



Annual Report & Financial Statements 2004

Irish Life & Permanent investor and shareholder information and services,
including the annual report, are available on-line at **www.irishlifepermanent.ie**

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Our ambition is to be the number
one provider of personal
financial services in Ireland

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Financial Highlights *For the year ended 31 December 2004*

■ Pre-tax Contribution €400.2m (2003: €365.2m).	+10%
■ Total Profit after exceptional items of €411.2m (2003: €261.8m).	+57%
■ Basic Earnings per Share 156.4 cent (2003: 99.5 cent).	+57%
■ Total Earnings per Share 152.5 cent ¹ (2003: 97.2 cent ¹).	+57%
■ Total Contribution Earnings per Share 120.0 cent ¹ (2003: 111.6 cent).	+8%
■ Total Dividend per Share 55.0 cent (2003: 51.0 cent)	+8%

Banking	€m	
New Loans Issued	7,980	+33%
Loan Book Growth	3,909	+23%
ROI Mortgage New Business	4,949	+30%
ROI Mortgage Book Growth	2,463	+20%

Bancassurance Sales²	54.6	+11%
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Life Assurance

Life & Investment New Business ³	460.0	+44%
Value of New Business ³	54.8	+20%

Final Dividend per share	38.5 cent	
Total Dividend per Share	55.0 cent	+8%

Shareholders' Funds per Share ¹	€8.77	(2003: €7.81)
Total Tier 1 Capital Ratio	11.2%	(2003: 11.1%)
Life Solvency Cover (times)	1.7	(2003: 1.8)

¹ Including own shares held for the benefit of life assurance policyholders

² Unless otherwise indicated, all life and pension sales are expressed on a weighted average premium equivalent basis

³ Republic of Ireland and UK

Group Profit after Tax

	2004	2003
	€m	€m
Republic of Ireland/UK Operations		
Banking and other activities	122.5	128.8
Life assurance activities	215.1	189.7
Share of associated undertaking	62.6	45.2
Pre-tax contribution – ROI/UK	400.2	363.7
Contribution - US	–	1.5
Total pre-tax contribution	400.2	365.2
Short-term investment fluctuations		
Life assurance activities	26.9	27.5
Share of associated undertaking	2.6	(2.0)
Other charges/credits		
Goodwill amortisation	(11.6)	(13.8)
Exceptional items	21.1	(47.1)
Economic assumption changes	46.6	(20.2)
Profit before tax & minority interest	485.8	309.6
Government Levy	(12.2)	(12.2)
Taxation	(61.4)	(35.9)
Minority interest	(1.0)	0.3
Total profit after tax	411.2	261.8

Board of Directors



Gillian Bowler (52)
Chairman

A member of the board of Irish Life since July 1998. Chairman of Fáilte Ireland and Joint Chairman of Budget Travel. A non-executive director of Grafton Group plc and of the Voluntary Health Insurance Board. She is a past President of the Institute of Directors and a director of a number of other companies.



David Went (58)
Group Chief Executive

Previously Managing Director of Irish Life which he joined in 1998. Worked for most of his career in the NatWest Group where he was Chief Executive of the Ulster Bank Group from 1988 to 1994 and Chief Executive of Coutts Group from 1994 to 1997. Currently Chairman of Trinity Foundation and a director of The Irish Times Limited.



Breffni Byrne (59)
Non-Executive

Appointed to the board in July 2004. He is Chairman of NCB Stockbrokers and a non-executive director of Coillte Teoranta, Tedcastle Holdings Limited and a number of other companies. A chartered accountant, he was formerly Managing Partner of the Audit and Business Advisory practice of Arthur Andersen in Ireland and Director of Risk Management for Andersen's audit practice in Scandinavia, the Middle East and Africa.



Danuta Gray (46)
Non-Executive

Appointed to the board in August 2004. She is Chief Executive Officer of O₂ Ireland, a position she has held since 2001. Prior to her move to Ireland, she held the position of Director for BT Europe in Germany and previous to that was General Manager at BT Mobile in the UK.



Eamonn Heffernan (60)
Non-Executive

Appointed to the board in March 2003. An actuary, he was formerly a partner of Mercer Human Resource Consulting. He is a past President of the Society of Actuaries in Ireland and is a former Chairman of the Pensions Board and of the Irish Association of Pension Funds.



Philip Lynch (58)
Non-Executive

Appointed to the board in March 2003. Chairman and former Chief Executive of IAWS Group plc. He is a non-executive director of a number of companies including FBD Holdings plc, Heiton Group plc and An Bord Bia – the Irish Food Board.



Finbar Sheehan (67)
Non-Executive

Appointed to the board in April 2001, he was formerly Deputy Chairman of TSB Bank. A chartered accountant, he was Finance Director and Corporate Affairs Director of Jurys Doyle Hotel Group until his retirement in 2001.



Ciarán Long (52)
Company Secretary

An employee of Irish Life since 1969. He is an actuary and most of his time with Irish Life has been spent in the Pensions area. Ciarán is a director of the Retirement Planning Council and is a member of the Pensions Board. He was appointed Company Secretary in May 2004.



David Byrne (57)
Non-Executive

Appointed to the board in December 2004. He served as EU Commissioner with responsibility for Health and Consumer Protection from 1999 to 2004. Prior to becoming EU Commissioner, he served as Attorney General for two years. He has been a Senior Counsel since 1985 and was a member of the International Court of Commercial Arbitration from 1990 to 1997.



Denis Casey (45)
Executive

Chief Executive of Irish Life Retail. Joined Irish Life in 1980, having started his career in Allied Irish Banks plc. A certified accountant, he has held senior management positions in both Ireland and the UK. Appointed to the board in 2000, he is a member of the IFSRA Financial Services Consultative Industry Panel and a past President of the Insurance Institute of Ireland.



Peter Fitzpatrick (52)
Executive

Group Finance Director, appointed to the board of Irish Permanent in 1992. He is a chartered accountant and was formerly a partner in Coopers & Lybrand (now PriceWaterhouseCoopers). He is a non-executive director of Jurys Doyle Hotel Group plc.



Brian McConnell (58)
Executive

Chief Executive of **permanent tsb**, he was appointed to the board in 1999. Before joining Irish Life in 1998, he was Chief Executive of Ulster Investment Bank and, immediately prior to joining Irish Life was a Regional Managing Director for NatWest UK Corporate Banking Services.



Kieran McGowan (61)
Non-Executive

Joined the board in 1999 following the merger of Irish Life and Irish Permanent. Previously Chief Executive of IDA Ireland. He is a non-executive director of a number of companies including CRH plc, United Drug plc and Elan Corporation plc. Chairman of the Governing Authority of UCD. He is a board member of Enterprise Ireland and a former Chairman of the Irish Management Institute.



Kevin Murphy (53)
Executive

Chief Executive of Irish Life Investment Managers Ltd. and also responsible for Irish Life's Corporate Business. An actuary and an employee of Irish Life since 1972, he was appointed a main board director following the merger of Irish Life and Irish Permanent in 1999. He is a member of the board of the Irish Stock Exchange and is a former Chairman of the Irish Association of Investment Managers

Board Committee Members

Audit	Finbar Sheehan (Chairman) Breffni Byrne Danuta Gray Eamonn Heffernan
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Nomination	Gillian Bowler (Chairman) Kieran McGowan Finbar Sheehan
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Remuneration and Compensation	Eamonn Heffernan (Chairman) Gillian Bowler David Byrne Kieran McGowan
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The group's performance is firmly set in the context of its "Ireland First" strategy

2004 was another year of outstanding achievement for the group with all of our key businesses delivering strong operating performances.

Dividend

The board is proposing a final dividend of 38.5 cent per share. If approved at the AGM, this will be payable on 25 May 2005 to shareholders on the register as of 29 April 2005. The total dividend for the year will therefore be 55 cent per share, an increase of 8% over the 2003 full year dividend.

Ireland First Strategy

The group's performance is firmly set in the context of its "Ireland First" strategy. During 2004, the board and senior management conducted a thorough review of that strategy to ensure its continued appropriateness for the group. Our conclusion is that the strategy is as relevant today as when it was first enunciated in 1999. In particular, we continue to remain optimistic about Ireland and our potential to further grow our market share and profitability in this expanding economy.

In the first phase of the "Ireland First" strategy, much of our attention was focused on divesting ourselves of under-performing or peripheral operations overseas and on acquiring the different elements of the group we have today. More recently, the focus has been on transforming our existing operations to ensure that we have an effective and dynamic financial services business model to maximise the opportunities available in the positive operating environment in Ireland. This is already bearing fruit and we expect further progress in these areas in the years ahead.

Corporate Governance

The group is committed to maintaining the highest standards of corporate governance and we are committed to ensuring that a culture of compliance is embedded within all of our business units and activities. A formal report on our corporate governance structures and processes is set out on pages 22 to 26 of this annual report.

The group regards its responsibilities to the wider community in which we operate as a matter which requires careful attention. We have recently published our first annual report on Corporate Responsibility ("CR") and this is available on our corporate website (www.irishlifepermanent.ie). In terms of structures, we have appointed a full-time CR officer, a senior management position, who reports to a CR committee which comprises senior executives within the group. This committee, in turn, is responsible to the board which sets overall policy and objectives in this area.

Staff and Colleagues

It is a commonly used adage, but financial services really is a people business and our success is firmly based upon the skill, expertise and hard work of the people who work within our group. Since becoming Chairman, I have been immensely struck by the professionalism and commitment of staff in all parts of the group. On behalf of the board, I want to pay a special tribute to everyone who works in the group for all their hard work and effort in 2004 and always.

I also wish to pay tribute to my colleagues on the board, all of whom made an important contribution to our continued success and progress.

In particular, I want to acknowledge the enormous contribution made by Roy Douglas who retired as chairman of the group in June last. Roy was instrumental in building the group which we have today and his leadership ensured that the merger of Irish Life and Irish Permanent in 1999 was an outstanding success. On behalf of all my colleagues on the board, I want to wish Roy and his wife Anna every happiness in the months and years ahead.

I also want to pay tribute to Philip Lynch who will step down from the board at the forthcoming AGM.

In 2004, the board was strengthened with the appointment of Breffni Byrne, David Byrne and Danuta Gray. Each of these individuals brings valuable experience to the group and I look forward to their contributions in the years to come.

Outlook

The outlook for the Irish economy is extremely positive and we expect demand for our core lending and life assurance products to remain strong. Our focus will continue to be on maximising the opportunities which this favourable economic backdrop provides us with and we are very confident that 2005 will be another year of strong performance and progress for the group.



Gillian Bowler

Chairman
21 March 2005

Group Chief Executive's Review



2004 saw the group deliver another very satisfactory performance

2004 saw the group deliver another very satisfactory performance.

Total profits after tax were ahead 57% to €411.2m compared to €261.8m.

The pre-tax contribution of €400.2m was 10% ahead of 2003 which translates into 19% growth on a comparable adjusted basis (i.e. excluding €26m of once-off gilt profits achieved in 2003).

The key features impacting on contribution during the year were:

- Strong volume growth on the back of the expanding Irish economy with continued job creation and record housing demand being particularly significant for our business.
- Tight margins with tough competition across all of our businesses.
- Continued focus on cost control which was particularly important in the context of the margin pressure.
- Pre-tax contribution was up 19% on a comparable adjusted basis.

Taking each of these features in turn, firstly, new business volumes across all of our businesses in 2004 were extremely strong. Within our banking business, **permanent tsb**, the record level of house completions and continued strong mortgage demand led to record new business levels. Total new loans issued increased 33% to €8bln led by new mortgage lending in Ireland which was up 30% to €4.9bln and in the UK, ahead 47% in sterling terms to Stg£1.3bln. On the liability side of the balance sheet, we did equally as well with credit balances on current accounts in particular increasing 17% and 35,000 new current accounts opened during the year.

In the life business, the improved sales climate which we saw in the second half of 2003 continued throughout 2004 and we achieved very solid performances in both our retail and corporate business sales and an exceptional sales performance from our fund management business, Irish Life Investment Managers ("ILIM"). Life new business (excluding ILIM) increased 17% to €310.2m¹ from €264.6m in 2003, driven by a 42% increase in pension sales in retail and a very solid 14% increase in defined contribution sales within corporate business,

¹Unless otherwise indicated all life and pension sales are expressed as a weighted annual premium equivalent ("APE") basis

with sales coming from both new schemes and increments to existing schemes. All of our distribution channels performed well. ILIM had another outstanding year of business growth with new fund inflows of €1.6bln coming on top of inflows of €1.3bln in 2003 driven by their position as best performing pension fund manager in 2004 and the fact that their consensus fund, with a proven track record, remains the principal reference product in the market.

On the banking side of our business, the net interest margin for the year was 1.40%, down on 2003 which came in at 1.63%. The main reason for this decline was the fact that ECB rate reductions in the first half of 2003 resulted in all of our deposit accounts hitting into interest rate floors. This meant that the cost of mortgage rate reductions could not be recovered from our deposit base, with an unavoidable reduction in margins being the result. We did note at the half year, when we reported a margin for the six months to 30 June 2004 of 1.44%, that the worst of this margin attrition was over and this proved to be the case with a significant reduction in the pace of margin attrition coming through in the second half of the year.

On the life side of our business, margins fell from 13.8% in 2003 to 13.0%. A major component of this reduction relates to the risk discount rate which was increased from 7.5% to 8.0% for 2004. The consequence of this is to reduce new business earnings leaving more profits to unwind out in the future and, on a like-for-like basis the margin in 2004 would be close to 14%. We continue to be confident of continuing to move towards our long-term target margin of 15% through 2005.

Costs continue to be a focus of significant management attention throughout all of our businesses. As a result of the various programmes which we have initiated, costs across the group were below 2003 levels. Cost management will continue to be a priority for us going forward in 2005.

The result of the significant new business volume growth allied to tight cost management has been a very satisfactory uplift in contribution, notwithstanding the margin pressures which we experienced. Overall growth in operating contribution was ahead 10% which translates into 19% growth on a comparable adjusted basis. Total earnings per share at 152.5²

cent was 57% ahead of 2003 (97.2 cent) while the total contribution earnings per share was ahead 8% to 120.0² cent.

The outlook for the Irish economy continues to be extremely positive in terms of job creation, increasing wealth and general economic activity. The group's leading position in the Irish retail financial services marketplace, combined with the breadth of its distribution channels and range of products, leave it very strongly positioned to optimise the opportunities presented by this favourable economic backdrop. The group remains very confident of another strong performance in 2005 and the year has started well.



David Went

Group Chief Executive
21 March 2005

²Including own shares held for the benefit of life assurance policyholders

Operating and Financial Review

Banking and Other Activities

permanent tsb, the group's banking division, has a strategic objective of becoming the leading provider of personal banking services in Ireland. The bank follows a multi-channel distribution strategy incorporating a broadly based branch and agency network, extensive broker support and the largest direct sales force in the country supplemented by telephone and internet banking facilities. In 2004, **permanent tsb** retained its leadership position in the Irish residential mortgage and car finance markets while continuing to improve its bancassurance and current account market share.

A major focus in the bank in 2004 was the planning of phase two of the business transformation programme, which followed from the successful completion of the TSB integration programme in 2003. The objective of the business transformation programme is to improve efficiency and effectiveness across all aspects of the business.

At the heart of the programme, is the centralisation of all our sales-focused administration processes in the branch network in order to concentrate resources on better meeting our customer needs. As part of the plan, new sales fulfilment and self-service technology and processes will be deployed while back office administration systems will be re-engineered in order to secure enhanced productivity and cost efficiencies. The planning of the programme was completed in 2004 and implementation commenced towards the latter part of the year and considerable effort will be extended in 2005 to ensuring that these plans are successfully executed.

Against a very favourable economic backdrop with a record number of house completions, total loans and advances to customers³ at 31 December 2004 were €21bn, an increase of 23% over balances outstanding at 31 December 2003. Total gross new lending was €8bn, 33% ahead of 2003. The growth in balances over the principal business lines was as follows:

	2004 €m	2003 €m	Growth %
Mortgage Lending - ROI	14,521	12,058	20
Consumer Finance	1,365	1,285	6
Commercial Lending	1,243	1,167	7
	17,129	14,510	18
Mortgage Lending - UK (Stg£m)	2,755	1,844	49
Total Lending - €m	21,035	17,126	23

Mortgage demand in the Republic of Ireland continued to be strong throughout 2004. Total gross new mortgages issued were €4.9bn, a 30% increase on the €3.8bn issued in 2003. Residential mortgage balances outstanding increased 20% to €14.5bn compared to €12.1bn at 31 December 2003.

In the UK mortgage market, demand was strong in the "buy to let" sector in particular and mortgage balances in Capital Home Loans, the group's centralised mortgage lender which specialises in this area, increased by 49% to Stg£2.8bn from Stg£1.8bn in 2003. Gross new mortgages issued in 2004 were Stg£1.3bn, an increase of 47% over the 2003 level of Stg£0.9bn.

New commercial loans issued increased 76% to €353m from €201m in 2003 as the group refocused its activities in this area. The commercial book balances increased 7% to €1,243m from €1,167m. The consumer finance portfolio which predominantly represents short-term motor finance and term loans, increased 6% to €1,365m from €1,285m on foot of new business issues of €748m (2003: €731m).

Customer account balances outstanding at 31 December 2004 were €11.9bn compared to €10.1bn in 2003 with particularly strong growth experienced in commercial deposits and current account balances which were ahead 17% year on year.

Sales of life and pensions products through the **permanent tsb** branch network were €54.6m, an increase of 11% over 2003 (€49.3m). The level of sales achieved ensured that the productivity of the branch network, in terms of life assurance sales, reached "best in class" status.

³Unless otherwise indicated loan balances include securitised mortgages.

Life Business

The group's life business comprises three principal operating divisions, Retail Business, Corporate Business and Irish Life Investment Managers, each of which operates in a defined sector within the life and pensions marketplace in Ireland.

Overall, the sales performance of the group in 2004 was very satisfactory with reported sales of €460m, representing a 44% increase over 2003. This outcome was boosted by strong on balance sheet inflows into Irish Life Investment Managers, with sales in the core life business excluding ILIM ahead 17%.

Sales in the group's life businesses are summarised below:-

	2004 €m	2003 €m	Growth %
Retail Business	178.4	151.9	17
Corporate Business	111.2	98.3	13
Irish Life International	20.6	14.4	43
	310.2	264.6	17
Investment (ILIM)	146.1	51.4	184
	456.3	316.0	44
UK	3.7	3.7	-
	460.0	319.7	44

Retail Business

The group's retail business concentrates on sales of life and pensions products to the retail market in Ireland. It is the market leader with a comprehensive product range spanning protection, pensions, investment and regular savings.

In line with the bank's strategy, the retail life business also follows a multi-channel distribution strategy with independent brokers, bancassurance (via **permanent tsb**), direct sales, franchisees, institutional (other bank branch networks) and telephone/internet channels providing the business with unrivalled distribution reach and multiple customer access points. This distribution reach ensures that the business is not overly dependent upon any one channel.

The improved sales climate which emerged in the second half of 2003 continued on through 2004. Retail sales in 2004 at €178.4m were 17% ahead of 2003 (€151.9m). This increase in life sales was driven by a combination of strong growth in pension business, which was ahead 42%, (as a result of public policy initiatives, particularly the introduction of PRSAs), good demand for mortgage related

protection products and a recovery in demand for new regular savings as the impact of SSIAs recedes. Single premium investment sales in the retail life business continue to be sluggish as investor confidence lags the recovery in markets. Sales were ahead across all distribution channels. On foot of this strong sales performance, the group believes that it has increased market share to in excess of 20%.

The retail business made continued progress on the implementation of the Horizon project in 2004 with all new business now being processed on the new system and migration of the "back book" of older policies now 60% complete. It is anticipated that the project, which is on target, will complete in 2005. Costs within the retail division decreased by 1% over 2003 principally due to Horizon cost savings.

In 2004, the retail business launched a major drive to improve levels of customer service and satisfaction within the business. This initiative is yielding benefits with customer satisfaction surveys indicating that customers are experiencing improved levels of service.

Corporate Business

The corporate business division is engaged in the sale of group pension and risk schemes to employers and their employees in Ireland. Corporate Business has a leading position in this market with an estimated market share of in excess of 35%. Distribution is principally through pension consultants and brokers with customer service levels being a key business driver. Corporate Business has achieved key competitive advantage in the market through continued and sustained investment in both staff and technology in order to achieve significant improvement in service levels and customer satisfaction. This strong focus on service level improvements will continue to be a feature of the division's agenda into the future.

The economic backdrop for corporate business sales, the key driver of which is employment and salary growth in the Irish economy, continued to be very favourable in 2004 with good increases in employment and salary levels which benefited the business. Sales grew 13% to €111.2m from €98.3m in 2003 with strong growth in all product categories. Defined contribution sales were ahead 14% led by incremental sales on existing schemes while protection and risk sales were ahead 6%.

Operating and Financial Review

Investment Management

Irish Life Investment Managers provides investment management services for the group's life and pensions business in addition to managing large segregated funds. It offers a wide range of active, consensus and multi-manager funds.

ILIM was the top performing pension fund manager in Ireland in 2003 and 2004 and its flagship consensus fund now enjoys a proven 10-year record of tracking the benchmark index over all time frames. ILIM generated total institutional inflows of €1.6bln in 2004, an increase of 23% on the prior year. In 2004, the bulk of these inflows comprised on-balance sheet sales in contrast to 2003 when the sales mix was predominantly segregated or off-balance sheet. On foot of strong sales and good investment performance, funds under management increased 22% from €16.7bln at 31 December 2003 to €20.3bln in 2004.

Disposal of Irish Estates Management Limited

In December 2004, the group completed the disposal of Irish Estates Management Limited, a facilities management business which was considered non-core to the group. The consideration, which was paid in cash, was €19.6m which compares to a carrying value in the group's accounts of €0.6m.

No tax is payable and a profit of €19.0m has been reflected as an exceptional item in the results for the year ended 31 December 2004 in respect of the disposal.

Treasury and Credit Risk

Treasury and credit risk throughout the group is approved and managed in accordance with a set of clearly defined policy statements and limits which have been approved by the board. These policies and limits are designed to safeguard the group's assets while permitting sufficient operational flexibility to ensure that an appropriate level of return is generated for shareholders.

Treasury Risk Management

All treasury activities within the group's banking operations are centralised within the Treasury division. The Treasury division is subject to strict internal control and reporting procedures which are monitored by the group's Assets and Liabilities Committee. This Committee, which operates under terms of reference which have been approved by the board, is chaired by the Group Finance Director and comprises members of senior management, including the Group Chief Executive. All of Treasury's activities are subject to limits on the magnitude and the nature of exposures which may be undertaken. These limits are outlined in the Treasury policy document which is regularly reviewed by the board.

Liquidity Management

One of Treasury's primary responsibilities is the management of liquidity within the group. In carrying out this responsibility, Treasury's principal objective is to ensure that the group has sufficient funding available, at an optimal cost, to meet the operational needs of the group and to adhere to regulatory and prudential requirements. In this regard, the group's liquidity ratio at 31 December 2004 was 25%.

As a consequence of the high level of asset growth experienced by the group's banking operations in 2004, Treasury was particularly active raising a total of €5.6bln in the wholesale funding markets (including €143.5m in tier 2 capital which has been used to prefund future new business growth requirements).

The range of funding sources utilised by the group, which includes medium-term note issuance, commercial paper and mortgage securitisation, in addition to the short-term inter-bank market, reflects a policy of strategic diversification to prevent over reliance on any individual market. The group continues to maintain high-quality long-term senior debt ratings with a Moody's Investors Service rating of "A1" and an equivalent rating from Standard and Poor's of "A+". These high-quality credit ratings help to increase the availability and reduce the cost of wholesale funds to the group. As part of its liquidity management responsibilities, Treasury is also charged with the optimal investment of the group's liquid assets. In carrying out this function, Treasury invests in a range of interest rate instruments subject to strict board approved limits.

Non-trading Book Exposure Management

Treasury is also responsible for ensuring that the exposure to movements in interest and foreign currency exchange rates arising in the non-trading book of the group's banking operations is maintained within limits set by the board. The non-trading book comprises the bank's retail and corporate deposit books and its loan book, combined with the inter-bank book, wholesale funding instruments and the liquid asset investment portfolio, which is managed by Treasury. Interest rate risk arises due to the fact that, in both the Retail and Treasury areas, certain assets and liabilities carry fixed rates (e.g. fixed rate mortgage products). Foreign currency exchange risk arises due to the fact that the group's banking operations conduct business in a range of currencies, principally euro, Sterling and US dollar. It is the group's policy to hedge all foreign exchange risk as it arises. Interest and foreign currency exchange rate exposures arising in the non-trading book are managed on a portfolio, or total book basis, using a range of conventional hedging instruments including interest rate and currency swaps and forward rate agreements.

