building society and an executive with Bank of Ireland. Tony has executive responsibility for the EBS Membership Business which encompasses all the main businesses in EBS including products (mortgages, savings, investments and insurance), channels, sales and marketing. Tony is currently President of the Irish Mortgage Council and Vice President of the European Mortgage Federation for Ireland.

Principal other directorships:
Summit Investment Funds plc.,
Summit Mutual Funds plc.

BARBARA PATTON
MBS

Non-Executive Director *(Age 45)*

Appointed director in 2002. Barbara worked in the financial services industry for 13 years, firstly with AIB Capital Markets and then with Irish Permanent plc. Barbara is now an independent marketing consultant specialising in Services Marketing in the SME sector, and is also a part-time lecturer at the Michael Smurfit Graduate School of Business.

Principal other directorships:
Social Innovations Ireland,
Summit Investment Funds plc.,
Summit Mutual Funds plc.

YVONNE SCANNELL
PhD, LLD (h.c), Barrister

Non-Executive Director *(Age 57)*

Appointed director in 1995. Yvonne is Professor of Law at Trinity College Dublin and specialises in Environmental and Planning Law. She works with Arthur Cox as a consultant in planning and environmental law.

Principal other directorships:
Summit Investment Funds plc.,
Summit Mutual Funds plc.,
Tara Mines Ltd.,
Habitat for Humanity,
CIE.

ETHNA TINNEY
BA (Mod), LRAM

Non-Executive Director *(Age 51)*

Appointed director in 2000. Ethna is a producer with RTÉ lyric fm, the music and arts radio station, and has extensive experience in the field of classical music as an artist, teacher, producer and entrepreneur.

Principal other directorships: None

EMER FINNAN
BComm, FCA

Secretary *(Age 37)*

Appointed secretary to the Board in 2005, Emer has over 16 years experience in financial services. Prior to joining EBS Emer worked as a director with NCB Corporate Finance with responsibility for financial services and advised on the majority of the significant financial services transactions in Ireland over the last number of years. Prior to that Emer worked with ABN AMRO, Citibank and KPMG. Emer has executive responsibility for the strategic development of the society.

Principal other directorships:
EBS Asset Managers Ltd.,
RTÉ.

directors' report

The directors present to the members of EBS Building Society their report and the audited accounts for the year ended 31 December 2005.

Business Review

The Chairman's Review, Chief Executive's Review, Operating and Financial Review and the Membership Business Review on pages 2 to 15 contain a review of the business of the society and its subsidiaries during the year together with the plans for 2006.

Directors

The board consists of eleven directors, of whom three are full-time executives of the society and eight are non-executives. Directors' names and other details are provided on pages 18 to 19. The secretary to the board is Emer Finnan.

At the 2006 Annual General Meeting, three directors - Ronald J. Bolger, Mark Moran and Barbara Patton retire and are offering themselves for re-election, while two directors - Alan Merriman and Tony Moroney offer themselves for election for the first time.

Events since the year end

In our view there have been no events since the year end that have had a material effect on the position of the group or society.

Subsidiary Companies

The society's principal trading subsidiary is EBS Asset Managers Limited, which manages the Summit range of investment funds. The results of this company and other subsidiary companies have been incorporated into the group accounts.

Safety of Employees and Customers

The society's policy is to maintain a safe place and system of work. During the year the society has continued to promote a culture of health and safety amongst employees. Key initiatives in 2005 included: new safety equipment to support disabled employees, ongoing business continuity management, a review of buildings' security, workstation assessment, the incorporation of health and safety training in the employee orientation programme and an information security awareness campaign.

Corporate Governance

Role of the Board

The board is responsible to the members and other stakeholders for the overall governance and performance of EBS. In discharging this responsibility, its role is to decide on the strategic direction of the society, set values and standards and review the effectiveness of management in running the business and achieving the goals set by the board.

Board Meetings

The board meets on a scheduled basis once a month, but additional meetings are held at other times, as required. Written reports, containing a review of business activities, risks and future prospects, are circulated prior to board meetings. Members of senior management attend, where necessary, for discussions on their areas of responsibility. A full range of business and strategic issues are considered by the directors at these meetings, and directors are expected to question, seek additional information, raise any issues that are of concern to them and make decisions accordingly.

Matters Reserved for the Board

The day to day responsibility for the society's business rests with management, however, strategic issues and major policy changes require a board decision. So also do significant capital expenditure projects and very large credits. A detailed schedule of Matters Reserved for the Board has been prepared, showing clearly what decisions require board involvement.

Board Committees

The board has established six permanent committees to share detailed work and to consider certain issues and functions in detail. In addition, ad hoc committees are set up from time to time, as required. Each committee reports back and advises the board on its decisions.

The membership of all committees is reviewed from time to time, the last such review took place in September 2005. The Terms of Reference of all committees are regularly reviewed.

One of the permanent committees, the Board Credit Approval Committee, meets as required to consider large credits. The key responsibilities of each committee is shown below, while the full Terms of Reference of these committees may be downloaded from the society's website on www.ebs.ie (follow the link under the Corporate Governance section in About Us).

Audit & Compliance Committee

This committee is responsible for monitoring the integrity of the financial statements and internal control systems and for reviewing the effectiveness of the framework for managing regulatory compliance. The committee also assesses the effectiveness of the internal audit and regulatory compliance functions, as well as the independence and objectivity of the external auditors. The committee makes recommendations regarding the appointment as well as the remuneration and terms of engagement of the external auditors. It also makes recommendations regarding the provision of non-audit services by the external auditors. The committee meets at least four times a year.

Risk Committee

The Board Risk Committee is responsible for identifying, evaluating and monitoring significant corporate risks and opportunities associated with the achievement of EBS' strategic goals and objectives. The committee makes recommendations to manage material risks through prevention, elimination, mitigation, insurance or a combination of these options. It also recommends enhancements to the reporting of risk management to the board where appropriate. The committee assesses the quality, adequacy, resources, scope and nature of the work of the Credit & Operational Risk function in particular, and risk management framework in general, of EBS. The committee meets at least three times a year.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the executive directors and other senior management and also deals with senior management succession issues. The committee meets at least three times a year.

Board Committee Membership at 28 February 2006

	Credit Approval	Audit & Compliance	Risk	Remuneration	Nominations	Capital Transactions
Ronald J. Bolger	•	• (chair)		•		•
Brian A. Joyce	• (chair)		• (chair)	• (chair)	•	• (chair)
Cathal Magee			•	•		
Ted McGovern	•		•		•	•
Alan Merriman	•		•			•
Mark Moran		•	•	•	•	
Michael Moroney	•				•	
Tony Moroney			•			
Barbara Patton	•	•				
Yvonne Scannell	•			•	• (chair)	
Ethna Tinney		•			•	

Note: In addition to the membership shown above, executive directors and other members of senior management attend board committee meetings, as required.

Nominations Committee

The Nominations Committee is responsible for reviewing the size, structure and composition of the board. In identifying new non-executive directors, a combination of external search consultancy and open advertising has been used. The Nominations Committee acts as the interview board for such appointments, submitting its recommendations to the board. The committee also oversees the process for evaluating the performance of the board and individual directors. The committee meets at least twice a year.

Performance Evaluation of the Board and Directors

An evaluation of board effectiveness and the performance of individual directors are carried out on a regular basis. This exercise is facilitated by an external consultant, whose findings are presented to the board, for consideration. Arising from this, follow-up actions are agreed, where necessary. The external consultant also reports to the chairman on the assessed performance of each director, with the report on the performance of the chairman being presented to the vice-chairman.

Capital Transactions Committee

In 2005 a Capital Transactions Committee was established to review documentation with respect to major capital transactions. Such major transactions include the raising of capital and renewal of programmes such as our Euro Medium Term Note (EMTN) debt securities programme.

Risk Management

The directors are responsible for the effective management of risks and opportunities and for the system of internal controls in the society and its subsidiaries. Risk is defined as failure to maximise opportunities or capitalise on corporate strengths or failure to foresee or manage events which result in unnecessary material financial loss or damage to the society's reputation. EBS operates a continuous risk management process which identifies and evaluates the key risks facing the society and its subsidiaries. This process includes an assessment of the effectiveness of internal control, and was in place for the full year under review up to the date of approval of the accounts. It is regularly reviewed by the board and management and complies with The Combined Code on Corporate Governance, July 2003.

The primary aim of the risk process is to ensure that EBS achieves the optimal risk/reward return on any investment of people, time and resources. The system of internal control is designed to manage, rather than eliminate risk through a process of identification, measurement, monitoring and reporting, which provides reasonable, but not absolute, assurance against material misstatement or loss.

The Board Risk Committee supports the board in identifying potential risks to the strategic objectives of the society and evaluating the risk management policies and practices which are in place to reduce the likelihood of the risk occurring and/or minimise the impact in the case that the risk event did occur. The committee met on three occasions in 2005.

The Board Audit & Compliance Committee supports the board in reviewing, inter alia, existing internal control mechanisms to assess whether they are performing effectively. Internal Audit and Regulatory Compliance report separately and independently to the Board Audit & Compliance Committee. The Board Audit & Compliance Committee met on 6 occasions in 2005.

There are management systems and procedures in place in the society to identify, measure, manage and report on material risks, key elements of which are:

- There is a clearly defined organisation structure which is regularly updated.
- Strategies, goals, objectives, authority limits and reporting mechanisms are clearly defined and performance is monitored.
- The society's risk appetite is evaluated and risk exposure monitored by the Management Risk Board (made up of senior management), and its underlying risk committees comprising the Asset & Liability Committee, the Capital Committee, the Credit Risk Committee, the Operations Management Committee and the Compliance Committee. Each of these committees is responsible for identifying actions to support robust risk management in line with the organisation's risk appetite and monitoring their progress.
- The Asset & Liability Committee was established to evaluate the society's exposure to market risk, namely, interest rate risk, liquidity risk, funding risk and foreign exchange risk. It is also responsible for monitoring capital ratios, including projections, and agreeing the appropriate management implementation of the capital policy.

- The Capital Committee recommends the appropriate capital policy for EBS to the Management Risk Board including agreement on the appropriate level and composition of capital which should be held. It is also responsible for approving the allocation of the cost of capital across each key business line and the appropriate return on capital, given the society's risk appetite. The committee also monitors the return on capital and promotes the development of risk adjusted return on capital (RAROC) capabilities and use.
- The Credit Risk Committee reviews and recommends appropriate credit risk management structures and policies which reflect the credit risk appetite of the organisation. It is also responsible for monitoring the performance of the loan book, external economic and other developments and new business credit risk trends. The committee is charged with ensuring that an appropriate level of credit risk insurance is being maintained and is responsible for reviewing and approving provision levels for bad and doubtful debts.
- The Operations Management Committee was established to drive understanding of business operation and process risks and improvement initiatives across the organisation. It is also responsible for reviewing operations management tools and techniques against best practice and making recommendations for changes in processes to the Management Risk Board where appropriate. The committee is responsible for evaluating the organisation's appetite for operational risk and ensuring that it is well communicated and understood.
- The Regulatory Compliance Committee ensures that there is an appropriate framework in place for securing regulatory compliance across all areas of the business. It is also responsible for evaluating any compliance reviews or assessments undertaken by the Regulatory Compliance function, external audit or other third parties and for ensuring appropriate action plans are put in place where compliance risk gaps are identified.
- There are three independent review functions - Risk, Compliance and Internal Audit - each of which operates separately to and independently of the general business operation.
- The Risk function supports each area of the organisation in identifying, measuring, managing and monitoring the risk in their area. It also develops and implements credit risk models and operational risk processes. It facilitates the Credit Risk Committee, Capital Committee and Operations Management Committee in EBS. It reports on risk management developments to the board through the Board Risk Committee.
- The Regulatory Compliance function supports each area of the business in identifying their responsibilities in relation to prevailing and pending laws and regulations. This is reviewed and monitored by the Regulatory Compliance Committee and reports to the Board Audit & Compliance Committee on compliance with these requirements.
- Internal Audit provides independent assurance in relation to the effectiveness of the system of internal control to the board through the Board Audit & Compliance Committee.
- Detailed risk control self assessments of the risks associated with business targets and responsibilities are undertaken by business and support units and by project teams on an ongoing basis. The output of these assessments are agreed by the appropriate executive director and evaluated by the Operations Management Committee.
- In line with economic and market developments and business changes, risk management is continuing to evolve. In particular at present, significant investment and progress is being made in preparation for Basel II, the new Capital Requirements Directive.

Contracts

There have been no contracts or arrangements with EBS or its subsidiaries in which a director of EBS was materially interested and which were significant in relation to the society's business.

