

director's report
and financial statements

2003

DEPFA ACS BANK

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Directors and other information

Board of Directors as at 31 December 2003

Mr. D. M. Cahillane (Chairman)
Dr. T. P. Carey
Mr. B. Farrell
Ms. W. Höfer-Neder
Prof. Dr. F. Ruane

Solicitors

McCann Fitzgerald
2 Harbourmaster Place
Custom House Dock
Dublin 1
Ireland

Audit Committee

Prof. Dr. F. Ruane (Chairperson)
Mr. D. M. Cahillane
Dr. T. P. Carey

Secretary & Registered Office

Mr. N. J. Kavanagh
3 Harbourmaster Place
Dublin 1
Ireland

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
George's Quay
Dublin 2
Ireland

Asset Covered Monitor

AIB International Financial Services
AIB International Centre
Dublin 1
Ireland

Directors' Report

The directors present herewith the audited financial statements for the year ended 31 December 2003.

Statement of directors' responsibilities

Irish company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of DEPFA ACS Bank ("the Bank") and of the profit or loss of the Bank for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Bank, and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland, and comply with the Irish Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: Accounts) Regulations, 1992. The measures taken by directors to secure compliance with the Bank's obligation to keep proper books of account are the use of appropriate systems and procedures, and through the employment of competent staff. The books of account are kept at the following address: 5 Harbourmaster Place, Dublin 1. The directors are also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore the directors are responsible for the maintenance and integrity of the DEPFA BANK plc Group ("the Group") website; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements of the Bank since they were initially presented on the website.

Principal Activities

The Bank's primary function is the issuance of covered bonds under the Asset Covered Securities Act enacted in 2001. These fixed or floating rate instruments are covered by a pool of assets, which include mandatory over-collateralisation assets, all of which are public sector and primary European Economic Association (EEA) as set out in the legislation, including relevant derivatives. The Bank generates public sector assets primarily through its parent to support these activities. The Bank has a full banking licence and is a designated credit institution (DCI) as defined in the legislation.

The Bank is regulated by the Irish Financial Services Regulatory Authority (IFSRA).

Review of Business and Future Development

2003 represented a ground-breaking year for the Group. As the institution, internationally recognised as being the market leader and main driver of introducing innovative concepts to the European covered bond market the achievement of being the first issuer of asset covered bonds clearly further enhanced the Group's reputation in this market.

The Bank achieved its key target of having the new Irish covered bond product accepted by global investors seeking AAA-rated investment opportunities. This was evidenced by the launch of the inaugural global benchmark covered bond issue in February. This issue, the markets first, was an unprecedented success. It was initially set as a 5-year, Euro 3 billion transaction. However the level and quality of demand from a global investor base (more than Euro 5 billion) enabled the Bank to increase the transaction to Euro 4 billion. At the same time the bonds were placed at a funding level, which reflected no premium when compared to the Group's Pfandbrief product. The issue was further increased to Euro 5 billion in April. It was listed, because of its size and liquidity, on the prestigious EuroMTS electronic platform, affording the covered bonds a benchmark status that is normally preserved for highly-rated sovereign and sub-sovereign issuers.

The outcome was a total success bearing in mind that this was a first issue in a new market. This success was further reinforced when the Bank issued the two additional global benchmark covered bonds: a 10 year, Euro 3.5 billion transaction also quoted on EuroMTS and 5 year USD 1.25 billion transaction. The success of these 3 global benchmark transactions clearly demonstrates that the Bank's new product has achieved international acceptance in a short period of time as demonstrated by the quality and diversity of investors acquiring the covered bonds.

The Bank was added as an issuer to the Group MTN programme in August. This enabled the Bank to satisfy investor demand for smaller senior secured transactions at very attractive funding levels. The Bank anticipates seeing significant growth of this funding source in 2004.

The Bank, in order to reduce reliance on its parent for short-term funding, appointed a money market dealer to develop and promote its presence in the wholesale deposit market. This has yielded significant early success, and the Bank anticipates as more credit lines are approved for its name, that significant reductions will be achieved in the level of short term funding from its Parent. The Bank commenced towards the end of the year negotiating Global Master Repurchasing agreements with a number of counterparties in order to enable it to further diversify its short-term funding sources.

The Bank experienced significant growth on the asset side of its balance sheet mainly driven by the need to source suitable assets to cover the asset covered bond activity of approximately Euro 11 billion. Asset generation is driven by the requirement that the cover asset pool reflects a highly-diversified pool of eligible countries and a balanced weighting to underpin the AAA rating attached to the covered bonds. Primarily these assets are sourced directly by business development teams based in the branches and representative offices of the Group.

The outlook for 2004 is exciting; the Bank as market leader will continue to build on the momentum established during 2003.

Results

The profit for the year, and the appropriation thereof, are set out in the profit and loss account on page 14.

Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2003.

Directors

The names of the persons who were directors at any time during the year ended 31 December 2003 are listed on page 2.

The interests of the directors and secretary, in office as at 31 December 2003, and of their spouses and minor children in the shares of the Bank or Group undertakings are set out in the table below.

The Group established an Incentive Compensation Programme in 2002 under which the Group Compensation Committee is entitled to pay an annual cash bonus and to make awards of restricted shares to employees and directors of the Group.

In conjunction with the formation of the Incentive Compensation Programme the Group established a Trust that is used to purchase shares of DEPFA BANK plc with funds provided by the Group.