In managing exposures arising in the non-trading book, the group uses a Value at Risk (VaR) model. The VaR methodology used is an industry standard methodology for market risk measurement. VaR provides an estimate of the loss which will result from market movements over a given period of time within a specified probability of occurrence. Risk is calculated as the probable maximum loss in value that could arise in a ten-day time horizon from movements in interest and foreign exchange rates with a 99% degree of probability. This means that there is a one-in-one-hundred chance that any potential loss could be greater than that estimated using historical experience of daily price volatility in interest and foreign exchange rates over the previous 150 days.

The prices of similar financial instruments do not move in exact step with each other and, as a result, the total risk contained in a portfolio of different financial instruments cannot be calculated by taking the sum total of the individual risks. The VaR methodology employed by the group calculates the risk in each instrument held in the portfolio and measures the impact of diversification of the risk of the portfolio using an industry standard methodology called the variance-co-variance approach.

As with any market risk measurement system, the VaR methodology utilised by the group has recognised limitations. VaR does not measure "event" (e.g. crash) risk or capture assumptions about the range of likely changes in future market conditions, including behavioural assumptions about the various types of assets and liabilities (particularly those arising from retail transactions). Accordingly, the group supplements its VaR methodology with other risk measurement techniques including sensitivity analysis, which are best able to assess potential exposure to pre-defined moves in individual risk factors.

Within the non-trading book, the group accepts a degree of market price risk subject to the VaR, calculated as set out above, remaining within specified limits which are set by the board. At 31 December 2004, the VaR exposure of the group's bank non-trading book was €3.9m (2003: €8.8m). Further details of the exposures covered in the bank's non-trading book are set out in note 45 to the financial statements.

Foreign exchange exposures arise in the non-trading book due to the fact that the bank conducts business in a range of currencies. All foreign currency positions arising in the non-trading book are transferred to the trading book as they arise.

Trading Book

In addition to the responsibility for managing the liquidity and interest rate exposures arising in the banking operations' non-trading book, Treasury trades in liquid interest rate and foreign currency exchange rate instruments, and derivatives thereof, in order to profit from short-term changes in market values. Trading book exposures are subject to strict limits which have been approved by the board. Interest rate exposures within the trading book are measured using VaR. The methodology employed is the same as that utilised in respect of the non-trading book set out above. Foreign currency exposures are measured by reference to open positions (the sum of all long and short positions). All financial instruments held for trading purposes are clearly designated and are held separately from other holdings and all trading positions are marked to market. Further details of the Treasury trading activities are provided in note 45 to the financial statements.

Operating and Financial Review

Credit Risk Management

Credit risk throughout the group is approved and managed in line with a set of clearly defined policy statements, which have been approved by the board. Credit activities are monitored and controlled by the Group Credit Committee which is chaired by the Chief Executive of **permanent tsb** and comprises members of senior management (including executive directors).

The Group Credit Committee is responsible for developing and implementing credit policy within the context of the overall credit policy approved by the board. The group credit policy statement provides for tiered levels of discretion with regard to acceptance of credit exposures. All exposures above a certain level require the approval of either the board or the Group Credit Committee, depending on the size of the exposure. Individual discretion limits are set by reference to the extent of the individual's experience, proven competence and the nature and scale of lending undertaking in the relevant business units. Lending proposals above individual discretion limits are referred to business unit credit committees, the Group Credit department, Group Credit Committee or the board, as appropriate. The Group Credit department is responsible for monitoring overall credit quality, adherence to credit policy and carrying out regular portfolio analysis.

Accounting Policies

The accounting policies applied in the financial statements for the year ended 31 December 2004 are unchanged from the policies adopted in the 2003 annual report.

The group, in line with all companies listed in the European Union, will be required to prepare its financial statements in accordance with International Financial Reporting Standards ("IFRS") from 1 January 2005.

The group has a project in place to ensure compliance with IFRS for 2005. This project, which is group wide, has examined the impact of the standards, including the required changes to GAAP and the group's accounting policies, and has ensured that all the necessary system and process changes will be in place. IFRS represents a significant change from Republic of Ireland / United Kingdom generally accepted accounting practices under which the group's financial statements have been prepared. A presentation on the impact of the implementation of

IFRS on the group's accounts may be found on the group website at www.irishlifepermanent.ie.

Notwithstanding the adoption of IFRS from 2005, the group will continue to provide embedded value results in respect of its life assurance activities by way of supplementary information and will continue to manage its business on this basis.

Group Overview

Total profit after tax and exceptional items for the year ended 31 December 2004 was €411.2m, a 57% increase on the €261.8m reported in 2003. Pre-tax profit after exceptional items in 2004 was €485.8m compared to €309.6m in 2003, an increase of 57%.

The 2004 outcome includes an exceptional profit of €21.1m, almost all of which relates to a profit achieved on the disposal of Irish Estates Management Limited. The outcome also reflects the positive impact resulting from changes to the economic assumptions used in calculating the life assurance embedded value which amounted to €46.6m. The latter changes arise from a reduction, from 8% to 7%, in the risk discount rate used to compute the embedded value in Ireland. This reduction, which allows for underlying movements in euro gilt rates and the corresponding changes in other economic assumptions, includes a 35 basis point decrease in the risk element of the discount rate on foot of increased solvency margin provisions and changes to the investment return assumptions on the assets backing solvency, the impact of which is reported as an operating assumption change. The corresponding 2003 results included an exceptional loss of €47.1m, principally relating to a loss on the disposal of the group's remaining US operating company. In addition, in 2003 medium-term interest rates had increased resulting in a negative impact from economic assumption changes of €20.2m in that year.

The continued improvement in investment markets in 2004 resulted in net positive short-term investment fluctuations in 2004 of €29.5m (2003: €25.5m). This gain principally represents the out-performance of investment markets as against the investment return assumptions used in computing the embedded value of the group's life assurance business.

The total pre-tax contribution increased 10% from €365.2m to €400.2m. The main drivers behind this increase were the 13% rise in the contribution from life assurance activities together with a significantly increased contribution from the group's general

The total profit after tax for the year ended 31 December 2004 is set out below:-

Pre-tax contribution before short-term investment fluctuations and other charges/credits	2004	2003
	€m	€m
Republic of Ireland / UK Operations		
Banking & other activities	122.5	128.8
Life assurance activities	215.1	189.7
Share of associated undertaking	62.6	45.2
Pre-tax contribution - ROI/UK	400.2	363.7
Contribution – US	–	1.5
Total pre-tax contribution	400.2	365.2
Short-Term Investment Fluctuations		
Life assurance activities	26.9	27.5
Share of associated undertaking	2.6	(2.0)
Other Charges/Credits		
Goodwill amortisation	(11.6)	(13.8)
Exceptional items	21.1	(47.1)
Economic assumption changes	46.6	(20.2)
Profit before Tax and Minority Interest	485.8	309.6
Government levy	(12.2)	(12.2)
Taxation	(61.4)	(35.9)
Minority interest	(1.0)	0.3
Total Profit after Tax	411.2	261.8

insurance associate. The 2003 banking result included the benefit of €26m of once-off gains resulting from a repositioning of the bank's investment portfolio and accordingly the pre-tax contribution from the group's banking and other activities fell from €128.8m in 2003 to €122.5m in 2004. Adjusting for this item, profits from banking and other activities were ahead 19%, driven by strong growth in new mortgage lending.

The contribution from the group's life activities increased 13% to €215.1m from €189.7m with the value of new business ahead 20% to €54.8m (2003: €45.7m) on foot of a 44% increase in life and investment sales to €460.0m.

The contribution from the group's holding in Allianz (Ireland), a general insurance business, increased to €62.6m from €45.2m in 2003 reflecting a strong underwriting result in favourable market conditions.

Banking & Other Activities

	2004	2003
	€m	€m
Banking		
Net interest income	349.3	331.9
Other income	12.7	18.7
Investment gains	–	26.0
	362.0	376.6
Operating & corporate expenses	(232.4)	(236.2)
Provision for bad and doubtful debts	(9.3)	(13.4)
Banking	120.3	127.0
Property management	2.2	1.8
Total pre-tax contribution	122.5	128.8

The pre-tax contribution generated by the group's banking and other activities was €122.5m compared to €128.8m in 2003. The pre-tax contribution of the banking activities was €120.3m compared to

Operating and Financial Review

€127.0m in 2003. The 2003 outcome included capital gains of €26m realised on the repositioning of part of the group's investment portfolio as euro interest rates fell in the first half of 2003. Excluding these capital gains, which are once-off in nature, the underlying level of contribution growth from banking and other activities was 19% reflecting strong growth in new mortgage lending and a reduction in administrative expenses.

Net interest income increased 5% to €349.3m from €331.9m reflecting strong growth in the level of new lending, with asset balances growing 23% compared to year end 2003, which offset the negative full year impact of reductions in euro interest rates in 2003 on the bank's retail deposit spreads.

The net interest margin for the year was 1.40% compared to a margin of 1.63% reported for the full year 2003. Reductions in euro interest rates in 2003 led to downward pressure on retail margins in 2004 due to the impact of interest rate floors in the retail deposit book. This impact was most pronounced in the first half of the year resulting in a margin of 1.44% reported at the interim stage. In addition, the growth in new lending business led to a requirement to fund asset growth largely in the wholesale markets which in turn led to a dilution in the reported margin.

Other operating income fell to €12.7m compared to €18.7m in 2003 as fees and commissions payable, which are offset against other income, increased to €40.7m from €34.9m, principally as a result of the increased volumes of new residential mortgages.

The reported other operating income includes no contribution from bancassurance sales, the earnings from which, in line with the group's accounting policies, are included in the pre-tax contribution reported within the group's life assurance activities. Sales of life and pensions products within the banking division in 2004 were €54.6m, an increase of 11% over 2003 (€49.3m). The pre-tax contribution achieved on the bancassurance book of life business in 2004 was €36.3m, 13% ahead of the €32.0m achieved in 2003.

During 2004, the bank continued to focus upon and invest in programmes to improve branch and head office efficiency, manage costs and improve customer service levels. As a result of these initiatives, operating costs (excluding corporate costs) in 2004 at €224.8m were 1% below the 2003 level of €227.1m. Having regard to the underlying level of

salary inflation in the Irish economy, this represents the achievement of real cost reductions in the order of 5% to 6%. Cost management will continue to be a key focus within the bank in 2005 and beyond.

The charge for bad and doubtful debt provisions in 2004 of €9.3m compares to €13.4m in 2003. The reduction reflects the fact that, in light of forthcoming accounting changes under IFRS, combined with the conservative level of provisions held at the end of 2003, the bank did not increase the level of general provisions held against the loan portfolio in 2004. Credit quality within all of the group's loan portfolios remains robust and bad debt loss levels are insignificant. Provisions held against the portfolios are conservative with a reserve ratio of 50 basis points, compared to an arrears ratio of 19 basis points.

The contribution from property management of €2.2m represents profits for the year from Irish Estates Management, the property management subsidiary, the sale of which took place in December 2004.

Life Assurance Activities

	2004	2003
	€m	€m
In-Force Business		
Unwind of discount rate	99.7	89.1
Experience variances	8.0	17.5
Horizon development expenditure	(4.6)	(11.3)
Operating assumption changes		
- Horizon	4.6	11.3
- Other	39.9	26.2
Expected investment return	4.2	4.9
Other income	8.5	6.3
Pre-tax Contribution	160.3	144.0
New Business Contribution	54.8	45.7
Total Pre-tax Contribution (ROI/UK)	215.1	189.7

The total pre-tax contribution from life assurance activities in Ireland and the UK increased by 13% to €215.1m in the year ended 31 December 2004 from €189.7m in 2003, reflecting an 11% increase in the contribution from the in-force business and a 20% increase in new business contribution.

The main component of the increase in contribution from the in-force business was the earnings from the unwind of the discount rate which increased by 12% to €99.7m (2003: €89.1m). This was due to the combination of growth in the in-force book together with an increase in the risk discount rate at 31 December 2003.

Experience variances were positive at €8.0m in 2004 compared to €17.5m in 2003. The reduction is due to an adverse persistency experience in 2004 in respect of certain pension and protection products together with the impact of higher staff pension-related costs.

The retail business continued to make considerable progress on the implementation of the Horizon project in 2004. The core objective of this project is a fundamental redesign of the business processes to achieve operational efficiencies and leveraged use of newer technology. All new business is now being processed on the new system with migration of older policies on to the system well under way and due for completion in 2005.

In the year ended 2004, development expenditure on the Horizon project of €4.6m was written off in the embedded value as additional synergy gains arising from the deployment of the technology were realised during the year. The capitalised impact of these synergy gains, a positive €31m, was recognised as a change in operating assumptions in 2004. This more than offset the capitalised costs of achieving the synergies (€26.4m) which were also taken through the embedded value as an assumption change so that the net assumption change impact was a positive €4.6m.

The operating assumption changes of €39.9m principally relate to sustained improvements in mortality experience which have now been capitalised. The corresponding changes in 2003, amounting to €26.2m, arose mainly from a further reduction in the expense base following the disposal of the group's industrial branch business in 2002. The operating assumption changes also include the impact of increased solvency margin requirements under the Solvency 1 Capital Regulations and changes in the assumed return on solvency assets. The negative impact of these changes (€30m) has been offset by a reduction of 35 basis points in the risk element of the discount rate. This reflects the reduced risk associated with the business given the higher level of capital now required by the regulations to support it.

The expected investment return is calculated by reference to the assumed long-term investment return for equities and property included within the embedded value combined with the actual earnings on short-term cash. The expected return of €4.2m in 2004 compares to €4.9m in 2003.

Other income, which primarily represents the net contribution from subsidiary companies, Cornmarket and Irish Progressive Services International, increased to €8.5m from €6.3m in 2003.

The contribution from new business in 2004 increased 20% to €54.8m compared to €45.7m in 2003. The principal reason for this uplift in new business contribution was a 44% increase in combined life and investment new business sales from €319.7m in 2003 to €460.0m in 2004.

Overall new business margins in Ireland for the year 2004 were 11.4% (2003: 13.3%) made up as follows:

	2004	2003
	%	%
Life	13.0	13.8
Investment (ILIM)	7.9	10.5
	<u>11.4</u>	<u>13.3</u>

A range of factors, including the increase in the risk discount rate in 2004, higher annuity reinsurance costs and tougher markets for both protection and single premium bonds, all combined to hold back life margins to 13% from 13.8% in 2003. The reduction in investment management margins in 2004 is principally due to the mix of business with a higher number of large ticket but lower margin (on-balance sheet) sales being achieved in 2004 by the group's investment management business, ILIM.

Share of Associated Company

The contribution from the group's holding in Allianz (Ireland), a general insurance business, increased to €62.6m from €45.2m in 2003 reflecting an exceptionally strong underwriting result. While premium rates reduced reflecting both the lower cost and incidence of claims, the underwriting outcome was further boosted by the fact that no weather related catastrophe was experienced and the number of large claims was exceptionally low.

Short-term Investment Fluctuations ("STIFs")

The continuing strength of investment markets in 2004 resulted in positive STIFs of €26.9m compared to €27.5m in 2003, in the group's life assurance operations. These STIFs primarily reflect unit-linked management fee variances against the embedded value assumptions. The group's share of STIFs in Allianz (Ireland) was a positive €2.6m compared to a negative €2.0m in 2003.

Other Charges / Credits

The positive exceptional item in 2004 comprises the profit arising on the disposal of Irish Estates Management Limited of €19.0m and profits of €2.1m achieved on the disposal of surplus bank branch properties. The negative exceptional item in 2003 comprised a loss on the disposal of Guarantee Reserve in the United States of €50.3m and profits of €3.2m on the disposal of surplus bank branch properties.

The closing risk discount rate utilised in the preparation of the embedded value of the group's life assurance activities reduced by 65 basis points to reflect movements in the underlying euro interest rates. As noted previously, the financial impact of a further reduction of 35 basis points in the risk element of the discount rate was accounted for as an assumption change within the embedded value profit. This change, combined with other changes to the economic assumptions underlying the embedded value, principally the assumed rate of investment return and inflation, gave rise to a positive economic variance of €46.6m which compares to a negative €20.2m in 2003 which principally reflected a 50 basis point increase in the risk discount rate.

Taxation

A charge of €12.2m arises in the year in consequence of the Irish government's decision to levy a charge of €100m per annum on the deposit taking business of the Irish domestic banks (2003: €12.2m). This charge will continue until 2005.

The group's normal taxation charge for the year was €61.4m compared to €35.9m in 2003. The effective rate of tax in 2004 was 13% compared to 12% in 2003 reflecting a slight change in the mix of profits.

Capital and Liquidity

The group's capital and liquidity position remained strong at 31 December 2004. The tier 1 and total capital ratios were 11.2% (31 December 2003: 11.1%) while the liquidity ratio within the group's banking business was 25% (31 December 2003: 26%). The solvency margin in Irish Life Assurance plc, the group's principal life assurance business, was covered 1.7 times by available assets (31 December 2003: 1.8 times).

Taking advantage of favourable market conditions the group raised €143.5m in additional upper tier 2 capital within its banking operations in August 2004. As a result of this transaction, the group is very comfortably positioned as regards its capital requirements in the future.

Dividends

The directors have proposed a final dividend of 38.5 cent per share. Subject to shareholder approval the dividend will be paid on 25 May 2005 to shareholders on the register as at 29 April 2005. The ex-dividend date is 27 April 2005. The final dividend will bring the total dividend for the year to 55 cent, an increase of 8% on the 2003 total dividend of 51 cent per share. The dividend is covered 2.8 times by total profit (2.2 times at the contribution level) and represents an approximate yield of 3.7% on the basis of the share price at the beginning of March 2005.

The group is committed to maintaining a strong capital position and to following a progressive dividend policy. These objectives are helped by the low risk nature of the group's businesses. Within the banking business, 87% of the loan assets are residential mortgages while over 95% of the total loan book is secured on assets. The group's treasury policies and market position limits as set out above are conservative. In the life business, over 80% of the business is unit linked and carries no market exposure for shareholders while liabilities in the non-linked book are matched principally by sovereign bonds of appropriate duration.

Group Senior Management



David Went
Group Chief Executive



Peter Fitzpatrick
Group Finance Director



Denis Casey
Chief Executive - Irish Life Retail



Brian McConnell
Chief Executive - permanent tsb



Kevin Murphy
*Chief Executive - Irish Life
Investment Managers*



David Gantly
Group Treasurer



Bruce Maxwell
Chief Actuary



David McCarthy
Group Chief Financial Officer



Niall Saul
*Group Head of Human Resources
and Organisation Development*



Donal Casey
Chief Executive - Corporate Business



Brendan Healy
Group Chief Information Officer

Directors' Report

The directors present their annual report and audited financial statements to the shareholders for the year ended 31 December 2004.

Results

The group profit for the year was €411.2m (2003: €261.8m) after taxation and was arrived at as shown in the consolidated profit and loss account on pages 40 and 41. €172.5m (2003: €59.9m) has been transferred to non-distributable reserves with the balance of profit after allowing for dividends (€91.5m) to be transferred to the profit and loss account.

Dividends

An interim dividend of 16.5 cent per share, which amounted to €44.5m, was paid on 15 November 2004. The directors have proposed a final dividend of 38.5 cent per share which amounts to €103.8m. This will, subject to the approval of the shareholders, be paid on 25 May 2005. The total dividend for the year is 55 cent per share (2003: 51 cent), which amounts to €148.3m (2003: €137.6m).

Review of the business and likely future developments

A detailed review of the group's performance during the year and an indication of likely future developments are set out in the Chairman's statement on pages 6 and 7 and in the Group Chief Executive's Review on pages 8 and 9.

Share Capital

During 2004, 196,497 shares for a total consideration of €0.8m were issued under the group's share option schemes. At 31 December 2004, Irish Life Assurance plc, a subsidiary of the group, held 7.1m (2003: 6.5m) shares representing 2.6% (2003: 2.4%) of the issued share capital of the company. These shares are held on behalf of policyholders.

Under the authority granted at the 2000 AGM and renewed at the 2003 AGM, the company can make on-market purchases of its own shares. This authority was not exercised in the course of 2004.

Directors

The names of the directors, together with a short biographical note on each, appear on pages 4 and 5. Roy Douglas retired from the board on 3 June 2004. Breffni Byrne, David Byrne and Danuta Gray who were co-opted onto the board since the last AGM, now retire in accordance with the Articles of Association and being eligible offer themselves for re-election. Peter Fitzpatrick, Eamonn Heffernan and Brian McConnell retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election. Philip Lynch who retires by rotation in accordance with the Articles of Association has decided not to stand for re-election and therefore will retire from the board following the AGM.

Seán Ryan retired as company secretary on 24 May 2004 and was replaced by Ciarán Long.

Details of the directors' and secretary's interest in the share capital of the company and of transactions involving directors are set out in note 49 to the financial statements.

None of the directors' service contracts have notice periods exceeding 12 months.

Interests in the ordinary shares of the company

The directors have been notified of the following substantial interests in the issued share capital of the company as at 16 March 2005:

Bank of Ireland Asset Management Ltd.	5.8%
Capital Group	4.6%

Accounting records

The directors believe that they have complied with Section 202 of the Companies Act, 1990 with regard to books of account by employing financial personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the company are maintained at principal offices and branches of the company as listed on pages 96 and 97.

Directors' Report

Political donations

The directors have satisfied themselves that there were no political contributions which require disclosure under the Electoral Act 1997.

Subsidiaries and associated companies

The principal subsidiary and associated undertakings and the group's interests therein are shown in note 52 of the group financial statements.

Branches outside the State

Irish Life & Permanent plc has established branches, within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993 (which gave effect to EU Council Directive 89/666/EEC), in the United Kingdom.

Health, Safety and Welfare at Work Act, 1989

The well-being of staff is safeguarded through adherence to health and safety standards and the directors are satisfied that these have been applied throughout the year.

Independent Auditors

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

On behalf of the Board

Gillian Bowler
Chairman

David Went
Group Chief Executive

Peter Fitzpatrick
Group Finance Director

Ciarán Long
Company Secretary

21 March 2005

Corporate Governance

The directors endorse the 2003 Combined Code on Corporate Governance which sets out Principles of Good Governance and a Code of Best Practice and which was appended to the Listing Rules of the Irish and London Stock Exchanges. The directors have reviewed the group's corporate governance arrangements in the light of the 2003 Code and believe that they are fully in compliance.

The directors have developed a code of practice, which deals with, among other matters, issues of corporate governance. This code of practice is designed to ensure that the main principles and the supporting principles of good governance set out in Section 1 of the 2003 Combined Code are applied within the group.

Role of the Board

There is an effective board to lead and control the group. The board has reserved to itself for decision a formal schedule of matters pertaining to the group and its future direction (such as the group's commercial strategy, major acquisitions and disposals, board membership, appointment and removal of the Company Secretary, executive remuneration, trading and capital budgets, and risk management policies). All strategic decisions are reserved to the board. Documented rules on management authority levels and on matters to be notified to the board are in place, supported by an organisational structure with clearly defined authority levels and reporting responsibilities.

The board currently comprises eight non-executive and five executive directors. Biographies of each of the directors are set out on pages 4 and 5. The roles of the Chairman and the Group Chief Executive are separated and are clearly defined, set out in writing and agreed by the board. The board considers all the non-executive directors to be independent of management and free of any business or other relationship which would interfere with the exercise of their independent judgement. In particular, the board notes that Eamonn Heffernan is a former partner of Mercer Human Resource Consulting ("Mercer") and currently acts as an advisor to that firm. Mercer, as pension consultants and actuaries, have a material business relationship with the group. The board is satisfied that Eamonn Heffernan's involvement with Mercer is such that it does not interfere with his independent judgement. The board has nominated Kieran McGowan as the senior independent non-executive director.

The board has eight scheduled meetings per year and also meets on other occasions as considered necessary. Full board papers are sent to each director in sufficient time before board meetings and any further papers or information are readily available to all directors on request. The board papers include the minutes of all committee meetings which have been held since the previous board meeting and the Chairman of each committee is available to report on the committee's proceedings at board meetings, if appropriate. Attendance at scheduled board and committee meetings is outlined on page 26. The board receives formal reports on group compliance matters at each of its meetings.

The board has a formal performance review process to assess how the board and its committees are performing. This process, facilitated by an external consultant, comprises a detailed and rigorous examination by directors of all aspects of board and committee performance. A report produced by the external consultant identifies any measures which can enhance this performance and these are considered by the full board. The performance of each individual non-executive director is assessed by the Chairman and is discussed with the director concerned. The non-executive directors, led by the senior independent director, evaluate the performance of the Chairman, taking into account the views of executive directors. All performance reviews take place on an annual basis.

The Chairman meets at least once a year with the non-executive directors without the executive directors present.

Procedures are in place for directors, in furtherance of their duties, to take independent professional advice and training, if necessary, at the group's expense. The group has arranged directors' and officers' liability insurance cover in respect of legal action against its directors. Appropriate training is arranged for directors on first appointment and the Chairman also ensures that the directors continually update their skills and knowledge through appropriate seminars and presentations. The Company Secretary is responsible for advising the board through the Chairman on all governance matters.

All directors have direct access to the Company Secretary.

Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they will ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director will provide a written statement to the Chairman, for circulation to the board, if they have such concerns.