On behalf of the board

Brian A. Joyce	Chairman
Ronald J. Bolger	Vice Chairman

28 February 2006

report of the remuneration committee

In 2005 the Remuneration Committee was made up of the following non-executive directors: Brian Joyce (Chairman), Ron Bolger and Cathal Magee. The Chief Executive and the Director - People, Communication and Change (who is secretary to the committee) normally attend, except when their own performance reviews and remuneration are being discussed.

The committee, which has at least three scheduled meetings a year, considers all aspects of remuneration paid to senior executives and makes recommendations to the board on pay policy and succession planning. It also approves, on behalf of the board, the specific remuneration of all executive directors and members of the Management Board.

It is the policy of the committee to engage external independent consultants to advise the committee on appropriate remuneration policy for senior executives. In 2005 the committee was advised by independent consultants, Towers Perrin.

Remuneration Policy

The society's remuneration policy is designed to ensure that remuneration packages for executive directors are competitive in terms of the market, can attract, retain and motivate executive directors, are aligned to EBS culture and values and reflect good practice. The policy seeks to reward executive directors for both their individual and collective contributions to the society's performance.

Remuneration Package for Executive Directors

The remuneration package for executive directors comprises the following elements:

- Base Salary - this is paid monthly and set at a level to recognise the role and responsibilities carried out by the individual. Base salary levels are reviewed annually by the Remuneration Committee.
- A Performance Related Annual Bonus Plan - linked to the achievement of annual business objectives. The overall level of bonus pool awarded is decided by the Remuneration Committee and sub-allocations are then determined by the performance of the individual against predetermined key result areas.
- A Medium Term Incentive Plan (MTI) - to encourage the achievement of longer term objectives and to aid the retention of key personnel. This bonus is awarded annually but is only payable after a three year period. It is based on achievement of medium term objectives consistent with the society's approved Strategic Plan.
- A Contributory Defined Benefit Pension Plan - the executives participate in the senior management plan which provides for an employee contribution of 5% of pensionable salary. The maximum accrual is 40/60ths and the normal retirement age is 60. Individual executive directors' pension benefits are set out in the table overleaf.

There are no service contracts exceeding a period of one year in place for any executive director or with provisions for predetermined compensation on termination which exceeds one year's total remuneration.

2005 Executive Director Remuneration

The remuneration of the executive directors is listed below:

	Salary		Annual Bonus		Medium Term Incentive Scheme		Benefits		Total	
	2005 €000	2004 €000	**2005 €000**	2004 €000	**2005 €000**	2004 €000	**2005 €000**	2004 €000	**2005 €000**	2004 €000
Ted McGovern	392.5	336.2	119.7	121.4	102.0	110.0	40.4	33.6	654.6	601.2
John Cullen[1]	109.8	248.3	50.0	62.5	-	60.0	14.9	22.1	174.7	392.9
Alan Merriman[2]	214.3	-	-	-	-	-	17.8	-	232.1	-
Tony Moroney[3]	105.0	-	-	-	-	-	13.0	-	118.0	-
Joe Ryan[4]	171.0	248.3	115.0	71.0	55.0	60.0	15.2	17.9	356.2	397.2
Total	**992.6**	**832.8**	**284.7**	**254.9**	**157.0**	**230.0**	**101.3**	**73.6**	**1,535.6**	**1,391.3**

1. John Cullen retired on 31 May 2005
2. Alan Merriman was appointed Finance Director on 4 July 2005
3. Tony Moroney was appointed as Director, Membership Business on 4 July 2005
4. Joe Ryan retired on 31 August 2005

The annual bonus amounts disclosed are those paid in 2005. The annual bonus is currently based on a 31 March performance cycle and is typically paid in July each year.

The medium term incentive plan amounts disclosed above are those awarded for that year based on cumulative performance to 31 March. The cash payment is made on a three year cycle. The 2005 awards are due for payment in 2007. Joe Ryan received his accrued medium term incentive bonus on retirement.

Benefits provided to the executive directors were the provision of a car or car allowances, contribution to health insurance and club subscriptions. Executive directors do not receive any additional reward for acting as directors.

The executive directors are members of the EBS Pension Plan for senior managers with a retirement age of 60. An employee contribution rate of 5% of pensionable salary applies. Normal contributions made by the society in respect of the executive directors totalled €364,000 in 2005 (€314,500 in 2004).

The executive directors' pension benefits under the defined benefit pension scheme in which they are members are as follows:

	Total accrued pension		Increase in accrued pension not attributable to inflation		Transfer value of the increase in accrued pension	
	(a) 2005 €000	(a) 2004 €000	**(b) 2005 €000**	(b) 2004 €000	**(c) 2005 €000**	(c) 2004 €000
Ted McGovern	158.1	107.2	48.2	18.6	713.5	350.5
John Cullen	200.0	153.0	45.3	7.8	1,024.7	164.4
Alan Merriman	6.7	N/A	6.7	N/A	38.7	N/A
Tony Moroney	17.9	N/A	3.5	N/A	24.1	N/A
Joe Ryan	172.7	156.4	13.5	11.4	291.7	245.9
Total	**555.4**	**416.6**	**117.2**	**37.8**	**2,092.7**	**760.8**

John Cullen's accrued pension benefit was increased from €164,696 to €200,000 as part of his retirement arrangements.

Column (a) represents the pension which the directors would have been entitled to receive, on reaching pensionable age, had they left the society at the end of the financial year.

Column (b) is the increase in the amount shown in column (a) over and above the increase that would be payable on account of inflation.

Column (c) represents the transfer values of the increases in accrued benefits during 2005. These transfer values do not represent sums paid or due, but the amounts that the pension plan would transfer to another pension plan, in relation to the benefits accrued in 2005, in the event of the executive director leaving the society.

2005 Non-Executive Director Remuneration

The committee, after taking appropriate qualified advice, also recommends to the board the level of fees for non-executive directors to be proposed to members at the Annual General Meeting.

The remuneration of the non-executive directors is listed below:

	2005 €000	2004 €000
Brian A. Joyce (Chairman)	95.0	90.0
Ronald J. Bolger (Vice-Chairman)	70.0	66.0
Cathal Magee	40.0	38.0
Mark Moran	40.0	38.0
Michael Moroney (Chairman of EBS Asset Managers Ltd.)	54.0	51.0
Barbara Patton	40.0	38.0
Yvonne Scannell	40.0	38.0
Ethna Tinney	40.0	38.0
Total	**419.0**	**397.0**

statement of directors' responsibilities

The Building Societies Act, 1989 requires the directors to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the society and the group and of the income and expenditure and cash flow statement of the society and the group for that period. In preparing these 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 a going-concern basis unless it is inappropriate to presume that the society will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the society and of the group and which enables them to ensure that the financial statements comply with the Building Societies Act, 1989. They are also responsible for safeguarding the assets of the society and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

independent auditors' report
to the members of ebs building society

We have audited the group and society financial statements (the 'financial statements') of EBS Building Society for the year ended 31 December 2005 which comprise the group and society's Income Statements, Balance Sheets, Cash Flow Statements and Statements of Recognised Income and Expense and the related notes 1 to 38. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the society's members, as a body, in accordance with section 88(1) of the Building Societies Act, 1989. Our audit work has been undertaken so that we might state to the society'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 society and the society'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 the preparation of the financial statements in accordance with applicable Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Building Societies Act, 1989. We also report to you our opinion as to: whether proper accounting records have been kept by the society; whether proper returns adequate for our audit have been received from branches and agents of the society not visited by us; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the society's financial statements are in agreement with the accounting records and returns.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and other transactions is not disclosed and, where practicable, include such information in our report.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Review, the Chief Executive Review, the Operating and Financial Review and the Membership Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and society'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 group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the group as at 31 December 2005 and of its income and expenditure for the year then ended;
- the society financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union and as applied in accordance with the Building Societies Act, 1989, of the state of affairs of the society as at 31 December 2005 and of its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Building Societies Act, 1989.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper accounting records have been kept by the society and proper returns adequate for the purposes of our audit have been received from branches and agents of the society not visited by us. The society financial statements are in agreement with the accounting records and returns.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

Separate Opinion in relation to IFRS

As explained in note 37 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRS, of the state of the group's affairs as at 31 December 2005 and of its income and expenditure for the year then ended.

Ernst & Young
Registered Auditors
Dublin

28 February 2006

accounts

Consolidated Income Statement
for the year ended 31 December 2005

Society 2005 €m	Society 2004 €m		Note	Group 2005 €m	Group 2004 €m
121.7	112.6	Net interest income	3	119.9	110.7
12.5	10.4	Non interest income	4	16.0	12.9
134.2	**123.0**			**135.9**	**123.6**
3.0	2.8	Other operating income	5	7.6	6.5
137.2	**125.8**	**Total income**		**143.5**	**130.1**
(88.8)	(79.9)	Total operating expenses	6	(89.3)	(80.5)
48.4	**45.9**	**Income before impairment losses**		**54.2**	**49.6**
(0.4)	(0.2)	Impairment losses on loans and advances	13(b)	(0.4)	(0.2)
48.0	**45.7**	**Income before taxation**		**53.8**	**49.4**
(13.5)	(10.6)	Taxation	7	(15.1)	(11.8)
34.5	**35.1**	**Income after taxation**		**38.7**	**37.6**

The notes on pages 36 to 79 form part of these financial statements.

The financial position as at 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32 and IAS 39 which apply with effect from 1 January 2005. See basis of preparation in note 1.

Balance Sheet

at 31 December 2005

Society 2005 €m	Society 2004 €m		Note	Group 2005 €m	Group 2004 €m
		Assets			
253.9	307.5	Cash and balances with central banks	8	253.9	307.5
107.0	492.4	Central government bills and other eligible bills	9	107.0	492.4
35.3	–	Derivative financial instruments	32	35.3	–
2,183.0	–	Available-for-sale financial assets	10	2,183.0	–
–	1,183.7	Debt securities	11	–	1,183.7
1,388.3	1,048.1	Loans and advances to credit institutions	12	1,427.5	1,102.4
11,297.3	9,044.9	Loans and advances to customers	13	12,210.7	10,169.8
0.9	0.4	Shares in group undertakings	14	–	–
17.6	15.7	Intangible assets	15	17.6	15.7
–	–	Investment property	16	36.5	33.9
57.7	52.8	Property, plant and equipment	17	66.0	60.0
8.5	8.0	Deferred taxation asset	18	8.5	8.0
224.0	158.0	Other assets	19	210.3	143.0
15,573.5	**12,311.5**	**Total assets**		**16,556.3**	**13,516.4**
		Liabilities and Reserves			
3,367.6	2,625.7	Deposits by credit institutions	20	3,367.5	2,625.6
8,877.3	7,264.3	Customer accounts	21	8,752.0	7,264.3
41.2	–	Derivative financial instruments	32	41.2	–
2,416.2	1,667.1	Debt securities in issue	22	3,367.3	2,845.2
6.3	5.3	Current tax liabilities	23	6.3	5.5
3.7	2.6	Deferred taxation liabilities	24	18.6	16.4
202.3	142.9	Other liabilities	25	205.3	143.2
23.1	5.5	Retirement benefit liabilities	26	23.1	5.5
169.6	161.1	Subordinated liabilities	27	169.6	161.1
15,107.3	**11,874.5**			**15,950.9**	**13,066.8**
18.2	14.8	Revaluation reserve		18.2	14.8
0.6	–	Available-for-sale reserve		0.6	–
(2.6)	–	Cashflow hedge reserve		(2.6)	–
450.0	422.2	General reserve		466.9	434.8
–	–	Minority Interest	28	122.3	–
15,573.5	**12,311.5**	**Total liabilities and reserves**		**16,556.3**	**13,516.4**

Brian A. Joyce, Chairman
Ronald J. Bolger, Vice-Chairman
Ted McGovern, Chief Executive
Alan Merriman, Finance Director

28 February 2006

The notes on pages 36 to 79 form part of these financial statements.

The financial position as at 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32 and IAS 39 which apply with effect from 1 January 2005. See basis of preparation in note 1.

STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2005

	Revaluation Reserve €m	Available for Sale Reserve €m	Cashflow Hedge Reserve €m	General Reserve €m	Total €m
Group					
At 1 January 2004	11.0	–	–	404.6	415.6
Revaluation reserve	3.8	–	–	–	3.8
Income for year	–	–	–	37.6	37.6
Actuarial loss on retirement benefits	–	–	–	(7.4)	(7.4)
At 31 December 2004	14.8	–	–	434.8	449.6
Adoption of IAS 32 & IAS 39	–	0.8	1.7	7.8	10.3
Adjusted balance at 1 January 2005	14.8	0.8	1.7	442.6	459.9
Revaluation reserve	3.4	–	–	–	3.4
Available-for-sale reserve	–	(0.2)	–	–	(0.2)
Cash flow hedge reserve	–	–	(4.3)	–	(4.3)
Income for year	–	–	–	38.7	38.7
Actuarial loss on retirement benefits	–	–	–	(14.4)	(14.4)
At 31 December 2005	18.2	0.6	(2.6)	466.9	483.1

	Revaluation Reserve €m	Available for Sale Reserve €m	Cashflow Hedge Reserve €m	General Reserve €m	Total €m
Society					
At 1 January 2004	11.0	–	–	394.5	405.5
Revaluation reserve	3.8	–	–	–	3.8
Income for year	–	–	–	35.1	35.1
Actuarial loss on retirement benefits	–	–	–	(7.4)	(7.4)
At 31 December 2004	14.8	–	–	422.2	437.0
Adoption of IAS 32 & IAS 39	–	0.8	1.7	7.7	10.2
Adjusted balance at 1 January 2005	14.8	0.8	1.7	429.9	447.2
Revaluation reserve	3.4	–	–	–	3.4
Available-for-sale reserve	–	(0.2)	–	–	(0.2)
Cash flow hedge reserve	–	–	(4.3)	–	(4.3)
Income for year	–	–	–	34.5	34.5
Actuarial loss on retirement benefits	–	–	–	(14.4)	(14.4)
At 31 December 2005	18.2	0.6	(2.6)	450.0	466.2

The notes on pages 36 to 79 form part of these financial statements.

The financial position as at 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32 and IAS 39 which apply with effect from 1 January 2005. See basis of preparation in note 1.

Cash Flow Statement
for the year ended 31 December 2005

Society 2005 €m	Society 2004 €m		Note	Group 2005 €m	Group 2004 €m
		Cash flows from operating activities			
34.5	35.1	Profit for the period		38.7	37.6
		Adjustments for:			
3.0	3.2	Depreciation		3.7	3.4
5.6	4.9	Amortisation		5.6	4.9
(0.6)	(0.8)	Reversal of property impairment losses		(0.6)	(0.8)
–	–	Reversal of investment property gains	5	(2.6)	(1.8)
13.5	10.6	Income tax expense	7	15.1	11.8
56.0	**53.0**	**Operating profit before changes in working capital and provisions**		**59.9**	**55.1**
75.2	(122.1)	Net decrease/(increase) in loans and advances to credit institutions		75.2	(122.1)
(2.6)	–	Net (increase) in mandatory reserve balance		(2.6)	–
(2,252.4)	(1,922.9)	Net (increase) in loans and advances to customers		(2,040.9)	(1,688.2)
(66.0)	(21.3)	Net (increase) in other assets		(67.3)	(22.6)
741.9	399.1	Net increase in deposits from credit institutions		741.9	399.6
1,613.0	1,397.5	Net increase in amounts due to customers		1,487.7	1,397.5
59.4	32.0	Increase in other liabilities		62.1	31.5
15.3	(4.3)	Other non cash movements		15.4	(4.3)
239.8	**(189.0)**	**Cash generated from operations**		**331.4**	**46.5**
(5.8)	(5.8)	Bank levy paid	7	(5.8)	(5.8)
(6.1)	(11.1)	Income taxes paid		(6.8)	(11.4)
227.9	**(205.9)**	**Net cash from operating activities**		**318.8**	**29.3**
		Cash flows from investing activities			
(4.3)	(4.4)	Purchase of property, plant and equipment	17	(6.1)	(4.4)
(7.6)	(4.9)	Purchase of intangible assets	15	(7.6)	(4.9)
(0.5)	–	Investment in subsidiaries		–	–
(1,095.5)	(574.0)	Net movement on short term securities		(1,095.5)	(574.0)
(1,107.9)	**(583.3)**	**Net cash from investing activities**		**(1,109.2)**	**(583.3)**
		Cash flows from financing activities			
749.1	663.6	Net increase in debt securities in issue		522.1	449.9
8.5	59.7	Increase in subordinated debt		8.5	59.7
–	–	Net investment by minority interests	28	122.3	–
757.6	**723.3**	**Net cash from financing activities**		**652.9**	**509.6**
(122.4)	**(65.9)**	**Net decrease in cash and cash equivalents**		**(137.5)**	**(44.4)**
2,160.0	2,225.9	Cash and cash equivalents at 1 January		2,214.3	2,258.7
2,037.6	**2,160.0**	**Cash and cash equivalents at 31 December**	8(b)	**2,076.8**	**2,214.3**

The notes on pages 36 to 79 form part of these financial statements.

The financial position as at 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32 and IAS 39 which apply with effect from 1 January 2005. See basis of preparation in note 1.

1 Accounting Policies

(a) *Statement of compliance and basis of preparation*

The group consists of EBS Building Society (the "society"), a building society registered and domiciled in the Republic of Ireland, and its subsidiaries. The financial statements have been drawn up in accordance with the Building Societies Act, 1989 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 which implemented the EU Directive on annual accounts of financial institutions.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related International Accounting Standards Board ("IASB") interpretations adopted by the IASB. These are the group's first consolidated financial statements prepared under IFRS as adopted by the European Union and IFRS 1: First time adoption of International Financial Reporting Standards ("IFRS 1") has been applied to the transition adjustments at 1 January 2004.

(b) *Basis of preparation*

The financial statements have been prepared on a historical cost basis, except for freehold properties, investment properties, available-for-sale investments, financial assets and financial liabilities held at fair value through the Income Statement and derivative contracts all of which are measured at fair value. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged. The financial statements are prepared in euro ("€").

The preparation of financial statements in conformity with IFRS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS Balance Sheet at 1 January 2004 for the purposes of the transition to IFRS with the exception of accounting policies (e) to (h) and (m) to the extent that these are as a result of the application of both IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. Accounting policies arising as a result of the application of IAS 32 and IAS 39 are reflected in the year ended 31 December 2005 only.

Early adoption of IAS 19
EBS Building Society resolved during the year to early adopt IAS 19 (revised) 'Employee Benefits', which is mandatory for financial periods beginning on or after 1 January 2006. Comparative figures have been amended as required. Accordingly actuarial gains and losses arising from changes in actuarial assumption or from experience adjustments are charged or credited through the Statement of Recognised Income and Expense.

1 Accounting Policies (continued)

(c) Critical accounting policies

In preparing these accounts, management are required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. Full details of the significant accounting policies are set out below.

The group believes that of its significant accounting policies and estimation techniques, the following may involve a higher degree of judgement and complexity:

(i) Loan losses

The group lends money to its members by means of secured residential and commercial lending. Where there is a risk that the group will not receive full repayment of the amount advanced, provisions are made in the financial statements to reduce the carrying value of loans and advances to the amount expected to be recovered.

The estimation of credit losses is inherently uncertain and depends on many factors such as general economic conditions, collateral values, cash flows, structural changes within industries and other external factors. These assessments are made using a combination of specific reviews, statistical techniques based on previous loan loss experience and management's judgement. Certain aspects of this process may require estimation, such as the amounts and timing of future cash flows and the assessment of the realisable value of collateral held.

The group considers that the provisions for loan impairments at 31 December 2005 were adequate based on information available at that time. However, actual losses may differ as a result of changes in collateral values, the timing and amounts of cash flows or other economic events.

(ii) Pensions

The group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial value of the assets and liabilities of the scheme are calculated. This involves modelling their future growth and requires management to make assumptions as to price inflation, dividend growth, salary and pension increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used.

(iii) Effective Interest Rate

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

1 Accounting Policies (continued)

(c) Critical accounting policies (continued)

In calculating the effective interest rate, the group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The expected life of a residential mortgage loan is 6 years, a commercial mortgage loan is 5 years and a development finance loan is 2 years. The effective interest rate calculation takes into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate. All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(d) Basis of consolidation

The group financial statements comprise the accounts of EBS Building Society and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent.

(i) Subsidiaries and special purpose entities
Subsidiaries are entities controlled by the society. Control exists when the society has the power directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of special purpose entities are also included in the consolidated financial statements when the substance of the relationship between the entity and the group indicates that the entity is controlled by the group.

(ii) Transactions eliminated on consolidation
Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(e) Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting under IFRS are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of derivative financial instruments is the estimated amount that the group would receive or pay to terminate the instrument at the balance sheet date. Interest rate swaps are valued by calculating the net present value of the cashflows over the life of the swap, cross currency interest rate swaps are calculated using the same method with an additional foreign exchange element which is the difference between current and contract exchange rates.

1 Accounting Policies (continued)

(e) *Derivative financial instruments (continued)*

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

(f) Hedging

The group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised using the effective interest rate method to the Income Statement over the period to maturity.

(ii) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised). For other cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled to the Income Statement in the periods in which the hedged item will affect the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

1 Accounting Policies (continued)

(g) *Financial assets*

(i) *Classification*

The group classifies its financial assets in the following categories: financial assets at fair value through the Income Statement; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

- *Financial assets at fair value through the Income Statement*
  This category has two sub-categories: financial assets held for trading, and those designated at fair value through the Income Statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they meet the requirements to be designated as hedges.

- *Loans and receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

- *Available-for-sale financial assets*
  Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(ii) Recognition of financial assets

Purchases and sales of financial assets at fair value through the Income Statement, held-to-maturity and available-for-sale are recognised on settlement date – this is the date on which the asset is delivered to or by the group. Loans and receivables are recognised when cash is advanced to borrowers. Financial assets are initially recognised at cost being the fair value of the consideration given plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

(iii) Measurement of financial assets

Available-for-sale financial assets and financial assets at fair value through the Income Statement are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through the Income Statement' category are recognised in the Income Statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity as a separate component therein, until the financial asset is derecognised, collected or otherwise disposed of or until the asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Income Statement. Interest calculated using the effective interest rate method is recognised in the Income Statement.

1 Accounting Policies (continued)

(g) *Financial assets (continued)*

(iii) Measurement of financial assets (continued)

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

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses are recognised in the Income Statement when the investments are derecognised or impaired as well as through the amortisation process.

(h) *Financial liabilities*

Financial liabilities are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method. The portion of the financial liability that is designated as a hedged item within a fair value hedge is accounted for at fair value and movements go through the Income Statement.

(i) *Investment properties*

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost including transaction costs when acquired.

Subsequent to initial recognition investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Any gain or loss arising from a change in fair value is recognised in the Income Statement.

(j) *Property, plant and equipment*

Freehold land and buildings are initially recognised at cost, and subsequently held at fair value. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the Balance Sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, is stated at cost less accumulated depreciation.

Increases in the carrying amount arising on the revaluation of freehold land and buildings are credited to revaluation reserves. Decreases that offset previous revaluations and increases on the same asset are charged against property revaluation reserve; all other decreases are charged to the Income Statement.

1 Accounting Policies (continued)

(j) *Property, plant and equipment (continued)*

Freehold and long leasehold land and buildings are maintained in a state of good repair and the directors consider the residual values based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material. Accordingly, land and buildings are not depreciated.

Depreciation is calculated on the straight-line method to write down the carrying value of assets to their residual values over their estimated useful lives as follows:

Land and buildings	Not depreciated
Office equipment and motor vehicles	10% - 33% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

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

(k) *Operating lease payments*

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Income Statement as an integral part of the total lease expense.

All payments under operating lease contracts are charged to operating expenses in the year in which the expenditure is incurred.

(l) *Taxation*

Current tax on profits is recognised as an expense based on the applicable tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the liability method on taxable temporary differences at the balance sheet date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The following temporary differences are not recognised: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax relating to items recognised directly in equity is recognised in equity not in the Income Statement.

1 Accounting Policies (continued)

(m) *Impairment of financial assets*

(i) Assets carried at amortised cost

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment costs are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- adverse changes in the payment status of the group's borrowers;
- national or local economic conditions that correlate with defaults on the assets of the group.

The group first assesses whether objective evidence of impairments exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

1 Accounting Policies (continued)

(m) *Impairment of financial assets (continued)*

(i) Assets carried at amortised cost (continued)

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

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement.

(ii) Assets carried at fair value

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement) is removed from equity and recognised in the Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

(n) *Employee benefits*

The group operates a number of defined benefit plans, all of which require contributions to be made to separately administered funds. The group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit actuarial valuation method.

1 Accounting Policies (continued)

(n) *Employee benefits (continued)*

Actuarial gains and losses arising from changes in actuarial assumptions or from experience adjustments are charged or credited to the Income Statement over the employees' expected average remaining working lives.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Income Statement.

(o) *Provisions*

A provision is recognised in the Balance Sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(p) *Interest income and expense*

Interest income and expense are recognised in the Income Statement for all instruments measured at amortised cost using the effective interest rate method.

