# INTESA SANPAOLO BANK IRELAND plc

## Directors' report and financial statements

**Year ended** **31 December 2010**

*Registered number* *125216*

# INTESA SANPAOLO BANK IRELAND plc

| *Contents* | *Page* |
|---|---|

# INTESA SANPAOLO BANK IRELAND plc

## Directors and other information

| | |
|---|---|
| **Directors** | Mr. N. Healy (Chairman)<br>Mr. S. Catalano (Deputy Chairman, Italian)<br>Mr. G. Pizzutto (Managing Director, Italian)<br>Mr. I. Letchford (British)<br>Mr. M. A. Bertotti (Italian)<br>Mr. F. Introzzi (Italian)<br>Mr. W. Ambrogi (Italian) |
| **Registered office** | 3rd Floor<br>KBC House<br>4 George's Dock<br>International Financial Services Centre<br>Dublin 1 |
| **Secretary** | AIB International Financial Services Ltd |
| **Auditors** | Ernst & Young<br>Chartered Accountants<br>Harcourt Centre<br>Harcourt Street<br>Dublin 2 |
| **Principal bankers** | INTESA SANPAOLO S.p.A.<br>Piazza della Scala, 6<br>Milan<br>I-20121<br>Italy |
| | INTESA SANPAOLO – New York Branch<br>One William Street<br>New York<br>NY 10004<br>USA |
| **Solicitors** | McCann Fitzgerald<br>Sir John Rogerson's Quay<br>Dublin 2 |
| | A&L Goodbody<br>International Financial Services Centre<br>North Wall Quay<br>Dublin 1 |

# INTESA SANPAOLO BANK IRELAND plc

## Directors' report

### Financial Statements

The directors have pleasure in submitting their report, together with the audited financial statements for the year ended 31 December 2010.

### Principal Activities

INTESA SANPAOLO BANK IRELAND plc (the "Company") has been granted a banking licence by the Central Bank of Ireland under section 9 of the Irish Central Bank Act 1971 and is engaged in wholesale banking business.

The Company's activities include intra-group lending (deriving chiefly through the issuance of notes under the Company's Euro Commercial Paper and Certificate of Deposit Programme and the Group's Euro Medium Term Note Programme), the provision of finance to large corporate clients and financial institutions mainly in Europe both on a bilateral and syndicated basis, and the management of its own portfolio of securities held for liquidity purposes.

### Review of Results and Development of the Business

The results and financial position of the Company are set out on pages 9 – 11 of the financial statements. During the year under review, the Company has continued to develop its international lending and financial activities in line with group policy.

Having experienced the worst recession since the Great Depression of the 1930's in 2009, resulting in a contraction in the global economy, 2010 proved to be the year in which the credit markets were dominated by the EMU sovereign credit crisis. The impact of the sovereign crisis annulled the fundamental strength of corporate balance sheets and earnings.

Despite this, there was subdued recovery across financial markets in 2010, although unemployment remains high by historical standards and rising household indebtedness is discouraging consumer spending across much of the developed world.

For the Company, 2010 proved to be an exceptional year in terms of profitability, as it benefited from wider credit spreads within its chosen areas of lending, while funding costs remained well under control for much of the year under review.

As we enter 2011, there are signs of strong growth potential in emerging markets which is combining with a recovery in the US and the evident boom taking place in Germany. The performance of European credit going forward is inherently linked to the sovereign situation, especially in the banking sector which holds significant levels of periphery sovereign debt. The creation of the European Financial Stability Facility (the "EFSF") by the EMU member states in 2010 was established to safeguard the financial stability in the Euro-zone by providing temporary financial assistance to those countries in financial difficulty. Ireland was the first recipient of funds through this mechanism at the start of 2011. Such intervention from the member states demonstrates a willingness to provide financial support to countries which are unable to access markets which should allay concerns within the markets, however, many questions remain and the calming of markets by expanding the remit of the EFSF is currently under consideration.

During the year under review, market liquidity remained fundamental and to this end, the Company maintained a high profile in the commercial paper/certificate of deposit market, even though total utilisation under the Company's ECP/CD Programme contracted during 2010. Overall, debt securities in issue decreased by 22% to €10.60 billion in the year under review, with a significant proportion represented by short-term debt (Certificate of Deposits and European Commercial Paper).

# INTESA SANPAOLO BANK IRELAND plc

## Directors' report *(continued)*

The principal risks faced by the Company as a result of the normal course of its activities are:

- Credit Risk and Counterparty Credit Risk
- Interest Rate and Foreign Exchange Risks (Banking Book)
- Liquidity Risk
- Operational Risk

These risks are monitored and managed on an on-going basis by the Company, and the risk management objectives, policies, risk measures and limits of the Company are fully described in Note 2 to the financial statements.

The profit after tax for the financial year was € 111.25 million (2009: € 85.33 million). The results for the year were in line with the expectations of the management. The directors have proposed a dividend of 16.67 cent (2009: 17.05 cent) per ordinary share, amounting to € 66.76million in respect of the year 2010 (2009: € 68.29 million).

**Future Developments in the Business**

The directors intend to continue the development of the Company's lending activities on a selected basis and in line with group policy.

**Events since the year end 2010**

The short term Euro-Commercial Paper/Certificate of Deposit Programme of the Company was updated to include a listing on the Irish Stock Exchange on 14 January 2011.

**Risk Management and Control**

An analysis of the risks to which the Company is exposed and the management of these is set out in Note 2 to the financial statements.

**Books of Account**

The measures taken by the directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are available at the registered office at 3rd Floor, KBC House, 4 George's Dock, IFSC, in Dublin.

**Directors**

The directors who held office during the year under review were:

Mr. N. Healy
Mr. S. Catalano
Mr. I. Letchford
Mr. M. A. Bertotti
Mr. F. Introzzi
Mr. W. Ambrogi
Mr. G. Pizzutto
Mr. P.C. Arena (resigned 27 January 2010)

### CORPORATE GOVERNANCE STATEMENT

**Parent**
Intesa Sanpaolo Bank Ireland plc is a public limited liability company and is incorporated and domiciled in Ireland. The Bank is a wholly owned subsidiary of INTESA SANPAOLO S.p.A. which beneficially holds 100% of the ordinary share capital of the Bank. INTESA SANPAOLO S.p.A. is a public limited company and is incorporated and domiciled in Italy. The consolidated financial statements for 2010 of INTESA SANPAOLO S.p.A. may be obtained from the group headquarters based at Piazza San Carlo, 156, I-10121 Turin, Italy, or via its website www.group.intesasanpaolo.com.

**Articles of Association**
In accordance with its memorandum and articles of association, the Company may by ordinary resolution appoint any person to be a director. The powers to appoint directors are subject to the maximum number of directors permitted and eligibility for appointment, both in accordance with the memorandum and articles of association.

In accordance with the memorandum and articles of association, the Directors are authorised to issue shares subject to the limit of the authorized share capital. The authority expires fives years from the date of the memorandum and articles of association.

The memorandum and articles of association may be amended in line with the Companies Acts e.g. where a special resolution is required by consent of the holder of at least 75% of the ordinary share capital of the Bank.

**Directors**
The composition of the Board of Directors and standing Committees at year–end:

Mr. N. Healy (Member of Credit Committee)

Mr. S. Catalano

Mr. I. Letchford (Member of Audit Committee)

Mr. M. A. Bertotti (Member of Audit Committee)

Mr. F. Introzzi (Member of Audit Committee)

Mr. W. Ambrogi (Member of Credit Committee)

Mr. G. Pizzutto (Member of Credit Committee)

**Interests of directors and secretary**

The directors and secretary of the Company at 31 December 2010 and their spouses had no interest in the shares or debentures or loan stock of the Company or Group companies other than those set out below. Directors who are employees of INTESA SANPAOLO S.p.A. participate in a discretionary share incentive scheme under which a portion of their bonus may be converted into shares in INTESA SANPAOLO S.p.A.

**Ordinary Shares in INTESA SANPAOLO S.p.A.**

| | **31 December 2010** | 31 December 2009 |
|---|---:|---:|
| Mr. G. Pizzutto | - | **368 |
| Mr. M. A. Bertotti | ***835** | *835 |
| Mr. F. Introzzi | **554** | 554 |
| Mr. W. Ambrogi | **554** | **554 |

* of which Nil (2009: 368) shares are blocked until 2010
** or date of appointment if later.