The programme authorises the granting of restricted shares to be held by the Trust until vesting conditions specified by the Group are satisfied. The restricted shares carry no voting rights but are entitled to receive dividends as and when declared. Restricted shares are awarded for no consideration and are subject only to continued employment over the three year vesting period. Dividends declared during the vesting period will be used to purchase additional shares in DEPFA BANK plc which will vest three years from the date of the award.

On 16th February 2003 the Group awarded 14,130 shares to the directors of the Bank under the Incentive Compensation Programme. These shares vest over a three year period. 4,710 shares vested on 16th February 2004.

<i>Shares in DEPFA BANK plc</i>	As at 31 December 2003 Shares	As at 31 December 2002 Shares
Directors:		
Mr. D. M. Cahillane	–	–
Dr. T. P. Carey	–	–
Mr. B. Farrell	2,294	2,294
Prof. Dr. F. Ruane	50	–
Ms. W. Höfer-Neder	150	150
Secretary:		
Mr. N. J. Kavanagh	–	–

There were no contracts of any significance in relation to the business of DEPFA BANK plc, or any of its subsidiaries, in which the directors had any interest as defined in the Companies Act 1990, at any time during the year ended 31 December 2003.

Measurement and Management of the Various Types of Risk

In accordance with Group requirements, the Bank applies Group policies and procedures to the management of credit risk, market risk, operational risk and liquidity risk. The following is an overview of these policies and procedures.

Credit Risk

Credit risk is the risk of impairment and partial or total loss of a receivable due to deterioration of credit quality on the part of a business partner. The relevant receivable may be based on traditional on-balance sheet lending business or off-balance sheet business, that is, counterparty risk arising from derivative financial instruments. Whereas in traditional lending business, risk arises from the creditworthiness of the borrower and the value of the collateral, derivative counterparty risk results from the counterparty's failure to perform the transaction in accordance with contractual obligations, leading to a loss when executing a substitute transaction in the market at less favourable terms.

Credit Risk Related to the Public Finance Business

The Bank's business is focused on sovereign and sub-sovereign borrowers and public sector supported specialist entities.

Credit Scoring

Active scoring of counterparties is at the heart of the credit process. The Group has a unitary scoring system for its main credit risk pools (for the Bank these are sovereign and sub-sovereign). The ratings are designed to prepare for the implementation of the new Basel Accord with the credit grades being more likely to relate to specific probabilities of default in each risk pool. The Group operates a 22-grade rating system. The application of an internal rating/scoring model which is similar to that used by the External Credit Assessment Institutions ("ECAIs") supports the robustness of the internal rating model particularly for sub-sovereign counterparties.

The steps to assign ratings and test their robustness of ratings involve:

- Scoring of individual counterparties derived by attaching numerical points to: the strength of the legal framework, economic environment, demographic environment, political stability, financial strength, level of indebtedness and capacity to repay and degree of contingent liabilities.
- Mapping of internal rating results to external ratings environment.

The Bank's clients and counterparties who have external ratings account for 78.9% of on-balance sheet interest earning assets. Of this, 31.8% relates to counterparties with AAA ratings, while a further 37.8% of that portfolio relates to assets with AA ratings. 9.3% of the portfolio is single-A rated externally. Of the 21.1% unrated by ECAIs, 7.2% are sovereign guaranteed and 15.9% are direct obligations of, or guaranteed by public sector entities. In this analysis, the internal rating used is the lowest awarded by the three major ECAIs.

The Credit Approval Process

Sovereign and sub-sovereign risks are managed and controlled by the setting of pre-approved limits to counterparties based on a credit score. A credit risk team assesses and assigns ratings and recommends pre-approval limits for sovereign and sub-sovereign counterparties, taking risk mitigation into account. Reviews are conducted at least annually and include a rating review. Limits are set by the Credit Committee whose six voting members consist of two senior risk officers and four members of

the Executive Committee. The credit risk team and Credit Committee were initially set up for DEPFA Bank Europe plc. Since 2002, the Credit Committee has also set pre-approval limits for all the public finance subsidiaries of the Group, including the Bank.

Credit Limit and Duration Decision

The monitoring of sub-sovereign and country limits and duration utilization, large exposures and default events is carried out on a Group wide basis for the Issuer by monitoring staff dedicated to this function.

Country Risk

For banks, country risk arises when extending loans to customers domiciled in a country other than the country of the bank granting the loan. Such risks increase whenever the country in which the borrower is domiciled issues a general moratorium or introduces exchange rate controls. To assess and monitor country risk, the Group has established a Country Risk Committee, which rates individual countries, determines country limits and prepares the relevant submissions for the Credit Committee. All countries relevant to the Group's business (primarily in connection with international public finance business) are covered in internal credit quality categories that serve as a basis for the determination of Euro denominated country limits. All decisions with regard to credit ratings and limit levels are recommended by the Country Risk Committee to the Credit Committee. The Country Risk Committee updates the credit rating of all countries on a timely basis. The country assessments are primarily carried out using all available economic data, in-house country analyses and publications by international rating agencies. The utilization of country limits is monitored by the credit monitoring group on a Group wide level. As the Group's own rating is of paramount importance, it continues to be very risk conscious, selective and flexible when selecting country risk in connection with public sector business. The Group has developed an enhanced country rating system to prepare for the implementation of the new Basel Accord. In addition, the current decision-making and monitoring system for country limits/credit quality classification (supported by additional IT systems) is continuously being updated to respond to external changes.

Credit Risk Related to Treasury Counterparties

Within the Group, counterparty risk from the treasury business arises from securities transactions, money market transactions and interest rate derivatives entered into with bank counterparties.