(q) *Fees and commission income*

Fees and commission which represents a return for services provided or risk borne are credited to income, over the period during which the service is performed or the risk is borne, as appropriate.

(r) *Rental income*

Rental income from investment property is recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of their total rental income.

(s) *Intangible assets - computer software*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include costs of materials and services used or consumed in generating the intangible asset and costs of employee benefits arising from the generation of the intangible asset.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

In addition to the capitalisation of internally generated computer software, purchased software that does not form an integral part of the related hardware is also capitalised and amortised using the straight-line method over their useful lives, not exceeding a period of 5 years. Computer software that does form an integral part of the related hardware is capitalised as office equipment in other tangible fixed assets.

1 Accounting Policies (continued)

(t) *Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including; cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

(u) *Foreign currency transactions*

The functional and presentation currency of the group and its subsidiaries is euro.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the exchange rate ruling at the date the fair value was determined.

(v) *New standards and interpretations not applied*

During the year, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of standards and interpretations with an effective date after the date of these financial statements including:

International Accounting Standards (IAS / IFRS)		**Effective date**
Financial Instruments: Disclosures	IFRS 7	1-Jan-07
Amendment – Presentation of Financial Statements: Capital Disclosures	IAS 1	1-Jan-07
Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	IAS 19	1-Jan-06
Fair Value Option	IAS 39	1-Jan-06
Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	IAS 39	1-Jan-06
Cash Flow Hedge Accounting	IAS 39	1-Jan-06
Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	IAS 39	1-Jan-06
International Financial Reporting Interpretations Committee (IFRIC)		
Determining whether an arrangement contains a lease	IFRIC 4	1-Jan-06

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial statements and its risk exposure in greater detail. There will be no effect on reported income or net assets.

In addition to the above, the IASB and IFRIC have issued IFRS 6 (together with a related amendment to IFRS 1) and IFRIC's 5 and 6. These standards will have no impact on the group.

2 Reporting By Business Segments And Geographical Location

All the group's activities are carried out exclusively in the financial services sector in the Republic of Ireland.

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
3	**Net Interest Income**				
	Interest income	451.9	372.1	454.0	373.7
	Interest expense	(330.2)	(259.5)	(334.1)	(263.0)
		121.7	112.6	119.9	110.7
	(a) Interest income				
	Loans and advances to credit institutions	35.3	52.0	37.3	53.6
	Loans and advances to customers	352.5	298.3	352.6	298.3
	Available-for-sale financial assets and debt securities	44.1	13.4	44.1	13.4
	Other interest receivable	20.0	8.4	20.0	8.4
		451.9	372.1	454.0	373.7
	(b) Interest expense				
	Subordinated liabilities and minority interests	(8.3)	(6.7)	(11.0)	(6.7)
	Debt securities in issue	(55.5)	(69.2)	(55.5)	(69.2)
	Other interest payable	(266.4)	(183.6)	(267.6)	(187.1)
		(330.2)	(259.5)	(334.1)	(263.0)

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
4	**Non Interest Income**				
	Fees and commissions receivable	15.2	15.5	22.2	21.3
	Fees and commissions payable	(2.7)	(5.1)	(6.2)	(8.4)
		12.5	10.4	16.0	12.9

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
5	**Other Operating Income**				
	Rental Income	1.7	1.2	3.8	3.2
	Investment property gains	–	–	2.6	1.8
	Other income	1.3	1.6	1.2	1.5
		3.0	2.8	7.6	6.5

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
6	**Total Operating Expenses**				
	Staff costs	42.6	31.5	42.8	31.9
	Other administrative expenses	37.6	40.3	37.2	40.3
	Depreciation & amortisation of intangibles	8.6	8.1	9.3	8.3
		88.8	79.9	89.3	80.5

Auditors' remuneration (including value added tax) in 2005 €0.3m (2004: €0.2m).
Details of directors' remuneration are given in the Report of the Remuneration Committee on page 24.

The average number of persons employed by the group in the financial year was 641 and is analysed into the following categories:

	2005	2004
Full time staff	617	586
Part time staff	24	43
	641	629

	Society		Group	
	2005	2004	**2005**	2004
	€m	€m	**€m**	€m
Staff costs comprise:				
Wages and salaries	35.3	26.9	35.5	27.3
Social welfare costs	3.5	2.9	3.5	2.9
Pension costs	3.8	1.7	3.8	1.7
	42.6	31.5	42.8	31.9

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
7	**Taxation**				
	The taxation charge for the year is as follows:				
	Corporation tax	7.2	5.9	7.7	6.2
	Deferred tax (note 18, 24)	0.5	(1.1)	1.6	(0.2)
	Bank levy	5.8	5.8	5.8	5.8
		13.5	10.6	15.1	11.8
	The deferred taxation charge arises from:				
	Capital allowances in excess of depreciation	0.1	0.1	0.6	0.6
	Revaluation of investment properties	–	–	0.7	0.4
	Other timing differences	0.4	(1.2)	0.3	(1.2)
		0.5	(1.1)	1.6	(0.2)

In 2003 the Irish Government introduced a levy based on the domestic deposit taking businesses of Irish Banks and Building Societies. The society's share of this levy is €5.8m per year for three years to 31 December 2005. The levy was not renewed in the Finance Bill 2006.

7 Taxation (continued)

The reconciliation of current tax on income at the standard Irish corporation tax rate to the group's and society's actual tax charge is analysed as follows:

	Society		Group	
	2005	2004	**2005**	2004
	€m	€m	**€m**	€m
Income before tax at 12.5% (2004: 12.5%)	6.0	5.7	6.7	6.2
Effects of:				
Capital allowances in excess of depreciation	(0.4)	(0.5)	(0.4)	(0.5)
Impairment losses	–	0.1	–	0.1
Prior period charge	1.1	–	1.1	–
Other timing differences	–	1.3	(0.6)	0.8
Addbacks and income not taxable at standard rates	0.5	(0.7)	0.9	(0.4)
Corporation tax	7.2	5.9	7.7	6.2
Deferred tax	0.5	(1.1)	1.6	(0.2)
Bank levy	5.8	5.8	5.8	5.8
Total tax	13.5	10.6	15.1	11.8

8(a) Cash and Balances with Central Banks

	2005	2004
	€m	€m
Group and Society		
Cash in hand	3.7	3.3
Balances with central banks other than mandatory reserve deposits	235.5	292.1
Included in cash and cash equivalents	239.2	295.4
Mandatory reserve deposits with central bank	14.7	12.1
Total cash and balances with central banks	253.9	307.5

Mandatory reserve deposits are not available for use in the group's day-to-day operations.

8(b) Cash and Cash Equivalents

For the purposes of the cashflow statement the cash and cash equivalents comprise the following:

	Society		Group	
	2005	2004	**2005**	2004
	€m	€m	**€m**	€m
Cash and balances with central banks	239.2	295.4	239.2	295.4
Central government and other eligible bills	107.0	440.5	107.0	440.5
Available-for-sale financial assets	350.0	–	350.0	–
Debt securities	–	498.1	–	498.1
Loans and advances to credit institutions	1,341.4	926.0	1,380.6	980.3
	2,037.6	2,160.0	2,076.8	2,214.3

		2005 €m	2004 €m
9	**Central Government Bills and Other Eligible Bills**		
	Group and Society		
	Central government bills	–	480.4
	Other eligible bills	107.0	12.0
	Total bills eligible for refinancing with a central bank	107.0	492.4
	Maturing within three months	107.0	440.5
	Maturing between three months and one year	–	–
	Maturing between one and five years	–	41.9
	Maturing between five and ten years	–	10.0
	Total listed securities	107.0	492.4
	Market value	107.0	492.4

		2005 €m	2004 €m
10	**Available-for-sale Financial Assets**		
	Group and Society		
	Central government bills - at fair value	83.3	–
	Debt securities - at fair value	2,099.7	–
		2,183.0	–
	Maturing within three months	350.0	–
	Maturing between three months and one year	370.6	–
	Maturing between one and five years	1,124.0	–
	Maturing between five and ten years	338.4	–
		2,183.0	–

		Fair Value €m	Gross Gains €m	Gross Loss €m	Net €m
10(a)	**Unrealised Gains/Losses not Recognised in Income Statement on Available-for-sale Assets**				
	Group and Society - 31 December 2005				
	Central government bills	83.3	–	(0.4)	(0.4)
	Debt securities	2,099.7	7.1	(6.0)	1.1
		2,183.0	7.1	(6.4)	0.7
	Group and Society - 1 January 2005				
	Central government bills	480.9	0.6	–	0.6
	Debt securities	1,185.7	2.1	(1.8)	0.3
		1,666.6	2.7	(1.8)	0.9

		2005 €m	2004 €m
11	**Debt Securities**		
	Group and Society		
	Notes and certificates of deposit - at amortised cost	–	1,183.7
	Maturing within three months	–	498.1
	Maturing between three months and one year	–	64.9
	Maturing between one and five years	–	550.8
	Maturing between five and ten years	–	69.9
		–	1,183.7

As a result of the conversion to IFRS some of these assets have been re-classified into available-for-sale financial assets in 2005.

		Society		Group	
		2005 €m	2004 €m	2005 €m	2004 €m
12	**Loans and Advances to Credit Institutions**				
	Repayable in less than three months	1,341.4	926.0	1,380.6	980.3
	Repayable in more than three months but less than one year	46.9	122.1	46.9	122.1
		1,388.3	1,048.1	1,427.5	1,102.4

At 31 December 2005, the group has €70.4m (2004: €80.4m) included in loans and advances to credit institutions which are not available for use by the group. These are held by the Emerald companies (note 13(c)).

		Society		Group	
		2005 €m	2004 €m	2005 €m	2004 €m
13(a)	**Loans and Advances to Customers**				
	Repayable on demand	4.6	–	4.6	–
	Repayable in less than three months	22.9	66.2	22.9	66.2
	Repayable in more than three months but less than one year	170.3	75.7	170.3	75.7
	Repayable in more than one but less than five years	310.8	255.6	310.8	255.6
	Repayable in more than five years	10,803.0	8,670.9	11,716.4	9,795.8
	Total loans and advances to customers before allowances	11,311.6	9,068.4	12,225.0	10.193.3
	Less provision for loan impairments	(14.3)	(23.5)	(14.3)	(23.5)
		11,297.3	9,044.9	12,210.7	10,169.8

Loans to directors are made in the ordinary course of business on commercial terms in accordance with established policy. At 31 December 2005 the aggregate amount outstanding in loans to current directors was €0.3m (2004: €0.9m).

		€m
13(b)	**Provision for Loan Impairments**	
	Group and Society	
	Movement in provision for loan impairments:	
	At 1 January 2004	(23.3)
	Amount charged to Income Statement	(0.2)
	At 31 December 2004	**(23.5)**
	Adoption of IAS 32 & IAS 39	9.6
	At 1 January 2005	(13.9)
	Amount charged to Income Statement	(0.4)
	At 31 December 2005	**(14.3)**

		2005 €m	2004 €m
13(c)	**Continuing Involvement in Assets that have been Transferred**		
	Society		
	Securitised assets - continued asset recognition in full:		
	Securitised assets	934.4	1,146.0
	Less: Non recourse funding	(914.3)	(1,124.9)
		20.1	21.1

The society issued the following limited recourse loan notes:

	Issue date	Amount €m
Emerald No.1	2000	495
Emerald No.2	2001	525
Emerald No.3	2003	750
Total		1,770

These loan notes have been assigned to Emerald Mortgages No.1 plc ("Emerald No.1"), to Emerald Mortgages No.2 plc ("Emerald No.2") and to Emerald Mortgages No.3 plc ("Emerald No.3") respectively (hereafter the three Emerald Mortgage plcs are referred to as "Emerald"). Each company is incorporated in Ireland. In each case the loan notes are secured in favour of the respective Emerald by deeds of charge on portfolios of residential loans and all cashflows from the portfolios are passed to the respective Emerald. The society's obligations in respect of payment of principal and interest under the loan notes is limited, save in certain circumstances, to amounts received by it on the portfolios of residential loans.

The society does not own directly or indirectly any of the share capital of Emerald or their parent company and has no right to participate in any residue in Emerald. The society has entered into an agreement to provide Emerald with administrative services in relation to the portfolios of residential loans for which it receives fee income.

Emerald funded the purchase of the loan notes by the issue of class A and class B floating rate notes ("notes"). Emerald entered into swap agreements with third party banks to hedge their interest rate exposure between interest payments receivable under the loan notes and their payment obligations under the notes.

The issue terms of the notes include provisions that neither Emerald nor the note holders have recourse to the society or its subsidiaries.

		2005 €m	2004 €m
14	**Shares in Group Undertakings**		
	Society		
	Principal subsidiary undertakings	0.9	0.4

Principal subsidiary undertakings:
All subsidiaries are 100% subsidiaries unless otherwise stated.