## Directors' report *(continued)*

### Transactions involving directors

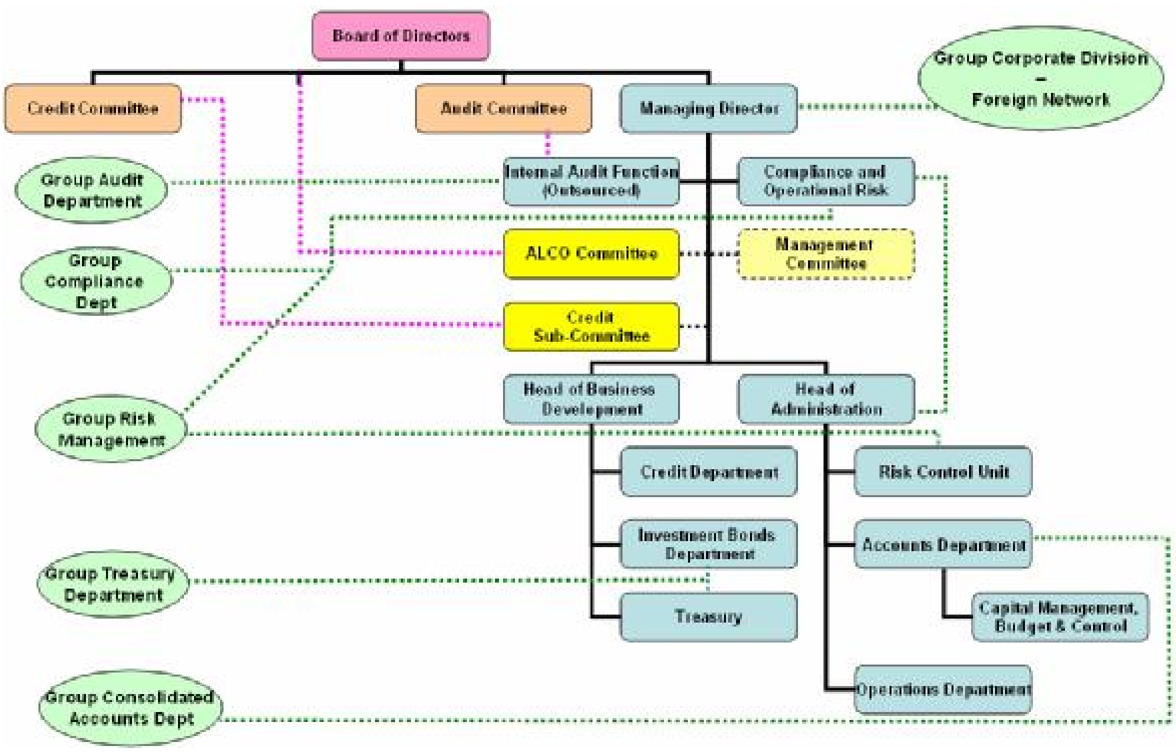
There were no contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in the Companies Act, 1990, at any time during the year ended 31 December 2010.

### Directors' responsibilities

The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

### Corporate Structure

The overview of the Board and Executive Management structure in the chart as at December 2010 below identifies key individuals and committees and their inter-relationship with business and control units:




### Management responsibilities

Management at departmental level has primary responsibility for the execution of all internal controls implemented by the Directors in collaboration with the Senior Management of the Company. They ensure risks relating to all business processes are identified and mitigated through adequate control levels defined in departmental policies and procedures. The mapping of these processes and the identification of associated risks, as well as control of the adequacy and effectiveness of internal controls, are all performed by the Capital Management, Budget & Control function using an Italian Law 262-2005 compliant methodology.

**Risk management framework**

The Company has a dedicated Risk Control function responsible for the measurement and monitoring of financial risks. The Risk Control function reports to the Executive Assets & Liabilities Committee of the Company, who is responsible for defining and proposing the risk management framework to the Directors.

In addition, the control and proactive monitoring of internal processes is performed by the Operational Risk function, who reports to the Audit Committee on a periodical basis. This standing Committee, established by the Board, assists the Directors in fulfilling their responsibilities in the supervision over the financial reporting process, the auditing process, the existing internal control system, the risk management reporting, and the compliance with laws, regulations, rules and code of conduct of the Company.

The active involvement of the Managing Director of the Company in the Company's management of risks allows the Board to continually monitor risks and to ensure the adherence on an on-going basis to the Company's strict internal control procedures.

In respect of the financial reporting process, the Company has mapped such process, identifying controls that must be complied with. Some of these controls are designed to ensure that:

- Business transactions are properly authorized, approved and executed within the transaction limits identified by the risk control department;
- Financial reporting is accurate and complies with the financial reporting framework; and,
- Systems are in place to achieve high standards of compliance with regulatory requirements.

**Auditors**

The auditors, Ernst & Young, have indicated their willingness to continue in office under Section 160 of the Companies Act, 1963.

On behalf of the board

| N. Healy | G. Pizzutto | I. Letchford | W. Ambrogi |
|---|---|---|---|
| *Chairman* | *Managing Director* | *Director* | *Director* |

04 March 2011

# INTESA SANPAOLO BANK IRELAND plc

## Statement of directors' responsibilities

The directors present herewith the audited financial statements for the year ended 31 December 2010.

The directors are responsible for preparing the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, applicable to companies reporting under IFRS.

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

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, applicable to companies reporting under IFRS.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board

| N. Healy | G. Pizzutto | I. Letchford | W. Ambrogi |
|---|---|---|---|
| *Chairman* | *Managing Director* | *Director* | *Director* |

04 March 2011

**Independent auditors' report to the members of INTESA SANPAOLO BANK IRELAND plc**

We have audited the financial statements (the "financial statements") of INTESA SANPAOLO BANK IRELAND Plc for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cashflow Statement, and the related notes 1 to 38. These financial statements have been prepared under the accounting policies set out therein.

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

*Respective responsibilities of directors and auditors*

The directors are responsible for the preparation of the financial statements in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts, 1963 to 2009. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether, at the statement of financial position date, there exists a financial situation which may require the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

*Basis of audit opinion*

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

**Independent auditors' report to the members of INTESA SANPAOLO BANK IRELAND plc – continued**

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

**Opinion**

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Company as at 31 December 2010 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

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

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

In our opinion, the Statement of Financial Position does not disclose 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.

**Ernst & Young**
**Registered Auditors and Chartered Accountants**
**Dublin**

04 March 2011

# INTESA SANPAOLO BANK IRELAND plc

Income statement
*Year ended 31 December 2010*

| | Note | **2010** | 2009 |
|---|---|---|---|
| | | **€'000** | €'000 |
| Interest and similar income | *7* | **416,498** | 603,307 |
| Interest expense and similar charges | *7* | **(273,787)** | (471,480) |
| **Net interest income** | | **142,711** | 131,827 |
| Fees and commission income | *8* | **15,390** | 8,629 |
| Fees and commission expense | *8* | **(23,049)** | (19,815) |
| **Net fees and commission expense** | | **(7,659)** | (11,186) |
| Net trading expense | *9* | **(920)** | (13,694) |
| Foreign exchange (loss) /profit | | **(399)** | 223 |
| Provisions for impairment of loans and receivables | *20* | **(1,471)** | (3,946) |
| Provisions for liabilities and commitments | *30* | **(162)** | (799) |
| **Net operating income** | | **132,100** | 102,425 |
| Administrative expenses | *11* | **(4,900)** | (4,834) |
| Depreciation | | **(50)** | (48) |
| **Total operating expenses** | | **(4,950)** | (4,882) |
| **Profit before tax** | *12* | **127,150** | 97,543 |
| Income tax expense | *13* | **(15,899)** | (12,209) |
| **Profit for the financial year** | | **111,251** | 85,334 |
| **Profit attributable to the equity holders of the parent** | | **111,251** | 85,334 |

All of the above profits are in respect of continuing operations.

The notes on pages 15 to 92 are an integral part of these financial statements.

On behalf of the board

N. Healy
*Chairman*

G. Pizzutto
*Managing Director*

I. Letchford
*Director*

G. Flaherty
*For and on behalf of AIB International Financial Services Ltd*
*Company Secretary*

# INTESA SANPAOLO BANK IRELAND plc

| Statement of comprehensive income<br>*Year ended 31 December 2010* | **2010**<br>**€'000** | 2009<br>€'000 |
|---|---|---|
| Profit for the year | **111,251** | 85,334 |
| Other comprehensive income | | |
| Net unrealised (loss) /gain on available for sale debt securities | **(11,783)** | 20,541 |
| Net realised gain on available for sale debt securities reclassified to the income statement | **695** | 10,730 |
| Income tax relating to components of other comprehensive income | **1,386** | (3,909) |
| Other comprehensive income for the year, net of tax | **(9,702)** | 27,362 |
| Total comprehensive income for the year, net of tax | **101,549** | 112,696 |
| Attributable to equity holders of the parent | **101,549** | 112,696 |

# INTESA SANPAOLO BANK IRELAND plc

| Statement of financial position *at 31 December 2010* | Note | **2010 €'000** | 2009 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | *15* | **166,012** | 158,020 |
| Financial assets at fair value through profit or loss | *16* | **69,728** | 151,564 |
| Available for sale debt securities | *17* | **807,307** | 566,098 |
| Loans and advances to banks | *18* | **13,109,809** | 12,791,748 |
| Loans and advances to customers | *19* | **4,436,018** | 3,488,798 |
| Derivative financial instruments | *21* | **214,990** | 241,471 |
| Prepayments and accrued income | | **501** | 223 |
| Deferred tax asset | *22* | **2,328** | 1,052 |
| Other assets | *24* | **8,378** | 8,651 |
| Property, plant and equipment | 25 | **71** | 88 |
| **Total assets** | | **18,815,142** | 17,407,713 |
| **LIABILITIES** | | | |
| Debt securities in issue | *26* | **10,597,586** | 13,616,021 |
| Deposits from banks | *27* | **4,542,611** | 639,477 |
| Repurchase agreements | *28* | **358,978** | - |
| Due to customers | | **1,860,810** | 1,689,858 |
| Derivative financial instruments | *21* | **318,375** | 356,117 |
| Current tax | | **351** | 1,004 |
| Deferred tax liability | *22* | **164** | 292 |
| Accruals and deferred income | | **13,528** | 17,314 |
| Other liabilities | *29* | **4,820** | 3,241 |
| Provisions for liabilities and commitments | *30* | **2,291** | 2,025 |
| **Total liabilities** | | **17,699,514** | 16,325,349 |
| **EQUITY attributable to the equity holders of the parent company** | | | |
| Share capital | *31* | **400,500** | 400,500 |
| Share premium | *31* | **1,025** | 1,025 |
| Available for sale reserves | | **(11,094)** | (1,392) |
| Other reserves | | **506,764** | 506,764 |
| Retained earnings | | **218,433** | 175,467 |
| **Total equity** | | **1,115,628** | 1,082,364 |
| **Total liabilities and shareholders' funds** | | **18,815,142** | 17,407,713 |

The notes on pages 15 to 92 are an integral part of these financial statements.