Corporate Governance

Board Committees

The board has established a number of committees which operate within defined terms of reference. These committees are the Audit Committee, the Remuneration and Compensation Committee and the Nomination Committee, all of which are committees of the board. All of these committees are composed of non-executive directors, all of whom are considered by the board to be independent. Membership and Chairmanship of each committee is reviewed at least every two years. Detailed terms of reference for each of the committees are available on request and on the group's website (www.irishlifepermanent.ie).

Audit Committee

The Audit Committee currently comprises Finbar Sheehan (Chairman), Breffni Byrne, Danuta Gray and Eamonn Heffernan. The board ensures that at least one member of the committee has recent and relevant financial experience. The Audit Committee provides a link between the board and the external auditors, is independent of the group's management and is responsible for making recommendations in respect of the appointment of external auditors and for reviewing the scope of the external audit. It also has responsibility for reviewing the group's annual report and financial statements, the Appointed Actuary's Report and the effectiveness of the group's internal control systems and risk management process. The committee monitors the group's compliance and internal audit procedures and considers issues raised and recommendations made by the external auditors and by the internal audit and compliance functions of the group. The committee meets at least annually with the external auditors in confidential session without management being present. The committee also monitors and reviews the group's risk management process and receives regular reports from management on the findings of the process. The committee reviews the arrangements which have been put in place whereby staff of the group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee reviews the non-audit services provided by the external auditors based on the policy approved by the board in relation to the provision of such services. Fees paid in respect of audit, audit-related and non-audit services are outlined in Note 10 to the Group Financial Statements. Audit-related services are services carried out by the auditors by virtue of their role as auditors and include assurance-related work, regulatory returns and accounting advice. The non-audit fee services provided principally relate to tax advice. In line with best practice the auditors do not provide services such as financial information system design and valuation work which could be considered to be inconsistent with the audit role.

Remuneration and Compensation Committee

The Remuneration and Compensation Committee currently comprises Eamonn Heffernan (Chairman), Gillian Bowler, David Byrne and Kieran McGowan. This committee considers all aspects of the performance and remuneration of executive directors and senior executives and, having consulted with the Chairman and Group Chief Executive, sets the remuneration of these executives, under advice to other non-executive directors. The committee also has responsibility for setting the remuneration of the Chairman. Senior management succession issues are also addressed by this committee.

The committee uses Hay Management Consultants ("Hay") for advice on executive director and senior management remuneration. Apart from this, Hay provides no significant services to the group nor has any other connection with the group.

Nomination Committee

This committee currently comprises Gillian Bowler (Chairman), Kieran McGowan and Finbar Sheehan. The committee is charged with responsibility for bringing recommendations to the board regarding the appointment of new directors and of a new Chairman. The Chairman will not chair the committee when it is dealing with the appointment of a successor to the Chairman. Decisions on board appointments are taken by the full board. The committee uses external consultants to assist in identifying and considering candidates from a wide range of backgrounds in the context of a description of the role and capabilities required for a particular appointment.

The committee keeps under review the leadership needs of the group, both executive and non-executive, with a view to ensuring the continued ability of the group to compete effectively in the marketplace.

All directors are subject to election by the shareholders at the first opportunity after their appointment. This committee is also responsible for reviewing the effectiveness of the board's operations, including the Chairmanship and composition of board committees.

Corporate Governance

Subject to satisfactory performance, non-executive directors are typically expected to serve two three-year terms, although the board may extend an invitation to serve a further three-year term. The form of appointment letter for non-executive directors appointed after 1 January 2004 is available for inspection and is also included on the group's website. The remuneration of the non-executive directors is determined by the board within the parameters decided by the shareholders and on the advice of the Chairman and Group Chief Executive. The term of office of the Chairman is six years regardless of any previous term as a director. Under the Articles of Association directors are required to submit themselves to shareholders for re-election to the board every three years.

Communication with Shareholders

The group has an ongoing programme of meetings between its senior executives, institutional shareholders, analysts and brokers. These meetings, which are governed by procedures designed to ensure that price sensitive information is not divulged, are wide ranging and are designed to facilitate a two way dialogue based upon the mutual understanding of objectives.

In addition, the Chairman and the senior independent director, attend the announcement of both interim and preliminary results, to which major shareholders are invited, and where they have the opportunity to question and discuss any issue pertaining to the business. Outside of these occasions major shareholders can meet with the Chairman or the senior independent director on request. In addition, major shareholders are invited to meet newly appointed non-executive directors.

The board is kept apprised of the views of shareholders and the market in general through the feedback from the meetings' programme and results presentations. Analysts' reports on the company are also circulated to the board members on a regular basis. Finally the company periodically commissions independent sample surveys of shareholders and stockbroker analysts to ascertain market perceptions of the company and any issues arising. The results of these surveys are provided to the board.

The annual report is designed, through the Chairman's Statement, the Group Chief Executive's Review and the Operating and Financial Review, in addition to the detailed financial information contained in the report, to present a balanced and understandable assessment of the group's position and prospects. The company uses its internet website (www.irishlifepermanent.ie) to provide information and access to investors. The investor relations section of the website is updated with the company's stock exchange releases and formal presentations to analysts and investors as they are made.

The directors comply with the 2003 Combined Code as it relates to the disclosure of proxy votes, the separation of resolutions and the attendance of Committee Chairmen at the annual general meeting.

Internal Control

The board has overall responsibility for the group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The 2003 Combined Code has a requirement for the directors to review annually the effectiveness of the group's system of internal control. This requires a review of the system of internal financial controls to cover all controls including:

- Financial
- Operational
- Compliance and
- Risk Management

Formal guidance for directors on the implementation of the requirements entitled "Internal Control: Guidance for Directors on the Combined Code", was published in September, 1999 ("the Turnbull guidance"). The board has established the procedures necessary to implement the Turnbull guidance and was fully compliant with it during 2004 and up to the date of approval of the financial statements.

The Audit Committee has reviewed the effectiveness of these systems of internal control and reported thereon to the board.

The board has delegated to executive management the planning and implementation of the systems of internal control within an established framework which applies throughout the group.

The directors have responsibility for maintaining a system of internal control which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and

Corporate Governance

regulations. The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the group. This risk management process is regularly reviewed by the board in accordance with the guidance provided by Turnbull.

The group's business involves the acceptance and management of a range of risks. The group's system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time. The group's key internal control procedures include the following:

- An organisational structure with formally defined lines of responsibility and delegation of authority.
- Established systems and procedures to identify, control and report on key risks. Exposure to these risks is monitored mainly through the operations of the Group Assets and Liabilities Committee and the Group Credit Committee. Their activities are described in the Operating and Financial Review on pages 12 to 14. The terms of reference of these committees, whose members include executive directors and senior management, are reviewed regularly by the board.
- Comprehensive budgeting systems are in place with annual financial budgets prepared and approved by the board. Actual results are monitored and there is regular consideration by the board of progress compared with budgets and forecasts.
- There are clearly defined capital investment control guidelines and procedures set by the board.
- Responsibilities for the management of credit, investment and treasury activities are delegated within limits to line management. In addition, management has been given responsibility to set operational procedures and standards in the areas of finance, legal and regulatory compliance, internal audit, human resources and information technology systems and operations.
- The internal audit function, which is centrally controlled, monitors compliance with the group's policies and standards and the effectiveness of internal control structures across the group. The work of internal audit follows a risk-based approach. The Group Head of Internal Audit reports to the Group Chief Executive and the Audit Committee and has direct access to the Audit Committee. The Audit Committee monitors and reviews the effectiveness of the internal audit activities on an ongoing basis.
- Compliance in the group is controlled centrally under the Group Head of Compliance. Divisional compliance officers are in place in all of the group's operating divisions.
- There is a risk management programme in place in each business throughout the group whereby executive management reviews and monitors, on an ongoing basis, the controls in place, both financial and non financial, to manage the risks facing that business.

The Audit Committee reviews the internal audit, compliance and risk management programmes. The Group Head of Internal Audit and the Group Head of Compliance report regularly to the Audit Committee. In addition the head of each operating division and each group function report to the Audit Committee yearly under the risk management programme.

The Audit Committee also reviews the half-year and annual financial statements and the nature and extent of the external audit. There are formal procedures in place for the external auditors to report findings and recommendations to the Audit Committee. Any significant findings or identified risks are examined so that appropriate action can be taken.

Going Concern

After making appropriate enquiries, the directors consider that the group has adequate resources to continue business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Compliance with 2003 Combined Code

The Irish Stock Exchange and the UK Listing Authority require listed companies to disclose, in relation to section 1 of the 2003 Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year.

The Company has complied fully throughout the most recent accounting period with the provisions set down in Section 1 of the 2003 Combined Code including the application of its principles as set out in this report. The auditor's report within the Annual Report covers their review of the Company's compliance with the provisions of the 2003 Combined Code specified for their review.

Corporate Governance

Attendance at Scheduled Board and Board Committee Meetings for the year ended 31 December 2004

	Board		Audit		Remuneration and Compensation		Nomination	
	A	B	A	B	A	B	A	B
Non-executive Directors								
Gillian Bowler ¹	7	8	–	–	5	5	5	5
Breffni Byrne	4	4	2	2	–	–	–	–
David Byrne	1	1	–	–	–	–	–	–
Danuta Gray	3	3	–	–	–	–	–	–
Eamonn Heffernan	8	8	5	6	5	5	–	–
Philip Lynch	4	8	–	–	3	5	–	–
Kieran McGowan	8	8	6	6	–	–	5	5
Finbar Sheehan	8	8	6	6	–	–	5	5
Roy Douglas ²	3	3	–	–	–	–	1	1
Executive Directors								
David Went	8	8	–	–	–	–	–	–
Denis Casey	8	8	–	–	–	–	–	–
Peter Fitzpatrick	8	8	–	–	–	–	–	–
Brian McConnell	8	8	–	–	–	–	–	–
Kevin Murphy	7	8	–	–	–	–	–	–

Column A indicates the number of scheduled meetings attended during the period the director was a member of the Board and/or the Committee.

Column B indicates the number of scheduled meetings held during the period the director was a member of the Board and/or Committee.

¹Gillian Bowler was a member of the audit committee from February 2004 until June 2004 when she had to retire on becoming Chairman of the Board in compliance with Corporate Governance guidelines; in that period she attended two of the four meetings held.

²Retired 3 June 2004

Directors' Report on Remuneration

This report sets out the remuneration policy for the group's senior executives, including executive directors.

Remuneration and Compensation Committee

The members and role of the Remuneration and Compensation Committee are outlined on page 23 of the report on Corporate Governance.

Remuneration policy

In framing the group's remuneration policy the board confirms that it has complied with the 2003 Combined Code. The group's policy on senior executive remuneration (including executive directors) is to reward executives competitively in order to ensure that the group continues to attract and retain high calibre executives and that they are properly motivated to perform in the best interests of the shareholders. The policy is also designed to ensure that there are adequate succession plans in place.

The Remuneration and Compensation Committee makes recommendations to the board on the group's executive remuneration policy taking into account a number of factors, including the comparative market places in which the group operates and performance relative to these market places. The need to ensure that there is a strong alignment of interest between executives and shareholders is addressed through a combination of rewards which in 2004 included annual bonus and share option schemes. In all cases, rewards are subject to stringent performance criteria. The committee seeks external advice on these matters.

Non-Executive Directors

Non-executive directors are remunerated solely by way of fees in respect of their board membership, full details of which are set out on page 32.

Executive Directors

The remuneration of the executive directors comprises a basic salary, certain benefits, short-term performance bonuses and pension entitlements. In addition, executive directors participate in the group's employee profit sharing and savings related option scheme and in the group's share option schemes. Each of these elements is discussed below and details of the total remuneration are set out on pages 29 to 31.

Basic salary

The basic salary is reviewed annually having regard to competitive market practice.

Benefits

Executive directors are entitled to a company car or a car allowance. The group also pays private health insurance on behalf of these directors and their families. In addition, executive directors may avail of subsidised house purchase loans. Loans to executive directors are on the same terms and conditions as loans to other eligible Irish Life & Permanent management.

Annual bonus

Annual bonus awards in any year are determined by the Remuneration and Compensation Committee by reference to criteria which are set by the committee and by reference to the overall profit performance of the group. The awards to each individual may extend up to 60% of basic salary as at 31 December in any one financial year.

Pensions

There are a number of pension arrangements in place for executive directors:

Irish Permanent Executive Pension Scheme - this is a defined benefit scheme of which Peter Fitzpatrick is a member.

Irish Life Assurance plc pension scheme – Denis Casey, Brian McConnell and Kevin Murphy are members of this defined benefit scheme.

The group contributes to both of these pension schemes. Pension benefits are determined solely in relation to basic salary with the exception of pension benefits for Denis Casey and Kevin Murphy. In accordance with the terms of their contracts of employment when they became employees of the group, Denis Casey's and

Directors' Report on Remuneration

Kevin Murphy's annual bonuses are pensionable but are averaged over a number of years to take account of the variable nature of the payment.

David Went is not a member of any of the group's defined benefit pension schemes. Instead the group makes payments to a defined contribution scheme for his benefit. As this is a defined contribution arrangement with no capitalisation effect, the board agreed to relate these payments to both salary and annual bonus.

Directors' fees from another company

Where an executive director of the group is remunerated for service as a non-executive director of another company and retains such remuneration, the amount of this remuneration is disclosed.

Share option schemes

The group has four share option schemes in place which conform with the guidelines of the Irish Association of Investment Managers and were approved by the shareholders in 1994, 1999, 2000 and 2001. The option schemes are designed to encourage staff and in particular senior executives to identify with shareholder interests. It is current policy to phase the grant of options.

Executive directors, in common with other senior executives hold options under the 1994 and 1999 schemes. These schemes are now closed and no further options can be allocated under them.

Executive directors and other senior executives may participate in the allocation of options under the 2000 scheme. Executives are selected to participate in this scheme based on performance criteria set by the Remuneration and Compensation Committee.

The 2001 scheme is a Revenue approved share option scheme in which all employees including executive directors of the company and certain subsidiaries may participate. Under this scheme 30% of the options may be granted to key employees with the remaining 70% granted on similar terms to the remaining eligible staff. The Remuneration and Compensation Committee selects key employees which may include executive directors based on performance criteria. Key employees have specialist skills, qualifications and relevant experience which are considered vital to the future success of the group.

Options are exercisable under the following circumstances:

- 1994 scheme options are exercisable if the growth in the group's earnings per share ("EPS") exceeds the growth in the Irish Consumer Price Index ("CPI") over any three years following the grant of the options.
- The 1999 scheme was established to replace the unexercised share options which had been granted in Irish Life plc prior to the merger with Irish Permanent plc in 1999. As a result of the merger all of the options granted in Irish Life plc became exercisable and therefore there are no performance criteria applying to these options.
- Under the 2000 scheme, 50% of the options are exercisable only if growth in the group's EPS in the three year period after grant exceeds growth in CPI plus 5% p.a. compounded over the period. The balance of the options are exercisable in equal instalments after the fourth and fifth anniversary of the date of grant subject to growth in EPS in the three year period after grant exceeding growth in CPI plus 10% p.a. compounded and EPS growth being in the top 25% of a peer group of financial service companies.
- Options under the 2001 scheme are exercisable where EPS growth in any three year period after the granting of the options exceeds the increase in CPI plus 5% p.a. compounded.

Options under all of the above schemes are issued at the market price on the day preceding the date of the grant. Options are granted at no consideration. The aggregate exercise price of options granted under the share options schemes may not exceed eight times an executive's emoluments. In total not more than 15% of the issued share capital of the group can be put under option in any ten year period. In addition over any 3 year period the number of shares which may be placed under option may not exceed 4.5% of the group's issued share capital. Options lapse if not exercised within ten years of grant.

Directors' Report on Remuneration

The group also operates a savings related option scheme in which executive directors may participate on the same terms and conditions as all other eligible members of staff. Under the savings related option scheme employees granted an option must enter into a savings contract under which they make a monthly savings contribution for five years. Options are not granted at a discount to the market price prevailing at the date of grant. Options granted to date are exercisable between the fifth anniversary of the grant and May 2006 out of the proceeds of the relevant savings scheme.

Profit-sharing schemes

The group operates Revenue approved employee profit sharing schemes on terms approved by the shareholders. All employees, including executive directors of the company and certain subsidiaries who meet the criteria laid down in the schemes may participate in these schemes.

Directors' service contracts

In accordance with the recommendation of the 2003 Combined Code there are no directors' service contracts with notice periods exceeding 12 months or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits.

Executive Directors' remuneration and pension benefits

The remuneration payable (excluding pension contributions by the group) to executive directors who held office for any part of the financial year is as follows:

	Salary		Annual bonus		Benefit in kind		Other remuneration*		Total	
	2004 €000	2003 €000	2004 €000	2003 €000	2004 €000	2003 €000	2004 €000	2003 €000	2004 €000	2003 €000
David Went	680	630	299	278	25	18	21	20	1,025	946
Denis Casey	309	291	167	160	25	24	16	15	517	490
Peter Fitzpatrick	417	390	240	215	37	32	1	1	695	638
Brian McConnell	300	285	150	157	21	21	14	12	485	475
Kevin Murphy	299	279	161	156	26	25	17	13	503	473
	2,005	1,875	1,017	966	134	120	69	61	3,225	3,022

*Other remuneration includes amounts payable under the group profit share schemes

The cost of executive directors is allocated between the company and its principal subsidiaries based on duties carried out for those companies.

Aggregate remuneration for executive directors amounted to €3.9m (2003: €3.4m) including pension contributions of €0.7m (2003:€0.4m).

In addition to the above Peter Fitzpatrick earned €36,369 (2003:nil) in respect of his non-executive directorship of Jurys Doyle Hotel Group plc.

Normal pension contributions of €0.5m (2003: €0.2m) were paid to the defined benefit schemes. €0.2m (2003: €0.2m) was paid to a defined contribution scheme on behalf of David Went.

Directors' Report on Remuneration

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

	Increase in accrued pension during the year ¹		Transfer value of the increase in accrued pension ²		Total accrued pension ³	
	2004 €000	2003 €000	2004 €000	2003 €000	2004 €000	2003 €000
Denis Casey	18	12	209	125	178	156
Peter Fitzpatrick	16	34	237	418	180	159
Brian McConnell	15	15	283	252	179	160
Kevin Murphy	22	21	356	297	220	193
	71	82	1,085	1,092	757	668

- Increases are after adjustment for inflation and reflect additional pensionable service and earnings.
- The transfer value of the increase in accrued benefits represents the amounts that the pension scheme would transfer to another pension scheme, in relation to the benefits accrued during the year in the event of the member leaving service.
- Total accumulated amounts of accrued benefits payable at normal retirement age.

Executive Directors' share options

Scheme	As at 1 January 2004	Granted during the year	Exercise Price	As at 31 December 2004	Earliest exercise date	Latest exercise date
David Went						
1994	34,965	–	10.90	34,965	21/06/2002	20/06/2009
1994	45,549	–	9.20	45,549	28/03/2003	27/03/2010
2001	35,295	–	13.85	35,295	27/06/2004	26/06/2011
2000	37,912	–	14.85	37,912	18/04/2005	17/04/2012
2000	65,116	–	9.68	65,116	08/04/2006	07/04/2013
2000	–	51,476	13.21	51,476	08/10/2007	07/10/2014
SAYE	1,672	–	12.77	1,672	17/06/2003	27/05/2006
	220,509	51,476		271,985		
Denis Casey						
1994	16,317	–	10.90	16,317	21/06/2002	20/06/2009
1994	21,256	–	9.20	21,256	28/03/2003	27/03/2010
2001	17,418	–	13.85	17,418	27/06/2004	26/06/2011
2000	37,206	–	14.85	37,206	18/04/2005	17/04/2012
2000	30,104	–	9.68	30,104	08/04/2006	07/04/2013
2000	–	23,370	13.21	23,370	08/10/2007	07/10/2014
SAYE	1,672	–	12.77	1,672	17/06/2003	27/05/2006
	123,973	23,370		147,343		
Peter Fitzpatrick						
1994	23,310	–	10.90	23,310	21/06/2002	20/06/2009
1994	28,571	–	9.20	28,571	28/03/2003	27/03/2010
2001	21,544	–	13.85	21,544	27/06/2004	26/06/2011
2000	22,114	–	14.85	22,114	18/04/2005	17/04/2012
2000	40,310	–	9.68	40,310	08/04/2006	07/04/2013
2000	–	31,590	13.21	31,590	08/10/2007	07/10/2014
	135,849	31,590		167,439		

Directors' Report on Remuneration

Scheme	As at 1 January 2004	Granted during the year	Exercise Price	As at 31 December 2004	Earliest exercise date	Latest exercise date
Brian McConnell						
1999	60,850	–	14.03	60,850	06/05/2001	19/05/2006
1994	14,569	–	10.90	14,569	21/06/2002	20/06/2009
1994	24,293	–	9.20	24,293	28/03/2003	27/03/2010
2001	17,418	–	13.85	17,418	27/06/2004	26/06/2011
2000	17,256	–	14.85	17,256	18/04/2005	17/04/2012
2000	29,484	–	9.68	29,484	08/04/2006	07/04/2013
	<u>163,870</u>	–		<u>163,870</u>		
Kevin Murphy						
1994	18,648	–	10.90	18,648	21/06/2002	20/06/2009
1994	22,912	–	9.20	22,912	28/03/2003	27/03/2010
2001	17,418	–	13.85	17,418	27/06/2004	26/06/2011
2000	17,930	–	14.85	17,930	18/04/2005	17/04/2012
2000	28,864	–	9.68	28,864	08/04/2006	07/04/2013
2000	–	22,620	13.21	22,620	08/10/2007	07/10/2014
	<u>105,772</u>	22,620		<u>128,392</u>		

There were no options exercised in 2004. The market price of the shares at 31 December 2004 was €13.65 (31 December 2003: €12.75) and the price range during 2004 was €12.00 to €14.05 (2003: €8.55 to €12.80).

Directors' Report on Remuneration

Non-Executive Directors' Remuneration

Fees paid to non-executive directors are reviewed annually. Non-executive directors who perform additional services outside the normal duties of a director may receive additional fees. In particular the chairman of the Audit Committee receives an additional annual fee of €15,700 (2003: €15,000) in recognition of the additional workload and responsibilities undertaken by him.

The remuneration payable in respect of each non-executive director is as follows:

	Notes	2004 €000	2003 €000
Gillian Bowler	1	155	55
Breffni Byrne	2	25	–
David Byrne	2	3	–
Danuta Gray	2	19	–
Eamonn Heffernan	3	57	45
Philip Lynch	3	57	45
Kieran McGowan		57	55
Finbar Sheehan	4	73	64
Roy Douglas	5	95	215
Monty Hilkowitz	6	–	22
Richard Hooper	6	–	22
Patrick Kenny	6	–	22
Patrick O'Neill	6	–	28
Muriel Scorer	6	–	22
		541	595

Notes

1. Gillian Bowler was appointed Chairman on 3 June 2004.
2. Breffni Byrne, David Byrne and Danuta Gray were appointed to the board on 27 July 2004, 15 December 2004 and 31 August 2004 respectively.
3. Eamonn Heffernan and Philip Lynch were appointed to the board on 4 March 2003.
4. Finbar Sheehan's remuneration includes €15,700 (2003:€9,000) in respect of his role as Chairman of the Audit Committee.
5. Roy Douglas retired from the board on 3 June 2004.
6. Monty Hilkowitz, Richard Hooper, Patrick Kenny, Patrick O'Neill and Muriel Scorer retired from the board on 23 May 2003. Patrick O'Neill's remuneration includes €6,000 in respect of his role as Chairman of the Audit Committee for the period up to 23 May 2003.

Statement of Directors' Responsibilities

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

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

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable them to ensure that the financial statements comply with Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

On behalf of the Board

Gillian Bowler
Chairman

David Went
Group Chief Executive

Peter Fitzpatrick
Group Finance Director

Ciarán Long
Company Secretary

21 March 2005

Independent Auditors' Report to the Members of Irish Life & Permanent plc

We have audited the financial statements on pages 36 to 94.

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

Respective responsibilities of directors and independent auditors

The directors are responsible for preparing the Annual Report. As described on page 33, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange, and by our profession's ethical guidance.

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

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

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

We review whether the statement on page 25 reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Independent Auditors' Report to the Members of Irish Life & Permanent plc

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the group and the company as at 31 December 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts.

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

In our opinion, the information given in the directors' report on pages 20 to 21 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 45, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.



Chartered Accountants
Registered Auditors
1 Harbourmaster Place,
IFSC,
Dublin 1

21 March 2005

Group Accounting Policies

(i) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention in accordance with the provisions of the Companies Acts, 1963 to 2003, and the European Communities (Credit Institutions: Accounts) Regulations, 1992. The financial statements comply with applicable financial reporting standards, together with the Statements of Recommended Practice issued jointly by the British Bankers' Association and the Irish Bankers' Federation, as modified by the revaluation of certain investments and the inclusion of embedded value (achieved profit) earnings of life assurance in-force business.