(i) The society holds 300,000 €1.27 ordinary shares in EBS Asset Managers Limited, incorporated in the Republic of Ireland. The company trades as an investment manager.

(ii) The society holds 2 €2 ordinary shares in Educational Finance Limited, incorporated in the Republic of Ireland. The company trades as an investment holding company.

(iii) Educational Finance Limited holds 2 €2 ordinary shares in EBS Property, incorporated in the Republic of Ireland. The company trades as a property investment company.

(iv) The society holds 2 €2 ordinary shares in Hinsona Limited, incorporated in the Republic of Ireland. The company trades as a property investment company.

(v) The society holds 2 €2 ordinary shares in Breezewalk Limited, incorporated in the Republic of Ireland. The company trades as a property investment company.

(vi) The society holds 375,000 €1.25 Class A shares in EBS Capital No. 1 S.A., a 75% owned subsidiary incorporated in Luxembourg. The company raised external capital for the group in 2005.

		2005 €m	2004 €m
15	**Intangible Assets**		
	Group and Society		
	Computer software (and development costs)		
	Cost		
	At 1 January	35.1	30.2
	Additions - internal development	6.7	4.3
	Additions - purchased	0.9	0.6
	Disposals	(0.4)	–
	At 31 December	42.3	35.1
	Amortisation		
	At 1 January	19.4	14.5
	Charge for year	5.6	4.9
	Disposals	(0.3)	–
	At 31 December	24.7	19.4
	Net book amounts		
	At 31 December	17.6	15.7

Computer software is amortised on a straight line basis over a period not exceeding five years.

		2005 €m	2004 €m
16	**Investment Property**		
	Group		
	At 1 January	33.9	32.1
	Revaluation	2.6	1.8
	At 31 December	36.5	33.9

The investment property valuation was performed by the directors by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. The rental income for 2005 was €2.0m (2004: €2.0m).

		2005			2004		
		Land and buildings €m	**Office equipment and motor vehicles €m**	**Total €m**	Land and buildings €m	Office equipment and motor vehicles €m	Total €m
17	**Property, Plant and Equipment**						
	Group						
	Cost or valuation						
	At 1 January	39.1	36.3	75.4	34.0	53.2	87.2
	Additions	–	6.1	6.1	–	4.4	4.4
	Disposals	–	(2.3)	(2.3)	–	(21.3)	(21.3)
	Revaluation surplus	4.0	–	4.0	4.3	–	4.3
	Reversal of impairments	0.6	–	0.6	0.8	–	0.8
	At 31 December	43.7	40.1	83.8	39.1	36.3	75.4
	Accumulated depreciation						
	At 1 January	–	15.4	15.4	–	33.0	33.0
	Charge for year	–	3.7	3.7	–	3.4	3.4
	Disposals	–	(1.3)	(1.3)	–	(21.0)	(21.0)
	At 31 December	–	17.8	17.8	–	15.4	15.4
	Net book amounts						
	At 31 December	43.7	22.3	66.0	39.1	20.9	60.0

		2005			2004		
			Office			Office	
		Land and buildings	equipment and motor vehicles	Total	Land and buildings	equipment and motor vehicles	Total
		€m	**€m**	**€m**	€m	€m	€m
17	**Property, Plant and Equipment (continued)**						
	Society						
	Cost or valuation						
	At 1 January	39.1	28.3	67.4	34.0	45.2	79.2
	Additions	–	4.3	4.3	–	4.4	4.4
	Disposals	–	(2.3)	(2.3)	–	(21.3)	(21.3)
	Revaluation surplus	4.0	–	4.0	4.3	–	4.3
	Reversal of impairments	0.6	–	0.6	0.8	–	0.8
	At 31 December	43.7	30.3	74.0	39.1	28.3	67.4
	Accumulated depreciation						
	At 1 January	–	14.6	14.6	–	32.4	32.4
	Charge for year	–	3.0	3.0	–	3.2	3.2
	Disposals	–	(1.3)	(1.3)	–	(21.0)	(21.0)
	At 31 December	–	16.3	16.3	–	14.6	14.6
	Net book amounts						
	At 31 December	43.7	14.0	57.7	39.1	13.7	52.8

Land and buildings to the value of €43.7m are occupied by the group (Society: €43.7m) for its own activities. The cost of land and buildings comprises freeholds of €35.9m (Society: €35.9m), long leaseholds of €7.8m (Society: €7.8m).

The disposal figure of €2.3m for 2005 includes €0.4m of group assets (Society: €0.4m) which are being eliminated from the cumulative cost and depreciation figures, as they are already fully depreciated.

Land and buildings were revalued as at 31 December 2005, by Brendan J. Walsh & Associates, as independent valuers. These assets were valued on the basis of market value in accordance with the provisions of the RICS/SCS Appraisal and Valuation Standards.

		€m
18	**Deferred Taxation Asset**	
	Group and Society	
	At 1 January 2004	5.7
	Amount charged to Income Statement	1.3
	Amount charged to reserves	1.0
	At 31 December 2004	**8.0**
	Adoption of IAS 32 & IAS 39	(1.2)
	At 1 January 2005	6.8
	Transfer to current taxation	(0.7)
	Amount charged to Income Statement	–
	Amount charged to reserves	2.4
	At 31 December 2005	**8.5**

	2005 €m	2004 €m
The amounts provided for deferred tax are as follows:		
Impairment provision	1.8	2.9
Retirement benefits	3.4	1.5
Other timing differences	3.3	3.6
	8.5	8.0

		Society		Group	
		2005 €m	2004 €m	**2005 €m**	2004 €m
19	**Other Assets**				
	Loans to subsidiary undertakings	55.1	56.3	–	–
	Deferred loan acquisition costs	57.5	47.4	57.5	47.4
	Interest accrued	55.0	30.6	55.0	30.6
	Other	56.4	23.7	97.8	65.0
		224.0	158.0	210.3	143.0

		Society		Group	
		2005 €m	2004 €m	**2005 €m**	2004 €m
20	**Deposits by Credit Institutions**				
	Repayable in less than three months	3,011.7	2,189.5	3,011.6	2,189.4
	Repayable in more than three months but less than one year	309.1	389.3	309.1	389.3
	Repayable in more than one year but less than five years	–	–	–	–
	Repayable in more than five years	46.8	46.9	46.8	46.9
		3,367.6	2,625.7	3,367.5	2,625.6

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
21	**Customer Accounts**				
	Repayable on demand	2,323.3	2,152.1	2,323.0	2,152.1
	Repayable in less than three months	3,646.0	2,854.0	3,646.0	2,854.0
	Repayable in more than three months but less than one year	1,096.2	750.4	1,096.2	750.4
	Repayable in more than one year but less than five years	1,359.5	991.1	1,359.5	991.1
	Repayable in more than five years	452.3	516.7	327.3	516.7
		8,877.3	7,264.3	8,752.0	7,264.3

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
22	**Debt Securities In Issue**				
	Repayable in less than three months	53.0	153.0	53.0	153.0
	Repayable in more than three months but less than one year	444.8	443.9	444.8	443.9
	Repayable in more than one year but less than five years	1,793.5	970.3	1,793.5	970.3
	Repayable in more than five years	124.9	99.9	124.9	99.9
	Securitised non-recourse funding (repayable in more than five years)	–	–	951.1	1,178.1
		2,416.2	1,667.1	3,367.3	2,845.2
	Details of bonds issued are as follows:				
	Medium Term Notes				
	EURO medium term notes	2,145.6	1,430.1	2,145.6	1,430.1
	GBP medium term notes	124.2	81.4	124.2	81.4
	USD medium term notes	92.4	66.1	92.4	66.1
	JPY medium term notes	54.0	89.5	54.0	89.5
		2,416.2	1,667.1	2,416.2	1,667.1
	Securitised funding				
	Emerald No. 1	–	–	207.3	257.4
	Emerald No. 2	–	–	244.7	313.6
	Emerald No. 3	–	–	499.1	607.1
		–	–	951.1	1,178.1
		2,416.2	1,667.1	3,367.3	2,845.2

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
23	**Current Tax Liabilities**				
	Corporation tax	1.0	1.1	1.0	1.3
	Other tax	5.3	4.2	5.3	4.2
		6.3	5.3	6.3	5.5

		Society	Group
		€m	€m
24	**Deferred Taxation Liability**		
	At 1 January	1.9	14.8
	Amount charged to Income Statement	0.2	1.1
	Amount charged to reserves	0.5	0.5
	At 31 December 2004	**2.6**	**16.4**
	Adoption of IAS 32 & IAS 39	0.4	0.4
	At 1 January 2005	3.0	16.8
	Amount charged to Income Statement	0.5	1.6
	Amount charged to reserves	0.2	0.2
	At 31 December 2005	**3.7**	**18.6**

	Society		Group	
	2005	2004	**2005**	2004
	€m	€m	**€m**	€m
The amounts provided for deferred tax are as follows:				
Capital allowances in excess of depreciation	0.7	0.6	10.5	10.0
Revaluation of properties	2.6	2.0	2.6	2.0
Revaluation of investment properties	–	–	5.1	4.4
Other timing differences	0.4	–	0.4	–
	3.7	2.6	18.6	16.4

		Society		Group	
		2005	2004	**2005**	2004
		€m	€m	**€m**	€m
25	**Other Liabilities**				
	Interest accrued	175.1	123.0	175.1	123.0
	Other accruals and deferred income	27.2	19.9	30.2	20.2
		202.3	142.9	205.3	143.2

26 **Pensions**

Group and Society

Retirement Benefit Liabilities

The group operates a number of defined benefit pension schemes.
The assets of the schemes are held separately from those of the group.

Defined Benefit Scheme:

The amounts recognised in the Balance Sheet are determined as follows:

	2005	2004
	€m	€m
Present value of pension obligations	(120.0)	(85.7)
Fair value of plan assets	96.9	80.2
Retirement benefit liabilities	(23.1)	(5.5)

Movement in the liability recognised in the Balance Sheet:

	2005	2004
	€m	€m
At 1 January	(5.5)	(2.4)
Current service costs	(3.8)	(2.8)
Past service costs	(1.1)	–
Interest cost	(4.3)	(3.7)
Future expected return on plan assets	5.4	4.8
Contributions paid	2.5	6.9
Actuarial loss	(16.3)	(8.3)
At 31 December	(23.1)	(5.5)

The amounts recognised in the Income Statement are as follows:

	2005	2004
	€m	€m
Current service costs	(3.8)	(2.8)
Past service cost	(1.1)	–
Interest cost	(4.3)	(3.7)
Future expected return on plan assets	5.4	4.8
Total expenses (included in staff costs)	(3.8)	(1.7)

Pension Plan Assets

	2005	2004
	€m	€m
The fair value of the pension plan assets	96.9	80.2
The actual return on pension plan assets	15.2	6.9

26 Pensions (continued)

Group and Society

Pension Plan Assets as at 31 December 2005

Asset Category	Percentage of plan Assets	Future Expected Return on Plan Assets
Equity Securities	80.5%	6.6%
Debt Securities	12.1%	3.1%
Real Estate	5.7%	5.6%
Other	1.7%	2.3%
	100.0%	6.0%

The principal actuarial assumptions used were as follows:

	2005	2004
Rate of inflation	2.25%	2.25%
Discount rate	4.21%	4.85%
Expected return on plan assets	6.66%	7.13%
Future salary increases	3.75%	3.75%
Future pension increases	2.25%	2.25%

Contributions are determined in accordance with the advice of Mercer Human Resource Consulting, using the projected unit credit method. The most recent valuations were carried out as at 1 January 2005 and showed that the actuarial value of the schemes assets represented 102% of the benefits that had accrued to members after allowing for expected future increases in earnings.

None of the pension plans' assets are invested in the society's or group's own financial instruments.

History of experience gains and losses

	2005	2004
Difference between the expected and actual return on plan assets:		
a. Amount	€9.8m	€2.1m
b. Percentage of plan assets	10.1%	2.6%
Experience losses on plan liabilities		
a. Amount	€2.7m	€4.2m
b. Percentage of present value of plan liabilities	2.3%	4.9%

		2005 €m	2004 €m
27	**Subordinated Liabilities**		
	Group and Society		
	Repayable in more than five years but less than ten years	97.8	97.8
	Repayable in more than ten but less than fifteen years	71.8	63.3
		169.6	161.1

Details of bonds issued are as follows;

Issue date	Maturity date	Interest rate		Amount
31 July 1998	Jul-13	Fixed rate	5.81%	€38.1m
26 November 1999	Nov-19	Fixed rate	7.00%	Stg £14.6m
19 December 2002	Nov-19	Fixed rate	6.44%	Stg £30.0m
14 December 2004	Dec-14	Variable	3.00%	€60m

The interest expense on the subordinated bonds amounted to €8.3m (2004: €6.7m) during the year.