On behalf of the board

| | | |
|---|---|---|
| N. Healy | G. Pizzutto | I. Letchford |
| *Chairman* | *Managing Director* | *Director* |

G. Flaherty
*For and on behalf of AIB International Financial Services Ltd*
Company Secretary

# INTESA SANPAOLO BANK IRELAND plc

## Statement of changes in equity for the year ended 31 December 2010

| | Share capital €'000 | Share premium €'000 | Available for sale reserves €'000 | Other reserves €'000 | Retained earnings €'000 | Total €'000 |
|---|---|---|---|---|---|---|
| | | | Other reserves attributable to equity shareholders of the Company | | | |
| 1 January 2009 | 400,500 | 1,025 | (28,754) | 506,764 | 90,133 | 969,668 |
| Total comprehensive income | - | - | 27,362 | - | 85,334 | 112,696 |
| 31 December 2009 | 400,500 | 1,025 | (1,392) | 506,764 | 175,467 | 1,082,364 |
| **1 January 2010** | 400,500 | 1,025 | (1,392) | 506,764 | 175,467 | 1,082,364 |
| **Total comprehensive income** | - | - | (9,702) | - | 111,251 | 101,549 |
| **Equity dividends** | - | - | - | - | (68,285) | (68,285) |
| **31 December 2010** | 400,500 | 1,025 | (11,094) | 506,764 | 218,433 | 1,115,628 |

Other reserves include a capital contribution of € 506,764,365 (2009: € 506,764,365).

# INTESA SANPAOLO BANK IRELAND plc

## Notes to the Financial Statements for the year ended 31 December 2010

| | | | |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | **366,176** | 645,359 |
| Fee and commission receipts | | **11,271** | 3,531 |
| Fee and commission paid | | **(22,276)** | (17,533) |
| Net trading and other income | | **(17,606)** | 128,424 |
| Recoveries on loans previously written off | | **953** | 846 |
| Interest paid | | **(245,796)** | (403,494) |
| Cash payments to employees and suppliers | | **(3,245)** | (4,829) |
| Income taxes paid | | **(16,553)** | (11,898) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **72,924** | 340,406 |
| **Changes in operating assets and liabilities** | | | |
| Net increase in cash and balances with central bank | | **(104)** | (557) |
| Net decrease in loans and advances to banks | | **448,372** | 7,775,121 |
| Net increase in loans and advances to customers | | **(936,529)** | (608,932) |
| Net increase / (decrease ) in deposits from banks | | **1,703,893** | (1,581,015) |
| (Decrease) / Increase in other liabilities | | **(574)** | 574 |
| Net increase / (decrease) in amounts due to customers | | **163,177** | (44,411) |
| Purchase of repurchase agreements | | **358,861** | - |
| **Cash flows from changes in operating assets and liabilities** | | **1,737,096** | 5,540,780 |
| **Net cash from operating activities** | | **1,810,020** | 5,881,186 |
| **Cash flows used in investing activities** | | | |
| Purchase of property, plant and equipment | | **(33)** | (21) |
| Purchases of available for sale debt securities | | **(415,786)** | (342,635) |
| Proceeds of available for sale debt securities | | **170,084** | 197,442 |
| Proceeds of assets at fair value though profit or loss | | **80,577** | 104,777 |
| **Net cash used in investing activities** | | **(165,158)** | (40,437) |
| **Cash flows used in financing activities** | | | |
| Repayments of debt securities in issue | | **(3,036,521)** | (7,807,087) |
| Dividends paid | | **(68,285)** | - |
| **Net cash used in financing activities** | | **(3,104,806)** | (7,807,087) |
| **Net decrease in cash and cash equivalents** | | **(1,459,944)** | (1,966,338) |
| Cash and cash equivalents at beginning of year | | **1,931,744** | 3,898,082 |
| **Cash and cash equivalents at end of year** | 32 | **471,800** | 1,931,744 |

# INTESA SANPAOLO BANK IRELAND plc

## Notes to the Financial Statements for the year ended 31 December 2010

### 1. Summary of significant accounting policies

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

#### 1.1. Reporting Entity

INTESA SANPAOLO BANK IRELAND plc is a limited Company incorporated and domiciled in the Republic of Ireland under the Companies Act, 1963 with the registration number 125216 and is regulated by the Irish Financial Services Regulatory Authority.

#### 1.2. Basis of preparation and Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities held at fair value through profit or loss, available for sale debt securities and derivative contracts that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1.8 and Note 5.

**Going Concern**

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

#### 1.3. Segment reporting

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker (the Executive Committee) to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assess the performance of the operating segments of a company.

#### 1.4. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

**1.5. Fee and commission**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Upfront fees for loans are recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Company retains no part of the loan package for itself or retains a part at the same effective interest rate as the other participants.

**1.6. Financial assets / Financial liabilities**

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception or at the time of adoption of IFRS. A portion of the financial assets purchased at fair value and designated at fair value were acquired from Intesa Bank Ireland during the merger in 2007 and the classification within the Group was maintained. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedges.

(b) *Loans and receivables*

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

(c) *Available for sale financial assets*

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

Purchases and sales of financial assets at fair value through profit or loss and available for sale are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

Financial liabilities are measured at amortised cost, except for liabilities designated at fair value, which are held at fair value through profit or loss.

### 1.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 1.8. Impairment of financial assets

***(a) Assets carried at amortised cost***

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

**1.1.** significant financial difficulty of the issuer or obligor;

**1.2.** a breach of contract, such as a default or delinquency in interest or principal payments;

**1.3.** the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

**1.4.** it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

**1.5.** the disappearance of an active market for that financial asset because of financial difficulties; or

**1.6.** observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the recoverable amount on the impaired asset to be assessed individually is determined at Parent Company level on the basis of the available information collected on debt secondary markets or in the credit default swap markets. In the absence or in the case of unreliability of such information, the consideration of qualitative factors in the overall individual impairment assessment process will determine the evaluation of a recovery rate by the local Senior Management in coordination with the Parent Company.

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

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

If there is no objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis the internal credit rating) for the purpose of a collective evaluation of impairment. For collective assessment, reference should be made to portfolio losses already suffered, even if it is not possible to link them to any specific loans. These losses are also defined as "incurred but not reported losses", and they are determined for each transaction as a function of the risk parameters (probability of default and loss severity) defined at group level. The probability of default relating to a country or an obligor /guarantor is driven by the internal rating assigned according to the group's methodology. The internal rating is therefore a synthetic indicator of the risk attributed to a country defaulting on its cross border obligations (i.e. transfer risk), or a client/issuer becoming insolvent within a specified period of time.

For the purpose of the calculation of the incurred loss on a collective basis for corporate counterparts and countries, the Company uses the assigned internal rating as per the Parent Company's methodology as the driver for the determination of the applicable probability of default. Instead, for financial institutions, the Company uses the external rating assigned by an External Credit Assessment Institution which is then mapped onto the main probability of default scale.

The loss severity indicates the percentage of the Company's total exposure to a client or a country that will not be recovered in case of default. In the case of counterpart credit risk, it is determined on the basis of factors such as: financial guarantees/covenants, nature of loan/financial instrument, level of subordination, and legal action undertaken. In the case of country risk, factors such as political environment and macro-economic conditions are considered.

The severity of the loss relating to country risk is conditional on the wealth level of that country as per the World Bank classification.

The severity of the loss relating to an obligor's default is driven by the type of transaction involved, and the geographical or business sector origins of the obligor communicated by the Parent Company.

The collective impairment provisions of the Company are defined as the sum of incurred losses for both counterpart credit risk and country risk, adjusted for the following parameters:

- loss confirmation period ("LCP"): the Company has opted for a LCP of 1 year given the predominantly corporate structure of the portfolio;

- concentration index: the Company is aware of relative concentration of its credit portfolio due to its exclusive dealing with major corporate groups and financial institutions, and, as a result, of the potential bias this may cause in comparison with the data used at Group level. The Company has therefore opted for an adjustment of the collective impairment provisions by multiplying the sum of incurred losses relating to counterpart credit risk only by a concentration index defined as:

$$\text{Concentration Index (CI)} = \frac{\text{Average 40 largest granted facilities (excluding intra-Group facilities)}}{\text{Portfolio average granted facility (excluding intra-Group facilities)}}$$

***(b) Assets carried at fair value through equity***

The impairment testing for debt securities classified as available-for-sale is put into practice if the issuer is delinquent in its debtor obligations or defaults on payments, as demonstrated by any one of the following events:

- default (as defined under international contract law);
- bankruptcy proceedings;
- delinquency in interest or principal payments (except where the issuer is entitled contractually not to make interest payments without being in breach of contract).

Where the issuer does not default, though the fair value of the bonds is lower than their carrying amount, further checks will need to be conducted. In particular, it is necessary to determine whether the fair value of the bonds is more than 20% less than their carrying amount, or alternatively whether other indicators of impairment exist:

- unexpected and substantial downgrade;
- debt restructuring scenarios;
- sudden disappearance of an active market or prices of CDS with premium up-front.

If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

***(c) Provisions for liabilities and commitments***

Impairments made on a collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, are determined by applying a calibration factor, driven by the credit quality of the obligor, to the same criteria set out above with respect to loans and receivables.