The extent of credit risk associated with these transactions depends on the structure of the relevant transaction. Whereas the credit exposure of balance sheet instruments is determined by their current book or market value, the credit risk of derivative financial instruments corresponds to the "potential cost" resulting from the replacement of an equivalent position in the event of potential counterparty default.

To monitor the counterparty risk arising from treasury business, the Group has a Group wide counterparty limit system that directly accesses the front-office system used by the Treasury division, provi-

ding real-time information on limits and limit utilization. The credit exposure resulting from these transactions is calculated on a mark-to-market basis, taking into consideration the regulatory add-ons.

Furthermore, any existing netting master agreements and collateral agreements with business partners are taken into account to adequately map the counterparty risk. These agreements are used to reduce both the capital cover required and the utilization of bank-internal counterparty limits.

The monitoring of limit compliance is ensured by the credit monitoring group. Any transgressions are reported to the Executive Committee and Treasury. The timely adjustment of limit transgressions is ensured by means of an escalation procedure.

Within the Group, the Treasury business is geared towards high credit-quality counterparties.

Market Risk

Market risk refers to the risk of potential loss arising from changes in interest rates, foreign currency exchange rates, equity prices, price or rate volatilities and other relevant market rates and prices such as commodity prices. The Group defines its market risk as changes to fair value of financial instruments as a result of rate, price and volatility movements.

The Group's market risk policies and procedures follow three core principles:

- Policy framework for all key market risk activities approved by the Board.
- Market risk management is centralized in the Asset & Liability Committee and the Treasury units, managed by specialized personnel and monitored using appropriate systems and controls.
- Market risk control function measures and monitors the risks independently of the risk-taking units.

These Group policies and procedures are applied to the Bank.

The market risk control function has sub-categorized market risk into risk factors. The relevant risk factors for the Bank are interest rate, and foreign exchange risk. As a Bank focusing on the issuance of asset covered bonds, it is not generally exposed to equity or commodity risk. With regard to foreign exchange risk, the Group has a strict policy that Treasury must match all foreign currency assets with liabilities in the same currency or swap out the foreign exchange exposure. Hence, the primary risk factor for the Bank is interest rate risk.

For the quantification and control of this risk, the Bank determines daily Value at Risk (VaR) figures in line with industry wide practice using the variance/co-variance methodology. A ten-day holding period with a 99% confidence interval is used to derive the calculation.

The correlation and volatility frequencies for the calculation are annualized to 250 trading days.

The choice of a ten-day holding period was selected to give a conservative VaR measure in relation to hedging the risk of the portfolio's positions. Senior management recognizes that VaR has certain inherent limitations. The past may not always provide a reliable indicator of future market movements and the statistical assumptions employed may understate the probability of very large market moves. For this reason additional management tools such as sensitivity measures, back-testing and stress testing are used to supplement VaR.

Operational Risk

Operational risk is the risk of direct or indirect losses due to inadequacy or failure of internal processes, people or systems or due to external events. The Bank applies Group policies and procedures in relation to operational risk.

The objective is to minimize operational risk by:

- Documentation of all relevant policies, procedures and processes and keeping them under constant supervision.
- Identification and rectification of sources of errors and weaknesses.
- Employing suitably qualified and experienced personnel.
- The annual appraisal process and regular review of goals and objectives.
- Application of a robust and reliable system environment.
- Maintaining and further developing business continuity plans and procedures.
- Sound control systems.

Management of operational risk is the responsibility of all operational units. The Group's Operational Risk Officer and his team analyze and monitor the operational risk profile of the Bank. Group Internal Audit provides additional independent control mechanisms.

All major system components, such as computer hardware, communication links or trading sites are duplicated, synchronized and hosted in different locations. This is an integral part of the Group Business Continuity Plan, protecting the Group, and the Bank in particular, from an externally caused major disaster.

The Group's control system relies on strict organizational independence of the monitoring and control functions, detailed segregation of functions and duties and the application of the four-eyes principle to all relevant actions and decision processes. The risk monitoring functions for credit, market and operational risk and the Compliance and Internal Audit functions are the major pillars of the Bank's control system.

The Group Internal Audit function, located in both Dublin and Frankfurt, is an independent unit established to audit and evaluate all Group activities and to add value and improve operations and procedures. Group Internal Audit reports directly to the Audit Committee.

Group Internal Audit supports the organizational units of the Group to accomplish their objectives by bringing a systematic disciplined approach to the evaluation of the effectiveness of risk management, internal control, procedures and governance processes.

Compliance Officers located in each of DEPFA's legal entities report directly to the Group Compliance Officer located in Dublin. The Compliance function oversees the adherence to the principles set out by the Irish Financial Services Regulatory Authority (IFSRA) and the other Regulatory Authority in relation to the Code of Practice of Credit Institutions. The Compliance function supports the implementation of internal regulations set by the Board of Directors.

Liquidity Risk

Liquidity risk is defined as the risk of being unable to fulfill current or future payment obligations in full on or at the due date.

The Bank's liquidity management controls the cash flow of the business in such a manner as to ensure that efficient use of cash flows is maintained. To this extent, the Bank primarily funds its assets through the issuance of asset covered securities. Within the pool the bank has agreed to over-collateralization of the cover pool with respect to the securities issued at a minimum level of 5%. The Bank is also obliged to ensure that the interest payable in a given period of 12 months in respect to the issued securities is less than the total amount of interest receivable on the cover pool.