28 Minority Interest

Group

The society holds 375,000 €1.25 Class A shares in EBS Capital No. 1 S.A. a 75% owned subsidiary incorporated in Luxembourg. The society issued €125m of Permanent Interest Bearing Shares to EBS Capital No.1 S.A.. EBS Capital No. 1 S.A. issued Perpetual Capital Securities. The Capital Securities are classified for regulatory purposes as Innovative Tier 1 capital on a consolidated basis for the group up to a maximum of 15% of total Tier 1 capital. The obligations of EBS Capital No. 1 S.A., under the Capital Securities are guaranteed on a subordinated basis by the society.

		Society		Group	
		2005 €m	2004 €m	2005 €m	2004 €m
29	**Assets and Liabilities Denominated in Foreign Currencies**				
	Assets denominated in currencies other than euro	1,019.8	671.9	1,019.8	671.9
	Liabilities denominated in currencies other than euro	1,020.0	672.2	1,020.0	672.2

		2005	2004
		€m	€m
30	**Leasing Commitments**		
	Group and Society		
	At 31 December, commitments under operating leases relating to land and buildings are as follows:		
	Payments to be made:		
	Less than one year	6.4	6.3
	Between one and five years	24.7	24.5
	After five years	88.2	93.4
		119.3	**124.2**

The actual amount incurred on operating lease charges in 2005 was €6.9m (2004: €6.7m).

		2005	2004
		€m	€m
31	**Capital Commitments**		
	Group and Society		
	Capital expenditure contracted but not provided for	0.3	0.5
	Capital expenditure authorised but not contracted for	16.9	15.9

32 Derivative Financial Instruments

Group

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

Derivatives fluctuate in value as interest or exchange rates rise or fall, just as on-balance sheet assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, as interest or exchange rates change, will generally be offset by the unrealised appreciation or depreciation of the hedged items.

To achieve its risk management objectives, the group uses a combination of derivative financial instruments, particularly interest rate swaps, interest rate caps, currency swaps, equity index options and equity index swaps. The group only engages in derivative activities for hedging purposes; derivatives that fail to qualify for hedge accounting or those where the underlying hedged instrument is held at fair value through the Income Statement and thereby offering fair value offset, are classified as trading derivatives.

Derivative instruments are contractual agreements whose value is derived from the price movements in underlying assets, interest rates, exchange rates or indices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposure. The board approves policy with respect to market risk and liquidity risk.

Fair value hedges

The group hedges part of its existing interest rate and foreign currency risk resulting from any potential movement in the fair value of fixed rate assets or liabilities and movement in fair value of asset and liabilities denominated in foreign currencies using interest rate and cross-currency interest rate swaps. The net fair value of these swaps at 31 December 2005 was (€6.4m) (2004: (€38.1m)).

Cash flow hedges

The group also hedges part of its existing interest rate risk from any potential movement in variable cashflows using interest rate swaps. The net fair value of these swaps at 31 December 2005 was (€3.8m) (2004: €1.9m). The periods in which the future forecasted cashflows are hedged range from 1 month to 10 years.

32 Derivative Financial Instruments (continued)	31 December 2005		1 January 2005	
Derivative analysis	**Contract/ notional amount €m**	**Fair Values €m**	Contract/ notional amount €m	Fair Values €m
Group				
Derivatives held for trading				
Assets derivatives				
Interest rate caps	9.3	–	10.8	0.1
Equity swap	25.8	4.3	10.5	–
Interest rate swaps	22.1	–	–	–
Equity options	98.2	–	138.9	–
Total asset derivatives held for trading	155.4	4.3	160.2	0.1
Liability derivatives				
Equity swap	–	–	2.8	–
Interest rate swaps	4.0	–	–	–
Total liability derivatives held for trading	4.0	–	2.8	–
Total derivatives held for trading	**159.4**	**4.3**	**163.0**	**0.1**
Total embedded derivatives	**25.8**	**(4.4)**	**13.3**	**(0.1)**
Derivatives held for hedging				
Assets derivatives				
Interest rate swaps	1,534.7	22.3	944.2	22.0
Cross currency interest rate swaps	532.3	8.7	–	–
Total asset derivatives held for hedging	2,067.0	31.0	944.2	22.0
Liability derivatives				
Interest rate swaps	7,500.9	(26.7)	4,922.7	(15.3)
Cross currency interest rate swaps	960.3	(14.5)	690.4	(42.9)
Total liability derivatives held for hedging	8,461.2	(41.2)	5,613.1	(58.2)
Total derivatives held for hedging	**10,528.2**	**(10.2)**	**6,557.3**	**(36.2)**
Derivatives designated as fair value hedges				
Interest rate swaps	958.5	(0.6)	4,935.3	4.8
Cross currency interest rate swaps	1,492.5	(5.8)	690.4	(42.9)
Total derivatives designated as fair value hedges	2,451.0	(6.4)	5,625.7	(38.1)
Derivatives designated as cash flow hedges				
Interest rate swaps	8,077.2	(3.8)	931.6	1.9
Total derivatives designated as cash flow hedges	8,077.2	(3.8)	931.6	1.9
Total derivatives held for hedging	**10,528.2**	**(10.2)**	**6,557.3**	**(36.2)**
Total derivatives	**10,713.4**	**(10.3)**	**6,733.6**	**(36.2)**
Asset derivatives	2,222.4	35.3	1,104.4	22.1
Liability derivatives	8,465.2	(41.2)	5,615.9	(58.2)
Embedded derivatives	25.8	(4.4)	13.3	(0.1)
Total derivatives	**10,713.4**	**(10.3)**	**6,733.6**	**(36.2)**

The group holds derivative financial instruments for hedging purposes only; there are instances where some of these instruments fail to meet IAS 39 criteria for application of hedge accounting and are classified as held for trading.
The fair values for all of the group's financial assets carried at fair value, were taken from independent market sources.

32 Derivative Financial Instruments (continued)

Derivative Maturity Table - at 31 December 2005

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Group						
Interest rate swaps	20.0	22.0	83.1	1,159.4	272.3	1,556.8
Cross currency interest rate swaps	365.8	71.5	28.2	66.8	–	532.3
Interest rate caps	–	–	–	9.3	–	9.3
Equity swaps	–	–	–	13.4	12.4	25.8
Equity options	–	–	11.5	86.7	–	98.2
Total assets	**385.8**	**93.5**	**122.8**	**1,335.6**	**284.7**	**2,222.4**
Interest rate swaps	3,951.6	1,935.0	473.4	661.1	483.8	7,504.9
Cross currency interest rate swaps	717.8	35.3	110.7	72.7	23.8	960.3
Total liabilities	**4,669.4**	**1,970.3**	**584.1**	**733.8**	**507.6**	**8,465.2**
Embedded derivatives	**–**	**–**	**–**	**13.4**	**12.4**	**25.8**

Derivative Maturity Table - at 1 January 2005

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Group						
Interest rate swaps	64.0	57.0	20.0	597.4	205.8	944.2
Cross currency interest rate swaps	–	–	–	–	–	–
Interest rate caps	–	–	–	10.8	–	10.8
Equity swaps	–	–	–	–	10.5	10.5
Equity options	–	–	–	138.9		138.9
Total assets	**64.0**	**57.0**	**20.0**	**747.1**	**216.3**	**1,104.4**
Interest rate swaps	2,963.5	1,178.0	239.0	397.1	145.1	4,922.7
Cross currency interest rate swaps	343.9	134.4	59.0	153.1	–	690.4
Equity swaps	–	–	–	–	2.8	2.8
Total liabilities	**3,307.4**	**1,312.4**	**298.0**	**550.2**	**147.9**	**5,615.9**
Embedded derivatives	**–**	**–**	**–**	**–**	**13.3**	**13.3**

Disclosures for the society are not materially different from the information shown above.

33 Risk Management and Control

The group defines risk as failure to maximise opportunities or capitalise on corporate strengths or failure to foresee or manage events which could result in unnecessary material financial loss or damage to the society's reputation. The group recognises that the effective management of risk and its system of internal control is essential to the growth of earnings, the preservation of member value and the achievement of the group's strategic objectives. The primary focus of the risk management framework is to ensure that the group achieves the optimal risk/reward return on any investment of people, time and resources. All material risk management policies are approved by the Board and monitored by the Management Risk Board directly, and through the work of its subcommittees. Risk management is also supported by three independent risk functions, Compliance, Internal Audit and Risk.

Strategic Risk Management
Strategic risk management comprises the group's values and beliefs, organisational structure and alignment, change readiness, strategic plan management, performance incentives, brand management, leadership and communication. Strategic risk also encompasses external trends which cannot be controlled but which could have a significant impact on the group's business such as the economic environment, market developments and technological innovation. Strategic risks are managed and monitored in the main by the senior management team and the Board. Significant developments are reported to the Board directly, and to its subcommittees, on a regular basis.

Financial Risk Management
The Board approves all material changes to financial risk management policies including interest rate risk policy, counterparty credit risk policy, liquidity policy, capital policy, funding policy, hedging policy, credit policies for lending, credit impairment policy and mortgage insurance policy. These policies are managed on a day to day basis throughout the group, and are monitored by specific business units and risk management committees.

Group Treasury manages the potential adverse change in group income arising from movements in interest rates, exchange rates or other market prices using gap and sensitivity analysis. Derivatives – interest rate and foreign currency swap agreements and equity index options – are used to hedge these market risks. (More details on these exposures are set out in the following tables). Group Treasury is also responsible for the management of liquidity, i.e. to ensure that resources are available at all times to meet the group's obligations arising from the withdrawal of customer deposits or interbank lines. The Asset and Liability Committee monitors these risks and reports on key developments and risk indicators to the Management Risk Board each month.

Group Credit Risk is responsible for monitoring the quality of the groups' loan assets and its risk management framework. It supports the business in ensuring that the appropriate governance structures, policies, practices and procedures are in place to manage credit risk. With the support of the Credit function (underwriting and credit control), it is responsible for monitoring and reporting on new lending business trends, loan book exposures and loan book performance. It also monitors and reports on external economic trends and credit market developments and recommends changes to credit policies, including the society's Counterparty Risk and Credit Impairment policies, to the Credit Risk Committee which in turn recommends changes to the Management Risk Board and the Board. The society insures the group against risk in the Irish property market through mortgage indemnity insurance. Credit risk management in the group is also supported through application and behavioural scoring and risk rating systems, links to the Irish Credit Bureau, clear loan approval authority limits and appropriate separation of function between loan sourcing, loan approval and loan issue.

Group Risk conducts a regular review of the insurances in place to protect the group against unexpected events and reports their findings to the Board. Finance monitors cost management and income concentration for the group and reports this on a monthly basis to the Board in the financial performance report.

33 Risk Management And Control (continued)

Operational Risk Management
Group Operational Risk is responsible for supporting and monitoring operational risk management throughout the organisation and for recommending changes to the operational risk policy as appropriate to the Operations Management Committee. The core focus of operational risk management is delivery of optimal products and services to members and customers, efficiency in operations, fraud prevention, clearly defined approval authority limits across all areas of the business, employee development, health and safety of all employees and customers, robust solutions development processes, systems integrity, business interruption and alliance partner management. The Operational Risk team supports the business in conducting regular self-assessments of risk for individual functions and for significant projects based on their roles and areas of responsibility.

The self-assessment process is designed to support the identification of the risks associated with its responsibilities and objectives, an assessment of the materiality of the risks, an evaluation of the management activities to control and/or mitigate the risks and the level of residual risk. This supports the business in identifying actions to improve the group's risk management capabilities. Further actions are identified from the evaluation of losses and near misses which are recorded in each part of the organisation and monitored by the Operational Risk function. Progress against these actions is monitored on a regular basis by the Management Risk Board and the Board.

Group Risk is responsible for the delivery of the Basel II project in the group, which refers to a new Capital Requirements Directive in Europe which is encouraging credit institutions to develop more sophisticated models and processes to ensure that they are holding sufficient capital to meet the risks inherent in their business operations. It is also responsible for the production of the enterprise risk management report for the Board each month which includes information on key operational risk management indicators.

Regulatory Risk Management
Compliance is responsible for advising and facilitating the business in identifying, managing and monitoring its legal and regulatory obligations. It supports an ongoing review of the framework used to enable each area of the business to clearly determine their legal and regulatory risks, identify the controls in place that mitigate those risks, ensuring appropriate allocation of responsibility for risks and controls and ensuring feedback is monitored and reported. A robust framework and monitoring programme enables the Management Board to receive timely information regarding the group's ongoing compliance. Compliance reports regularly to the Board Audit and Compliance Committee on at least a quarterly basis. In addition, given the extent of changes in laws and regulations and the increasing focus on compliance, Compliance facilitates the business in performing an impact assessment and determining the required amendments to processes and procedures.