### 1.9. Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from valuation techniques such as discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the credit default swap in a credit-linked note, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value by the Risk Management Department of the Parent Company with changes in fair value recognised in the income statement. The Company mitigates all risks generated by embedded derivatives which are mitigated with the Parent Company by entering into opposite derivative risk transactions.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument. The Company designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

In the case of a fair value hedge, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the income statement. At year end the company only had fair value hedges.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

The Company applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book. The Company has adopted to perform its effectiveness tests using the "Dollar offset method". A consequence of the use of such methodology is that the results can show a rather high volatility with the risk of failing the test, when the level of the delta Net Present Value (NPV) of both the hedge instrument and the hedging derivative is low and the impact on the income statement is not significant.

To avoid this risk, the Company has adopted the rule to force to 100% the effectiveness test, even if the result is outside the permissible range of 80% to 125%, when the following conditions are simultaneously satisfied:

- Condition 1: the difference between the absolute values of delta NPV of both the synthetic asset/liability and the hedging derivative must be lower than (or equal to) 50.000 Euro;
- Condition 2: the ratio between the delta NPV and the principal amount must be lower than (or equal to) 1% for both the synthetic asset/liability and the hedging derivative.

In the case of an effectiveness test showing a result situated within the range 80-125%, but different than 100%, the Mark to Market (MTM) value associated to the differential is recorded into the income statement.

It must be noted that particularly stressed market conditions may lead to the inefficiency from an IFRS standpoint of the hedging relationship between the derivative and the related asset/liability. These conditions are met when the market rates for the indexation of the floating leg move significantly shortly after the re-fixing of that leg or when a significant spread exists between the indexation of the floating leg and observable market levels for similar maturities.

In this particular case a back testing procedure has been implemented in order to assess whether the inefficiency in the hedging relationship results from the valuation of the fixed current period of the derivative floating leg only. The back-testing method re-computes the NPV of the hedging derivatives ("amended NPV") where the already fixed rates of the floating legs are replaced by relevant market rates applicable on revaluation date. The back-testing is considered efficient if the ratio of the hedging derivatives' "amended NPV" over the hedged assets/liabilities' NPV is within the 80-125% range (the conditions detailed in the previous paragraph still apply). The "amended NPV" of the derivatives are computed for back-testing purposes only and are not accounted for.

In the case of failure of the back-testing procedure when the effectiveness test shows a result situated outside the range 80-125%, Management must be informed in order to authorize the break-up of the hedge link between the hedging derivative and the hedged asset/liability.

In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately in the income statement.

### 1.10. Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Office equipment | 20% straight line |
| Computer equipment & software | 33.3% straight line |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

### 1.11. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with original maturity of less than three months, including cash, loans and advances to banks and deposits from banks.

### 1.12. Foreign currency translation

***(a) Functional and presentation currency***

The financial statements are presented in Euro, which is the Company's functional and presentation currency, rounded to the nearest thousand, unless otherwise stated.

***(b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

***(c) Non monetary items***

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**1.13. Pension costs**

The Company operates a defined contribution scheme. The Company pays contributions to privately administered pension insurance plans on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

**1.14. Taxation**

The charge for income tax is based on the results for the year as adjusted for items which are non-assessable to or disallowed for tax. It is calculated using tax rates that were applicable at the balance sheet date. Income tax is recognised in the income statement in the period in which the profits or losses arise except to the extent that it relates to items recognised directly in equity, in which case the tax is also recognised in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

**1.15. Leases**

Operating lease rental payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

**1.16. Borrowings**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

**1.17. Guarantees**

In the ordinary course of business, the Company gives guarantees, consisting of letters of credit, guarantees and acceptances. Guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less, where appropriate, cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to guarantees is recorded in the income statement in "credit loss expense". The premium received is recognised in the income statement in "net fees and commission income" on a straight line basis over the life of the guarantee.

### 1.18. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. There is no reclassification and the changes in the comparative figures are not material.

### 1.19. Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Repurchase agreements", reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

### 1.20. New standards

**Adoption of new and amendment of accounting standards**

From 1 January 2010 the company has adopted the following standards:

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Various improvements to IFRS

**Accounting changes issued that are not relevant to the Company**

The Company has not applied the following new standards, amendments to standards and interpretations that have been approved by the International Accounting Standards Board as they are not relevant to the Company:

- IAS 38 Intangible Assets — 1 January 2010
- IFRIC 9 Reassessment of Embedded Derivatives — 1 January 2010
- IFRIC 16 Hedges of a net investment in a foreign operation — 1 January 2010
- IFRIC 17 Distribution of non-cash assets to owners — 1 July 2009
- IFRIC 18 Transfers of assets from customers — 1 January 2009

**Prospective accounting changes**

The Company has not applied the following new standards, amendments to standards and interpretations that have been approved by the International Accounting Standards Board and which would be applicable to the Company with an effective date after the date of these financial statements:

- IFRS 7 Financial Instruments: Disclosures — 1 January 2011
- IAS 1 Presentation of Financial Statements — 1 January 2011
- IAS 24 Related Party Disclosures — 1 January 2011
- IFRS 9 Financial Instruments: Classification and Measurement — 1 January 2013

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the company's financial assets. The company is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Company at the date of adoption, and it is not practical to quantify the effect.

## 2. Qualitative risk disclosures and Basel 2 Project

### Risk Appetite

The risk appetite of the Company is driven by that of the Parent Group, whose target, amongst others, is to maintain the Group rating equivalent to AA-. The Company considers risk management and control as a key factor for:

- guaranteeing a solid and sustainable value creation in a risk controlled environment;
- assuring the financial stability and the reputation of the Company;
- providing a transparent portfolio risk representation.

The milestones of the risk management and control are:

- accountability for undertaking risks (clear identification of the responsibilities for undertaking risks);
- measurement and control systems in line with the best international practices;
- independence of control functions and risk undertaking functions.

The Board of Directors supported by Board and Executive Committees as well as Senior Management, defines the risk appetite of the Company, in line with the Group's strategic target. The Company has risk management and control functions and works within the limits approved by the Board, and which are consistent with the Group's overall limits structure.

Risks are controlled within a framework that considers both regulatory and economic capital perspective. A report containing the comparison of economic and regulatory Capital charges with the available financial resources and eligible own funds respectively, is provided to the Board on a quarterly basis.

Risks, depending on their nature, frequency and magnitude, are handled through mitigation / immunization, control processes / procedures aimed at protecting the financial stability of the Company.

In practice, the mission of the Company remains the autonomous financing of medium / long term needs from intra-Group companies and the Parent Company, and the lending to multi-national companies. This mission, by limiting as much as possible its exposure to financial risks while focusing exclusively on investment grade credit risk exposures, is also consistent with the Group's plan to minimise income volatility in the medium / long term.

The Board is responsible for adjusting the risk appetite of the Company to changes to its mission resulting from Group's future new strategic guidelines. The risk appetite is therefore implemented operatively through the Board's adoption of risk policies and limits which are consistent with the Company's ultimate mission.

### Capital Management

The definition of a capital plan for the Company is based on the management of capital adequacy at Group level, consisting of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements. The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources which are allocated to the Business Units such as INTESA SANPAOLO BANK IRELAND plc on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders.

At Group and local levels, the regulatory capital at risk and the overall economic capital at risk differ by definition and in terms of the coverage of the risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Bank and the consequent measurement in relation to the exposure assumed.

Capital Management essentially involves the control of capital soundness through the careful monitoring of both the regulatory constraints and current and prospective operational constraints (overall economic capital) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.

The process of assessment of capital adequacy at the Company follows this “twin track” approach inspired by the Group: regulatory capital at risk against the total own funds of the bank for solvency purposes, and overall economic capital at risk for the purposes of the ICAAP (International Capital Adequacy Assessment Process) process against the Company’s available financial resources as defined by the Group.

Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Company’s budget.

Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.

**Capital Targets**

Capital targets are defined at Group level by the Parent Company. The Parent Company defines Economic Capital at Risk as the maximum “unexpected” loss that it may incur over a period of one year. The Company therefore considers similarly Economic Capital at Risk as a key measure for determining the Company’s financial structure and guiding its operations, ensuring the balance between risks assumed and shareholder return.

Consequently, when determining the risk tolerance considered as being acceptable, the Company follows the Group’s objective of financial stability in order to ensure that its maximum unexpected losses over a period of 12 months with a 99.9% confidence level could be absorbed by its available financial resources.

Intesa Sanpaolo Bank Ireland plc maintains a prudential buffer over both its regulatory and economic capital at risk coherent with its strategic growth targets. Furthermore, the Company ensures that such buffer is maintained as an additional prudential guarantee over potential financial difficulties. Stress testing methodologies were extended to both the measurement of the economic capital at risk and the evaluation of available financial resources for the relevant risk factors starting 31 March 2010, in order to enhance the monitoring process.

**Regulatory Capital**

The Company has been included in the Core Perimeter of the Group’s Basel II Project with a defined road map for the roll-out to the Irish subsidiary in line with methodological approaches used by the Parent Company. Following notification to the Central Bank of Ireland, a FIRB approach for the risk exposures related to corporate obligors (excluding non-bank financial institutions) was introduced starting 31 March 2010 for regulatory purposes, while the Basel II Standardised Approach is used to calculate capital requirements for Credit and Counterparty Risk related to other obligors. With regard to Operational Risk, the Company adopted a Standardised Approach from January 2010.