Assets held outside of the cover pool prior to future cover bond issuance, either pay a floating rate return or are swapped to a floating return through the use of derivative transactions. These assets are in turn primarily financed through inter-company loans.

Hedging

The Bank's policy is to hedge the following exposures:

- Interest rate risk – using interest rate swaps.
- Currency exposures – using cross-currency swaps and forward foreign exchange.

The following table provides examples of certain activities undertaken by the Bank, the related risks associated with such activities and the types of derivatives used in managing such risks. Such risks may also be managed by using on-balance sheet instruments as part of an integrated approach to risk management.

Activity	Risk	Type of hedge
Fixed rate lending/borrowing	Sensitivity to increases/decreases in interest rates	Pay/receive fixed interest rate swaps Purchase/sell FRAs
Investment in foreign currency assets/liabilities	Sensitivity to strengthening/weakening of Euro against other currencies	Cross-currency swaps Foreign exchange swaps Foreign currency funding

Derivatives, all of which are used for hedging purposes, are measured on an accruals basis consistent with the assets, liabilities or positions being hedged. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account.

Safety, Health and Welfare at Work Act, 1989

The directors have prepared the necessary safety statement required by the Safety, Health and Welfare at Work Act, 1989.

Auditors

PricewaterhouseCoopers will continue in office in accordance with the provisions of Section 160 of the Companies Act 1963.

On behalf of the Board

Mr. D. M. Cahillane
Director

Dr. T. P. Carey
Director

Mr. B. Farrell
Director

Mr. N. J. Kavanagh
Secretary

20 February 2004

Independent Auditors' Report

To the members of DEPFA ACS BANK

We have audited the financial statements on pages 14 to 31.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable Irish law and Accounting Standards generally accepted in Ireland are set out on page 3 in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and auditing standards issued by the Auditing Practices Board applicable in Ireland. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to hold an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

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

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001, and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

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

In our opinion, the information given in the directors' report on pages 3 to 11 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 15, are more than half the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2003 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

20 February 2004

Profit and loss account

Year ended 31 December 2003

	Notes	2003 € '000	2002 € '000
Interest receivable and similar income	2	509,643	27,994
Interest payable and similar charges	3	(485,820)	(25,955)
Net interest income		23,823	2,039
Other operating expenses	4	(482)	(25)
Operating income		23,341	2,014
Administrative expenses	5	(6,179)	(592)
Provision for bad and doubtful debts		–	–
Operating profit/profit on ordinary activities before taxation	6	17,162	1,422
Taxation on profit on ordinary activities	7	(1,716)	(142)
Profit on ordinary activities after taxation		15,446	1,280
Dividends proposed		–	–
Profit retained for the period		15,446	1,280

Statement of movement in retained profits

	2003 € '000	2002 € '000
Opening balance	1,280	–
Profit retained for the period	15,446	1,280
Closing balance	16,726	1,280

The Bank has no recognised gains and losses other than those included in the profit and loss account above and, therefore, no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation (all of which relates to continuing activities) or the retained profit for the period stated above, and their historical cost equivalents.

On behalf of the Board

Mr. D. M. Cahillane
Director

Dr. T. P. Carey
Director

Mr. B. Farrell
Director

Mr. N. J. Kavanagh
Secretary

Balance sheet

As at 31 December 2003

	Notes	2003 € '000	2002 € '000
Assets			
Cash and balances at the Central Bank of Ireland		3,258	25
Loans and advances to banks	8	7,383,041	1,396,552
Loans and advances to customers	9	10,388,263	3,318,470
Debt securities & other fixed income securities	10	7,070,515	–
Other assets	11	249	–
Prepayments and accrued income		584,891	52,346
Total assets		25,430,217	4,767,393
Liabilities			
Deposits by banks	12	14,066,868	4,603,352
Customer accounts	13	65,003	–
Debt securities in issue	14	10,302,972	–
Other liabilities	15	65,465	24,114
Accruals and deferred income	16	563,183	38,647
Subordinated liabilities	17	115,000	–
		25,178,491	4,666,113
Called-up share capital	18	235,000	100,000
Profit and loss account		16,726	1,280
Equity shareholders' funds	19	251,726	101,280
Total liabilities		25,430,217	4,767,393
Memorandum items			
Contingent liabilities		–	–
Commitments	23	66,233	–

On behalf of the Board

Mr. D. M. Cahillane
Director

Dr. T. P. Carey
Director

Mr. B. Farrell
Director

Mr. N. J. Kavanagh
Secretary

Notes to the financial statements

1 Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the provisions of the Companies Acts, 1963 to 2001; the European Communities (Credit Institutions: Accounts) Regulations, 1992; accounting standards generally accepted in Ireland and BBA Statements of Recommended Accounting Practice.

Provisions for Bad and Doubtful Debts

Provisions for bad and doubtful debts are based on the year-end appraisal of loans and advances. Specific provisions are made in respect of any identified impaired advances. In addition, general provisions are made to cover losses, if any, which, although not specifically identified, are present in the portfolio of loans at the year-end.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Euro at the exchange rate ruling at the balance sheet date or forward rates. Differences arising on translation are recognised in the profit and loss account.

Pension benefits

The Bank provides a non-contributory defined contribution scheme. Payments to the scheme are charged to the profit and loss account in the period to which they relate.

Income and expense recognition

Interest income and expense are recognised in the profit and loss account on an accruals basis. Fees which, in effect, increase the yield on transactions are spread over the lives of the underlying transactions.