Risk management in the group is supported by a clear risk management governance structure, a significant investment of senior management time, and regular reporting to the Board directly and through the Board Audit and Compliance Committee and the Board Risk Committee.

33 Risk Management and Control (continued)

The tables below give an indication of the interest rate repricing mismatch in the group's Balance Sheet. A cumulative net liability position in a time band indicates an exposure to a rise in interest rates.

Interest rate sensitivity gap analysis 2005

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Non Interest Bearing €m	**Total €m**
Non - Trading Book							
Assets							
Cash and balances with central banks	253.9	–	–	–	–	–	253.9
Central government bills and other eligible bills	107.0	–	–	–	–	–	107.0
Derivative financial instruments	3.0	1.7	0.4	19.2	11.0	–	35.3
Available-for-sale financial assets	1,750.2	–	–	101.3	331.5	–	2,183.0
Loans and advances to credit institutions	1,380.6	46.9	–	–	–	–	1,427.5
Loans and advances to customers	11,110.4	125.9	318.8	642.4	13.2	–	12,210.7
Other assets	–	–	–	–	–	338.9	338.9
Total assets	**14,605.1**	**174.5**	**319.2**	**762.9**	**355.7**	**338.9**	**16,556.3**
Liabilities							
Deposits by credit institutions	2,923.3	241.3	67.8	–	135.1	–	3,367.5
Customer accounts	5,973.9	533.3	562.8	1,354.7	327.3	–	8,752.0
Derivative financial instruments	3.9	1.9	5.2	15.4	14.8	–	41.2
Debt securities in issue	3,073.7	17.0	50.2	226.4	–	–	3,367.3
Other liabilities	–	–	–	–	–	253.3	253.3
Subordinated liabilities	66.3	–	–	38.1	65.2	–	169.6
Minority interest	–	–	–	–	122.3	–	122.3
Total liabilities	**12,041.1**	**793.5**	**686.0**	**1,634.6**	**664.7**	**253.3**	**16,073.2**
Derivatives	(3,193.0)	1,742.4	414.2	909.0	127.4	–	–
Interest rate sensitivity gap	**(629.0)**	**1,123.4**	**47.4**	**37.3**	**(181.6)**	**85.6**	**483.1**
Cumulative gap	**(629.0)**	**494.4**	**541.8**	**579.1**	**397.5**	**483.1**	**483.1**

33 Risk Management And Control (continued)

Interest rate sensitivity gap analysis 2004

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Non Interest Bearing €m	**Total €m**
Non - Trading Book							
Assets							
Cash and balances with central banks	307.5	–	–	–	–	–	307.5
Central government bills and other eligible bills	440.5	–	–	41.9	10.0	–	492.4
Debt securities	1,017.1	86.6	–	–	80.0	–	1,183.7
Loans and advances to credit institutions	1,066.9	–	35.5	–	–	–	1,102.4
Loans and advances to customers	8,379.0	460.7	769.1	541.7	19.3	–	10,169.8
Other assets	–	–	–	–	–	260.6	260.6
Total assets	**11,211.0**	**547.3**	**804.6**	**583.6**	**109.3**	**260.6**	**13,516.4**
Liabilities							
Deposits by credit institutions	2,225.8	272.0	117.3	–	10.5	–	2,625.6
Customer accounts	5,129.2	398.4	352.0	991.1	393.6	–	7,264.3
Debt securities in issue	2,574.7	140.8	15.0	114.7	–	–	2,845.2
Other liabilities	–	–	–	–	–	170.6	170.6
Subordinated liabilities	59.6	–	–	–	101.5	–	161.1
Total liabilities	**9,989.3**	**811.2**	**484.3**	**1,105.8**	**505.6**	**170.6**	**13,066.8**
Derivatives	(1,578.0)	1,045.1	171.0	297.7	64.2	–	–
Interest rate sensitivity gap	**(356.3)**	**781.2**	**491.3**	**(224.5)**	**(332.1)**	**90.0**	**449.6**
Cumulative gap	**(356.3)**	**424.9**	**916.2**	**691.7**	**359.6**	**449.6**	**449.6**

In the tables above the assets and liabilities are allocated to time buckets based on the next repricing date of the individual assets and liabilities underlying the categories above.

At 31 December 2005
The financial assets exposed to fair value interest rate risk are €2,183.0m, exposed to cash flow interest rate risk are €14,030.7m and not exposed to interest rate risk are €342.6m.

At 1 January 2005 (note 37)
The financial assets exposed to fair value interest rate risk are €1,666.6m, exposed to cash flow interest rate risk are €11,622.4m and not exposed to interest rate risk are €262.7m.

33 Risk Management and Control (continued)

Fair Value risk

The following table represents the group's fair value of financial instruments, including those not reflected in the financial statements at fair value. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

	31 December 2005			31 December 2004		
	Carrying value €m	**Fair value €m**	**Unrecognised gain/(loss) €m**	Carrying value €m	Fair value €m	Unrecognised gain/(loss) €m
Assets						
Cash and balances with central banks	253.9	253.9	–	307.5	307.5	–
Central government bills and other eligible bills	107.0	107.0	–	492.4	493.0	0.6
Derivative financial instruments	35.3	35.3	–	–	22.2	22.2
Available-for-sale financial assets	2,183.0	2,183.0	–	–	–	–
Debt securities	–	–	–	1,183.7	1,185.6	1.9
Loans and advances to credit institutions	1,427.5	1,427.5	–	1,102.4	1,102.6	0.2
Loans and advances to customers	12,210.7	12,217.3	6.6	10,169.8	10,191.9	22.1
Liabilities						
Deposits by credit institutions	3,367.5	3,367.5	–	2,625.6	2,610.5	15.1
Customer accounts	8,752.0	8,755.5	(3.5)	7,264.3	7,278.9	(14.6)
Deriviative financial instruments	41.2	41.2	–	–	58.2	(58.2)
Debt securities in issue	3,367.3	3,367.3	–	2,845.2	2,819.2	26.0
Subordinated liabilities	169.6	169.6	–	161.1	166.7	(5.6)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists, which is the best evidence of the fair value of the financial instrument. For all financial assets held at fair value we have applied market prices obtained from independent sources.

Market prices are not available for all financial assets and liabilities held or issued by the group. Where no market price is available, fair values are estimated using valuation techniques. These are generally applied to over-the-counter (OTC) derivatives, unlisted trading assets and unlisted financial investments. The most frequently applied pricing models and valuation techniques include present value of future cash flows and option models similar to the Black-Scholes model. The valuations arrived at by applying these techniques are significantly affected by the choice of valuation model used and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates and volatility.

33 Risk Management and Control (continued)

Fair Value risk (continued)

The following methods and significant assumptions have been applied in determining the fair value of financial instruments presented in the previous table, both for financial instruments carried at fair value, and those carried at cost (for which fair values are provided as a comparison):

(i) trading and available-for-sale assets are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of recognised valuation techniques;

(ii) the carrying value of liquid assets and other assets maturing within 12 months is assumed to be their fair value;

(iii) the fair value of variable rate financial instruments is assumed to be equal to their carrying value, as the instruments continually reset to the market rate; and

(iv) the fair value of fixed rate financial instruments carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates on similar loans.

The fair value of the group's fixed rate instruments are predominantly hedged by derivative financial instruments, mainly interest rate swaps as explained in note 1. Derivative financial instruments used for hedging are carried on the Balance Sheet at fair values, those with a positive replacement are classified as assets and those with a negative value are classified as liabilities. The group enters into derivative financial instruments for hedging purposes only. A certain number of these instruments are classified as held for trading however, due to these not meeting the stringent criteria in IAS 39 for availing of hedge accounting or due to the hedged item also being carried at fair value with changes in value accounted for in the Income Statement.

Disclosures for the society are not materially different from the information shown above.

34 Unmatured Forward Transactions

Group and Society

The group has entered into various unmatured forward transactions used to hedge specific exposures, these are detailed in the table below.

Instrument Type:	Hedged exposure to:
Interest rate swap	Euro assets/liabilities
Cross currency interest rate swap	Non-euro denominated assets/liabilities
Equity put option	Secure and Perfect Balance investment products
Equity swap	Capital Plus Bond product
Interest rate caps	Interest rate capped lending

35 Commitments and Contingent Liabilities

Group and Society

(a) The 'Secure', 'Perfect Balance' and 'Capital Plus Bond' range of products incorporate a guarantee provided by the society in respect of capital invested, the amount outstanding at 31 December 2005 is €124.0m (2004: €152.2m). The total guarantee is restricted under the terms of the agreement and the society has in turn received a guarantee from a third party in respect of the guarantee provided which will meet the potential liability to the society, provided that the society has fulfilled its obligations under the terms and conditions of the products and there is no counterparty default.

35 Commitments and Contingent Liabilities (continued)

(b) The society has a contingent liability to certain investors in the Summit Stable Fund in respect of return of capital only. The assets of this fund are restricted to bank deposits and short term government securities.

(c) Included in Deposits by credit institutions in 2005 is €696.5m (2004: €425.2m) relating to the society's obligations to the Central Bank & Financial Services Authority of Ireland ("CBFSAI") under the terms of the Mortgage Backed Promissory Note (MBPN) programme. These obligations have been secured by way of a first floating charge to the CBFSAI over all rights, title, interest and benefits, in €900m of loans and advances to customers. Other than with the prior written consent of the CBFSAI, the society has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets.

36 Related Party Transactions

Group

Details of the principal subsidiary undertakings are shown in note 14. In accordance with IAS 24 - related party disclosures, transactions or balances between group entities that have been eliminated on consolidation are not reported.

Society

A number of transactions are entered into with group parties in the normal course of business by the society. These include deposits, loans and rental agreements.

	2005 €m	2004 €m
Loans to related parties		
Loan at 1 January	77.4	80.2
Net movement in loans during the year	(2.3)	(2.8)
Loans outstanding at 31 December	**75.1**	**77.4**
Deposits from related parties		
Deposits at 1 January	46.5	33.4
Net movement in deposits during the year	(17.6)	13.1
Deposits outstanding at 31 December	**28.9**	**46.5**
Permanent Interest Bearing Shares		
Balance at 1 January	–	–
Issued in the year	125.0	–
Balance at 31 December	**125.0**	**–**
Included in the Income Statement		
Interest on loans	3.9	3.9
Interest on Permanent Interest Bearing Shares	2.7	–
Rental expense on leased assets	5.2	5.2

37 Explanation of Transition to IFRS

Group

As set out in the basis of preparation, the financial results have been prepared based on the recognition and measurement requirements of IFRS as adopted by the European Union. The group has availed of transitional provisions for IAS 32 and IAS 39 and has not presented comparative information in accordance with these standards. Accordingly, comparative information for 2004 in respect of financial instruments is prepared on the basis of the group's accounting policies under Irish GAAP.

The following tables show a reconciliation between the previously published results and the results under IFRS.

IFRS transition reconciliation
Consolidated Balance Sheet - 2003 restated

	As presented 31/12/2003 €m	IFRS Reclassified €m	IFRS Adjustments €m	Restated 01/01/2004 €m
Assets				
Cash and balances with central banks	159.1	–	–	159.1
Central government bills and other eligible bills	76.0	–	–	76.0
Debt securities	87.3	76.2	–	163.5
Loans and advances to credit institutions	2,079.7	(44.1)	–	2,035.6
Loans and advances to customers	7,100.3	1,381.3	–	8,481.6
Securitised assets				
Loans and advances to customers	1,381.3	(1,381.3)	–	–
Less non–recourse funding	(1,359.6)	1,359.6	–	–
	21.7	(21.7)	–	–
Other assets	193.3	35.9	(0.8)	228.4
Total assets	**9,717.4**	**1,427.6**	**(0.8)**	**11,144.2**
Liabilities				
Deposits by credit institutions	2,190.1	35.9	–	2,226.0
Customer accounts	5,866.8	–	–	5,866.8
Debt securities in issue	1,003.5	1,391.7	–	2,395.2
Other liabilities	223.7	–	16.9	240.6
Reserves	433.3	–	(17.7)	415.6
Total liabilities	**9,717.4**	**1,427.6**	**(0.8)**	**11,144.2**

The restatement of the 2003 Balance Sheet from Irish GAAP to IFRS resulted in the reclassification and remeasurement of a number of assets and liabilities. The principal reclassifications related to consolidation of securitised loans and securitised funding with €1,381.3m being added to assets and €1,359.6m to liabilities. The remeasurement adjustments are: Assets (€0.8m) - property revaluation gains offset by a reduction in prepayments due to changes in the amortisation of loan origination costs; Other liabilities €16.9m - due to the application of effective interest rate adjustments, an increase in deferred tax and retirement benefit liabilities. The combined effect of these changes was a reduction in reserves of €17.7m.