The table below discloses the regulatory capital requirements of the Company and the associated solvency ratios for 2009 and 2010 year-ends and underlines its prudential capital management objective:

**Regulatory Capital Information 2010 & 2009**

| | **Eligible Own Funds 2010 €'000** | **Capital Requirement 2010 €'000** | Eligible Own Funds 2009 €'000 | Capital Requirement 2009 €'000 |
|---|---|---|---|---|
| Equity | 1,004,378 | | 997,030 | |
| Prudential filters and regulatory adjustments | (102,549) | | (99,444) | |
| **Core Tier 1** | **901,829** | **651,640** | 897,586 | 548,960 |
| **Total Tier 1** | **901,829** | **651,640** | 897,586 | 548,960 |
| Collective provisions | 3,005 | | 9,915 | |
| Prudential filters and regulatory adjustments | (3,005) | | (9,915) | |
| **Tier 2** | - | | - | |
| **Total Capital** | **901,829** | **651,640** | 897,586 | 548,960 |
| **Risk Weighted Assets** | **7,592,650** | | 6,288,125 | |
| **Tier 1 Capital Ratio** | 11.07% | | 13.08% | |
| **Total Capital Ratio** | 11.07% | | 13.08% | |

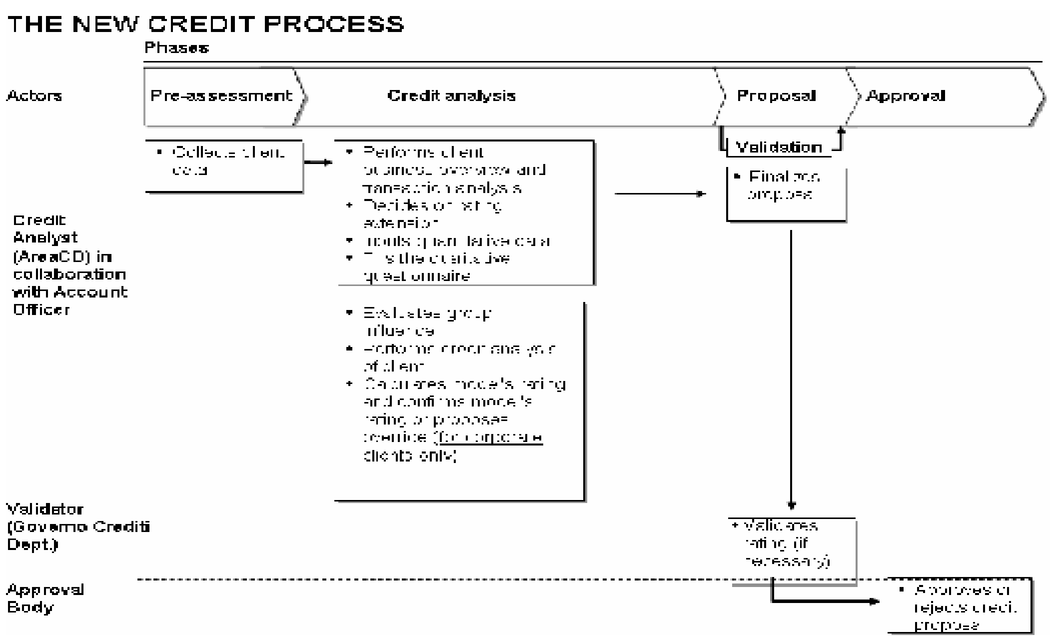
## 3. Quantitative risk disclosures

### 3.1. Credit Risk and Counterpart Credit Risk

Loans, debt securities and off-balance sheet commitments such as guarantees, undrawn committed credit lines and derivatives generate credit risk. Credit risk is characterised, for a specific counterparty, by the existence of a potential loss linked to the possible default of that counterparty, regarding the commitments it subscribed to.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Limits on the level of credit risk by borrower are assessed on the basis of a credit risk management model developed by the Parent Group, including an internal rating system applied to all corporate clients, and are approved on an on-going basis by the Board of Directors. Limits on the level of credit risk by industry sector are also approved by the Company's Board of Directors, in compliance with local regulatory requirements.

<u>Credit Evaluation and Approval Process:</u>
The credit proposal and approval process of the Company for corporate and financial counterparties follows that of the Group summarised in the chart below:




Where the country of residence of the counterparty presents additional aspects of risk, an evaluation shall be made of the country risk and this shall form part of the credit proposal. This evaluation shall include an assessment of any guarantees or security offered which may effectively eliminate the country risk element.

The credit proposal shall furthermore contain a review of the economic sector in which the counterparty operates. In cases where it is reasonable to assume that factors affecting the sector will have a noticeable effect on all operators in that sector, a specific sector review within the context of the counterparty's credit review process shall be carried out, which shall normally be reviewed on at least an annual basis, as part of the counterparty's credit review process.

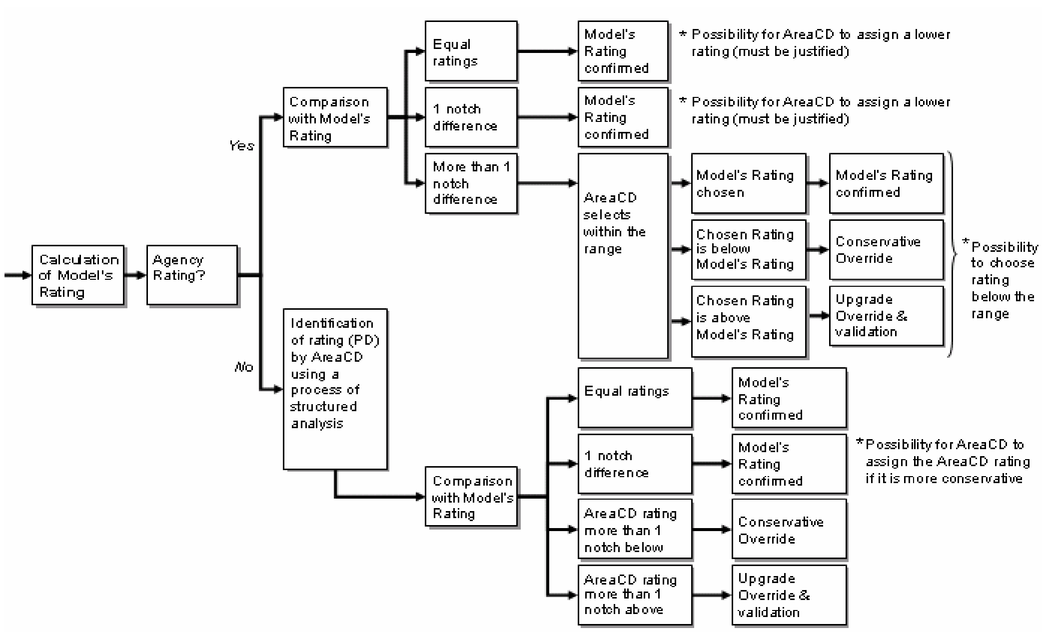
The sector risk evaluation should incorporate other sectors where there may be a related or knock-on effect, for example property development and construction.

The credit proposal and approval process of the Company where the risk counterparty is a sovereign state follows that applicable to corporate and financial counterparties described above, with the exclusion of the assignment of a corporate internal rating. External ratings assigned by a recognised External Credit Assessment Institution as per the Group policy are used instead for the credit proposal and approval process.

The decision on a credit proposal shall be taken in accordance with the Delegated Powers of the Credit Committee and Managing Director, as approved by the Board of Directors of the Company.

<u>Internal Rating Assignment Methodology for Corporate Clients:</u>

The credit analysis implies the determination of an internal credit rating for corporate counterparties by the Bank's Credit Department or the relevant Area Credit Department in collaboration with the Relationship Manager in charge of the relationship. The internal rating assignment methodology has been rolled out from the Parent Company to all companies of the Group according to the model below:



The Company is responsible for the assignment, maintenance and periodic revision of the internal credit rating for the corporate counterparties for which it maintains the business relationship.

The internal credit rating models used by the Group depend on the size and type of counterparty involved in the lending transaction:

| | |
|---|---|
| **Foreign Large Corporate (≥ 500 ml €)** | • **Quantitative questionnaire:** based on Sanpaolo experience, the target is to repeat the official rating results (shadow rating approach), optimised with the prolongation of the historical series.<br>• **Qualitative questionnaire:** consists of two sections, each question has a statistical weight:<br>- Industry and competitive position<br>- Corporate specific |
| **Foreign Middle Market (< 500 ml €)** | • **Quantitative questionnaire:** based on Intesa experience, proper to middle market corporates.<br>• **Qualitative questionnaire:** graduated on the new population of Intesa Sanpaolo |

For large corporate clients, the quantitative component (financial ratios) produces a quantitative rating, which the qualitative component (qualitative questionnaire) can adjust through a qualitative notching process. The sum of the two outputs results in the final model rating for each counterparty.

For middle corporate clients, the quantitative and qualitative components are integrated in a single output generating the model rating.

External ratings assigned by Standard & Poor and Moody's will be used in relation to lending to counterparties other than corporates, i.e. financial institutions and governments. Due consideration shall be given to any guarantee or security support which may improve the risk profile, but special care shall be taken if complete reliance is placed on such support.