Derivatives

Transactions are undertaken in derivative financial instruments, which include interest rate swaps, cross-currency swaps, futures, options and similar instruments, for non-trading purposes. Derivatives classified as non-trading are those entered into for the purpose of matching or eliminating (i.e. hedging) risk from potential movements in foreign exchange rates or interest rates inherent in the Bank's non-trading assets. Non-trading assets, liabilities and positions are those intended for use on a continuing basis in the activities of the Bank. Income and expenses on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to interest receivable and/or interest payable. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Where an underlying asset, liability or position is unwound it is policy to simultaneously unwind the corresponding derivative position.

Deferred taxation

Deferred taxation is provided on all timing differences between the profit as stated in the financial statements and the profit as calculated for tax purposes.

Debt Securities

Debt securities intended for use on a continuing basis in the Bank's activities are classified as investment securities and are stated at cost less provision for any permanent diminution in value. The cost of investment securities in dated stocks is adjusted for the amortisation of premiums and discounts over the period to maturity. The amortisation of premiums or discounts is included in interest income.

Capital Instruments

Issue expenses of capital instruments are deducted from the proceeds of issue and, where appropriate, are amortised to profit and loss account so that the finance costs are allocated to accounting periods at a constant rate based on the carrying amount of the instrument.

Notes to the financial statements

2 Interest receivable and similar income

	2003 € '000	2002 € '000
Interest receivable and similar income arising from loans	323,041	27,994
Interest receivable and similar income arising from securities	186,602	–
Other interest receivable and similar income	–	–
	509,643	27,994
Amounts include:		
Receivable from Group undertakings	50,327	8,181

3 Interest payable and similar charges

	2003 € '000	2002 € '000
Interest expenditure on debt securities in issue	223,146	–
Interest expenditure on subordinated liabilities	2,286	–
Interest expenditure on other banking transactions	260,388	25,955
	485,820	25,955
Amounts include:		
Payable to Group undertakings	240,474	25,948

4 Other operating expenses

	2003 € '000	2002 € '000
Trade related fees expense	(394)	–
Foreign currency gains/losses	(88)	(25)
	(482)	(25)

5 Administrative expenses

	2003 € '000	2002 € '000
Staff costs		
- wages and salaries	950	22
- social security costs	36	2
- pension costs	39	3
	1,025	27
Other administrative expenses	5,154	565
	6,179	592

<i>6 Operating profit/profit on ordinary activities before taxation</i>	2003 € '000	2002 € '000
This is arrived at after charging:		
Auditors' remuneration (including VAT)	106	62

<i>7 Taxation on profit on ordinary activities</i>	2003 € '000	2002 € '000
Irish corporation tax at 10%	1,716	142

The Bank has received a certificate from the Minister for Finance in Ireland confirming that all qualifying income on financial services activities is taxed at 10% until 31 December 2005.

<i>8 Loans and advances to banks</i>	2003 € '000	2002 € '000
Repayable on demand	2,955	–
Other loans and advances to banks		
Remaining maturity:		
- 3 months or less	4,079,818	1,390,136
- 1 year or less but over 3 months	1,637,455	6,416
- 5 years or less but over 1 year	25,843	
- over 5 years	1,636,970	
	7,383,041	1,396,552
The maturity analysis above relates to capital repayments and not to interest rate re-set dates.		
Amounts include:		
Due from Group undertakings	5,713,669	1,396,552

<i>9 Loans and advances to customers</i>	2003 € '000	2002 € '000
Remaining maturity:		
- 3 months or less	184,396	–
- 1 year or less but over 3 months	78,340	16,225
- 5 years or less but over 1 year	2,448,632	1,055,411
- over 5 years	7,676,895	2,246,834
	10,388,263	3,318,470
Provisions for bad and doubtful debts	–	–
	10,388,263	3,318,470
The maturity analysis above relates to capital repayments and not to interest rate re-set dates.		

10 Debt securities & other fixed income securities

	2003 € '000	2002 € '000
Investment securities:		
Government and other public sector bonds	862,926	–
Local government bonds	3,340,600	–
Corporate bonds	2,866,989	–
Other bonds and notes	–	–
	7,070,515	–
Analysed by remaining maturity:		
3 months or less	17,128	–
less than 1 year	–	–
5 years or less but over 1 year	1,043,283	–
over 5 years	6,010,104	–
	7,070,515	–

	Book Value 2003 € '000	Market Value 2003 € '000	Book Value 2002 € '000	Market Value 2002 € '000
Analysed by listing status:				
listed	5,637,381	5,876,458	–	–
unlisted	1,433,134	1,542,397	–	–
	7,070,515	7,418,855	–	–

	2003 € '000	2002 € '000
Analysis of movements in debt securities held as investment securities:		
At 1 January	–	–
Purchases	7,391,515	–
Repayments	(319,900)	–
Amortisation of discounts net of premiums	(1,100)	–
	7,070,515	–
Amounts include: Debt securities and other fixed income securities in which the DEPFA Group has a participating interest	–	–

<i>11 Other assets</i>	2003 € '000	2002 € '000
Other assets	249	–
	249	–

<i>12 Deposits by banks</i>	2003 € '000	2002 € '000
(a) Repayable on demand	–	4,898
(b) With agreed maturity dates or periods of notice	13,559,018	4,598,454
(c) Sale and repurchase agreements	507,850	–
Total	14,066,868	4,603,352
(a) Repayable on demand	–	4,898
(b) With agreed maturity dates or periods of notice:		
– 3 months or less	9,958,621	3,930,918
– 1 year or less but over 3 months	3,600,397	667,536
	13,559,018	4,598,454
Amounts include:		
Due to group undertakings	11,496,911	4,548,454
(c) Sale and repurchase agreements:		
– 3 months or less	507,850	–
The maturity analysis above relates to capital repayments and not to interest rate re-set dates.		