The consolidated profit and loss account and balance sheet follow the format prescribed under the provisions of the Companies Acts, 1963 to 2003, and the European Communities (Credit Institutions: Accounts) Regulations, 1992, but have been modified where necessary to present a true and fair view of the financial results and position of the group. Specifically, the formats have been developed having regard to the differences between accounting for banking and life assurance activities. In this regard, the banking and life assurance activities have been separately classified in the profit and loss account and balance sheet. Where appropriate, information relating to life assurance activities has been presented in a manner consistent with the provisions of the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

Earnings generated by the life assurance business are presented in accordance with the Association of British Insurers' paper of December 2001 'Supplementary Reporting for Long Term Insurance Business (The Achieved Profits Method)'.

A separate profit and loss account for the company is not presented as permitted by European Communities (Credit Institutions: Accounts) Regulations, 1992.

(ii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Irish Life & Permanent plc and its subsidiaries together with the group's share of the results and relevant reserves of associated companies. The results of subsidiaries acquired other than the combination of Irish Permanent plc and Irish Life plc are included in the consolidated profit and loss account from the date of acquisition.

The combination of the businesses of Irish Life plc and Irish Permanent plc, under the criteria of Financial Reporting Standard No. 6 "Acquisitions and Mergers", has been included in the consolidated financial statements using merger accounting rules. The merger adjustment, which is the difference between the fair value of the shares issued to effect the merger and the nominal value of the shares acquired, is dealt with on consolidation through reserves.

All inter-group transactions are eliminated on consolidation, save for those transactions and balances between life assurance activities and banking and other activities, which are presented within the appropriate headings under the Credit Institutions and Insurance Undertakings Regulations.

(iii) Shareholders' value of in-force business

The shareholders' value of in-force business is the present value, net of taxation, of future statutory surpluses attributable to shareholders, expected to arise from the principal life assurance businesses. This is reduced by the cost of maintaining the statutory minimum solvency margin.

The value of in-force business is determined by actuaries employed by the group in consultation with independent actuaries Watson Wyatt LLP.

Assumptions regarding future rates of mortality, morbidity, persistency, taxation, investment returns and expense levels are based on the recent experience of the business, taking account of current economic conditions.

The risk discount rate used to calculate the shareholders' value of in-force business is a combination of a discount rate to reflect the time value of money and a risk margin to make prudent allowance for the risk that experience in future years may differ from the assumptions.

Under statutory accounting for life assurance business both the direct and indirect costs of obtaining and processing new business are deferred as a deferred acquisition cost asset and amortised against the margins arising from the related policy. In reporting on an embedded value basis these deferred acquisition costs are included within the shareholders' value of in-force business with the related amortisation being treated as a movement in the shareholders' value of in-force business.

(iv) Embedded Value

The results of life assurance activities have been presented on an embedded value basis and in accordance with the achieved profits method. The embedded value is the sum of the net assets attributable to shareholders

Group Accounting Policies

and the shareholders' interest in the value of the in-force life assurance business. The shareholders' interest in the value of the in-force business is included as an asset on the balance sheet and the movement in this asset is reflected in the profit and loss account.

The embedded value profits of the life assurance activities are calculated on an after tax basis and are grossed up for tax at the effective rate of corporation tax applicable in each territory. The excess of the embedded value profit for the financial period over the statutory surplus transferred to shareholders is taken to a non-distributable reserve.

(v) Premium income and claims recognition

Premiums are accounted for in the same period in which the liabilities arising from those premiums are established.

Claims are accounted for when paid, or if earlier, on the date when the policy ceases to be included within the calculation of technical provisions.

(vi) Life assurance technical provisions

The technical provisions include the life assurance provision for the non-linked liabilities, the provisions in respect of linked liabilities and statutory surpluses which have not been allocated to shareholders or policyholders. These provisions are determined by the appointed actuaries as part of the annual investigation of the life assurance business. Changes in the technical provisions are included in the profit and loss account.

Statutory surpluses are determined by the appointed actuary of each life assurance subsidiary following their annual investigation. The boards of directors, acting upon the advice of the appointed actuaries, allocate a proportion of the statutory surplus to policyholders through an appropriation of declared bonuses and transfer a proportion of the statutory surplus to shareholders.

(vii) Income and expense recognition

Interest income and expenses together with fees and commissions receivable are recognised on an accruals basis.

Expenses are, in general, charged to the profit and loss account as accrued. Commissions paid to intermediaries in respect of certain lending business are charged to the profit and loss account over three years. In certain other cases, expenses incurred in setting up banking transactions are also deferred and charged to the profit and loss account over the lives of the underlying transactions.

(viii) Pension costs

The charge to the profit and loss account in respect of the group's defined benefit staff pension schemes is calculated on a basis which spreads the pension costs over the service lives of scheme members on the basis of a level percentage of pensionable pay. Variations from regular costs arising from periodic actuarial valuations are allocated to operating profit over the expected remaining service lives of the employees.

The cost of the group's defined contribution schemes are charged to the profit and loss account in the period in which they are incurred.

(ix) Share options

The intrinsic value of share options granted to employees is charged to the profit and loss account over the vesting period of the options. Intrinsic value is the difference between the exercise price of the option and the market value of the shares concerned at the date of grant. All options to date were granted at the market value at date of grant and so no charge has arisen.

(x) Foreign currencies

Assets and liabilities in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date or at the exchange rate in a related forward foreign exchange contract where such a contract exists.

Exchange differences arising from the translation of opening net assets of overseas subsidiaries and associated undertakings to closing rate and of their results from average to closing rates are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

All other exchange differences are included in the profit and loss account.

(xi) Investments

The accounting policies for the various categories of investments are as follows:

Listed investments

Listed investments included in the group's life assurance activities and debt securities held for trading

Group Accounting Policies

purposes are stated at market value. Realised and unrealised gains and losses on these investments are taken to the profit and loss account.

Other listed investments, with the exception of debt securities held as part of the bank's financial hedging policy, are shown in the balance sheet at the lower of cost or market value.

Debt securities, held as part of the bank's financial hedging policy, are included in the balance sheet at cost, adjusted for the amortisation to redemption of discounts or premiums on acquisition.

Unlisted investments

Unlisted investments included in the group's life assurance activities are shown in the balance sheet at directors' valuation. Realised and unrealised gains and losses on these investments are taken to the profit and loss account. Other unlisted investments are stated at the lower of cost and directors' valuation.

Investment properties

All properties held by the group's life assurance activities are treated as investment properties whether or not occupied by the group and are not depreciated. They are revalued annually by external valuers and any surplus or deficit accruing is recognised in the profit and loss account.

Other investment properties are not depreciated and are revalued annually by the directors and at least every 3 years by an external valuer. Surpluses on revaluations are taken to a revaluation reserve. Any deficit or the reversal of a deficit on revaluation is transferred to a revaluation reserve if it is temporary, or to the profit and loss account if it is permanent.

The directors consider that the accounting policy adopted for the valuation of investments, as set out above, is necessary for the accounts to give a true and fair view. The accounting policy departs from the European Communities (Credit Institutions: Accounts) Regulations, 1992 to the extent that investment properties are not depreciated and that assets included in the group's life assurance activities are valued at market value. This policy is appropriate for insurance assets as prescribed in the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 and is in line with market practice in the insurance industry. Under SSAP 19 investment properties held by the banking operations are included at market value.

(xii) Tangible fixed assets

Freehold premises and leasehold premises with unexpired terms in excess of 50 years were revalued as at 30 June 2003, in accordance with FRS 15 'Tangible Fixed Assets'. The resulting increase in value was transferred to a revaluation reserve. The revalued premises, excluding the land element, have been depreciated over their estimated useful lives from 1 July 2003. Prior to 30 June 2003 freehold and leasehold premises were stated at cost and were not depreciated as depreciation was not material.

All other tangible assets, including leasehold premises with unexpired terms of less than 50 years, are stated at cost less accumulated depreciation. Depreciation is calculated to write off the costs of such assets over their estimated useful lives.

(xiii) Taxation

Corporation tax payable is provided on taxable profits at current taxation rates.

Deferred tax is provided on all timing differences except for retained reserves in overseas subsidiaries and revaluation of fixed assets, with deferred tax assets being recognised when it is likely that they will be recovered. Allowance is made for deferred taxation, at appropriate discounted rates, in the technical provisions, in respect of unrealised gains on investments held to cover life assurance unit linked liabilities.

(xiv) Provisions for bad and doubtful debts

Specific provisions for bad and doubtful debts are made as a result of a detailed period end appraisal of risk. In addition, general provisions are made on a portfolio by portfolio basis to cover the risks, which although not specifically identified are known from experience to exist in the various portfolios. Provisions made during the period, less existing provisions no longer required, and recoveries of bad debts previously written off are charged against profits.

(xv) Non performing lending

An advance becomes non-performing when interest ceases to be credited to the profit and loss account.

Where the customer continues to operate the account, but where there is doubt about the payment of interest, interest continues to be charged to the customer's account, but it is not applied to income. Interest is placed in a suspense account and only taken to income if it is received.

Group Accounting Policies

In those cases where the operation of the customer's account has ceased and it has been transferred to a specialist recovery department, the advance is written down to its estimated realisable value and interest is no longer charged to the customer's account as its recovery is considered unlikely. Thereafter interest is only taken to income if it is received.

(xvi) Interests in subsidiary undertakings

Interests in subsidiary undertakings are stated in the company balance sheet at cost, less amounts written off where an impairment in value is considered to have occurred.

(xvii) Goodwill

Goodwill arising on the acquisition of shares in subsidiary and associated undertakings after 31 December 1996 is capitalised and amortised on a straight line basis over its estimated useful life. Prior to 31 December 1996, goodwill was written off against reserves in the year of acquisition. Goodwill written off against reserves in the year of acquisition is charged to the profit and loss account on subsequent disposal of the business to which it relates. Goodwill is shown as a single line in the accounts and is not attributed to either banking or life activities.

(xviii) Leasing arrangements

Expenditure on operating leases is charged to the profit and loss account on a straight line basis over the lease period. Leasing income is credited to interest income on a net cash investment basis.

(xix) Off balance sheet financial instruments

Off balance sheet financial instruments are used within the group's banking activities for hedging purposes and primarily comprise interest rate swaps, cross currency swaps and future rate agreements. Profits and losses arising from hedging activities are recognised in accordance with the underlying transactions.

Off balance sheet financial instruments that cease to be non-trading hedges as a result of the underlying item or position being derecognised are remeasured at fair value before being reclassified as trading. In common with the derecognised item or position, the income or expense generated from the related hedge, including any associated deferred income or expense, is recognised in full in the period. Where the reclassification from non-trading to trading takes place, the fair value on the date of transfer becomes the cost of the trading transaction.

Within the group's life assurance activities, off balance sheet instruments are used as one element of efficient portfolio management and are valued at the market rates ruling at the balance sheet date.

(xx) Netting

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

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

(xxi) Securitised assets

Securitised assets are included in the balance sheet at their gross amount less non-recourse funds received on securitisation where the group has retained significant rights to benefits and exposure to risk, but where the group's maximum loss is limited to a fixed monetary amount. The income accruing from securitised assets is included in net interest income.

(xxii) Purchases and sales of own shares

The group has implemented UITF Abstract 37, "Purchases and sales of own shares" under which listed entities which hold their own shares are required to account for them as a deduction in arriving at shareholders' funds rather than as an asset. Where as permitted under Irish legislation, a subsidiary of the group holds Irish Life & Permanent plc shares for the benefit of policyholders these shares are required to be treated as though they were purchased by the company for its own benefit and treated as treasury shares.

As required by the UITF Abstract, the cost of the shares has been deducted from shareholders funds. This deduction is presented as a separate line on the balance sheet. The related assets and liabilities on the balance sheet have been accordingly restated. No net profit or loss impact arises.

Group Profit and Loss Account

year ended 31 December 2004

	Notes	2004 €m	2003 €m
Banking and other activities			
Interest receivable and similar income	6	847.6	712.0
Interest payable and similar charges	7	(498.3)	(380.1)
Net interest income		349.3	331.9
Fees and commission receivable		44.5	45.0
Fees and commission payable		(40.7)	(34.9)
Dealing profits		5.8	6.1
Other banking income	8	3.1	28.5
Income from other activities		6.9	6.1
		368.9	382.7
Administrative expenses	9	(237.1)	(240.5)
Provision for bad and doubtful debts	11	(9.3)	(13.4)
Profit arising from banking and other activities		122.5	128.8
Life assurance activities			
Earned premiums			
Continuing operations		3,622.2	2,307.5
Discontinued operations – USA		–	60.8
	12	3,622.2	2,368.3
Investment return	13	1,838.2	1,625.7
Increase in shareholders' value of in-force business		123.2	40.6
Claims incurred	14	(1,336.4)	(1,191.9)
Change in other technical provisions			
Non unit linked business		(94.8)	(3.3)
Unit linked business		(3,564.6)	(2,306.1)
Operating expenses	9	(291.2)	(317.2)
Tax attributable to life assurance activities	15	(34.5)	(25.9)
Profit arising from life assurance activities after taxation		262.1	190.2
Tax attributable to the profit on life assurance activities	15	26.5	8.3
Profit arising from life assurance activities before taxation	2	288.6	198.5
Goodwill	10	(11.6)	(13.8)
Profit arising from operating activities			
Continuing operations		399.5	312.5
Discontinued operations – USA		–	1.0
		399.5	313.5

Group Profit and Loss Account

year ended 31 December 2004

	Notes	2004 €m	2003 €m
Profit arising from operating activities brought forward		399.5	313.5
Share of profits of associated undertaking		65.2	43.2
		464.7	356.7
Profit on disposal of Irish Estates Management	4	19.0	–
Profit on disposal of tangible fixed assets	4	2.1	3.2
Loss arising on disposal of US business	4	–	(50.3)
Profit on ordinary activities before taxation	2	485.8	309.6
Tax on profit on ordinary activities	15	(73.6)	(48.1)
		412.2	261.5
(Profit)/loss attributable to minority interests		(1.0)	0.3
Profit for the financial year after taxation		411.2	261.8
Dividends – interim paid	16	(44.5)	(40.6)
Dividends – final proposed	16	(103.8)	(97.0)
Profit retained for the financial year		262.9	124.2
Transfer to non-distributable reserve	42	(172.5)	(59.9)
Release of revaluation reserve	41	1.1	–
Profit retained brought forward		356.7	292.4
Profit retained carried forward		448.2	356.7
Earnings per share (cent)	17	156.4	99.5
Fully diluted earnings per share (cent)	17	155.4	99.3
Earnings per share including own shares held for the benefit of life assurance policyholders (cent)	17	152.5	97.2
Earnings per share based on total contribution including own shares held for the benefit of life assurance policyholders (cent)	17	120.0	111.6

An analysis between continuing and discontinuing activities is provided in note 51.

On behalf of the Board

Gillian Bowler
Chairman

David Went
Group Chief Executive

Peter Fitzpatrick
Group Finance Director

Ciarán Long
Company Secretary

Group Balance Sheet

as at 31 December 2004

	Notes	2004 €m	2003 €m
ASSETS			
Attributable to banking and other activities			
Cash and balances at central banks		128.2	187.0
Government bills and other eligible bills	20	–	86.8
Loans and advances to credit institutions	21	2,823.7	2,781.2
Loans and advances to customers	22	18,810.0	16,027.5
Securitised assets – mortgage assets		2,225.4	1,098.7
Less: non recourse funding		(2,193.2)	(1,076.1)
	23	32.2	22.6
Debt securities – listed	20	3,223.5	2,600.6
Interest in associated undertaking	25	129.5	90.8
Investment properties	26	21.5	23.6
Tangible fixed assets	27	210.8	221.3
Other assets/debtors			
– Amounts falling due within one year	28	122.5	175.7
– Amounts falling due after one year	28	17.1	17.8
Prepayments and accrued income	29	237.8	212.5
Total assets attributable to banking and other activities		25,756.8	22,447.4
Attributable to life assurance activities			
Investments:			
Investment properties	26	93.3	97.8
Equity shares and units in unit trusts	24	143.8	148.4
Debt and other fixed income securities	30	1,748.1	1,651.0
Loans secured by mortgages and policies		4.7	3.1
Deposits with credit institutions		597.4	602.0
		2,587.3	2,502.3
Assets held to cover linked liabilities		16,393.5	12,847.4
Shareholders' value of in-force business		992.6	878.3
Reinsurer's share of technical provisions		1,443.5	1,298.3
Other assets/debtors			
– Amounts due within one year	28	125.0	127.0
– Amounts falling due after one year	28	68.0	64.9
Tangible fixed assets	27	69.9	45.3
Cash at bank		98.3	49.9
Prepayments and accrued income		31.9	51.8
Total assets attributable to life assurance activities		21,810.0	17,865.2
Intangible assets			
Goodwill on acquisition	31	186.0	197.6
Total assets		47,752.8	40,510.2

Group Balance Sheet

as at 31 December 2004

	Notes	2004 €m	2003 €m
LIABILITIES			
Attributable to banking and other activities			
Deposits by credit institutions	32	1,082.3	2,759.0
Customer accounts	33	11,927.0	10,060.4
Debt securities in issue	34	10,944.1	8,081.4
Other liabilities/creditors			
– Amounts falling due within one year	37	65.6	43.5
Accruals	38	198.4	198.5
Dividends	16	103.8	97.0
Provision for liabilities and charges	35	9.9	20.8
Subordinated liabilities	39	933.9	793.9
Total liabilities attributable to banking and other activities		25,265.0	22,054.5
Attributable to life assurance activities			
Life assurance technical provisions	36	3,415.3	3,176.8
Technical provision for linked liabilities	36	16,457.8	12,902.0
Other liabilities/creditors			
– Amounts falling due within one year	37	256.5	274.7
– Amounts falling due after one year	37	5.0	–
Accruals	38	43.4	43.8
Provision for deferred taxation	35	–	1.3
Total liabilities attributable to life assurance activities		20,178.0	16,398.6
Capital and reserves			
Share capital	40	86.3	86.2
Share premium	40	51.9	51.2
Other capital reserves	40	6.9	6.9
Revaluation reserve	41	77.3	80.6
Profit and loss account	42	448.2	356.7
Non-distributable reserve	42	1,694.7	1,522.3
		2,365.3	2,103.9
Own shares held for the benefit of life assurance policyholders		(64.3)	(54.6)
Shareholders' funds attributable to equity interests		2,301.0	2,049.3
Equity minority interests – life assurance activities		8.8	7.8
Total liabilities		47,752.8	40,510.2

On behalf of the Board

Gillian Bowler
Chairman

David Went
Group Chief Executive

Peter Fitzpatrick
Group Finance Director

Ciarán Long
Company Secretary

Group Off Balance Sheet Memorandum Items

as at 31 December 2004

	Notes	2004 €m	2003 €m
Contingent Liabilities			
Guarantees and irrevocable letters of credit	50	4.7	5.3
Commitments	50	365.1	322.9

Statement of Total Recognised Gains and Losses

year ended 31 December 2004

	Notes	2004 €m	2003 €m
Profit for the financial year		411.2	261.8
(Losses)/gains on revaluation of tangible fixed assets	41	(2.2)	80.6
Exchange adjustments on investment in overseas subsidiaries net of exchange adjustments on related foreign currency borrowings		(0.1)	(3.0)
Total recognised gains and losses relating to the year		408.9	339.4

Reconciliation of Movement in Shareholders' Funds

year ended 31 December 2004

	2004 €m	2003 €m
At 1 January	2,049.3	1,844.4
Total recognised gains and losses	408.9	339.4
Dividends paid and proposed	(148.3)	(137.6)
Issue of share capital	0.8	1.9
Change in cost of own shares held for the benefit of life assurance policyholders	(9.7)	1.2
At 31 December	2,301.0	2,049.3

On behalf of the Board

Gillian Bowler
Chairman

David Went
Group Chief Executive

Peter Fitzpatrick
Group Finance Director

Ciarán Long
Company Secretary

Company Balance Sheet

as at 31 December 2004

	Notes	2004 €m	2003 €m
Assets			
Cash and balances at central banks		125.6	183.4
Government bills and other eligible bills	20	–	86.8
Loans and advances to credit institutions	21	2,822.8	2,647.6
Loans and advances to customers	22	18,601.4	15,947.4
Securitised assets – mortgage assets		217.1	272.7
Less: non recourse funding		(202.0)	(258.5)
	23	15.1	14.2
Debt securities – listed	20	3,223.5	2,600.6
Investment in subsidiary undertakings	25	2,848.0	2,851.0
Investment properties	26	21.5	23.6
Tangible fixed assets	27	205.8	215.0
Intangible assets	31	159.7	169.5
Other assets/debtors			
– Amounts falling due within one year	28	117.3	176.0
– Amounts falling due after one year	28	17.1	17.8
Prepayments and accrued income	29	193.7	152.3
Total assets		28,351.5	25,085.2
Liabilities			
Deposits by credit institutions	32	1,077.0	2,755.0
Customer accounts	33	11,824.4	10,050.4
Debt securities in issue	34	10,944.1	8,081.4
Other liabilities/creditors	37	49.9	28.8
Accruals	38	184.1	154.2
Dividends	16	103.8	97.0
Provision for liabilities and charges	35	7.9	9.3
Subordinated liabilities	39	933.9	793.9
		25,125.1	21,970.0
Capital and reserves			
Share capital	40	86.3	86.2
Share premium	40	2,749.9	2,749.2
Other capital reserves	40	7.4	7.4
Revaluation reserve	41	77.3	80.6
Profit and loss account	42	305.5	191.8
		3,226.4	3,115.2
Total liabilities		28,351.5	25,085.2

Company Off Balance Sheet Memorandum Items

as at 31 December 2004

	Notes	2004 €m	2003 €m
Contingent Liabilities			
Guarantees and irrevocable letters of credit	50	17.7	5.3
Commitments	50	365.1	322.9

On behalf of the Board

Gillian Bowler
Chairman

David Went
Group Chief Executive

Peter Fitzpatrick
Group Finance Director

Ciarán Long
Company Secretary

Group Cash Flow Statement

year ended 31 December 2004

	Notes	2004 €m	2003 €m
Net cash inflow / (outflow) from banking and other activities	43	54.4	(989.6)
Net cash inflow from life assurance activities	43	148.6	43.3
Net cash inflow / (outflow) from operating activities		203.0	(946.3)
Dividends received from associated undertaking		15.7	–
Returns on investment and servicing of finance			
Interest paid on subordinated liabilities		(41.4)	(38.4)
Taxation			
Tax paid		(35.7)	(44.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(18.6)	(19.9)
Sale of tangible fixed assets		9.2	12.2
Acquisitions and disposals			
Sale of Irish Estates Management Limited		20.9	–
Equity dividends paid		(141.5)	(129.7)
Financing			
Shares issued		0.8	1.9
Issue of subordinated liabilities		143.5	159.7
Increase / (decrease) in cash		155.9	(1,004.9)

Notes to the Group Financial Statements

year ended 31 December 2004

1. Changes in accounting policies & presentation of information

The accounting policies are unchanged from 2003.

2. Analysis of the profit and loss account: supplementary information

The profit before tax includes the results of the life business on an embedded value basis and reflects the impact of investment market fluctuations on the group's results. The following analyses show:

- (a) The contribution from the group and associate company on the basis of an assumed longer term level of investment return on the assets of the group's life and the associate company's general insurance business and before goodwill and other charges/credits.
- (b) An analysis of the components of the embedded value earnings of the life business.