37 Explanation Of Transition To IFRS (continued)

Consolidated Balance Sheet - 2004 restated

	As presented 31/12/2004 €m	IFRS Reclassified €m	IFRS Adjustments €m	Restated 31/12/2004 €m	IAS 32/39 Reclassified €m	IAS 32/39 Adjustments €m	Restated 01/01/2005 €m
Assets							
Cash and balances at central banks	295.2	12.3	–	307.5	–	–	307.5
Central government bills and other elegible bills	488.3	4.1	–	492.4	(480.4)	–	12.0
Available-for-sale financial assets and debt securities	80.0	1,103.7	–	1,183.7	480.4	2.5	1,666.6
Loans and advances to credit institutions	2,167.7	(1,065.3)	–	1,102.4	–	0.2	1,102.6
Loans and advances to customers	9,023.9	1,145.9	–	10,169.8	–	11.6	10,181.4
Derivative financial instruments	–	–	–	–	–	22.2	22.2
Securitised assets							
Loans and advances to customers	1,146.0	(1,146.0)	–	–	–	–	–
Less non-recourse funding	(1,124.9)	1,124.9	–	–	–	–	–
	21.1	(21.1)	–	–	–	–	–
Other assets	224.9	44.6	(8.9)	260.6	–	(1.2)	259.4
Total assets	**12,301.1**	**1,224.2**	**(8.9)**	**13,516.4**	**–**	**35.3**	**13,551.7**
Liabilities							
Deposits by credit institutions	2,604.1	21.5	–	2,625.6	–	(15.1)	2,610.5
Customer accounts	7,264.3	–	–	7,264.3	–	2.1	7,266.4
Derivative financial instruments	–	–	–	–	–	58.2	58.2
Debt securities in issue	1,650.6	1,194.6	–	2,845.2	–	(26.0)	2,819.2
Other liabilities	306.3	8.1	17.3	331.7	–	5.8	337.5
Available-for-sale reserve	–	–	–	–	–	0.8	0.8
Cash flow hedge reserve	–	–	–	–	–	1.7	1.7
Reserves	475.8	–	(26.2)	449.6	–	7.8	457.4
Total liabilities	**12,301.1**	**1,224.2**	**(8.9)**	**13,516.4**	**–**	**35.3**	**13,551.7**

37 Explanation of Transition to IFRS (continued)

Restatement at 31 December 2004
The restatement of the 2004 Balance Sheet from Irish GAAP to IFRS resulted in the reclassification and remeasurement of a number of assets and liabilities. The principal reclassifications related to consolidation of the securitised loans and funding with €1,146.0m being added to assets and €1,124.9m to liabilities. The remeasurement adjustments are: Other Assets (€8.9m) - property revaluation gains offset by a reduction in prepayments due to changes in the amortisation of loan origination costs; Other liabilities €17.3m - application of effective interest rate, an increase in deferred tax liabilities and retirement benefits. The combined effect of these changes was a reduction in reserves of €26.2m.

Restatement at 1 January 2005 (IAS 32 & IAS 39)
The IFRS Balance Sheet at 31 December 2004 was also restated at 1 January 2005 to reflect the application of IAS 32 and IAS 39. The main impacts of these standards are a requirement to re-classify financial assets, to record certain financial assets at fair value, to take the fair value of derivatives through the Income Statement and subject to the hedge accounting requirements of IAS 39 to allow the changes in the fair value of derivatives to be offset against the change in the fair value of the hedged items or cash flows.

The principal adjustments resulting from the application of IAS 32 and IAS 39 are as follows;

(i) Available-for-sale financial assets - mark to market value increase of €2.5m.
(ii) Loans and advances to customers - the implementation of the IAS 39 loan impairment rules resulted in a reduction in the provision for loan impairments of €9.6m. A number of loans were also fair value hedged resulting in a fair value hedge adjustment of €2.0m.
(iii) Derivative financial instrument assets - represents the fair value of derivatives that have a positive value.
(iv) Other assets - reduction in the deferred tax asset arising on restatement.
(v) Deposits by credit institutions - a portion of these deposits are hedged giving rise to a fair value adjustment of €15.1m.
(vi) Customer accounts - a portion of these balances are hedged giving rise to a fair value adjustment of €2.1m.
(vii) Derivative financial instrument liabilities - represents the fair value of derivatives that have a negative value.
(viii) Debt securities in issue - the fair value adjustment relating to the securities which qualify for hedge accounting was €26.0m.
(ix) Other liabilities - mainly the fair value adjustment relating to subordinated debt which qualifies for hedge accounting €5.6m.
(x) Available-for-sale reserve - the difference between the fair value and amortised cost of available-for-sale assets, net of hedging and tax.
(xi) Cash flow reserve - the fair value of derivatives designated as cash flow hedges is accounted for in equity, net of deferred tax.
(xii) Reserves - the net impact of the above changes is a reduction of €7.8m in general reserves.

37 Explanation of Transition to IFRS (continued)

Consolidated Income Statement - 2004 restated

	As presented 31/12/2004 €m	IFRS Reclassified €m	IFRS Adjustments €m	Restated 31/12/2004 €m
Net interest income	119.0	0.4	(8.7)	110.7
Non interest income	13.9	(1.0)	–	12.9
	132.9	**(0.6)**	**(8.7)**	**123.6**
Other operating income	4.6	0.6	1.3	6.5
Total income	**137.5**	**–**	**(7.4)**	**130.1**
Total operating expenses	(81.2)		0.7	(80.5)
Income before impairment losses	**56.3**	**–**	**(6.7)**	**49.6**
Impairment losses on loans and advances	(0.2)	–	–	(0.2)
Income before taxation	**56.1**	**–**	**(6.7)**	**49.4**
Taxation	(13.6)	–	1.8	(11.8)
Income after taxation	**42.5**	**–**	**(4.9)**	**37.6**

The restatement of the 2004 Income Statement from Irish GAAP to IFRS resulted in the reclassification and remeasurement of certain items of income and expense. The principal reclassifications related to income previously classifed as non interest income €1.0m, which is now reported in net interest income €0.4m and other operating income €0.6m. The principal remeasurement adjustments were recognition of investment property revalution gain €1.8m, revaluation of previously impaired property assets €0.8m, offset by effective interest rate adjustments totalling €9.5m, together with a tax reduction of €1.8m, resulted in a reduction in previously reported income after tax of €4.9m.

37 Explanation of Transition to IFRS (continued)

Summary of IFRS transition adjustments

The following table sets out the key reconciliation items from the group's previously reported Irish GAAP numbers to IFRS for profit before taxation for 2004 and for total reserves as at 31 December 2004 and 31 December 2003.

	2004 Profit before Taxation €m	2004 Total Reserves €m	2003 Total Reserves €m
As reported under Irish GAAP in last year's accounts			
At 31 December	56.1	475.8	433.3
Adjustments			
Revaluation of investment property	1.8	1.8	(0.1)
Revaluation of other property and equipment	0.8	12.6	7.6
Effective interest rate	(9.5)	(27.4)	(18.0)
Retirement benefits	0.1	(12.7)	(3.9)
Taxation	–	(2.8)	(3.8)
Other	0.1	2.3	0.5
As reported under IFRS in this year's accounts			
At 31 December	49.4	449.6	415.6
Adoption of IAS 32 and IAS 39			
Impairment of loans and advances		9.6	
Cashflow hedge reserve		1.9	
Available-for-sale securities		0.9	
Taxation		(1.6)	
Other reserve changes		(0.5)	
Revised reserves as at 1 January 2005		459.9	

The IFRS 2004 profit before tax, which does not incorporate IAS 32 and IAS 39, is €6.7m lower than previously reported under Irish GAAP. Following incorporation of the transition adjustments for IAS 32 and IAS 39, the net impact, of conversion to IFRS, on total reserves as at 1 January 2005 is a reduction of €15.9m.

The IFRS transition adjustments impacting the society's financial statements are not materially different to those impacting the group's financial statements.

37 Explanation of Transition to IFRS (continued)

Explanations of the key IFRS adjustments are set out below:

Effective interest rate – IAS 18
The directors elected to implement IAS 18 as it applied to effective interest rate accounting on transition rather than deferring this to 2005 in conjunction with IAS 39. Under Irish GAAP interest expense and fee income on certain products was charged to the Income Statement on an accruals basis. In accordance with IFRS interest is recognised on an effective yield basis taking into account all incremental fees and expenses. Net interest income in 2004 under IFRS is lower by €9.5m which reflects this accounting change together with a more prudent view on the expected lives of mortgages and commercial property loans. As a result, reserves as at 31 December 2004 are €27.4m lower as a result of these changes compared to that previously reported under Irish GAAP.

Intangibles – IAS 38
Computer software is classified as an intangible under IFRS. This necessitated the reclassification of €15.7m of such costs at 1 January 2004 from equipment to intangibles.

Investment Property – IAS 40
Under Irish GAAP investment property was carried at its market value of €32.1m as of 31 December 2003, this was apportioned between cost of €16.1m and revaluation reserve of €16.0m. Under IFRS all revaluations in relation to investment property are recognised directly in general reserves through the Income Statement. In accordance with IFRS the increase during 2004 in the market value of investment property of €1.8m is included in other income.

Property, plant and equipment – IAS 16
Certain assets held under tangible assets, previously carried at historical depreciated value were revalued at the date of transition to IFRS. The impact of this change was to increase certain property assets by €10.4m at 1 January 2004 and by €15.5m at 31 December 2004 and decrease certain fixtures and fittings by €2.9m at 1 January 2004 and 31 December 2004. The implementation of IFRS also resulted in an increase in the 2004 depreciation charge of €0.2m. Premiums paid at inception of leases amounting to €1.3m at 1 January 2004 were reclassified to prepayments.

Emerald securitisation programme – IAS 27
The three Emerald securitisation vehicles were presented on the Balance Sheet under a linked presentation format in accordance with Irish GAAP. Under IFRS the assets, liabilities and results of these companies are fully consolidated. The principal impact of this is to increase loans and advances to customers by €1.4 billion at 1 January 2004 and €1.1 billion at 31 December 2004. Debt securities in issue are also increased by comparable amounts. There is no net profit and loss impact.

Impairment provisions – IAS 39
A bad debt provision of €23.5m was previously recognised under Irish GAAP to cover both specific and general provisions. The provisioning approach under IFRS differs to Irish GAAP, general provisioning is no longer permissible and provisions can only be provided where there is objective evidence of an incurred loss. In accordance with the impairment calculation methodology as set out in IAS 39, the group's provisioning level has decreased by €9.6m to €13.9m as at 1 January 2005. The 2004 Income Statement was unaffected as IAS 39 only applied to 2005, and accordingly reserves as at 1 January 2005 are €9.6m higher under IFRS than previously reported as at 31 December 2004 under Irish GAAP.

37 Explanation of Transition to IFRS (continued)

Debt securities – IAS 39
Under Irish GAAP the group carried all securities and other bills at amortised cost. In applying IAS 39 the group, as at 1 January 2005, has classified certain debt securities and other bills as available-for-sale bringing them on Balance Sheet at fair value and recognising a net unrealised gain of €0.9m after taking into account related hedges. There was no impact on the 2004 results as IAS 39 is only applicable to accounting periods on or after 1 January 2005.

Financial Derivatives – IAS 39
Under IFRS all derivative financial instruments must be fair valued and recognised either through income or reserves depending on whether these are held as fair value or cash flow hedges. Underlying assets and liabilities being fair value hedged are also marked to market. The total cash flow hedge reserve transition adjustment is €1.9m to reserves as at 1 January 2005.

Retirement benefits – IAS 19
Under Irish GAAP pension obligations were recognised in the Balance Sheet based on contributions paid and payable. In accordance with IFRS 1, the cumulative actuarial gains and losses existing at 1 January 2004 amounting to €2.3m have been recognised for all defined benefit plans reversing the prepayment of €1.6m in the accounts at that date. The effect of this adjustment is to decrease reserves by €3.9m at 1 January 2004 and by a cumulative €12.7m at 31 December 2004 reversing the 31 December 2004 prepayment of €7.2m.

		2005	2004
38	**Ratio and Loan Commitments**		
	Group and Society		
	Reserve ratio	2.8%	3.2%
	Liquidity ratio	25.6%	24.2%
	Total capital ratio (The regulatory minimum total capital ratio is 9%)	10.6%	11.0%
	Commitments: Loans approved not advanced - €m's	1,314	1,017

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