<i>13 Customer accounts</i>	2003 € '000	2002 € '000
Remaining maturity:		
- 3 months or less	28,377	–
- over 5 years	36,626	–
	65,003	
The maturity analysis above relates to capital repayments and not to interest rate re-set dates.		

<i>14 Debt securities in issue</i>	2003 € '000	2002 € '000
Asset covered bonds	10,302,972	–
Remaining maturity:		
- 5 years or less but over 1 year	6,651,325	–
- over 5 years	3,651,647	–
	10,302,972	–
The maturity analysis above relates to capital repayments and not to interest rate re-set dates.		

<i>15 Other liabilities</i>	2003 € '000	2002 € '000
Corporation tax	799	142
Derivatives	57,314	–
Intra-group liabilities	5,566	70
Other liabilities	1,786	23,902
	65,465	24,114
The derivatives balance above consists of the unamortised fees on derivatives and the revaluation reserve arising on cross-currency swaps.		

<i>16 Accruals and deferred income</i>	2003 € '000	2002 € '000
Interest payable	563,183	38,062
Other accruals and deferred income	–	585
	563,183	38,647

<i>17 Subordinated liabilities</i>	2003 € '000	2002 € '000
Remaining maturity:		
- over 5 years	115,000	–
	115,000	–
Amounts include:		
Due to group undertakings	115,000	–
The maturity analysis above relates to capital repayments and not to interest rate re-sets		

Subordinated liabilities consist of the following:
€ 75m floating rate loan from DEPFA Finance NV, maturity 2025
€ 40m fixed rate loan (6.54%) from DEPFA Finance NV, maturity 2028

<i>18 Share capital</i>	2003 Number of shares '000	2002 Number of shares '000
Authorised:		
1,000,000,000 Ordinary shares of €1 each	1,000,000	1,000,000
	2003 € '000	2002 € '000
Allotted and fully paid:		
235,000,000 Ordinary shares of €1 each	235,000	100,000

The Bank issued 135,000,000 ordinary shares at par during the year.

<i>19 Reconciliation of movements in equity shareholders' funds</i>	2003 € '000	2002 € '000
Profit for the financial year	15,446	1,280
Share capital issued	135,000	100,000
	150,446	101,280
Opening shareholders' funds	101,280	–
Closing shareholders' funds	251,726	101,280

20 Retirement benefits

Employees of the Bank are members of the DEPFA BANK plc pension scheme, which is a defined contribution scheme. The pension cost charges includes contributions to the funds and amounted to € 39,351 (2002: € 2,906). The accrual at the end of the year was nil.

<i>21 Employees</i>	2003	2002
The average number of employees during the year was:		
Senior management	1	1
Management	2	2
Other staff	2	1
	5	4
The actual number of employees as at 31 December 2003 was:		
Senior management	1	1
Management	3	2
Other staff	2	1
	6	4

<i>22 Directors' information</i>	2003 € '000	2002 € '000
Emoluments		
For services as a director	10,000	2,667
Salaries and other emoluments	1,283,648	27,119
Pensions to former directors	–	–
	1,293,648	29,786

Directors' emoluments shown comprise all fees, salaries, pension contributions, shares vested on 16th February 2004 and other benefits and emoluments paid to directors. The interests of the directors in the shares of the Bank or Group undertakings are set out on page 5 of the Directors Report.

23 Derivatives and other financial instruments

The Bank's objectives and policies in managing the risks that arise in connection with the use of financial instruments are set out in the directors' report on pages 3 to 11.

Interest rate sensitivity gap analysis as at 31 December 2003

The table below summarises the repricing mismatches on the Banks book as at 31 December 2003.

Items have been allocated to bands by reference to the earlier of the next contractual interest rate repricing date or the maturity date.

Interest rate re-pricing	Up to 3 months € '000	3 months to 6 months € '000	6 months to 1 year € '000	1 year to 5 years € '000	More than 5 years € '000	Non interest bearing € '000	Total € '000
Assets							
Cash and balances at the Central Bank of Ireland	3,258	–	–	–	–	–	3,258
Loans & advances to banks	4,107,562	3,005	–	–	–	3,272,474	7,383,041
Loans & advances to customers	3,512,292	1,943,456	334,353	1,361,237	3,166,748	70,177	10,388,263
Debt securities and other fixed income securities	1,279,756	816,177	–	825,076	4,181,453	(31,947)	7,070,515
Other assets	–	–	–	–	–	249	249
Prepayments and accrued income	–	–	–	–	–	584,891	584,891
Total assets	8,902,868	2,762,638	334,353	2,186,313	7,348,201	3,895,844	25,430,217
Liabilities							
Deposits by banks	8,965,944	1,726,589	65,000	–	–	3,309,335	14,066,868
Customer accounts	65,003	–	–	–	–	–	65,003
Debt securities in Issue	316,706	17,989	–	6,359,940	3,703,596	(95,259)	10,302,972
Subordinated liabilities	75,000	–	–	–	40,000	–	115,000
Other liabilities	–	–	–	–	–	65,465	65,465
Accruals and deferred income	–	–	–	–	–	563,183	563,183
Called up share capital	–	–	–	–	–	235,000	235,000
Profit and loss account	–	–	–	–	–	16,726	16,726
Total liabilities	9,422,653	1,744,578	65,000	6,359,940	3,743,596	4,094,450	25,430,217
Gap before derivatives	(519,785)	1,018,060	269,353	(4,173,627)	3,604,605	(198,606)	–
Off balance sheet items	(136,966)	(572,560)	(37,350)	4,220,724	(3,379,214)	(94,634)	–
Gap after derivatives	(656,751)	445,500	232,003	47,097	225,391	(293,240)	–
Cumulative gap	(656,751)	(211,251)	20,752	67,849	293,240	–	–