(a) Contribution before short-term investment fluctuations, goodwill and other charges/credits

	Ireland €m	2004 UK €m	Total €m
<i>Continuing Operations</i>			
Life assurance activities (b)	205.0	10.1	215.1
Banking and other activities	90.9	31.6	122.5
Group Contribution	295.9	41.7	337.6
Share of associate's contribution	62.6	–	62.6
Total Contribution	358.5	41.7	400.2

	Ireland €m	2003 UK €m	Total €m
<i>Continuing Operations</i>			
Life assurance activities (b)	183.7	6.0	189.7
Banking and other activities	103.2	25.6	128.8
Group contribution	286.9	31.6	318.5
Share of associate's contribution	45.2	–	45.2
Total Contribution – Continuing Operations	332.1	31.6	363.7
Discontinued US life operations			1.5
Total Contribution			365.2

The total contribution is reconciled to the profit and loss account as follows:

	2004 €m	2003 €m
Total contribution	400.2	365.2
Short term investment fluctuations		
Life assurance	26.9	27.5
Share of associate company	2.6	(2.0)
Goodwill amortisation	(11.6)	(13.8)
Effect of economic assumption changes on life assurance profits	46.6	(20.2)
Other (charges)/credits	21.1	(47.1)
Profit before tax	485.8	309.6

Notes to the Group Financial Statements

year ended 31 December 2004

2. Analysis of the profit and loss account : supplementary information (continued)

(b) Analysis of contribution from life assurance activities

	Ireland €m	2004 UK €m	Total €m
<i>Continuing Operations</i>			
New business contribution	52.0	2.8	54.8
Contribution from existing business			
Unwind of discount rate	91.7	8.0	99.7
Experience variances	13.1	(5.1)	8.0
Development expenditure	(4.6)	–	(4.6)
Operating assumption changes	42.0	2.5	44.5
Expected investment returns	2.3	1.9	4.2
Other income	8.5	–	8.5
Contribution from life assurance activities	205.0	10.1	215.1
Short term fluctuations in investment returns			26.9
Effect of economic assumption changes			46.6
Life assurance achieved profits			288.6

	Ireland €m	2003 UK €m	Total €m
<i>Continuing Operations</i>			
New business contribution	42.0	3.7	45.7
Contribution from existing business			
Unwind of discount rate	80.2	8.9	89.1
Experience variances	23.6	(6.1)	17.5
Development expenditure	(11.3)	–	(11.3)
Operating assumption changes	39.0	(1.5)	37.5
Expected investment returns	3.9	1.0	4.9
Other income	6.3	–	6.3
Contribution from life assurance activities	183.7	6.0	189.7
Contribution from discontinued US life assurance activities			1.5
Short term fluctuations in investment returns			27.5
Effect of economic assumption changes			(20.2)
Life assurance achieved profits			198.5

Notes to the Group Financial Statements

year ended 31 December 2004

3. Analysis of shareholder net assets

	2004 €m	2003 €m
Life assurance		
Ireland	1,611.7	1,439.5
UK	84.6	81.7
	<hr/> 1,696.3	<hr/> 1,521.2
Banking and other activities		
Ireland	315.3	262.7
UK	47.0	39.4
	<hr/> 362.3	<hr/> 302.1
Associated undertaking	129.5	90.8
Attributable to goodwill	186.0	197.6
Minority Interest - life assurance activities	(8.8)	(7.8)
	<hr/> 2,365.3	<hr/> 2,103.9
Shareholders' funds		
Deduction in respect of own shares held for the benefit of life assurance policyholders	(64.3)	(54.6)
	<hr/> 2,301.0	<hr/> 2,049.3

Life assurance assets are analysed as follows:

	2004 €m	2003 €m
Shareholders' net assets (life assurance activities)		
Property	92.7	89.8
Equities	10.6	27.0
Fixed interest	20.4	18.4
Deposits	444.8	417.5
Other assets	135.2	90.2
	<hr/> 703.7	<hr/> 642.9
Shareholders' value of in-force business	992.6	878.3
	<hr/> 1,696.3	<hr/> 1,521.2

The value of in-force business excludes the solvency capital attributable to shareholders of €330.2m (2003: €276.1m).

Shareholders' value of in-force is net of a deduction of €74.6m (2003: €47.0m) in respect of the cost of maintaining the solvency margin.

Notes to the Group Financial Statements

year ended 31 December 2004

4. Other Charges/Credits

(a) Disposal of Irish Estates Management Limited

On 23 December 2004 the group sold its property management subsidiary Irish Estates Management Limited to a group of private and institutional investors. The profit on the disposal of this business was as follows:

	€m
Carrying value prior to disposal*	0.6
Consideration (net)	<u>19.6</u>
	<u>19.0</u>

* After declaration of a special dividend of €3.5m

No taxation charge arose on this transaction. The group profit arising from operating activities in 2004 includes €2.2m attributable to Irish Estates Management Limited (2003: €1.8m).

(b) Disposal of tangible fixed assets

As part of the integration and restructuring of the group's banking operations the group disposed of a number of branch properties. The profit realised on these sales was €2.1m (2003: €3.2m). The related taxation charge was €0.4m (2003: €1.0m).

(c) Disposal of US business

The group disposed of its remaining US subsidiary, Guarantee Reserve Life Insurance Company in 2003. The loss on the disposal of the business was €50.3m. No taxation charge arose.

5. New life assurance business

	2004 €m	2003 €m
New business premiums at full value		
Ireland		
Recurring	207.3	167.7
Single	2,489.8	1,482.5
United Kingdom		
Recurring	1.9	1.9
Single	18.0	18.0
USA (Discontinued)		
Recurring	–	17.5
	<u>2,717.0</u>	<u>1,687.6</u>
Annual premium equivalent		
Ireland	456.3	316.0
UK	3.7	3.7
USA (Discontinued)	–	17.5
	<u>460.0</u>	<u>337.2</u>

Annual premium equivalent is calculated by weighting single premium business written at 10% of premium and annual premium business at 100% of premium.

Notes to the Group Financial Statements

year ended 31 December 2004

6. Interest receivable and similar income

	2004 €m	2003 €m
Loans and advances to customers	629.9	510.4
Loans and advances to credit institutions	101.9	49.2
Debt securities and other fixed income securities	54.0	88.4
Lease and instalment finance	61.8	64.0
	847.6	712.0

7. Interest payable and similar charges

	2004 €m	2003 €m
Interest on deposits by banks and customer accounts	187.9	160.5
Interest on debt securities in issue	266.7	181.2
Interest on subordinated liabilities	43.7	38.4
	498.3	380.1

8. Other banking income

Other banking income in 2003 includes €26.0m realised profits on the disposal of debt securities as part of a strategy to reposition the portfolio in response to the reduction in market interest rates.

9. Operating and administrative expenses

	2004 €m	2003 €m
(a) Attributable to banking and other activities		
Banking operating expenses	224.8	227.1
Corporate costs	7.6	9.1
Other activities	4.7	4.3
	237.1	240.5
(b) Attributable to life assurance activities		
Life assurance operating expenses	198.0	210.6
Acquisition expenses	83.4	90.9
Corporate costs	5.2	4.4
Development expenditure	4.6	11.3
	291.2	317.2

Notes to the Group Financial Statements

year ended 31 December 2004

10. Statutory and other disclosures

	2004 €m	2003 €m
Auditors' remuneration (including VAT)		
– Audit services	1.2	1.1
– Audit related services	0.6	0.8
– Non-audit services	0.3	0.6
Depreciation	40.3	34.8
Operating lease rentals - land & buildings	6.6	6.7
Goodwill - amortisation	11.6	11.7
– impairment	–	2.1
Gains on disposal of tangible fixed assets	2.1	3.1

11. Provision for bad and doubtful debts

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
At 1 January	91.7	85.6	70.9	66.1
Charged to the profit and loss account	9.3	13.4	3.4	7.5
Amounts written off	(6.2)	(7.3)	(3.0)	(2.7)
At 31 December	94.8	91.7	71.3	70.9
The closing balance is made up as follows:				
Specific	39.3	37.3	25.2	24.9
General	55.5	54.4	46.1	46.0
Total	94.8	91.7	71.3	70.9

The analysis of the group's provisions for bad and doubtful debts by category of loans and advances to customers is as follows:

	2004		Total €m
	Specific €m	General €m	
Residential mortgage loans	2.8	36.7	39.5
Commercial mortgage loans	3.1	5.8	8.9
Other loans	33.4	13.0	46.4
Closing provision at 31 December 2004	39.3	55.5	94.8

	2003		Total €m
	Specific €m	General €m	
Residential mortgage loans	2.0	35.6	37.6
Commercial mortgage loans	3.2	5.8	9.0
Other loans	32.1	13.0	45.1
Closing provision at 31 December 2003	37.3	54.4	91.7

Notes to the Group Financial Statements

year ended 31 December 2004

12. Earned premiums

	2004 €m	2003 €m
<i>Gross premiums written:</i>		
Analysed by class of business:		
Individual premiums		
Recurring	625.8	670.5
Single	958.8	868.5
Premiums under group contracts		
Recurring	407.0	365.0
Single	1,771.5	640.7
	3,763.1	2,544.7
Analysed by type of contract:		
Unit linked	3,290.7	2,024.7
Non linked	472.4	520.0
	3,763.1	2,544.7
Analysed by geographic area:		
Ireland	3,698.2	2,403.3
United Kingdom	64.9	70.9
USA (Discontinued)	–	70.5
	3,763.1	2,544.7
Outward reinsurance premiums	(140.9)	(176.4)
Earned premiums, net of reinsurance	3,622.2	2,368.3

13. Investment Return

	2004 €m	2003 €m
Attributable to life assurance activities		
Income from investments	576.7	510.5
Realised and unrealised gains	1,289.0	1,134.5
Investment expenses and charges	(27.5)	(19.3)
	1,838.2	1,625.7

Notes to the Group Financial Statements

year ended 31 December 2004

14. Claims incurred

	2004 €m	2003 €m
Analysed by type of claim:		
Death and disability benefits	140.3	155.9
Maturities	166.2	242.7
Encashments and commutations:		
– Individual policies	531.9	412.3
– Group policies	137.9	105.6
Annuities	69.6	67.0
Transfers to segregated pension funds	25.9	27.1
Investment business	264.6	181.3
	1,336.4	1,191.9

15. Taxation

(a) Tax attributable to life assurance activities

Tax attributable to life assurance is analysed below and includes amounts in respect of policyholders and the tax on the change in shareholders' value of in-force business which is calculated with reference to the effective corporation tax rate applicable in each of the relevant territories.

	2004 €m	2003 €m
Corporation taxation	27.9	27.0
Overseas tax	–	(0.8)
Deferred taxation	(2.2)	(3.5)
Duties and levies	–	1.3
Tax on change in shareholders' value of in-force business	8.8	1.9
	34.5	25.9

(b) Tax attributable to profit on ordinary activities is analysed as follows:

	2004 €m	2003 €m
Tax attributable to profit on life assurance activities		
Corporation tax	17.7	6.4
Tax on change in shareholders' value of in-force business	8.8	1.9
	26.5	8.3
Corporation tax on banking and other activities	34.6	15.5
Deferred taxation (credit)/charge on banking and other activities	(10.9)	3.7
Tax attributable to group's share of profits of associated undertaking	10.8	7.4
Tax on disposal of tangible fixed assets	0.4	1.0
	61.4	35.9
Government levy on financial institutions (i)	12.2	12.2
	73.6	48.1

(i) The Irish Government has imposed a charge of €100m per annum on the deposit taking business of the Irish domestic banks. The group's share of this charge which will pertain until 2005 is €12.2m per annum.

Notes to the Group Financial Statements

year ended 31 December 2004

15. Taxation (continued)

(c) Reconciliation of standard to effective tax rate

This is a reconciliation of the expected tax charge using standard tax rates to the current tax charge in the profit and loss account. In addition, to the current tax charge on banking and other activities, it includes the tax charge in respect of life assurance activities. The tax charge for life assurance activities is based on embedded value profits grossed up at effective tax rates as set out in the accounting policy for embedded value.

	2004 €m	2003 €m
Profit on ordinary activities before taxation	485.8	309.6
Less share of associated undertaking's profit	(65.2)	(43.2)
Profit on ordinary activities before taxation attributable to the group	420.6	266.4
Taxation at Irish standard rate (12.5%)	52.6	33.3
Profits from banking and other activities taxable at overseas rates	5.4	3.9
Overseas tax basis of insurance profits	1.6	2.3
Irish tax basis of insurance profits	(11.1)	(18.8)
Non-taxable amortisation of goodwill	1.5	1.7
Profits subject to capital gains tax after allowances for re-investment	0.1	0.6
Disposal of overseas subsidiaries on which no tax relief obtained	–	6.3
Gains on disposal of subsidiaries on which no tax is liable	(2.4)	–
Under/(over) provision in respect of prior periods	0.4	(0.8)
Origination and reversal of timing differences	13.5	(3.7)
Government levy on financial institutions	12.2	12.2
Current tax charge for the year	73.8	37.0

16. Dividends on equity shares

	2004 €m	2003 €m
Dividends - interim paid	44.5	40.6
Dividends - final proposed	103.8	97.0
	148.3	137.6

The interim dividend paid in 2004 was 16.5 cent per share (2003: 15.0 cent). The proposed final dividend is 38.5 cent per share (2003: 36.0 cent).

Notes to the Group Financial Statements

year ended 31 December 2004

17. Earnings per share

	2004	2003
(a) Basic EPS		
Profit for the financial year after taxation	€411.2m	€261.8m
Weighted average ordinary shares in issue and ranking for dividend excluding own shares held for the benefit of life assurance policyholders	262,998,704	262,989,230
EPS	156.4 cent	99.5 cent
(b) Fully diluted EPS		
Weighted average of potential dilutive ordinary shares arising from the group's share option schemes	1,597,711	615,402
Weighted average number of ordinary shares used in the calculation of fully diluted EPS	264,596,415	263,604,632
Fully diluted EPS	155.4 cent	99.3 cent
(c) Basic EPS including own shares held for the benefit of life assurance policyholders		
<p>As permitted under Irish Legislation the group's life assurance subsidiary holds shares in Irish Life & Permanent plc for the benefit of policyholders. Under accounting standards these are required to be deducted from the total number of shares in issue when calculating EPS. In view of the fact that Irish Life & Permanent plc does not hold the shares for its own benefit, EPS based on a weighted average number of shares in issue is also disclosed. The calculation is set out below:</p>		
Weighted average ordinary shares in issue and ranking for dividend excluding own shares held for the benefit of life assurance policyholders	262,998,704	262,989,230
Weighted average ordinary shares held for the benefit of life assurance policyholders	6,614,727	6,414,328
Weighted average ordinary shares in issue and ranking for dividend including own shares held for the benefit of life assurance policyholders	269,613,431	269,403,558
Basic EPS including own shares held for the benefit of life assurance policyholders	152.5 cent	97.2 cent

Notes to the Group Financial Statements

year ended 31 December 2004

17. Earnings per share (continued)

(d) EPS based on total contribution

	2004		2003	
	€m	Per Share cent	€m	Per Share cent
Earnings as reported above	411.2	152.5	261.8	97.2
<i>Adjustments</i>				
Short term investment fluctuations	(29.5)	(10.9)	(25.5)	(9.5)
Goodwill	11.6	4.3	13.8	5.1
Profit on the disposal of tangible fixed assets	(2.1)	(0.8)	(3.2)	(1.2)
Profit on the disposal of Irish Estates Management	(19.0)	(7.0)	–	–
Loss on disposal of US business	–	–	50.3	18.7
Effect of economic assumption changes on life assurance profit	(46.6)	(17.3)	20.2	7.5
Tax relating to the adjustments	(3.1)	(1.2)	(16.4)	(6.1)
Minority interest	1.0	0.4	(0.3)	(0.1)
Total contribution after tax	323.5	120.0	300.7	111.6

Weighted average ordinary shares in issue
and ranking for dividend including own shares
held for the benefit of life assurance policyholders

269,613,431

269,403,558

EPS based on total contribution after taxation

120 cent

111.6 cent

The EPS based on total contribution is presented to illustrate the underlying movement in earnings of the group and as such excludes short term investment fluctuations, items of an exceptional nature, goodwill and minority interests.

Notes to the Group Financial Statements

year ended 31 December 2004

18. Employment

	2004 €m	2003 €m
Staff costs (including executive directors) for the year were:		
Wages and salaries*	220.8	225.8
Social insurance	22.6	22.1
Pension costs	20.5	14.9
	263.9	262.8

* Including commission paid to sales staff

Average number of staff (including executive directors) employed during the year:

	2004	2003
Ireland	4,605	4,729
UK	164	122
USA (Discontinued)	–	66
	4,769	4,917
Life assurance	2,111	2,248
Banking	2,424	2,428
Investment management	127	134
Other	107	107
	4,769	4,917

Number of staff (including executive directors) employed at 31 December was:

	2004	2003
Ireland	4,392	4,640
UK	168	136
	4,560	4,776
Life assurance	2,084	2,111
Banking	2,358	2,427
Investment management	118	133
Other	–	105
	4,560	4,776

Information concerning individual directors' emoluments is given on pages 29 to 31 of these financial statements.

Notes to the Group Financial Statements

year ended 31 December 2004

19. Pensions and related benefits

The group accounts for pensions under the accounting standard SSAP 24 – “Accounting for Pension Costs”. The amounts recorded through the profit and loss account and balance sheet are recorded in accordance with this standard and the disclosures required under this accounting standard are set out in (a) below.

Financial Reporting Standard on Retirement Benefits (FRS 17) was issued in November 2000. In July 2002, the Accounting Standards Board deferred the requirement for full adoption of FRS 17 until the International Accounting Standards Board (IASB) had reconsidered its international standard, IAS 19 Employee Benefits. FRS 17 has not been adopted in the profit and loss account or the balance sheet. The phased disclosure requirements which are required are outlined in (b) below.

- (a) The group operates a number of defined benefit pension schemes for Irish employees. The group also operates pension schemes for its UK employees, which are mainly defined contribution with an element of defined benefit.

All of the defined benefit schemes are funded by the payment of contributions into separately administered trust funds. The pension costs and provisions are assessed in accordance with the advice of independent qualified actuaries. Valuations are carried out every three years by independent actuarial consultants. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection. Details of the group's principal schemes are outlined below.

All of the group's defined benefit pension schemes have been revalued within the last three years with valuation dates ranging from 30 June 2002 to 30 September 2003. Of the principal schemes one was valued using the attained age method, all other schemes were valued using the projected unit method. The valuations assume that investment returns will exceed the rate of increase in salaries by between 1% and 3%. The market value of the assets at the date of valuation were €707m. The actuarial values of the assets at the time of the valuation were sufficient to cover between 50% to 136% of the benefits accruing to members, depending on the scheme, after allowing for future increases in pensionable earnings.

Three of the schemes did not satisfy the funding standard set down in Section 44 of the Pensions Act 1990 and in accordance with Section 49 of the Act funding proposals have been agreed with the Pensions Board.

The pension charge for the year was €20.5m (2003: €14.9m) of which €19.6m (2003: €14.2m) relates to defined benefit schemes and €0.9m (2003: €0.7m) to defined contribution schemes.

The group currently recognises two pension surpluses calculated under SAAP 24 on the balance sheet under the heading “Other Assets”:

- €68.0m surplus on Irish Life Assurance Staff benefits scheme.
- €17.1m surplus on TSB pension scheme, which arose on the acquisition of TSB bank.

Notes to the Group Financial Statements

year ended 31 December 2004

19. Pensions and related benefits (continued)

(b) FRS17 Retirement Benefits

Financial Reporting Standard on Retirement Benefits (FRS17) was issued in November 2000 and requires phased disclosure requirements. The disclosures below relate to the group's defined benefit schemes.

The disclosures are based on the most recent triennial actuarial valuations of the schemes updated to 31 December 2004 by independent qualified actuaries. The financial assumptions used are:

	2004	2003	2002
Rate of increase in salaries	4.00%	4.50%	4.50%
Rate of increase in pensions	2.25%	2.25%	2.25%
Discount rate	4.75%	5.25%	5.50%
Rate of price inflation	2.25%	2.25%	2.25%

The assets in the schemes and the expected rates of return are:

	long term expected rate of return	2004 €m	long term expected rate of return	2003 €m	long term expected rate of return	2002 €m
Equities	7.50%	662.1	7.75%	577.2	8.00%	487.8
Bonds	4.00%	130.4	5.00%	126.4	5.00%	128.5
Property/other	6.00%	94.6	6.75%	71.4	7.00%	59.6
Total market value of assets		887.1		775.0		675.9
Actuarial value of liabilities		(1,038.1)		(866.7)		(733.7)
Deficit in schemes		(151.0)		(91.7)		(57.8)
Surplus restriction		-		-		(0.5)
Recoverable deficit		(151.0)		(91.7)		(58.3)
Related deferred tax asset		18.9		11.5		7.3
Pension liability		(132.1)		(80.2)		(51.0)
Analysed as						
Net pension asset		57.3		60.0		58.7
Net pension liability		(189.4)		(140.2)		(109.7)
		(132.1)		(80.2)		(51.0)

If these amounts had been recognised in the financial statements, the group's net assets and revenue reserves would be as follows:

Net Assets

	2004 €m	2003 €m	2002 €m
Net assets per balance sheet	2,301.0	2,049.3	1,844.4
SSAP 24 pension surpluses (net of deferred tax)	(74.5)	(80.5)	(78.8)
	2,226.5	1,968.8	1,765.6
Net FRS 17 pension asset	57.3	60.0	58.7
Net FRS 17 pension liability	(189.4)	(140.2)	(109.7)
Net assets including pension assets and liabilities	2,094.4	1,888.6	1,714.6

Notes to the Group Financial Statements

year ended 31 December 2004

19. Pensions and related benefits (continued)

(b) FRS17 Retirement Benefits (continued)

Revenue Reserves

	2004 €m	2003 €m	2002 €m
Revenue reserves per balance sheet	2,142.9	1,879.0	1,757.8
SSAP 24 pension surpluses (net of deferred tax)	(74.5)	(80.5)	(78.8)
Net FRS 17 pension asset	57.3	60.0	58.7
Net FRS 17 pension liability	(189.4)	(140.2)	(109.7)
Net reserves including pension assets and liabilities	1,936.3	1,718.3	1,628.0

The following table sets out the components of the defined benefit costs which would have been included in the profit and loss account for the year end 31 December 2004 if FRS17 had been applied:

	2004 €m	2003 €m
Banking & Other Activities		
Finance income		
Expected return on pension scheme assets	16.0	14.2
Interest on pension scheme liabilities	(19.9)	(17.2)
	(3.9)	(3.0)
Administrative expenses		
Current service costs	(15.9)	(13.6)
Past service costs	(0.4)	(1.3)
	(16.3)	(14.9)
Life Assurance Activities		
Investment return		
Expected return on pension scheme assets	39.9	35.2
Interest on pension scheme liabilities	(27.0)	(23.9)
	12.9	11.3
Operating expenses		
Current service costs	(22.3)	(19.3)
Past service costs	–	(0.6)
	(22.3)	(19.9)
Total costs under FRS 17*	(29.6)	(26.5)

* The profit and loss account as presented includes €19.6m in respect of the cost of defined benefit pension schemes (2003: €14.2m)

The analysis of the amounts that would be recognised in the Statement of Total Recognised Gains and Losses are as follows:

	2004 €m	2003 €m
Actual return less expected return on pensions scheme assets	38.0	49.8
Experience gains and losses on scheme liabilities	7.1	(3.8)
Changes in financial and demographic assumptions	(95.3)	(65.9)
Actuarial losses	(50.2)	(19.9)
Deferred tax	6.3	2.5
Recognised in Statement of Total Recognised Gains and Losses	(43.9)	(17.4)

Notes to the Group Financial Statements

year ended 31 December 2004

19. Pensions and related benefits (continued)

(b) FRS17 Retirement Benefits (continued)

Movement in deficit during the year is as follows:

	2004	2003
	€m	€m
Deficit in schemes at beginning of year	(91.7)	(58.3)
Movement in year:		
Current service costs	(38.2)	(32.9)
Past service costs	(0.4)	(1.9)
Contributions	23.7	12.5
Change in restricted surplus	–	0.5
Other finance income/investment return	9.0	8.3
Actuarial losses	(50.2)	(19.9)
Other movements	(3.2)	–
Deficit in schemes at end of year	<u>(151.0)</u>	<u>(91.7)</u>

History of experience gains and losses

	2004	2003	2002
	€m	€m	€m
Difference between expected and actual return on scheme assets:			
Amount	38.0	49.8	(235.2)
% of scheme assets	4%	6%	35%
Experience gains and losses on scheme liabilities:			
Amount	7.1	(3.8)	(3.5)
% of scheme liabilities	0.7%	0.4%	0.5%
Actuarial losses recognised in Statement of Total Recognised Gains and Losses:			
Amount	(50.2)	(19.9)	(333.0)
% of scheme liabilities	5%	2%	45%

Notes to the Group Financial Statements

year ended 31 December 2004

20. Government bills, other eligible bills and debt securities

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Government bills and other eligible bills	–	86.8	–	86.8
Debt securities – listed	3,223.5	2,600.6	3,223.5	2,600.6
	3,223.5	2,687.4	3,223.5	2,687.4
Issued by public bodies				
Investment securities				
Government bills and other eligible bills	–	86.8	–	86.8
Government securities	1,805.6	1,618.4	1,805.6	1,618.4
	1,805.6	1,705.2	1,805.6	1,705.2
Issued by other borrowers				
Investment securities				
Banking and building societies	1,417.9	982.2	1,417.9	982.2
	1,417.9	982.2	1,417.9	982.2
Total	3,223.5	2,687.4	3,223.5	2,687.4
Market Value	3,256.1	2,686.5	3,256.1	2,686.5

The analysis of the maturity of the Government bills, other eligible bills and debt securities is as follows:

Due within one year	115.5	179.9	115.5	179.9
Due after one year	3,108.0	2,507.5	3,108.0	2,507.5
	3,223.5	2,687.4	3,223.5	2,687.4

Debt securities, included as investment securities above, are held as financial fixed assets.

There are no short debt securities positions.