Some master scales have been established by the Group for both large and middle corporates, associating internal ratings with corresponding external ratings by External Credit Assessment Institutions:

| S&P's Rating equivalent | Counterparty Internal Rating |
|---|---|
| AAA | I.1.A |
| AA+ | I.1.B |
| AA | I.1.C |
| AA- | I.1.D |
| A+ | I.1.E |
| A | I.1.F |
| A- | I2 |
| BBB+ | I3 |
| | I4 |

| | |
|---|---|
| BBB | I5 |
| BBB- | I6 |
| BB+ | M1<br>M2 |
| BB | M3 |
| BB- | M4 |
| B+ | R1<br>R2 |
| B | R3 |
| B- | R4 |
| CCC | R5 |

Credit Risk Management:

Credit risk is managed by setting limits for all operations which are consistent with the obligor's credit worthiness (represented by the internal rating assessment, if applicable, or the external ratings) and the Company's risk appetite and return expectations. Management of credit risk also involves credit reviews of each approved credit line on a periodic basis, which is carried out at least annually or more frequently if considered necessary, as well as economic provisioning for impairments and the acquisition of risk mitigants in order to comply with the Company's credit risk appetite.

Bearing in mind that the objectives of the Company are to optimise returns while minimising risks, eligible (although not exclusively) lending transactions are:

**1.** Export Credit Financing bearing the following features:
   - ECA's (SACE, COFACE, ECGD, HERMES and other major ECA guarantees) for at least 85% of the political risk;
   - Guarantee issued by the exporter to secure at least 50% of country risk not covered by ECA;

**2.** Credit facilities in favour of corporate counterparties rated internally at least I4 and financial institutions rated at least Baa1/BBB+ by Moody's or by S&P respectively;

**3.** Credit facilities in favour of corporate counterparties rated internally lower than I4 and/or financial institutions rated lower than Baa1/BBB+ by Moody's or S&P respectively, but secured by a cash collateral and / or by way of guarantees issued by corporate counterparties rated internally at least I2 or financial institutions rated at least A3/A- by Moody's or S&P respectively.

Credit Limit Monitoring:

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily, and are measured at the level of each line granted according to the following methodology:

- Principal outstanding + interest if past due for loans;
- Positive replacement cost + add-on for derivatives;
- Market value for bonds.

Impairment Provisions:

Impairment provisioning of credit exposures is another tool used by the Company to manage credit risk and to reflect in its books the representation of the economic impact on the Company's assets of a credit event or potential credit event. The Company, in line with IAS 39 rules and the Group's accounting policies, assesses whether there is objective evidence of impairment (lasting loss of value) in its loans and receivables. The assessment must be done individually if there is an individual evidence of impairment. Alternatively, the assessment is done collectively on the basis of losses already inherent in the portfolio, even if it is not yet possible to tie them to specific credits, also defined as "incurred but not reported losses".

In the case of collective assessment, impairment provisions for the Company are calculated as the sum of the incurred but not reported losses resulting from both counterparty credit risk and country risk. In both cases, the incurred loss is computed as:

***Sum of [L&R Exposure (taking into consideration credit mitigation) x Probability of Default (PD) x Loss Severity (LS) x Calibration Factor (CF)]***

The above exposures covered include financial assets that are subject to impairment review in accordance with the terms of IAS 39, which requires that "all financial assets classified as loans and receivables" are subject to review for impairment." In the case of incurred losses relating to counterparty credit risk, the credit rating of the guarantor applies to the covered portion while the credit rating of the obligor applies to the uncovered portion. In the case of incurred losses relating to country risk, the credit worthiness of the country of residence of the guarantor applies to the covered portion while the credit worthiness of the country of residence of the obligor applies to the uncovered portion.

The Company computes collective impairment provisions on committed and uncommitted lines to both banks (excluding intra-Group for Counterparty Credit Risk only) and corporate clients according to the following rules:

| | **Corporate** | **Banks** |
|---|---|---|
| **Committed facilities** : | | |
| Drawn | **CCR + CR** | **CCR + CR** |
| Undrawn | **CCR** | **CCR** |
| **Uncommitted facilities** | | |
| Drawn | **CCR + CR** | **CCR + CR** |
| Undrawn | **X** | **X** |

Legend: Counterparty Credit Risk (**CCR**)
Country Risk (**CR**)

The probability of default relating to an obligor/guarantor is driven by the credit rating assigned to the counterparty, reflecting the likelihood of the counterparty becoming insolvent within the Loss Confirmation Period time frame. Corporate exposures are rated internally according to the Group methodology. Other types of exposures are assigned the most conservative credit rating of the available External Credit Rating Agencies approved by the Board. Similarly, the probability of default on a country risk exposure derives from the probability of cross border obligations not being fulfilled. Country default probabilities are based on an internal rating assigned according to the Group guidelines.

The loss severity indicates the percentage of the Company's total exposure to a client or a country that is not expected to be recovered in case of default. The severity of the loss relating to an obligor's default is driven by the type of transaction involved and the geographical or business sector origins of the obligor. The severity of the loss relating to country risk is conditional upon the wealth level of that country as per the World Bank classification.

Calibration factors for counterparty credit risk apply to the available portion of a committed facility. The factors represent the estimated new drawdowns at the risk time horizon given a deterioration of the credit worthiness of the counterparty. Calibration factors for country risk apply to the severity of the loss associated with a country default. It adjusts the loss severity according to the actual type of facility involved.

The collective impairment provisions of the Company are defined as the sum of incurred losses for both counterparty credit risk and country risk, adjusted for the following parameters:

- Loss confirmation period (**LCP**): the Company has opted for a LCP of 1 year given the predominantly corporate structure of the portfolio,
- **Cyclicity**: the Company has presently opted for no adjustment given the current macro-economic environment,
- **Concentration**: the Company is aware of the relatively high concentration of its portfolio due to its exclusive dealing with major corporate groups and financial institutions and, as a result, of the potential bias this may cause in comparison with the data used at Group level. The Company has thus opted for an adjustment of the general provisions by multiplying the sum of incurred losses relating to counterpart credit risk only by a Concentration Index defined as:

$$\textbf{Concentration Index (CI)} = \frac{\textbf{Average 40 largest granted facilities (excluding intragroup facilities)}}{\textbf{Portfolio average granted facility (excluding intragroup facilities)}}$$

In the case of individual provisions, impairment provisions are determined on the basis of the magnitude and type of problems affecting an obligor's credit worthiness. All deteriorated credit exposures when the obligor has failed to meet its contractual obligations and classified accordingly in the relevant Credit Risk Class are subject to individual impairment provisions.

However, the Company may extend individual assessments to other credit exposures not yet classified in that specific Credit Risk Class if it is deemed necessary as a result of a credit evaluation process or a request from the Parent Company.

The recoverable amount on an impaired asset to be assessed individually is determined on the basis of the available information collected on debt secondary markets or in the credit default swap markets. In the absence or in the case of unreliability of such information, the consideration of qualitative factors in the overall individual impairment assessment process will determine the evaluation of a recovery rate by the local Senior Management in coordination with the Parent Company.

The decision to proceed with an individual impairment assessment must be ratified by the Board of Directors of the Company.

Use of Credit Risk Mitigants:

The Company uses several risk mitigants in order to ensure compliance with the Bank's credit risk appetite. They include:

- Export Credit Agencies' guarantees to cover political and commercial risks generated by trade finance operations. ECA's (SACE, COFACE, ECGD, HERMES and other major ECA guarantees) must cover at least 85% of the political risk, while a guarantee issued by the exporter must secure at least 50% of the country risk not covered by ECA as per the Company's lending policy;
- Intra-group guarantees involving both counterparty and country risk and outside the Company's Credit Risk Appetite;
- Third party bank guarantees or collateral for transactions involving exposures below the policy requirements of the Company. Collateral is seen as a way of controlling the borrower and providing additional sources of repayment and its quality and liquidity are therefore very important and must be carefully appraised in the loan proposal. Secured loans should be margined so that money received from the collateral under foreclosure conditions will be sufficient to repay the loan. Guarantees must be issued by banks with rating of at least "A3" by Moody's and "A-" by S&P with only a Stable outlook or better;
- Intra-group risk participations for large syndicated facilities in order to limit concentration risk and comply with the regulatory Large Exposure limits.

At year-end 2010, of the total amount of loans and advances (excluding intra-Group transactions) of €2.52 billion (2009: €2.29 billion), €1.88 billion (2009: €1.67 billion) (representing 75% (2009: 73%)) had a credit risk mitigation attached.

The breakdown in percentages of these mitigation instruments by types is shown below:

**At 31 December 2010:**

| Mitigation Instrument Types | % Referred Assets |
|---|---|
| Export Credit Agencies' guarantees to cover political and commercial risks generated by trade finance operations | 8.46 % |
| Intra-group guarantees for other facilities involving country risk and Intra-group risk participations for large syndicated facilities in order to limit concentration risk and comply with the regulatory Large Exposure limits | 55.50 % |
| Third party guarantees for transactions involving exposures below the policy requirements of the Company | 7.45 % |
| Collateral for transactions involving exposures below the policy requirements of the Company | 3.34 % |

At 31 December 2009:

| Mitigation Instrument Types | % Referred Assets |
|---|---|
| Export Credit Agencies' guarantees to cover political and commercial risks generated by trade finance operations | 4.56 % |
| Intra-group guarantees for other facilities involving country risk and Intra-group risk participations for large syndicated facilities in order to limit concentration risk and comply with the regulatory Large Exposure limits | 53.41 % |
| Third party guarantees for transactions involving exposures below the policy requirements of the Company | 3.27 % |
| Collateral for transactions involving exposures below the policy requirements of the Company | 11.99 % |

Collaterals Management:

The Company performs periodically a revaluation of all physical collateral received in order to ensure proper coverage of the relevant risk exposures. The Company applies haircuts to the fair value of collaterals received when they are used as credit risk mitigation instruments. The haircut levels are determined on the basis of the nature of the collateral received, and the collateral values reported for credit risk management purposes and in this Annual Report are therefore conservatively discounted. The table below shows the inventory of all such collaterals as at 31 December 2010, their fair valuation and valuation for risk purposes ("adjusted fair value"), as well as the external source and frequency of revaluation for all non-cash physical collateral:

At 31 December 2010:

| COLLATERAL TYPE | COLLATERAL FAIR VALUE (€'000) | HAIRCUT APPLIED TO THE FAIR VALUE % | COLLATERAL VALUE FOR RISK PURPOSES (€'000) | RISK EXPOSURE (€'000) | COLLATERAL COVERAGE RISK EXPOSURE % | INTRA-GROUP GUARANTEE % | RISK EXPOSURE COVERED BY COLLATERAL (€'000) | LATEST VALUATION DATE | FREQUENCY OF VALUATION | VALUATION METHODOLOGY / SOURCE |
|---|---|---|---|---|---|---|---|---|---|---|
| Aircraft (B777-200) | 11,277 | 50.00 | 5,638 | 9,031 | 62.44% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B737-700) | 13,321 | 50.00 | 6,661 | 11,645 | 57.20% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B747-400F) | 14,924 | 50.00 | 7,462 | 4,617 | 161.63% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B737-500) | 616 | 50.00 | 308 | 367 | 83.92% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B737-500) | 961 | 50.00 | 481 | 269 | 178,74% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B737-500) | 654 | 50.00 | 327 | 439 | 74.41% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B747-400 Combi) | 6,335 | 50.00 | 3,167 | 8,661 | 36.57% | 88.70% | 978 | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Aircraft (B747-400 Combi) | 5,677 | 50.00 | 2,838 | 7,127 | 39.83% | 100.00% | - | Dec-10 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend – Dec 10 |
| Locomotives | 5,351 | 50.00 | 2,675 | 3,374 | 79.30% | 0.00% | 2,675 | Dec-10 | Annual | Oliver Wyman Asset Valuation – Dec 10 |
| Locomotives | 7,136 | 50.00 | 3,568 | 4,715 | 75.67% | 0.00% | 3,568 | Dec-10 | Annual | Oliver Wyman Asset Valuation – Dec 10 |
| Train carriages | 9,088 | 50.00 | 4,544 | 2,504 | 181.49% | 0.00% | 2,504 | Dec-10 | Annual | Oliver Wyman Asset Valuation – Dec 10 |
| Train carriages | 3,856 | 50.00 | 1,928 | 2,229 | 86.49% | 0.00% | 1,928 | Dec-10 | Annual | Oliver Wyman Asset Valuation – Dec 10 |
| Train carriages | 4,589 | 50.00 | 2,294 | 4,447 | 51.59% | 0.00% | 2,294 | Dec-10 | Annual | Oliver Wyman Asset Valuation – Dec 10 |
| LNG Tanker | 10,204 | 50.00 | 5,102 | 4,490 | 113.63% | 100.00% | - | Dec-10 | Annual | ISP HK estimate Dec 10 (based on new LNG vessel price of $202M) |
| LNG Tanker | 10,204 | 50.00 | 5,102 | 4,490 | 113.63% | 100.00% | - | Dec-10 | Annual | ISP HK estimate Dec 10 (based on new LNG vessel price of $202M) |
| Real Estate Property | 10,689 | 50.00 | 5,345 | 7,158 | 74.67% | 100.00% | - | Dec-10 | Annual | Sumitomo Realty & Development Co. Market Valuation – Dec 10 |
| Cash Deposit | 48,244 | 0.00 | 48,244 | 48,277 | 99.93% | 0.00% | 48,244 | N/A | N/A | |
| Cash Deposit | 12 | 0.00 | 12 | 239 | 5.00% | 0.00% | 12 | N/A | N/A | |
| Cash Deposit | 144,562 | 0.00 | 144,562 | 144,581 | 99.99% | 0.00% | 144,562 | N/A | N/A | |
| Cash Deposit | 21,977 | 0.00 | 21,977 | 21,979 | 99.99% | 0.00% | 21,977 | N/A | N/A | |
| TOTAL | 329,678 | | 272,237 | 290,639 | | | 228,743 | | | |
| | | | | | | | | | | |
| COLLATERAL TYPE | | | COLLATERAL FAIR VALUE (€'000) | DERIVATIVE FAIR VALUE (€'000) | COLLATERAL COVERAGE RISK EXPOSURE % | % INTRA-GROUP GUARANTEE | DERIVATIVE AMOUNT COVERED BY COLLATERAL ONLY (€'000) | LATEST VALUATION DATE | FREQUENCY OF VALUATION | VALUATION METHODOLOGY / SOURCE |
| Bonds pledge | 336,650 | 0.00 | 336,650 | 108,060 | 311.54% | 0.00% | 108,060 | Dec-10 | Monthly | Market price received from a credit institution |
| TOTAL | 336,650 | | 336,650 | 108,060 | | | 108,060 | | | |

At 31 December 2009:

| COLLATERAL TYPE | COLLATERAL FAIR VALUE (€'000) | HAIRCUT APPLIED TO THE FAIR VALUE % | COLLATERAL VALUE FOR RISK PURPOSES (€'000) | RISK EXPOSURE (€'000) | COLLATERAL COVERAGE RISK EXPOSURE % | INTRAGROUP GUARANTEE % | RISK EXPOSURE COVERED BY COLLATERAL (€'000) | LATEST VALUATION DATE | FREQUENCY OF VALUATION | VALUATION METHODOLOGY / SOURCE |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash deposit | 21,000 | 0.00 | 21,000 | 19,929 | 105.37% | 0.00% | 19,929 | N/A | N/A | |
| Aircraft (B737-700) | 13,883 | 50.00 | 6,942 | 12,751 | 54.44% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (B747-400 Combi) | 8,013 | 50.00 | 4,006 | 9,502 | 42.16% | 88.70% | 1,073 | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Cash deposit | 25,733 | 0.00 | 25,733 | 25,512 | 100.87% | 0.00% | 25,512 | N/A | N/A | |
| Aircraft (B747-400F) | 15,723 | 50.00 | 7,861 | 5,853 | 134.30% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (A320-200) | 5,657 | 50.00 | 2,829 | 609 | 464.41% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (A320-200) | 5,657 | 50.00 | 2,829 | 603 | 468.80% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Cash deposit | 74,000 | 0.00 | 74,000 | 74,463 | 99.38% | 0.00% | 74,000 | N/A | N/A | |
| Cash Deposit | 141,481 | 0.00 | 141,481 | 154,673 | 91.47% | 0.00% | 141,481 | N/A | N/A | |
| Real Estate Property | 6,932 | 50.00 | 3,466 | 6,394 | 54.20% | 100.00% | - | Dec-09 | Annual | Mitsubishi Jisho Market Valuation |
| Cash deposit | 22 | 0.00 | 22 | 443 | 4.99% | 0.00% | 22 | N/A | N/A | |
| LNG tanker | 9,465 | 50.00 | 4,732 | 4,164 | 113.65% | 100.00% | - | Dec-09 | Annual | ISP HK estimate (based on new LNG vessel price of $211.5m) |
| LNG tanker | 9,465 | 50.00 | 4,732 | 4,164 | 113.65% | 100.00% | - | Dec-09 | Annual | ISP HK estimate (based on new LNG vessel price of $211.5m) |
| Aircraft (B777-200) | 12,476 | 50.00 | 6,238 | 11,048 | 56.46% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (B737-500) | 938 | 50.00 | 469 | 654 | 71.78% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (B737-500) | 1,011 | 50.00 | 506 | 614 | 82.34% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (B737-500) | 1,486 | 50.00 | 743 | 943 | 78.82% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Locomotives | 4,509 | 50.00 | 2,255 | 3,374 | 66.83% | 0.00% | 2,254 | Dec-09 | Annual | Oliver Wyman Asset Valuation |
| Locomotives | 6,092 | 50.00 | 3,046 | 4,676 | 65.14% | 0.00% | 3,046 | Dec-09 | Annual | Oliver Wyman Asset Valuation |
| Aircraft (B747-400 Combi) | 6,535 | 50.00 | 3,267 | 12,965 | 25.20% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Aircraft (B747-400 Combi) | 7,514 | 50.00 | 3,757 | 7,699 | 48.80% | 100.00% | - | Nov-09 | Annual | Lowest of Current Market Values by Avitas, ASG and Ascend |
| Flight Simulator A330 | - | 50.00 | - | - | 0.00% | 0.00% | - | N/A | Annual | estimated no value |
| Flight Simulator A320 | - | 50.00 | - | - | 0.00% | 0.00% | - | N/A | Annual | estimated no value |
| Train carriages | 4,151 | 50.00 | 2,075 | 3,247 | 63.91% | 0.00% | 2,075 | Dec-09 | Annual | Oliver Wyman Asset Valuation |
| Train carriages | 3,206 | 50.00 | 1,603 | 2,381 | 67.33% | 0.00% | 1,603 | Dec-09 | Annual | Oliver Wyman Asset Valuation |
| Train carriages | 6,203 | 50.00 | 3,101 | 4,789 | 64.76% | 0.00% | 3,101 | Dec-09 | Annual | Oliver Wyman Asset Valuation |
| TOTAL | 391,153 | | 326,695 | 371,452 | | | 274,098 | | | |
| | | | | | | | | | | |
| COLLATERAL TYPE | | | COLLATERAL FAIR VALUE (€'000) | DERIVATIVE FAIR VALUE (€'000) | % COLLATERAL COVERAGE RISK EXPOSURE | % NTRA-ROUP GUARANTEE | DERIVATIVE AMOUNT COVERED BY COLLATERAL ONLY (€'000) | LATEST VALUATION DATE | FREQUENCY OF VALUATION | VALUATION METHODOLOGY / SOURCE |
| Bonds pledge | 314,339 | 0.00 | 314,339 | 105,952 | 296.68% | 0.00% | 105,952 | Dec-09 | Monthly | Market price received from a credit institution |
| TOTAL | 314,339 | | 314,339 | 105,952 | | | 105,952 | | | |

An amount of € 398.70 million of risk exposures were partially or fully covered by physical collaterals at year-end 2010 (2009: € 477.40 million), with an adjusted fair value of such collaterals estimated at € 608.89 million at its last revaluation date (2009: € 641.03 million). The Company has in some cases received guarantees in addition to the collaterals pledged. In the case of guarantee received from the Group, the risk mitigation provided by the guarantee prevails over the collateral received. As at 31 December 2010, € 336.80 million (2009: € 380.05 million) of risk exposures were covered by collaterals only, without the mitigation of a prevailing guarantee.