23 Derivatives and other financial instruments – continued

Interest rate sensitivity gap analysis as at 31 December 2002

The table below summarises the repricing mismatches on the Banks book as at 31 December 2002.

Items have been allocated to bands by reference to the earlier of the next contractual interest rate repricing date or the maturity date.

Interest rate re-pricing	Up to 3 months € '000	3 months to 6 months € '000	6 months to 1 year € '000	1 year to 5 years € '000	More than 5 years € '000	Non interest bearing € '000	Total € '000
Assets							
Cash and balances at the Central Bank of Ireland	25	–	–	–	–	–	25
Loans and advances to banks	1,208,974	6,135	282	–	–	181,161	1,396,552
Loans and advances to customers	1,327,673	293,448	31,013	784,332	882,004	–	3,318,470
Debt securities and other fixed income securities	–	–	–	–	–	–	–
Prepayments and accrued income	–	–	–	–	–	52,346	52,346
Total assets	2,536,672	299,583	31,295	784,332	882,004	233,507	4,767,393
Liabilities							
Deposits by banks	3,934,959	410,098	77,134	–	–	181,161	4,603,352
Customer accounts	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	24,114	24,114
Accruals and deferred income	–	–	–	–	–	38,647	38,647
Called up share capital	–	–	–	–	–	100,000	100,000
Profit and loss account	–	–	–	–	–	1,280	1,280
Total liabilities	3,934,959	410,098	77,134	–	–	345,202	4,767,393
Gap before derivatives	(1,398,287)	(110,515)	(45,839)	784,332	882,004	(111,695)	–
Off balance sheet items	1,434,168	120,076	(5,299)	(715,305)	(856,439)	22,799	–
Gap after derivatives	35,881	9,561	(51,138)	69,027	25,565	(88,896)	–
Cumulative gap	35,881	45,442	(5,696)	63,331	88,896	–	–

23 Derivatives and other financial instruments – continued

Fair value

The table below compares the book and fair values of some of the Bank's financial instruments by category as at 31 December 2003. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest and exchange rates.

<i>Non trading financial instruments</i>	Carry amount 2003 € '000	Fair value 2003 € '000	Carry amount 2002 € '000	Fair value 2002 € '000
Assets				
Cash and balances at the Central Bank of Ireland	3,258	3,258	25	25
Loans and advances to banks	7,380,086	7,380,283	1,215,391	1,215,391
Loans and advances to customers	10,388,263	10,808,745	3,318,470	3,549,848
Debt securities & other fixed income securities	7,070,515	7,418,855	–	–
Liabilities				
Deposits by banks	14,066,868	14,065,593	4,603,352	4,603,352
Customer accounts	65,003	64,986	–	–
Subordinated liabilities	115,000	130,443	–	–
Debt securities in issue	10,302,972	10,139,545	–	–
Off-balance sheet				
Interest rate swaps	(144,704)	(939,694)	–	(215,856)
Cross-currency swaps	93,788	8,073	(23,902)	(25,363)
Forward foreign exchange	(6,355)	(6,341)	–	–

23 Net unrecognised and deferred gains/losses on hedging instruments

Unrecognised gains and losses on derivative hedges

Gains and losses on derivatives used for hedging are recognised in line with the underlying items, which are being hedged. The table below summarises the unrecognised gains and losses on hedges at 31 December 2003 and movements therein during the year.

<i>Unrecognised gains/losses</i>	2003 Gains EUR '000's	2003 Losses EUR '000's
Unrecognised gains/losses as at 31 December 2002	584	(217,901)
of which recognised in this year	126	(310)
Gains/losses arising before 31 December 2002 that were not recognised in the year to 31 December 2003	458	(217,591)
Gains/losses arising in the year to 31 December 2003 that were not recognised in that year	66,087	(729,642)
Unrecognised gains/losses on hedges at 31 December 2003	66,545	(947,233)
Of which:		
Gains/losses to be included in the year to 31 December 2004	160	(1,015)

23 Derivatives and other financial instruments – continued

Currency Risk Disclosures

The Bank hedges its currency positions using cross currency swaps and forward foreign exchange. When these swaps are taken into account, the Bank does not have any material unmatched currency positions.

The following table summarises the notional principal amounts, fair values and book values of derivative instruments.