The movement in government bills, other eligible bills and debt securities held as financial fixed assets is as follows:

	Group			Company		
	Cost €m	Discount/ (Premium) €m	Carrying Value €m	Cost €m	Discount/ (Premium) €m	Carrying Value €m
At 1 January 2004	2,697.8	(10.4)	2,687.4	2,697.8	(10.4)	2,687.4
Additions	4,641.1	–	4,641.1	4,641.1	–	4,641.1
Disposals and redemptions	(4,075.6)	(1.6)	(4,077.2)	(4,075.6)	(1.6)	(4,077.2)
Amortisation for the year	–	(16.8)	(16.8)	–	(16.8)	(16.8)
Foreign currency translation	(11.0)	–	(11.0)	(11.0)	–	(11.0)
At 31 December 2004	3,252.3	(28.8)	3,223.5	3,252.3	(28.8)	3,223.5

There are no debt securities held for dealing purposes at 31 December 2004 (2003: nil).

Notes to the Group Financial Statements

year ended 31 December 2004

21. Loans and advances to credit institutions

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Loans and advances to credit institutions	2,823.7	2,781.2	2,822.8	2,647.6
	2,823.7	2,781.2	2,822.8	2,647.6

Maturity analysis:

Repayable on demand	451.9	237.2	451.0	236.7
Repayable in not more than three months	2,340.3	2,379.4	2,340.3	2,379.4
Repayable in more than three months but not more than one year	30.9	164.0	30.9	30.9
Repayable in more than two years but not more than five years	0.6	0.6	0.6	0.6
	2,823.7	2,781.2	2,822.8	2,647.6

For the purpose of this analysis, where amounts are repayable by instalment each such instalment is treated as a separate loan.

22. Loans and advances to customers

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Residential mortgage loans	16,194.5	13,575.5	14,296.5	11,782.3
Commercial mortgage loans	1,114.6	1,080.1	1,114.6	1,080.1
Due from subsidiary undertakings	–	–	2,582.8	2,500.1
Money market funds	7.7	–	7.7	–
Due from group undertakings: life assurance activities	128.6	86.5	128.6	86.5
Finance lease & instalment advances	899.8	787.0	–	–
Term and other loans	464.8	498.4	471.2	498.4
	18,810.0	16,027.5	18,601.4	15,947.4

Maturity analysis of loans and advances to customers

Repayable in not more than three months	576.4	519.0	336.6	328.8
Repayable in more than three months but not more than one year	712.8	670.8	510.8	478.1
Repayable in more than one year but not more than two years	885.7	820.5	654.3	617.1
Repayable in more than two years but not more than five years	2,342.6	2,141.4	2,072.1	1,901.0
Repayable in more than five years	14,387.3	11,967.5	15,098.9	12,693.3
	18,904.8	16,119.2	18,672.7	16,018.3
Provision for bad debts	(94.8)	(91.7)	(71.3)	(70.9)
	18,810.0	16,027.5	18,601.4	15,947.4

For the purpose of this analysis, where amounts are repayable by instalment, each such instalment is treated as a separate loan.

Non performing loans

	2004 €m	2003 €m
Loans on which interest is accrued for and placed in suspense accounts	12.3	11.7
Loans on which interest is suspended	16.4	19.9
Loan balances	28.7	31.6
Specific provision for bad debts in relation to non performing loans	21.3	23.9

Loans by category are set out above and there is no particular concentration of loans within these categories. Loans due from life assurance activities are either included under the life assurance balance sheet caption "Assets held to cover linked liabilities" or "Other liabilities/creditors – Amounts falling due after one year".

Notes to the Group Financial Statements

year ended 31 December 2004

23. Securitised Assets

At 31 December 2004, the group had advances secured on residential property subject to non-recourse funding. In accordance with Financial Reporting Standard 5 "Reporting the Substance of Transactions", securitised mortgages have been included in the balance sheet using a linked presentation, whereby the non-recourse element of the funding is shown as a deduction from the mortgage balance.

As at 31 December 2004, the group had sold pools of mortgages of Stg£400m to Auburn Securities 1 plc in November 1998, €600m to Fastnet Securities 1 plc in November 1999, Stg£300m to Auburn Securities 2 plc in July 2000, Stg£400m to Auburn Securities 3 plc in November 2002 and Stg£1bln to Auburn Securities 4 plc in October 2004. These companies issued Mortgage Backed Floating Rate Notes ('Notes') to finance the purchase of these mortgage pools.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios and any related income generated by the portfolios, without recourse to Irish Life & Permanent plc. Irish Life & Permanent plc is not obliged to support any losses in respect of the mortgages subject to the non-recourse funding and does not intend to do so. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to Irish Life & Permanent plc. The providers of these fundings have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security, and that they will not seek recourse in any other form.

Auburn Securities 1 plc, Auburn Securities 2 plc, Auburn Securities 3 plc and Auburn Securities 4 plc have hedged their interest rate exposure to fixed rate mortgages by entering into interest rate swap agreements with Capital Home Loans Limited, a subsidiary undertaking of the group. Fastnet Securities 1 plc have similar hedging agreements in place with Irish Life & Permanent plc.

An analysis of the loans involved where the linked presentation has been used in the balance sheet is as follows:

Group	2004			2003		
	Gross loans €m	Non-recourse funding €m	Net €m	Gross loans €m	Non-recourse funding €m	Net €m
Auburn Securities 1 plc	123.8	123.8	-	168.3	168.3	-
Fastnet Securities 1 plc	217.1	202.0	15.1	272.7	258.5	14.2
Auburn Securities 2 plc	184.7	184.7	-	229.3	229.3	-
Auburn Securities 3 plc	332.8	326.4	6.4	428.4	420.0	8.4
Auburn Securities 4 plc	1,367.0	1,356.3	10.7	-	-	-
	2,225.4	2,193.2	32.2	1,098.7	1,076.1	22.6

Company	2004			2003		
	Gross loans €m	Non-recourse funding €m	Net €m	Gross loans €m	Non-recourse funding €m	Net €m
Fastnet Securities 1 plc	217.1	202.0	15.1	272.7	258.5	14.2

The summarised profit and loss account for the income earned by the group from these securitised assets, and which is included in net interest income, is as follows

	2004 €m	2003 €m
Interest income	82.7	81.9
Interest expense	(69.9)	(69.5)
Operating expenses	(0.4)	(0.5)
Net income	12.4	11.9

Notes to the Group Financial Statements

year ended 31 December 2004

24. Equity shares and units in unit trusts

	2004		2003	
	Market value €m	Historical cost €m	Market value €m	Historical cost €m
Attributable to life assurance activities				
Listed	97.5	100.7	141.3	139.7
Unlisted	46.3	43.6	7.1	0.8
	143.8	144.3	148.4	140.5

All listed investments are listed on recognised stock exchanges.

25. Interests in associated and subsidiary undertakings

(a) Group's interest in associated undertaking

	2004		2003	
	Carrying value €m	Historical cost €m	Carrying value €m	Historical cost €m
Shares in associated undertaking	129.5	22.6	90.8	22.6
	129.5	22.6	90.8	22.6

	Share of net assets €m
At 1 January 2004	90.8
Share of associated undertaking's profits	65.2
Share of tax on associated undertaking's profits	(10.8)
Dividends received from associated undertaking	(15.7)
At 31 December 2004	129.5

The group's share of post acquisition reserves of associated undertakings amounted to €106.9m at 31 December 2004 (2003:€68.2m).

(b) Company's interest in subsidiary undertakings

	2004 €m	2003 €m
Credit institutions		
Opening balance	6.2	17.6
Reclassification	–	(11.4)
At 31 December 2004	6.2	6.2
Others		
Opening balance	2,844.8	2,832.1
Additions	–	1.3
Reclassification	–	11.4
Repayment	(3.0)	–
At 31 December 2004	2,841.8	2,844.8
	2,848.0	2,851.0
Analysed as		
Equity	2,842.6	2,843.1
Loans	5.4	7.9
	2,848.0	2,851.0

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year ended 31 December 2004

26. Investment properties

	2004		2003	
	Current value €m	Historical cost €m	Current value €m	Historical cost €m
(a) Attributable to banking and other activities				
Investment properties	21.5	23.6	23.6	23.6
	21.5	23.6	23.6	23.6
(b) Attributable to life assurance activities				
Investment properties	23.7	16.6	31.7	18.7
Properties occupied by the group	69.6	34.9	66.1	34.9
	93.3	51.5	97.8	53.6
(c) Company				
Investment properties	21.5	23.6	23.6	23.6
	21.5	23.6	23.6	23.6

In accordance with the group's accounting policies, investment properties held by life assurance activities have been revalued by independent third party valuers at 31 December 2004 on the basis of open market value. Investment properties held by banking and other activities have been valued externally within the last three years.

27. Tangible fixed assets

	Land and Buildings	Office and Computer Equipment	Motor Vehicles	Total
	€m	€m	€m	€m
(a) Group				
Net Book value as at 31 December 2004				
Banking and other activities	173.9	32.1	4.8	210.8
Life assurance activities	–	63.6	6.3	69.9
	173.9	95.7	11.1	280.7
Cost or revalued amount				
At 1 January 2004	199.9	239.9	21.9	461.7
Additions	1.2	56.5	5.5	63.2
Disposals	(3.2)	(8.8)	(5.8)	(17.8)
At 31 December 2004	197.9	287.6	21.6	507.1
Depreciation				
At 1 January 2004	18.4	166.5	10.2	195.1
Provided	5.7	31.1	3.5	40.3
Disposals	(0.1)	(5.7)	(3.2)	(9.0)
At 31 December 2004	24.0	191.9	10.5	226.4
Net Book Value as at 31 December 2004	173.9	95.7	11.1	280.7
Net Book Value as at 31 December 2003	181.5	73.4	11.7	266.6

All land and buildings are held for use by the group.

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year ended 31 December 2004

27. Tangible fixed assets (continued)

(b) Company

	Land and Buildings €m	Office and Computer Equipment €m	Motor Vehicles €m	Total €m
Cost or revalued amount				
At 1 January 2004	196.3	85.7	6.5	288.5
Additions	1.2	12.9	2.1	16.2
Disposals	(3.2)	(2.9)	(1.8)	(7.9)
At 31 December 2004	194.3	95.7	6.8	296.8
Depreciation				
At 1 January 2004	18.0	52.7	2.8	73.5
Provided	4.7	12.8	1.1	18.6
Disposals	(0.1)	(0.1)	(0.9)	(1.1)
At 31 December 2004	22.6	65.4	3.0	91.0
Net Book Value as at 31 December 2004	171.7	30.3	3.8	205.8
Net Book Value as at 31 December 2003	178.3	33.0	3.7	215.0

The net book value of land and buildings is analysed as follows:

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Freehold	156.8	162.5	155.8	161.4
Leasehold				
– Long leasehold	8.8	9.8	8.8	9.8
– Short leasehold	8.3	9.2	7.1	7.1
	173.9	181.5	171.7	178.3
Amount subject to depreciation	127.8	134.2	126.0	131.5
Amount not subject to depreciation	46.1	47.3	45.7	46.8
	173.9	181.5	171.7	178.3
Historical cost of revalued assets	116.4	119.3	113.7	115.7
Aggregate depreciation thereon	20.6	17.3	20.6	16.8
Historical cost net book value	95.8	102.0	93.1	98.9

Notes to the Group Financial Statements

year ended 31 December 2004

28. Other assets/debtors

	2004 €m	2003 €m
(a) Attributable to banking and other activities		
Amounts falling due within one year		
Amounts due from group undertakings: life assurance activities	122.5	174.0
Other debtors	–	1.7
	122.5	175.7
Amounts falling after one year		
Pension scheme surplus	17.1	17.8
	139.6	193.5
(b) Attributable to life assurance activities		
Amounts falling due within one year		
Amounts due from group undertakings: banking and other activities	15.5	8.4
Other debtors	52.6	50.9
Deferred tax asset	0.9	–
Policyholders	52.7	62.7
Intermediaries	3.3	5.0
	125.0	127.0
Amounts falling after one year		
Pension scheme surplus	68.0	64.9
	193.0	191.9
(c) Company		
Amounts falling due within one year		
Amounts due from subsidiary undertakings	117.3	176.0
	117.3	176.0
Amounts falling after one year		
Pension scheme surplus	17.1	17.8
	134.4	193.8

29. Prepayments and accrued income

Commission paid to intermediaries in respect of certain lending business is charged to the profit and loss account over three years. Prepayments and accrued income include €52.8m in respect of deferred commission at 31 December 2004 (2003: €38.1m). The movement in deferred commission is as follows:

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
At 1 January	38.1	29.7	29.8	23.9
Commission incurred during the year	41.0	28.2	29.8	21.9
Commission amortised to profit and loss during the year	(26.3)	(19.8)	(20.5)	(16.0)
At 31 December	52.8	38.1	39.1	29.8

Notes to the Group Financial Statements

year ended 31 December 2004

30. Debt and other fixed income securities

	2004		2003	
	Market value €m	Historical cost €m	Market value €m	Historical cost €m
Attributable to life assurance activities				
Listed	1,588.8	1,463.0	1,510.5	1,465.7
Unlisted	159.3	143.4	140.5	138.3
	1,748.1	1,606.4	1,651.0	1,604.0

31. Intangible assets

(a) Group

	Cost €m	Amortisation €m	Net book value €m
Goodwill on acquisition of subsidiary undertakings			
At 1 January 2004	242.2	(44.6)	197.6
Charge for year - amortisation	-	(11.6)	(11.6)
At 31 December 2004	242.2	(56.2)	186.0

(b) Company

	Cost €m	Amortisation €m	Net book value €m
Goodwill on acquisition of subsidiary undertakings			
At 1 January 2004	195.2	(25.7)	169.5
Charge for year - amortisation	-	(9.8)	(9.8)
At 31 December 2004	195.2	(35.5)	159.7

Goodwill is written off on the straight line basis over twenty years being the estimated useful economic lives of the assets acquired.

Goodwill is shown as a single line in the accounts and is not attributable to either banking or life activities.

Goodwill written off against reserves prior to 31 December 1996 amounted to €9.4m.

Notes to the Group Financial Statements

year ended 31 December 2004

32. Deposits by credit institutions

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Deposits by credit institutions	1,082.3	2,759.0	1,077.0	2,755.0
	1,082.3	2,759.0	1,077.0	2,755.0
Maturity analysis:				
Repayable on demand	14.0	0.3	13.8	–
Repayable in not more than three months	949.8	2,163.5	944.7	2,159.8
Repayable in more than three months but not more than one year	118.5	591.8	118.5	591.8
Repayable in more than one year but not more than two years	–	3.4	–	3.4
	1,082.3	2,759.0	1,077.0	2,755.0

€400.4m of the deposits by credit institutions comprise the bank's obligations to the Central Bank and 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 its right, title, interest and benefit, in €1,016m of loans and advances to customers. Otherwise than with the prior written consent of the CBFSAI, the bank has pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets.

33. Customer accounts

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Customer accounts	11,616.1	9,748.5	11,426.2	9,581.3
Due to group undertakings: life assurance activities	310.9	311.9	310.9	311.9
Due to subsidiary undertakings	–	–	87.3	157.2
	11,927.0	10,060.4	11,824.4	10,050.4
Maturity analysis				
Repayable on demand	4,028.0	3,228.7	4,050.2	3,228.7
Repayable in not more than three months	6,465.2	5,726.2	6,376.3	5,720.1
Repayable in more than three months but not more than one year	702.0	726.2	695.5	726.6
Repayable in more than one year but not more than two years	128.2	20.6	128.2	21.3
Repayable in more than two years but not more than five years	501.2	305.4	498.2	300.7
Repayable in more than five years	102.4	53.3	76.0	53.0
	11,927.0	10,060.4	11,824.4	10,050.4

The amounts due to life assurance activities are included under the life assurance balance sheet captions "Deposits with credit institutions" and "Assets held to cover linked liabilities".

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year ended 31 December 2004

34. Debt securities in issue

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
Bonds and medium term notes	10,944.1	8,081.4	10,944.1	8,081.4
	10,944.1	8,081.4	10,944.1	8,081.4
Maturity analysis				
Repayable in not more than three months	3,562.4	2,393.5	3,562.4	2,393.5
Repayable in more than three months but not more than one year	1,546.1	1,605.3	1,546.1	1,605.3
Repayable in more than one year but not more than two years	1,802.2	750.8	1,802.2	750.8
Repayable in more than two years but not more than five years	3,307.5	2,896.8	3,307.5	2,896.8
Repayable in more than five years	725.9	435.0	725.9	435.0
	10,944.1	8,081.4	10,944.1	8,081.4

35. Provisions for liabilities/other risks and charges

Deferred taxation

(a) Group	Banking and other activities €m	Life assurance activities €m
At 1 January 2004	20.8	1.3
Change in provisions - origination and reversal of timing differences	(10.9)	(2.2)
At 31 December 2004	9.9	(0.9)

The composition of the amounts provided for deferred taxation is as follows:

Capital allowances	18.7	4.4
Pension surplus	2.1	8.5
Other timing differences	(10.9)	(13.7)
Losses forward	-	(0.1)
	9.9	(0.9)

The deferred tax asset of €0.9m (2003: €nil) in life assurance activities is included in other debtors.

(b) Company	€m
At 1 January 2004	9.3
Change in provisions - origination and reversal of timing differences	(1.4)
At 31 December 2004	7.9

Notes to the Group Financial Statements

year ended 31 December 2004

36. Technical provisions

	Life assurance technical provisions €m	Technical provisions for linked liabilities €m
At 1 January 2004	3,176.8	12,902.0
Change in provisions	238.7	3,564.6
Exchange movement	(0.2)	(10.3)
Movement in own shares held for the benefit of life assurance policyholders	–	1.5
At 31 December 2004	3,415.3	16,457.8

37. Other liabilities/creditors

	2004 €m	2003 €m
(a) Attributable to banking and other activities		
Amounts falling due within one year		
PAYE	5.6	0.7
Corporation tax	21.0	11.7
Amounts due to group undertakings: life assurance activities	15.5	8.4
Other creditors	23.5	22.7
	65.6	43.5
(b) Attributable to life assurance activities		
Amounts falling due within one year		
Premiums on deposit	14.5	13.4
Bank overdraft	8.0	21.3
PAYE	2.9	3.1
Corporation tax	23.4	19.0
Other taxation	0.4	0.9
Amounts due to group undertakings: banking & other activities	122.5	174.0
Other creditors	84.8	43.0
	256.5	274.7
Amounts falling due after one year		
Loans due to group undertakings: banking & other activities	5.0	–
	261.5	274.7
(c) Company		
Amounts falling due within one year		
PAYE	4.9	–
Corporation tax	11.6	4.9
Amounts due to group undertakings	12.6	5.1
Other creditors	20.8	18.8
	49.9	28.8

Notes to the Group Financial Statements

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38. Accruals

	2004 €m	2003 €m
(a) Attributable to banking and other activities		
Accrued expenses	198.4	198.5
	198.4	198.5
(b) Attributable to life assurance activities		
Accrued expenses	43.4	43.8
	43.4	43.8
(c) Company		
Accrued expenses	184.1	154.2
	184.1	154.2

39. Subordinated liabilities

	Group		Company	
	2004 €m	2003 €m	2004 €m	2003 €m
€18m variable rate loan repayable in 2011	18.0	18.0	18.0	18.0
€500m 6.25% fixed rate loan repayable in 2011	525.9	525.5	525.9	525.5
€10m 6.5% fixed rate loan repayable in 2012	10.0	10.0	10.0	10.0
US\$25m 7.53% fixed rate loan repayable in 2012 (ii)	18.6	20.1	18.6	20.1
US\$25m variable rate loan repayable in 2012 (ii)	18.3	19.7	18.3	19.7
€150m variable rate loan repayable in 2013	150.5	150.5	150.5	150.5
€10m variable rate loan repayable in 2023	10.0	10.0	10.0	10.0
US\$50m 7.73% perpetual fixed rate loan note (ii)	37.2	40.1	37.2	40.1
JPY20bn perpetual fixed rate loan note (ii)	145.4	–	145.4	–
	933.9	793.9	933.9	793.9

- (i) €902.5m (2003: €764.2m) ranks as Tier 2 capital for capital adequacy purposes.
- (ii) The above loan notes are matched by Yen and US dollar swap contracts or liquid assets in order to hedge the currency exposures which might arise and are subordinated in right of payment to other creditors.

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40. Called up share capital, share premium, merger reserve and other capital reserves

(a) Group

	Number of Shares	Share Capital €m	Share Premium €m	Merger Reserve €m	Capital Reserves €m
At 1 January 2004	269,494,255	86.2	51.2	(21.2)	28.1
Shares issued during the year	196,497	0.1	0.7	–	–
At 31 December 2004	269,690,752	86.3	51.9	(21.2)	28.1

(b) Company

	Number of Shares	Share Capital €m	Share Premium €m	Capital Reserves €m
Authorised				
Ordinary shares of 32 cent each	400,000,000	128.0	–	–
€ preference shares	300,000,000	300.0	–	–
US\$ preference shares	200,000,000	146.8	–	–
Stg£ preference shares	100,000,000	141.8	–	–
Issued and fully paid ordinary shares of 32 cent each				
At 1 January 2004	269,494,255	86.2	2,749.2	7.4
Shares issued during the year	196,497	0.1	0.7	–
At 31 December 2004	269,690,752	86.3	2,749.9	7.4
<hr/>				
Own shares held for the benefit of life assurance policyholders	7,118,023			

During 2004 the company issued 196,497 ordinary shares of €0.32 each with a nominal value of €0.1m for cash of €0.8m as a result of the exercise of options under the group's share options schemes.

The merger reserve is the difference between the shares issued by Irish Permanent plc and the nominal value of the issued share capital of Irish Life plc on the merger of the companies. The share premium arising on the shares (€2,698m) issued in connection with the merger has been classified with the merger reserve rather than with the other share premium in existence in the company.

Capital reserves represents the share premium (€20.7m) of Irish Life plc at the date of the merger and €7.4m capital redemption reserve arising from the repurchase and cancellation of shares. In the company, capital reserves consist of €7.4m capital redemption reserve.

Notes to the Group Financial Statements

year ended 31 December 2004

41. Revaluation reserve

	2004 €m	2003 €m
(a) Group		
At 1 January	80.6	–
Revaluation (deficit) / surplus	(2.2)	80.6
Release of revaluation reserve	(1.1)	–
At 31 December	77.3	80.6
(b) Company		
At 1 January	80.6	–
Revaluation (deficit) / surplus	(2.2)	80.6
Release of revaluation reserve	(1.1)	–
At 31 December	77.3	80.6

42. Revenue reserves

	Profit and loss account		Non-distributable reserve	
	2004 €m	2003 €m	2004 €m	2003 €m
At 1 January	356.7	292.4	1,522.3	1,465.4
Profit for the financial year	411.2	261.8	–	–
Dividends	(148.3)	(137.6)	–	–
Transfer to non-distributable reserve	(172.5)	(59.9)	172.5	59.9
Release of revaluation reserve	1.1	–	–	–
Exchange adjustment on net investment in overseas subsidiaries	–	–	(0.1)	(3.0)
At 31 December	448.2	356.7	1,694.7	1,522.3

Profits arising on life assurance activities are treated as non-distributable until declared as surpluses by the appointed actuaries.

(b) Company

	Profit and loss account	
	2004 €m	2003 €m
At 1 January	191.8	84.6
Profit for the financial year	260.9	244.8
Dividends	(148.3)	(137.6)
Release of revaluation reserve	1.1	–
At 31 December	305.5	191.8

Notes to the Group Financial Statements

year ended 31 December 2004

43. Notes to the consolidated cash flow statement

The group's cash flow statement sets out the cash flows generated from both banking and other activities and life assurance activities. Cash generated from life assurance activities represents surpluses attributable to shareholders, declared and paid, out of life assurance activities to banking and other activities, net of amounts reinvested in life assurance activities by banking and other activities.