<i>31 December 2003</i>	Notional Principal amount EUR '000's	Year end Positive Fair value amount EUR '000's	Year end Positive Book value amount EUR '000's	Year end Negative Fair value amount EUR '000's	Year end Negative Book value amount EUR '000's
Interest rate derivatives					
Interest rate swaps	28,471,388	43,318	1,946	(983,012)	(146,650)
Foreign exchange derivatives					
Cross-currency swaps	2,429,563	181,808	188,752	(173,735)	(94,965)
Forward foreign exchange	276,801	860	852	(7,201)	(7,207)
Total	31,177,752	225,986	191,550	(1,163,948)	(248,822)

<i>31 December 2002</i>	Notional Principal amount EUR '000's	Year end Positive Fair value amount EUR '000's	Year end Positive Book value amount EUR '000's	Year end Negative Fair value amount EUR '000's	Year end Negative Book value amount EUR '000's
Interest rate derivatives					
Interest rate swaps	1,876,376	584	–	216,440	–
Foreign exchange derivatives					
Cross-currency swaps	146,748	913	966	26,276	24,868
Forward foreign exchange					
Total	2,023,124	1,497	966	242,716	24,868

23 Derivatives and other financial instruments – continued

The following table analyses the notional principal amounts and the gross replacement cost of derivative instruments by residual maturity.

<i>31 December 2003</i>	Total EUR '000's	< 1 Year EUR '000's	1–5 Years EUR '000's	> 5 Years EUR '000's
Interest rate derivatives				
Notional principal amount	28,471,388	7,563,062	8,297,546	12,610,780
Gross replacement cost	43,318	140	1,674	41,504
Foreign exchange derivatives				
Notional principal amount – cross currency swaps	2,429,563	36,031	1,217,970	1,175,562
Gross replacement cost – cross currency swaps	181,808	–	71,289	110,519
Notional principal amount – forward foreign exchange	276,801	276,801	–	–
Gross replacement cost – forward foreign exchange	860	860	–	–

<i>31 December 2002</i>	Total EUR '000's	< 1 Year EUR '000's	1–5 Years EUR '000's	> 5 Years EUR '000's
Interest rate derivatives				
Notional principal amount	1,876,376	10,926	811,338	1,054,112
Gross replacement cost	584	35	168	381
Foreign exchange derivatives				
Notional principal amount – cross currency swaps	146,748	5,445	42,314	98,989
Gross replacement cost – cross currency swaps	913	277	636	–

23 Derivatives and other financial instruments – continued

The following table gives the contract amounts and risk-weighted amounts of off-balance sheet transactions. The contract amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk-weighted amounts have been calculated in accordance with the Irish Financial Services Regulatory Authority (IFSRA) guidelines implementing the Basle agreement on capital adequacy.

	2003 Contract amount € '000	2003 Risk weighted amount € '000	2002 Contract amount € '000	2002 Risk weighted amount € '000
Undrawn formal standby facilities, credit lines and other commitments to lend				
1 year and over	–	–	–	–
Less than 1 year	66,233	7,826	–	–
Foreign exchange derivatives				
Hedging	2,706,364	15,444	146,748	905
Interest rate derivatives				
Hedging	28,471,388	17,561	1,876,376	1,293

24 Cash flow statement

A cash flow statement has not been prepared, as the Bank, being a qualifying subsidiary of DEPFA BANK plc, which prepares consolidated financial statements including the Bank, is exempted from so doing under Financial Reporting Standard No. 1.

25 Characteristics of the Asset Pool as at 31 December 2003

The following table analyses the countries where the public credit assets included in the pool are located, the number of public credit assets located in these countries, the nominal amount of the public credit assets in Euro and, based on the amount of those assets outstanding, the percentage of public credit assets located in those countries.

The amount is the nominal amount of the asset adjusted for any unamortised premium/discount.

Country	Number of Assets	€ '000 Amount	Percentage
Austria	5	709,746	6.2 %
Belgium	8	490,872	4.3 %
Canada	7	313,053	2.7 %
Denmark	2	9,501	0.1 %
Finland	39	1,314,070	11.3 %
France	24	1,008,978	8.8 %
Germany	10	929,903	8.1 %
Greece	2	377,299	3.3 %
Iceland	3	48,194	0.4 %
Italy	24	1,958,094	17.0 %
Japan	1	150,000	1.3 %
Netherlands	31	278,005	2.4 %
Portugal	5	256,587	2.2 %
Spain	98	2,401,895	20.8 %
Sweden	5	184,961	1.6 %
Switzerland	4	378,056	3.3 %
USA	37	715,481	6.2 %
TOTAL	305	11,524,695	100 %

26 Currency denomination of assets and liabilities

	2003 € '000	2002 € '000
Assets:		
Denominated in Euro	19,729,921	3,311,657
Denominated in currencies other than Euro	5,700,296	1,455,736
Total assets	25,430,217	4,767,393
Liabilities		
Denominated in Euro	19,732,543	3,312,297
Denominated in currencies other than Euro	5,697,674	1,455,096
Total liabilities	25,430,217	4,767,393

27 Reporting currency

The reporting currency used in these financial statements is the Euro, which is denoted by the symbol "€".

28 Related party transactions

The Bank has availed itself of the exemption contained in Financial Reporting Standard No. 8 in respect of subsidiary undertakings, 90% or more of whose voting rights are contained within a group. Consequently, the financial statements do not contain disclosure of transactions with entities within the DEPFA BANK plc Group.

29 Ultimate parent company

The directors regard DEPFA BANK plc, a company registered in the Republic of Ireland, as the ultimate parent company. The largest and smallest group into which the results of the Bank are consolidated is that headed by DEPFA BANK plc.

30 Segmental reporting

The Bank's income and assets are entirely attributable to banking activities in the Republic of Ireland.

31 Comparative figures

In order to conform with the current year's presentation, certain reclassification have been made to the comparative figures.

32 Approval of financial statements

The directors approved the financial statements on 20 February 2004.

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 **DEPFA BANK**