(a) Reconciliation of operating profit to net operating cash flows

	2004 €m	2003 €m
Profit arising from operating activities	399.5	313.5
add: goodwill amortisation	11.6	13.8
less: operating profit from life assurance activities	(288.6)	(198.5)
Operating profit from banking & other activities	122.5	128.8
Provision for bad and doubtful debts	9.3	13.4
Depreciation and amortisation	23.7	35.2
Increase in debtors, prepayments and accrued income	(138.1)	(36.2)
Increase in creditors and accruals	1.9	31.1
Interest on subordinated liabilities	43.7	39.2
Profit on sale of debt securities and derivatives held for trading	(5.8)	(6.1)
Profit on disposal of tangible fixed assets	(2.1)	(3.2)
Foreign currency translation adjustments	(0.5)	0.8
Net cash flow from banking & other trading activities	54.6	203.0
Increase in customer accounts	1,880.4	109.2
Decrease in government bills and other eligible bills	86.8	16.2
Increase in loans and advances to customers	(2,801.4)	(2,911.6)
(Increase) / decrease in listed debt securities	(602.4)	30.5
(Decrease) / increase in deposits by credit institutions	(1,637.2)	1,125.7
Increase in debt securities in issue	3,018.8	3,150.7
Decrease / (increase) in intercompany balances with life assurance activities	58.5	(17.5)
Increase in loans and advances to credit institutions	(3.7)	(2,695.8)
Net cash flow from banking & other operating activities	54.4	(989.6)

(b) Analysis of cash flow from life assurance activities

	2004 €m	2003 €m
Premiums received	3,633.4	2,402.5
Claims paid	(1,337.7)	(1,177.1)
Net portfolio investment	(2,005.0)	(1,292.2)
Other cash flows	(93.6)	(10.9)
Net cash flow from life assurance activities	197.1	(77.7)
Proceeds from disposal of US business	–	104.3
Net cash flow	197.1	26.6
Retained in life business	(48.5)	16.7
Transferred from life assurance activities	148.6	43.3

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43. Notes to the consolidated cash flow statement (continued)

(c) Analysis of the balances of cash as shown in the balance sheet

	1 January 2004 €m	Cash Flow €m	31 December 2004 €m
Cash and balances at central banks	187.0	(58.8)	128.2
Loans and advances to credit institutions repayable on demand	237.2	214.7	451.9
	424.2	155.9	580.1

	1 January 2003 €m	Cash Flow €m	31 December 2003 €m
Cash and balances at central banks	170.2	16.8	187.0
Loans and advances to credit institutions repayable on demand	1,258.9	(1,021.7)	237.2
	1,429.1	(1,004.9)	424.2

(d) Analysis of changes in financing

	Share Capital & Share Premium €m	Subordinated Liabilities €m
At 1 January 2004	137.4	793.9
Cash flow movements		
Shares issued under share option schemes	0.8	–
Subordinated debt issued	–	143.5
	0.8	143.5
Effect of foreign exchange differences	–	(5.8)
Other non-cash movements	–	2.3
At 31 December 2004	138.2	933.9

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year ended 31 December 2004

44. Segmental Analysis

	2004 €m	2003 €m
Interest Income		
Ireland	708.3	626.7
UK	139.3	85.3
	<u>847.6</u>	<u>712.0</u>
Net Interest Income		
Ireland	316.0	303.5
UK	33.3	28.4
	<u>349.3</u>	<u>331.9</u>
Gross premiums written		
Ireland	3,698.2	2,403.3
UK	64.9	70.9
US (Discontinued)	–	70.5
	<u>3,763.1</u>	<u>2,544.7</u>
Profit on operating activities before tax		
<i>Banking and other activities</i>		
Ireland	90.9	103.2
UK	31.6	25.6
	<u>122.5</u>	<u>128.8</u>
<i>Life assurance activities</i>		
Ireland	275.5	189.6
UK	13.1	7.9
US (Discontinued)	–	1.0
	<u>288.6</u>	<u>198.5</u>
Goodwill amortisation	<u>(11.6)</u>	<u>(13.8)</u>
	<u>399.5</u>	<u>313.5</u>
Total Assets		
<i>Banking and other activities</i>		
Ireland	23,807.6	20,627.6
UK	1,949.2	1,819.8
	<u>25,756.8</u>	<u>22,447.4</u>
<i>Life assurance activities</i>		
Ireland	20,628.2	16,758.1
UK	1,181.8	1,107.1
	<u>21,810.0</u>	<u>17,865.2</u>
Goodwill	<u>186.0</u>	<u>197.6</u>
	<u>47,752.8</u>	<u>40,510.2</u>

No geographical analysis of other income, fees and commission receivable is presented as the amounts earned outside Ireland are not material.

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45. Derivatives and financial instruments

Arising in the normal course of business within its banking operations, the group is a party to various types of financial instruments including derivative contracts. These financial instruments are used for the purposes of managing liquidity, reducing interest and foreign currency exchange rate exposures and to generate incremental income for the group. Details of the objectives and policies which are in place in regard to the group's use of financial instruments, including derivatives, within its banking operations are set out on pages 12 and 13 of the Operating and Financial Review. Holdings of these financial instruments involve, to varying degrees, exposure to loss in the event of a default by a counterparty ("credit risk") and exposure to changes in interest and exchange rates ("market risk"). With regard to credit risk all contracts in respect of financial instruments have been entered into with investment grade counterparties. It is expected that these counterparties will be able to meet their obligations under these contracts as they fall due. All derivative exposures are with financial institutions. In relation to market risk details of the group's exposures within its banking operations are provided below in accordance with the provisions of FRS 13 "Derivatives and other Financial Instruments".

The disclosures set out below concern the banking and other activities of the group only (save for the analysis of structural foreign currency exposures at note 45 (f)) as FRS13 does not apply to life assurance operations.

(a) Interest rate sensitivity gap analysis – Non trading book.

An element of the earnings within the group's banking operations is derived from the controlled mismatching of the dates upon which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates upon which the instruments mature. The tables below summarise these repricing mismatches in the banking operations euro, Sterling and US dollar non-trading books as at 31 December 2004 which are the principal operating currencies of the group's banking operations. For the principal categories of assets and liabilities, items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. A net liability position in a particular time period (i.e. more liabilities than assets reprice in that period) indicates an exposure to a rise in interest rates, although the actual financial impact will depend upon a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within repricing periods and among different currencies.

Interest Rate Repricing - Euro

At 31 December 2004

	Not more than three mths €m	Over three mths but not more than six mths €m	Over six mths but not more than one year €m	Over one year but not more than five years €m	Over five years €m	Non Interest Bearing €m	Total €m
Assets:							
Cash and balances at central banks	128	–	–	–	–	–	128
Government bills	–	–	–	–	–	–	–
Loans/advances to credit institutions	448	–	31	–	–	–	479
Loans/advances to customers	12,114	1,107	2,467	1,159	74	–	16,921
Debt securities – listed	948	41	18	1,411	535	–	2,953
Other assets	–	–	–	–	–	697	697
Total assets (A)	13,638	1,148	2,516	2,570	609	697	21,178
Liabilities:							
Deposits by credit institutions	(540)	(19)	(71)	–	–	–	(630)
Customer accounts	(6,908)	(720)	(99)	(171)	(23)	(22)	(7,943)
Debt securities in issue	(4,495)	(301)	(230)	(481)	(649)	–	(6,156)
Other liabilities	–	–	–	–	–	(378)	(378)
Subordinated liabilities	(150)	–	–	–	(680)	(28)	(858)
Total liabilities (B)	(12,093)	(1,040)	(400)	(652)	(1,352)	(428)	(15,965)
Off balance sheet items (C)	(3,752)	(1,050)	500	(1,168)	767	–	(4,703)
Interest rate repricing gap (A) + (B) + (C)	(2,207)	(942)	2,616	750	24	269	
Cumulative interest rate repricing gap	(2,207)	(3,149)	(533)	217	241	510	
At 31 December 2003							
Interest rate repricing gap	(280)	(1,007)	(109)	1,844	(365)	313	
Cumulative interest rate repricing gap	(280)	(1,287)	(1,396)	448	83	396	

Notes to the Group Financial Statements

year ended 31 December 2004

45. Derivatives and financial instruments (continued)

Interest Rate Repricing - Sterling

At 31 December 2004

	Not more than three mths €m	Over three mths but not more than six mths €m	Over six mths but not more than one year €m	Over one year but not more than five years €m	Over five years €m	Non Interest Bearing €m	Total €m
Assets:							
Loans/advances to credit institutions	1,715	–	–	–	–	–	1,715
Loans/advances to customers	1,787	31	11	81	11	–	1,921
Debt securities – listed	132	–	–	6	–	–	138
Other assets	–	–	–	–	–	38	38
Total assets (A)	3,634	31	11	87	11	38	3,812
Liabilities:							
Deposits by credit institutions	(316)	(22)	(7)	–	–	–	(345)
Customer accounts	(2,888)	(440)	(176)	(47)	(219)	–	(3,770)
Debt securities in issue	(1,469)	(14)	(14)	(213)	–	–	(1,710)
Total liabilities (B)	(4,673)	(476)	(197)	(260)	(219)	–	(5,825)
Off balance sheet items (C)	2,046	(90)	108	(32)	(38)	–	1,994
Interest rate repricing gap (A) + (B) + (C)	1,007	(535)	(78)	(205)	(246)	38	
Cumulative interest rate repricing gap	1,007	472	394	189	(57)	(19)	
At 31 December 2003							
Interest rate repricing gap	1,046	(381)	(10)	(359)	(293)	19	
Cumulative interest rate repricing gap	1,046	665	655	296	3	22	

Notes to the Group Financial Statements

year ended 31 December 2004

45. Derivatives and financial instruments (continued)

Interest Rate Repricing - US Dollar

At 31 December 2004

	Not more than three mths €m	Over three mths but not more than six mths €m	Over six mths but not more than one year €m	Over one year but not more than five years €m	Over five years €m	Non Interest Bearing €m	Total €m
Assets:							
Loans/advances to credit institutions	630	–	–	–	–	–	630
Debt securities – listed	133	–	–	–	–	–	133
Other assets	–	–	–	–	–	4	4
Total assets (A)	763	–	–	–	–	4	767
Liabilities:							
Deposits by credit institutions	(107)	–	–	–	–	–	(107)
Customer accounts	(204)	(4)	(3)	(3)	–	–	(214)
Debt securities in issue	(2,286)	(697)	(25)	(63)	(7)	–	(3,078)
Subordinated liabilities	(18)	–	–	(49)	(6)	(3)	(76)
Total liabilities (B)	(2,615)	(701)	(28)	(115)	(13)	(3)	(3,475)
Off balance sheet items (C)	1,847	713	26	118	3	–	2,707
Interest rate repricing gap (A) + (B) + (C)	(5)	12	(2)	3	(10)	1	
Cumulative interest rate repricing gap	(5)	7	5	8	(2)	(1)	
At 31 December 2003							
Interest rate repricing gap	131	(46)	(54)	16	(52)	5	
Cumulative interest rate repricing gap	131	85	31	47	(5)	–	

The tables above show actual on balance sheet values and net off balance sheet amounts. The off balance sheet amounts include the impact of derivatives used to hedge positions in the non-trading books. Derivatives are contracts and agreements whose value is derived from one or more underlying indices or asset values inherent in the contract agreement. In managing the group's banking exposures to interest rate and foreign currency exchange rates a range of derivative instruments are used which allow the group to modify the pricing and maturity characteristics of assets and liabilities. These instruments primarily include future rate agreements, interest rate swaps and cross currency swaps. Profits and losses arising on derivative instruments held for these purposes are released to the profit and loss account in accordance with the underlying transactions.

Notes to the Group Financial Statements

year ended 31 December 2004

45. Derivatives and financial instruments (continued)

The notional principal amounts, risk weighted amounts and the replacement cost of derivative instruments, included in the tables above, are set out below.

	2004 €m	2003 €m
Exchange rate contracts		
Notional principal amount	5,851	3,822
Risk weighted amount	62	35
Replacement cost	311	173
Interest rate contracts		
Notional principal amount	54,728	39,556
Risk weighted amount	101	83
Replacement cost	506	418

The risk weighted amounts shown above are calculated in accordance with Central Bank of Ireland guidelines on capital adequacy. The replacement cost amounts shown are calculated by stating all contracts with a positive value at market value, with an adjustment to allow for future credit exposures.

The following table analyses the above derivative contracts by remaining maturity:

	2004		2003	
	Notional Principal Amt €m	Replacement Cost €m	Notional Principal Amt €m	Replacement Cost €m
Exchange rate contracts				
Derivatives maturing:				
Up to 1 year	3,933	78	2,905	63
Up to 5 years	1,328	141	726	81
Greater than 5 years	590	92	191	29
	5,851	311	3,822	173
Interest rate contracts				
Derivatives maturing:				
Up to 1 year	25,420	114	16,987	76
Up to 5 years	26,800	319	19,552	267
Greater than 5 years	2,508	73	3,017	75
	54,728	506	39,556	418

The above tables exclude trading assets of the group's banking operations and assets and liabilities denominated in currencies other than euro, Sterling and US dollar, which are not material. The group has no material prepayment or option type exposures in the non trading book.

(b) Hedging

As explained on page 13 of the Operating and Financial Review, within the banking operations non trading book the group uses hedging instruments and techniques to reduce interest rate and foreign exchange rate risk. The instruments utilised include both on and off balance sheet instruments. The principal on balance sheet instruments comprise government gilts and debt securities and the principal off balance sheet instruments comprise interest rate swaps, cross-currency swaps and future rate agreements. The return on financial instruments used for hedging purposes is recognised in line with the underlying exposures which are being hedged. Gains and losses on the disposal of financial instruments within the non-trading book are recognised as they are realised.

(c) Trading book

As noted on page 13 of the Operating and Financial Review, Group Treasury, in accordance with strict limits set by the board, trades in financial instruments, including derivatives, in order to profit from short-term changes in market values. Derivative instruments traded in 2004 were limited to forward rate agreements, interest rate exchange traded options and financial futures. The use of derivative instruments for trading purposes is minimal.

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year ended 31 December 2004

45. Derivatives and financial instruments (continued)

At 31 December 2004, the market value of interest rate instruments, derivatives and debt securities held in the trading book was €2.5m (2003: €nil) while the peak trading position held during the year ended 31 December 2004 was €2.5m (2003: €19.0m). The foreign exchange rate position held in the trading book at 31 December 2004 was €nil (2003: €0.4m) while the peak position held during the year was €5.0m (2003: €5.0m). The peak trading positions disclosed above are based on calculations prepared at the end of each business day, including the balance sheet date. The exposure during the course of a single day may be substantially different to this end of day figure and there is no reason why the end of day figure should be representative of the figure at other times of the day. Intra-day positions are subject to board approved limits.

The net gain from trading in financial assets and financial liabilities shown as dealing profits in the profit and loss account for the year ended 31 December 2004 of €5.8m (2003: €6.1m) may be analysed as follows:

	2004 €m	2003 €m
Debt securities	3.1	6.4
Futures, options and forward rate agreements	2.6	(1.1)
Foreign exchange	0.1	0.8
	5.8	6.1

(d) Fair value of financial assets and financial liabilities

Set out in the table below is a comparison by category of the book value and fair values of all the financial assets and financial liabilities held by the group's banking and other operations at 31 December 2004.

Financial instruments held for non-trading purposes:

	2004		2003	
	Book value €m	Fair value €m	Book value €m	Fair value €m
Assets				
Cash and balances at central banks	128.2	128.2	187.0	187.0
Government bills	–	–	86.8	86.8
Loans and advances to credit institutions	2,823.7	2,834.8	2,781.2	2,784.4
Loans and advances to customers	18,842.2	18,874.4	16,050.1	16,184.8
Debt securities – listed	3,223.5	3,256.1	2,600.6	2,599.7
Other assets/debtors	139.6	139.6	193.5	193.5
Prepayments and accrued income	237.8	237.8	212.5	212.5
Total assets	25,395.0	25,470.9	22,111.7	22,248.7
Liabilities				
Deposits by credit institutions	1,082.3	1,082.9	2,759.0	2,769.0
Customer accounts	11,927.0	11,926.7	10,060.4	10,055.4
Debt securities in issue	10,944.1	10,953.7	8,081.4	8,100.6
Other liabilities/creditors	65.6	65.6	43.5	43.5
Accruals	198.4	198.4	198.5	198.5
Dividends	103.8	103.8	97.0	97.0
Provisions for liabilities and charges	9.9	9.9	20.8	20.8
Subordinated liabilities	933.9	960.9	793.9	856.8
Total liabilities	25,265.0	25,301.9	22,054.5	22,141.6

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year ended 31 December 2004

45. Derivatives and financial instruments (continued)

Derivative financial instruments held for non trading purposes:

	2004	2003
	Fair value	Fair value
	€m	€m
Interest rate swaps	(22.2)	(49.7)
Forward rate agreements	0.2	-
Cross currency swaps	(72.3)	(55.4)
Foreign exchange contracts	(84.0)	(69.9)
	(178.3)	(175.0)

Total unrecognised losses on derivatives held for non trading purposes are €178.3m (2003: €175.0m). Of this it is anticipated that €110.6m will be recognised in 2005. 2004 includes losses of €92.6m which arose in previous accounting periods but which were recognised in 2004.

Market values have been used to determine the fair value of all Government bills, listed debt securities issued and held, equity shares, interest rate and foreign currency swaps and forward foreign currency contracts. The fair values of all other items have been calculated by discounting expected future cash flows at prevailing interest rates.

The market value of trading positions as at 31 December 2004 was a gain of €2.5m (2003: €nil).

(e) Trading foreign currency exposures

As noted on page 13 of the Operating and Financial Review currency exposures generated by financial assets and liabilities in the banking operations non trading book are transferred to the trading book as they arise. These exposures which are transactional in nature, give rise to net currency gains and losses which are recognised in the profit and loss account. Such exposures, within the group's banking operations, are entirely confined to Treasury and are controlled by limits on open positions, which are permitted to be held.

(f) Structural foreign currency exposures

Irish Life & Permanent has overseas operations in the UK. The main operating (or 'functional') currencies of its operations are therefore euro and Sterling. As the group prepares its consolidated financial statements in euro, it follows that the group's consolidated balance sheet is affected by movements in the exchange rates between sterling and euro.

These currency exposures are referred to as structural currency exposures. Translation gains and losses arising from these exposures are recognised in the statement of total recognised gains and losses.

The group mitigates the effect of these exposures by financing a significant proportion of its net investment in its overseas operations with borrowings in the same currencies as the functional currencies involved. Currency swaps are also used to match the currency of some of its other borrowings to the functional currencies involved and these are reflected in the summary of exposures given below.

The group's structural currency exposures as at 31 December 2004 were as follows:

Functional currency of operation involved	Net investment in overseas operations €m	Borrowings in functional currency of overseas operation for hedging purposes €m	Remaining structural currency exposure €m
31 December 2004			
Sterling	131.6	128.4	3.2
Total	131.6	128.4	3.2
31 December 2003			
Sterling	121.1	119.7	1.4
Total	121.1	119.7	1.4

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46. Options to subscribe for shares

The group operates a number of share option schemes. Options under the group share option schemes are normally exercisable between three and ten years from the date of grant, except in the case of options granted under the employee saving related share scheme, which are exercisable five years from the date of grant. As at 31 December 2004, the total number of options outstanding under these schemes was 15,716,021 (2003: 14,514,288) which is equivalent to 5.8% of the issued share capital of the company (2003: 5.4%) at prices ranging from €5.31 to €14.85 exercisable under normal conditions, up to year 2014. The number of options that are exercisable in less than one year is 8,020,626. The option schemes allow for not more than 15% of the issued share capital of the company to be put under option in any ten year period.

The movement in share options outstanding is analysed as follows:

Outstanding options at 1 January 2004	14,514,288
Granted in year	2,647,282
Exercised in year	(196,497)
Lapsed during the year	(1,249,052)
Outstanding options at 31 December 2004	15,716,021

47. Technical provisions

The life assurance provisions for non-linked liabilities are determined in accordance with the appropriate regulations using either the net premium or gross premium method as appropriate. The provisions in respect of linked liabilities include the value of the units deemed allocated at the valuation date. The non-unit related provisions for linked business are determined by cash flow methods.

The principal assumptions used to calculate the technical provisions are as follows :

Interest rates gross of tax	2004	2003
Regular premium business non profit	3.17% to 4.00%	4.15% to 4.70%
with profit	1.75% to 3.25%	1.75% to 3.25%
Single premium business non profit	1.94% to 3.81%	2.63% to 4.50%

Mortality rates

Lives assured - Non linked	75%-80% AM/AF92 ultimate (2003: 40%-60% A67/70 ultimate)
- Linked	110% AM/AF92 ultimate (2003: 80% A67/70 ultimate)
Annuities	100% PMA 92 (c=2003) males, (2003: 92% PMA 92 (c=2003)) 100% PFA 92 (c=2003) females, (2003: 92% PMA 92 (c=2003)) Future mortality rates to improve on medium cohorts basis with minimum improvement of 0.75% p.a.
Disability rates	Inception: Males 80% CMIR(12), Females 240% CMIR(12) (2003: 175% CMIR(7) for males and females) Termination 30% to 110% CIDA rates, (2003: 20%-110% DTS rates)
Serious Illness rates	195% of IC94 for smokers with 3% p.a. future deterioration 120% of IC94 for non-smokers with 3% p.a. future deterioration

All the tables referred to are published tables of mortality or disability.

Expense rates

Expenses are provided for explicitly or when the net premium method is used. Expense assumptions used in the cash flow testing for non-unit related provisions for linked business are based on current experience plus an appropriate margin.

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48. Embedded Value Profits

(a) The profits from life assurance activities are analysed into three components

(i) The contribution from life assurance activities which consists of

- A contribution from in-force business at the beginning of the year, this is calculated based on embedded value assumptions applicable at the start of the period and includes:
 - interest at the risk discount rate on the value of in-force business.
 - experience variances: when calculating embedded values it is necessary to make assumptions regarding future experiences including persistency (how long policies will stay in force), risk (mortality and morbidity), future expenses and taxation. Actual experience may differ from these assumptions. The impact of the difference between actual and assumed experience for the period is reported as "experience variances".
 - operating assumption changes: the assumptions on which embedded values are calculated are reviewed regularly. Where it is considered appropriate in the light of current or expected experience to change any assumptions regarding expected future experience, the impact on total value of in-force business of any such change is reported through the profit and loss account as an "operating assumption change".
- A contribution from new business written in the period, including value added between the point of sale and end of period, calculated using embedded value assumptions applicable at the start of the financial year.
- Expected investment earnings on the net assets attributable to shareholders using the equity and property investment return assumptions applicable at the start of the financial year.
- Other operating income principally earnings of life assurance operations not accounted for on an embedded value basis.

(ii) Short term investment fluctuations

In calculating embedded value, it is necessary to make assumptions in respect of the future long-term investment return on both shareholder and policyholder assets. The short-term investment return in any one year is unlikely to be the same as the long-term assumptions. The impact on profit or loss of differences between the actual investment return and the expected investment return assumptions assumed at the start of the period is separately identified and reported under the heading "short-term investment fluctuations".

(iii) Effect of economic assumption changes

When calculating the value of in-force business, assumptions are made regarding the interest rate and other assumptions to be used in determining among other things, the risk discount rate and the future investment return assumptions. The impact on value of in-force business of changes in these external economic conditions is reported through the profit and loss account as "effect of economic assumption changes".

(b) **Taxation**

Profits are calculated on an after tax basis and grossed up at the effective tax rate applicable to each country and where appropriate the different income streams within the country of operation. The rates used are as follows

	2004	2003
	%	%
Ireland		
New business	12.5	12.5
Other embedded value profits	12.5	12.0
Other operating income	14.1	12.7
UK	26.0	38.0
US	n/a	35.0

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48. Embedded Value Profits (continued)

(c) Principal assumptions

The principal economic assumptions used in the calculation of shareholder value of in-force are as follows

	Ireland		UK	
	31-Dec 2004 %	31-Dec 2003 %	31-Dec 2004 %	31-Dec 2003 %
Risk discount rate	7.00	8.00	7.80	8.00
Investment returns				
Fixed Interest	2.5 to 4.2	3.0 to 4.9	4.57	4.75
Equities and Property	5.60	6.25	6.55	6.75
Expense inflation	3.60	4.00	2.75	2.75

Assumptions made for demographic factors such as mortality and morbidity are based on published tables of rates adjusted in line with the experience of the companies concerned. Assumptions in respect of withdrawals and expense levels are based on the experience of the companies concerned. Economic assumptions are based on a long term view of economic activity using external economic conditions at the balance sheet date as a starting point.

The shareholder value of in-force and the new business contribution allows for the cost of maintaining the statutory minimum solvency margin. Recurring single premiums are not assumed to recur in the calculation of shareholder value of in-force.

Allowance is made for taxation by using models which reflect the relevant taxation regimes affecting different classes of products; no credit is taken in respect of any reductions of taxes which may derive from expenses attributable to future business.

(d) Embedded value sensitivities

The discount rate appropriate to any investor will depend on the investor's own requirements, tax and perception of the risks associated with the anticipated cash flows to the shareholder. The table below shows the effect on the group of using alternative discount rates or equity and property returns for the group's life operations.

	As published €m	1% lower discount rate €m	1% higher discount rate €m	1% higher equity return €m	1% lower equity return €m
Shareholder funds at 31/12/2004	2,365.3	+84.5	-75.1	+42.2	-39.6
New business contribution for 2004	54.8	+14.4	-12.8	+5.7	-5.6

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49. Shareholdings of, and transactions with, directors

(a) Directors' and company secretary's interests

The interests of the directors and the company secretary, including interests of their spouses and minor children, in the share capital of Irish Life & Permanent plc are as follows:

	Number of beneficial ordinary shares held			
	At 31 December 2004		At 1 January 2004*	
	Ordinary Shares	Options	Ordinary Shares	Options
Gillian Bowler	20,259	–	5,259	–
David Went	190,287	271,985	180,578	220,509
Breffni Byrne	10,000	–	–	–
Denis Casey	102,773	147,343	101,864	123,973
Peter Fitzpatrick	257,957	167,439	256,996	135,849
Eamonn Heffernan	5,000	–	5,000	–
Philip Lynch	10,000	–	10,000	–
Brian McConnell	20,380	163,870	19,471	163,870
Kieran McGowan	6,000	–	6,000	–
Kevin Murphy	134,677	128,392	133,768	105,772
Finbar Sheehan	1,181	–	1,181	–
Ciarán Long (Company Secretary)	11,778	64,464	11,778	53,488

* Or date of appointment if later

In addition Ciarán Long, as alternate director of the TSB ESOP Trustees Ltd., has a non-beneficial interest in a total of 4,766,674 shares.

There have been no changes to directors' interests since 31 December 2004.

(b) Transactions with directors

As at 31 December 2004, the banking operations had advanced loans of €432,000 to three directors. At 31 December 2003, there were loans of €547,000 to four directors.

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50. Other contingent liabilities and commitments

(a) Group

	2004		2003	
	Contract amount €m	Risk weighted amount €m	Contract amount €m	Risk weighted amount €m
Contingent Liabilities				
Guarantees and irrevocable letters of credit	4.7	4.7	5.3	5.3
	4.7	4.7	5.3	5.3
Commitments				
Undrawn formal stand-by facilities, credit lines and other commitments to lend:				
– Less than one year	244.7	–	242.3	–
– One year and over	120.4	60.2	80.6	40.3
	365.1	60.2	322.9	40.3

As part of the agreement in 2001 to dispose of Interstate Life Assurance Company Limited, its wholly owned US subsidiary, the group provided certain guarantees in regard to persistency experience on a block of business held by Interstate. The maximum amount payable on foot of these guarantees is €10.2m. The group believe that the crystallisation of this amount is unlikely.

DIRT is a withholding tax which Irish financial institutions are required to deduct from interest paid on deposits. Interest may be paid in certain circumstances without such withholding tax, including where the deposit is made by a non-resident, a company, a charity or a pension fund and a declaration of the kind required has been made to the financial institution

The Irish Life & Permanent Group's policy and practice has always been to account for its DIRT obligations in accordance with the law and with Revenue practice.

Following an enquiry in 1999, into the administration of DIRT by financial institutions in the Republic of Ireland by the Public Accounts Committee of Dáil Eireann, the Revenue Commissioners undertook audits of the historic compliance with all aspects of the administration for DIRT in all of the major financial institutions in the State, including the Irish Life & Permanent Group. The audit of Guinness & Mahon (Ireland) Limited, a group subsidiary, is ongoing and a payment on account of €0.5m has been made in respect of this company.

(b) Company

	2004		2003	
	Contract amount €m	Risk weighted amount €m	Contract amount €m	Risk weighted amount €m
Contingent Liabilities				
Guarantees and irrevocable letters of credit	17.7	17.7	5.3	5.3
	17.7	17.7	5.3	5.3
Commitments				
Undrawn formal stand-by facilities, credit lines and other commitments to lend:				
– Less than one year	244.7	–	242.3	–
– One year and over	120.4	60.2	80.6	40.3
	365.1	60.2	322.9	40.3

Notes to the Group Financial Statements

year ended 31 December 2004

51. Analysis of Operating Profit

	2004		Total €m
	Continuing Operations €m	Discontinued Operations €m	
<i>Banking and other activities</i>			
Interest receivable & similar income	847.6	–	847.6
Interest payable & similar charges	(498.3)	–	(498.3)
Net interest income	349.3	–	349.3
Fees and commission receivable	44.5	–	44.5
Fees and commission payable	(40.7)	–	(40.7)
Dealing profits	5.8	–	5.8
Other banking income	3.1	–	3.1
Income from other activities	6.9	–	6.9
Administrative expenses	(237.1)	–	(237.1)
Provision for bad and doubtful debts	(9.3)	–	(9.3)
Profit arising from banking and other activities	122.5	–	122.5
<i>Life assurance activities</i>			
Earned premiums	3,622.2	–	3,622.2
Investment return	1,838.2	–	1,838.2
Increase in shareholders' value of in-force business	123.2	–	123.2
Claims incurred	(1,336.4)	–	(1,336.4)
Change in other technical provisions		–	
Non unit-linked business	(94.8)	–	(94.8)
Unit-linked business	(3,564.6)	–	(3,564.6)
Operating expenses	(291.2)	–	(291.2)
Tax attributable to life assurance activities	(34.5)	–	(34.5)
Profit arising from life assurance activities after taxation	262.1	–	262.1
Tax attributable to the profit on life assurance activities	26.5	–	26.5
Profit arising from life assurance activities before taxation	288.6	–	288.6
Goodwill	(11.6)	–	(11.6)
Profit arising from operating activities	399.5	–	399.5

Notes to the Group Financial Statements

year ended 31 December 2004

51. Analysis of Operating Profit (continued)

	2003		Total €m
	Continuing Operations €m	Discontinued US Operations €m	
<i>Banking and other activities</i>			
Interest receivable & similar income	712.0	–	712.0
Interest payable & similar charges	(380.1)	–	(380.1)
Net interest income	331.9	–	331.9
Fees and commission receivable	45.0	–	45.0
Fees and commission payable	(34.9)	–	(34.9)
Dealing profits	6.1	–	6.1
Other banking income	28.5	–	28.5
Income from other activities	6.1	–	6.1
Administrative expenses	(240.5)	–	(240.5)
Provision for bad and doubtful debts	(13.4)	–	(13.4)
Profit arising from banking and other activities	128.8	–	128.8
<i>Life assurance activities</i>			
Earned premiums	2,307.5	60.8	2,368.3
Investment return	1,618.8	6.9	1,625.7
Increase in shareholders' value of in-force business	40.1	0.5	40.6
Claims incurred	(1,161.4)	(30.5)	(1,191.9)
Change in other technical provisions			
Non unit-linked business	3.7	(7.0)	(3.3)
Unit-linked business	(2,306.1)	–	(2,306.1)
Operating expenses	(287.6)	(29.6)	(317.2)
Tax attributable to life assurance activities	(25.5)	(0.4)	(25.9)
Profit arising from life assurance activities after taxation	189.5	0.7	190.2
Tax attributable to the profit on life assurance activities	8.0	0.3	8.3
Profit arising from life assurance activities before taxation	197.5	1.0	198.5
Goodwill	(13.8)	–	(13.8)
Profit arising from operating activities	312.5	1.0	313.5

Notes to the Group Financial Statements

year ended 31 December 2004

52. Principal subsidiary and associated undertakings

(a) Principal subsidiary undertakings

Name & Registered Office	Incorporated in	% of ordinary shares held
Banking :		
permanent tsb Finance Limited *	Ireland	100
56-59 St. Stephen's Green, Dublin 2		
Capital Home Loans Limited *	UK	100
Admiral House, Harlington Way, Fleet, Hampshire, GU13 8YA		
Life Assurance :		
Irish Life Assurance plc	Ireland	100
Irish Life Centre, Lower Abbey Street, Dublin 1		
City of Westminster Assurance Company Limited	UK	100
5th Floor, Arndale House, Arndale Centre, Luton, Bedfordshire, LU1 2TG		
Irish Progressive Services International Limited	Ireland	100
Irish Life Centre, Lower Abbey Street, Dublin 1		
Cornmarket Group Financial Services Limited	Ireland	75
Liberties House, Christchurch Square, Dublin 8		
Irish Life International Limited	Ireland	75
Irish Life Centre, Lower Abbey Street, Dublin 1		
Investment Management :		
Irish Life Investment Managers Limited	Ireland	100
Beresford Court, 16 Beresford Place, Dublin 1		

* held directly through Irish Life & Permanent plc.

The principal country of operation of each company is the country in which it is incorporated with the exception of Irish Life International Limited which operates internationally.

The registered office of Irish Life & Permanent plc is: Irish Life Centre, Lower Abbey Street, Dublin 1.

(b) Principal associated undertaking	Total issued equity/debt capital	% holding
Allianz - Irish Life Holdings plc	23,053,408 ordinary €1.25 shares	30.4
Incorporated, registered and operating as a general insurance company in Ireland (Held by a subsidiary undertaking)		

Notes to the Group Financial Statements

year ended 31 December 2004

53. Related party transactions

Irish Life & Permanent plc has a commission agreement with its associated company, Allianz – Irish Life Holdings Limited (“Allianz”). Under this agreement, Irish Life & Permanent plc is paid commission for general insurance business written with Allianz through Irish Life & Permanent plc. Commission earned in 2004 was €13.5m (2003: €15.2m). In addition, a subsidiary of the group, Irish Life Investment Managers Limited has an investment management agreement with Allianz; fees earned under this agreement were €0.5m in 2004 (2003: €0.4m). Included within the group accounts is a net balance due to Allianz of €2.3m (2003: €2.4m).

54. Approval of financial statements

The financial statements were approved by the board on 21 March 2005.

Additional Information

year ended 31 December 2004

Funds under management

	2004 €m	2003 €m
Ireland		
Linked and non-linked funds	16,895.4	13,537.4
Segregated client assets	2,132.4	1,955.0
	19,027.8	15,492.4
UK	1,250.7	1,189.4
Other	1,072.2	931.1
	21,350.7	17,612.9

Five year review

	2004 cent	2003 cent	2002 cent	2001 cent	2000 cent
Earnings per share including own shares held for the benefit of life assurance policyholders	152.5	97.2	105.5	17.1	98.2
	€m	€m	€m	€m	€m
Profits arising from operating activities before taxation	399.5	313.5	238.7	199.3	308.1
Profits on ordinary activities before taxation	485.8	309.6	358.2	79.1	311.9
Profit after taxation	411.2	261.8	290.0	48.6	284.2
Shareholders' funds including own shares held for the benefit of life assurance policyholders	2,365.3	2,103.9	1,900.2	1,889.9	2,002.6
New life assurance business (full value)					
Ireland	2,697.1	1,650.2	1,914.8	1,454.5	1,992.9
UK	19.9	19.9	18.3	16.3	17.2
USA (discontinued)	–	17.5	57.6	243.2	269.5
	2,717.0	1,687.6	1,990.7	1,714.0	2,279.6
Off balance sheet investment management	211.1	818.5	142.4	277.0	403.0
	2,928.1	2,506.1	2,133.1	1,991.0	2,682.6

Analysis of holdings of ordinary shares at 14 March 2005

Size of shareholding	Shareholders		Shares	
	Number	Percent	Number	Percent
1-1,000	131,864	94.39%	44,095,358	16.34%
1,001-5,000	6,819	4.88%	12,735,881	4.72%
5,001-10,000	496	0.36%	3,488,805	1.29%
10,001-50,000	309	0.22%	6,713,136	2.49%
50,001-100,000	88	0.06%	6,280,148	2.33%
100,001-1,000,000	101	0.07%	35,116,496	13.01%
Over 1,000,000	33	0.02%	161,408,582	59.82%
	139,710	100.00%	269,838,406	100.00%

Investor Relations

Investment analysts who require further information should contact:

Barry Walsh, Head of Investor Relations, Irish Life & Permanent plc, Irish Life Centre, Dublin 1

Telephone: +353 (1) 704 2678 E-mail: barry.walsh@irishlife.ie

Business Addresses

Ireland

Head Office:

Irish Life Centre, Lower Abbey Street, Dublin 1. (Registered Office)
Telephone 01 704 2000 Facsimile 01 704 1900
Website www.irishlifepermanent.ie

Irish Life Assurance plc:

Irish Life Centre, Lower Abbey Street, Dublin 1.
Telephone 01 704 2000 Facsimile 01 704 1900
Website www.irishlife.ie

permanent tsb:

56-59 St. Stephen's Green, Dublin 2.
Telephone 01 669 5000 Facsimile 01 661 5828
Website www.permanenttsb.ie

Irish Life International Ltd:

Irish Life Centre, Lower Abbey Street, Dublin 1.
Telephone 01 704 1500 Facsimile 01 704 1922
Website www.irishlifeinternational.com

Irish Life Investment Managers Ltd:

Beresford Court, Beresford Place, Dublin 1.
Telephone 01 704 1200 Facsimile 01 704 1903
Website www.ilim.com

Irish Progressive Services International Ltd:

96-102 Lower Mount Street, Dublin 2.
Telephone 01 704 2000 Facsimile 01 856 3391
Website www.ipsi.ie

permanent tsb Finance Limited:

56-59 St. Stephen's Green, Dublin 2.
Telephone 01 661 6470 Facsimile 01 661 6441
Website www.autopoint.ie

Cornmarket Group Financial Services Ltd:

Liberties House,
Christchurch Square, Dublin 8.
Telephone 01 408 4000 Facsimile 01 408 4014
Website www.cornmarket.ie

United Kingdom

Capital Home Loans Ltd:

Admiral House,
Harlington Way, Fleet, Hampshire, GU51 4YA.
Telephone 1 252 812 271 Facsimile 1 252 811 826
Website www.chlmortgages.co.uk

City of Westminster Assurance Company Limited:

PO Box 1023, Luton, LU1 2XN.
Telephone 1 582 878 318 Facsimile 1 582 742 899

List of permanent tsb Branches

Carlow

55 Tullow St., Carlow.

Cavan

15 Main St., Cavan.

Clare

44/46 O'Connell St., Ennis.

Cork

17 Main St., Ballincollig.
33 South Main St., Bandon.
1 Curraheen Rd., Bishopstown.
Main St., Carrigaline.
20 Rossa St., Clonakilty.
29 West Beach, Cobh.
40/41 Patrick St., Cork.
Cathedral Rd., Cork.
1 Lapp's Quay, Cork.
88 North Main St., Cork.
Main St., Douglas, Cork.
North Square, Macroom.
65 Main St., Mallow.
Iona Park, Mayfield.
83 Main St., Midleton .
21 Lr. Cork St., Mitchelstown.
16/17 Main St., Skibbereen.
1 Clashdub Rd., Toghher.
53 North Main St., Youghal.

Donegal

67 Upper Main St., Letterkenny.
The Diamond, Donegal Town, Donegal

Dublin

The Roundabout, Malahide Rd., Artane
2/4 Upper Baggot St., D2.
7B Dublin St., Balbriggan, Co Dublin.
Ballyfermot Shopping Centre D10.
23 Rock Hill, Blackrock, Co Dublin.
Main St., Blanchardstown, D15.
Unit 134, Blanchardstown Newtown Centre, D15.
20 Main St., Clondalkin, D22.
16/17 College Green, D2.
12/13 Lower O'Connell St., D1.
Unit 6E Northside SC, Coolock, D17.
130 Lower Drumcondra Rd., D9.
11 Upr George's St., Dun Laoghaire, Co Dublin.
Main St., Dundrum, D14.
1 Fairview Corner, Fairview, D3.
2/3 Village Centre, Finglas, D11.
70 Grafton St. D2.
36 Henry St., D1.
8 Sundrive Rd., Kimmage D12.
Unit 19 Liffey Valley Shopping Ctr, D22.
7 Main St., Lucan, Co Dublin.
4 Main St., Malahide, Co Dublin.
69/71 Phibsboro Rd., Phibsboro, D7.
405 Howth Rd., Raheny, D5.
Rathfarnham Village, Rathfarnham, D14.
300 Lr. Rathmines Rd., Rathmines, D6.
2 Stephen's Green, D2.
14 Lower Kilmacud Rd., Stillorgan, Co Dublin.
1 Howth Rd., Sutton Cross, D13.
33 Main St., Swords, Co Dublin.
8 Old Bawn Rd., Tallaght, D24.
172 Walkinstown Rd., Walkinstown, D12.

Galway

31 Eyre Square, Galway.
Unit D, Galway SC, Headford Rd., Galway.

Kerry

23/24 New St., Killarney.
12 Lower Castle St., Tralee.

Kildare

Main St., Maynooth.
Poplar House, Poplar Square, Naas.
3 Duke St., Athy, Kildare.
Court Shopping Centre, Main St., Newbridge.

Kilkenny

Marble City Arcade, High St., Kilkenny.

Laois

38/39 Main St., Portlaoise.

Limerick

24 Sarsfield St., Limerick.
48 Upper William St., Limerick.
Glentworth St., Limerick.
The Square, Newcastlewest.

Longford

27/28 Main St., Longford.

Louth

115/116 West St., Drogheda.
60 Clanbrassil St., Dundalk.
1/2 Clanbrassil St., Dundalk.

Mayo

Pearse St., Ballina.
Ellison St., Castlebar.
Bridge St., Westport.

Meath

Kennedy Rd., Navan.

Monaghan

Dawson St., Monaghan

Offaly

O'Connor Square, Tullamore.

Roscommon

Market Square, Roscommon.

Sligo

31 O'Connell St., Sligo.

Tipperary

11/13 Pearse St., Nenagh.
12 Gladstone St., Clonmel.
The Square, Roscrea.
14 Liberty Square, Thurles.
74 Main Street, Tipperary

Waterford

Arundel Square, Waterford.
Dunmore Rd., Ardkeen.
Davitt's Quay, Dungarvan.
Hyper Centre, Morgan St., Waterford.
Waterford Shopping Centre, Lisduggan.

Westmeath

7/9 Oliver Plunkett St., Mullingar.
Unit 32 Golden Island, S.C Athlone.
22 Mardyke St., Athlone.

Wexford

The Bull Ring, Wexford.
17 South St., New Ross.
17/18 Market Square, Enniscorthy.
23 Main St., Gorey.

Wicklow

66 Main St., Bray.
Church Rd., Greystones.

Chairman's Letter

14 April 2005

Dear Shareholder,

The notice of the Annual General Meeting ("AGM") to be held on Friday, 20 May 2005 in Jurys Hotel, Ballsbridge, Dublin 4 is set out on pages 99 to 101 of this annual report. There are four items of ordinary business (resolutions 1 to 4 inclusive) and three items of special business (resolutions 5 to 7).

Re-appointment of Directors

Resolution 3, as proposed, includes the re-appointment of certain non-executive and executive directors. The board regularly reviews the performance of Directors and is satisfied that all the Directors proposed for re-appointment are effective and committed in their respective roles.

Renewal of authority to allot shares

Shareholders are being asked in resolution 5 to renew the authority to the Directors to allot shares pursuant to section 20, Companies (Amendment) Act, 1983 which will be valid for five years.

Renewal of authority to allow the Company and/or any subsidiary to purchase the Company's own shares and to fix the re-issue price of Treasury Shares

Shareholders are being asked in resolution 6 to authorise the Company, until the earlier of the date of the next AGM or 19 August 2006, to make market purchases of up to 26,997,881 Ordinary Shares (being 10% of the Company's issued share capital as at 21 March 2005) and to fix the re-issue price of any such shares if re-issued at a later date. Shares purchased by the Company under this authority may be cancelled or held as Treasury Shares which may be re-issued. The Directors shall only exercise this power if they consider it to be in the best interests of shareholders generally. The minimum and maximum prices which may be paid for a purchase of the Company's own shares and for a re-issue of shares purchased by the Company and not cancelled shall be those prices set out in Articles 50b) and 50d) respectively of the Articles of Association of the Company.

Options to subscribe for a total of 15,206,580 Ordinary Shares were outstanding as at 21 March 2005. At the same date, these options represented 5.6% of the then issued Ordinary Share capital and will represent 6.3% of such share capital if the full authority to buy back Ordinary Shares is used.

Renewal of authority to disapply statutory pre-emption rights

In resolution 7, shareholders are being asked to renew, until the earlier of the next AGM or the expiration of 15 months from the passing of this resolution, the authority to disapply the strict statutory pre-emption provisions in the event of a rights issue, or any other issue of equity securities for cash up to an aggregate nominal amount of 5% of the nominal value of the Company's issued share capital. This application will cover a maximum of 13,498,940 Ordinary Shares.

Recommendation

The Directors are satisfied that the resolutions set out in the Notice of AGM are in the best interests of the Company and its shareholders as a whole. Accordingly, your Directors unanimously recommend that you vote in favour of each of the resolutions to be proposed at the AGM as they intend to do in respect of their own beneficial holdings.

Yours faithfully,

Gillian Bowler
Chairman

Notice of Meeting

NOTICE OF MEETING OF IRISH LIFE & PERMANENT PLC (the "Company")

NOTICE is hereby given that the eleventh Annual General Meeting of the Company will be held at Jurys Hotel, Ballsbridge, Dublin 4 on Friday, 20 May 2005 at 11.30 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the accounts for the year ended 31 December 2004 and the reports of the Directors and Auditors thereon.
2. To declare a final dividend on the Ordinary Shares in the capital of the Company for the year ended 31 December 2004.
3. To re-appoint the following Directors who retire in accordance with the Articles of Association and, being eligible, offer themselves for re-appointment:
 - (a) Peter Fitzpatrick
 - (b) Eamonn Heffernan
 - (c) Brian McConnell
 - (d) Breffni Byrne
 - (e) David Byrne
 - (f) Danuta Gray
4. To authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

5. That the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 20 of the Companies (Amendment) Act, 1983) up to a maximum amount equal to the aggregate of the authorised but as yet unissued Ordinary Share capital of the Company at the close of business on the date of the passing of this resolution, 300,000,000 Non-Cumulative Preference Shares of €1 each, 100,000,000 Non-Cumulative Preference Shares of STG£1 each and 200,000,000 Non-Cumulative Preference Shares of US\$1 each, provided that the authority hereby conferred shall expire on the date which is five years from the date of the passing of this resolution unless and to the extent that such an authority is renewed, revoked or extended prior to such date provided however that the Company may make, before such expiry, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding that the authority hereby conferred has expired. Any power conferred on the Directors to allot relevant securities (as so defined) which is in force immediately before this resolution is passed shall be revoked upon the coming into effect of this resolution.

Notice of Meeting

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

6. That the Company and/or any subsidiary (as such expression is defined by Section 155 of the Companies Act, 1963) of the Company be generally authorised to make market purchases (as defined by Section 212 of the Companies Act, 1990) of the Company's Ordinary Shares on such terms and conditions and in such manner as the Directors, or as the case may be, the Directors of such subsidiary, may from time to time determine in accordance with and subject to the provisions of the Companies Act, 1990 and the restrictions and provisions set out in Articles 50 b) and 50 c) of the Articles of Association of the Company **PROVIDED** that the maximum aggregate number of Ordinary Shares authorised to be acquired pursuant to this resolution shall be 26,997,881; and for the purposes of Section 209 of the Companies Act, 1990, the re-issue price range at which any Treasury Share (as defined by the said Section 209) for the time being held by the Company may be re-issued off-market shall be the price range set out in Article 50 d) of the Articles of Association of the Company.

The authorities hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 19 August 2006 unless, in any such case, previously varied, revoked or renewed in accordance with the provisions of the Companies Act, 1990.

7. That, subject to the passing of resolution 5, the Directors are hereby empowered pursuant to Section 23 and Section 24(1) of the Companies (Amendment) Act, 1983 to allot equity securities within the meaning of the said Section 23 for cash pursuant to the authority to allot relevant securities conferred on the Directors by resolution 5, as if sub-section 1 of the said Section 23 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - (a) in connection with a rights issue in favour of Members where the equity securities are issued proportionately to the respective numbers of shares held by such Members but subject to such exclusions as the Directors may deem fit to deal with fractional entitlements or legal and practical problems arising in or in respect of any territory; and
 - (b) otherwise than in pursuance of (a) above, up to an aggregate nominal value of €4,319,661, (representing 5% of the issued Ordinary Share capital of the Company as at 21 March 2005);

and shall, unless previously renewed, revoked or varied by Special Resolution of the Company in general meeting, expire 15 months from the passing of this resolution or, if earlier, on the close of business on the date of the next annual general meeting of the Company, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power hereby conferred had not expired. Any powers conferred on the Directors to allot equity securities in accordance with the said Sections 23 and 24(1) in force immediately before this resolution is passed shall be revoked upon the coming into effect of this resolution.

By order of the Board

Ciarán Long
Secretary

Registered Office:
Irish Life Centre,
Lower Abbey Street,
Dublin 1.

21 March 2005

Notice of Meeting

NOTES:

1. A Member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote instead of him. A proxy need not be a Member of the Company.
2. To be valid, the form of proxy duly completed and executed together with any authority under which it is executed or a copy of such authority certified notarially or by a solicitor practising in the Republic of Ireland must be deposited at the registered office of the Company at the Irish Life Centre, Lower Abbey Street, Dublin 1 or (at the Member's option) at the offices of the Company's Registrar, Capita Corporate Registrars Plc, Unit 5, Manor Street Business Park, Manor Street, Dublin 7, in either case, not less than 48 hours before the time appointed for the Annual General Meeting. Alternatively, the appointment of a proxy may, provided it is received in legible form not less than 48 hours before the time appointed for the holding of the Meeting, be submitted by telefax to 353 1 8102422 subject to Article 73(c) of the Articles of Association of the Company.
3. In the case of a corporation, the form of proxy must be either executed under seal or signed on its behalf by a duly authorised officer or attorney.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s) and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company.
5. Completing and returning a form of proxy will not preclude a Member from attending and voting at the meeting should he so wish.
6. The Company, pursuant to Regulation 14 of the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996 specifies that only those Members registered in the register of members of the Company as at 11.30 a.m. on 18 May 2005 (or in the case of an adjournment as at 48 hours before the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at the time. Changes to entries in the register after that time will be disregarded in determining the right of any person to attend and/or vote at the meeting.