The Company did not take possession of any new pledged collateral, excluding cash and securities, during the course of the financial year.

In case of the default of an obligor (as defined in the terms and conditions of the contractual agreement linking the obligor to the Company), the Company will call the guarantee first, if applicable, and then assign the pledged collateral to the same guarantor. If no such guarantee exists, the Company will proceed with the disposal of the collateral using professional support depending on the type of collateral involved.

Credit Concentrations Monitoring:

It is the policy of the Company to monitor and control concentrations of credit so that they do not exceed specified limits. It is sound banking practice to avoid concentration of lending to specific industries and specific clients or group of clients. On the contrary, it is preferable to spread exposure over an extensive cross section of industries and geographic locations.

In addition to the monitoring of concentration limits at the counterparty and sectors of activity levels, the Board has adopted the prudent view of calibrating the collective impairment provisions of the Company to take into consideration the materiality of the credit concentration risk factor associated with the Company's activity of lending principally to large corporations (as described above). The Concentration Index, utilised for the computation of collective impairment provisions, is reviewed by the Risk Control Unit periodically and the result is communicated to the Board.

One key concentration limit of the Company concerns the concentration to any singular or group of connected clients calculated as a portion of owns funds whereby any final exposure (uncovered by any credit risk mitigation) to a client or group of connected clients shall be considered a Large Exposure if its value is equal to or exceeds 10 per cent of the Company's Own Funds base.

The Company has set the following limits:

- Large Exposures to a client or group of connected clients not to exceed 25% of the Own Funds base. Intra-Group credit or financial institutions, Central Governments and Central Banks exposures are exempt from this requirement.
- The sum of Large Exposures in total not to exceed 800 per cent of Own Funds base.
- Loans to Directors are not permitted.

Another concentration limit concerns sector economic activity whereby the aggregate amount of risk-weighted loans and undrawn commitments concentrated in one sector of business or economic activity, excluding credit institutions, government, extra-territorial organisations and central bank, must not exceed 200% of the Own Funds base. Where a common risk could be considered to apply to two or more separate sectors (for example, property development and building sectors), then not more than 250% of the Own Funds base shall be employed in such sectors on an aggregate basis.

Credit Risk Exposures related to Loans & Receivables:

With regard to loans, the total exposure of the Company derived from loans to banks and customers amounted to € 17.55 billion at the end of 2010 (€ 16.28 billion in 2009):

| | **2010 (€'000)** | 2009 (€'000) |
|---|---|---|
| **Loans and advances to banks** *(as per Statement of Financial Position)* | 13,109,809 | 12,791,748 |
| **Loans and advances to customers** *(as per Statement of Financial Position)* | 4,436,018 | 3,488,798 |
| | **17,545,827** | 16,280,546 |

The breakdown of the Company's credit risk exposures relating to Loans & Receivables at year-ends 2010 and 2009 by activity sectors is provided in the table below (physical non-cash collaterals are assigned to the relevant activity sector while cash collaterals are shown separately).

| Sector of Risk | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Central Government | 104,438 | 9.90 | 531 | 0.07 |
| Construction | - | 0.00 | - | 0.00 |
| Credit Institutions | 241,060 | 22.85 | 195,439 | 24.29 |
| Electricity, Gas and Water Supply | 144,509 | 13.70 | 82,835 | 10.30 |
| Extra-Territorial Organisations and Bodies | - | 0.00 | - | 0.00 |
| Financial Intermediation (Excl. Credit Institutions/Central Bank) | 350,436 | 33.21 | 308,545 | 38.35 |
| Manufacturing | 163,044 | 15.45 | 152,455 | 18.95 |
| Mining and Quarrying | 489 | 0.05 | 1,204 | 0.15 |
| Other Community, Social and Personal Services | - | 0.00 | 237 | 0.03 |
| Real Estate, Renting and Business | - | 0.00 | 2,483 | 0.31 |
| Transport, Storage and Communications | 51,103 | 4.84 | 60,777 | 7.55 |
| **Total** | **1,055,078** | **100.00** | **804,506** | **100.00** |
| | | | | |
| **Group** | **16,275,954** | | **15,215,094** | |
| | | | | |
| **Cash collateral** | **214,795** | | **260,945** | |
| | | | | |
| **Grand Total, including cash collateral** | **17,545,827** | | **16,280,546** | |

A breakdown of the Company's credit risk exposures relating to Loans & Receivables at year-ends 2010 and 2009 by internal credit rating is provided in the table below (all collaterals – cash and non cash were reported separately):

| Counterparty Internal Rating | 2010 | % | 2009 | % |
|---|---|---|---|---|
| DEFAULT | 17,509 | 1.68 | 20,068 | 2.54 |
| I.1.A | 104,440 | 10.03 | 564 | 0.07 |
| I.1.C | 148,782 | 14.29 | 103,915 | 13.13 |
| I.1.D | 33 | 0.00 | - | 0.00 |
| I.1.E | 37,074 | 3.56 | 43,222 | 5.46 |
| I.1.F | 180,510 | 17.34 | 22,095 | 2.79 |
| I2 | 46,964 | 4.51 | 173,520 | 21.93 |
| I3 | 101,001 | 9.70 | 14,124 | 1.78 |
| I4 | 72,437 | 6.96 | 46,047 | 5.82 |
| I5 | 27,239 | 2.62 | 340,303 | 43.00 |
| I6 | 276,009 | 26.51 | 1,882 | 0.24 |
| M1 | 6,002 | 0.58 | 237 | 0.03 |
| M2 | 4,962 | 0.48 | 7,955 | 1.01 |
| M3 | 5,035 | 0.48 | - | 0.00 |
| M4 | - | 0.00 | 318 | 0.04 |
| R1 | 171 | 0.02 | - | 0.00 |
| R3 | 2 | 0.00 | 16,943 | 2.14 |
| R5 | 12,963 | 1.25 | 161 | 0.02 |
| **Total** | **1,041,130** | **100.00** | **791,353** | **100.00** |
| | | | | |
| Group I.1.D | 10,029,361 | 61.62 | 12,828,662 | 84.32 |
| Group I.1.E | 2,329,878 | 14.31 | 896,804 | 5.89 |
| Group I.1.F | 1,639,828 | 10.08 | - | 0.00 |
| Group I2 | 2,276,888 | 13.99 | 270,621 | 1.78 |
| Group I3 | - | 0.00 | 1,219,007 | 8.01 |
| **Group Total, excluding collateral** | **16,275,954** | **100.00** | **15,215,094** | **100.00** |
| | | | | |
| Physical Collateral (inc. cash) Non-Group | 84,181 | | 132,618 | |
| Physical Collateral (inc. cash) Group | 144,562 | | 141,481 | |
| **Total of Physical Collateral (inc. cash)** | **228,743** | | **274,099** | |
| | | | | |
| **Grand Total** | **17,545,827** | | **16,280,546** | |

In the case of financial institutions and governments, the external credit ratings assigned by an ECAI has been mapped onto the group internal rating scale using the worse external rating when two are available, or the second worse when three are available.

The tables below provide a breakdown of loans and advances to banks and customers by loan quality:

| | 2010 | | 2009 | | €'000s |
|---|---|---|---|---|---|
| | Net exposure (€'000s) | % break-down | Net exposure (€'000s) | % break-down | Change net exposure |
| Doubtful Loans | 17,509 | 0.1 | 20,068 | 0.1 | -2,559 |
| Restructured Loans | 36,507 | 0.2 | 56,078 | 0.3 | -19,571 |
| Past Due Loans | 46,598 | 0.3 | 46,600 | 0.3 | -2 |
| **Non Performing Loans** | **100,614** | **0.6** | **122,746** | **0.8** | **-22,132** |
| Performing Loans | 17,445,213 | 99.4 | 16,157,800 | 99.2 | 1,287,413 |
| **Loans and Advances to Banks and Customers** | **17,545,827** | **100.0** | **16,280,546** | **100.0** | **1,265,281** |

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross exposure (€'000s) | Total adjustments (€'000s) | Net exposure (€'000s) | Gross exposure (€'000s) | Total adjustments (€'000s) | Net exposure (€'000s) |
| Doubtful Loans | 78,444 | -60,935 | 17,509 | 78,392 | -58,324 | 20,068 |
| Restructured Loans | 36,509 | -2 | 36,507 | 57,023 | -945 | 56,078 |
| Past Due Loans | 46,667 | -69 | 46,598 | 46,681 | -81 | 46,600 |
| **Non Performing Loans** | **161,620** | **-61,006** | **100,614** | **182,096** | **-59,350** | **122,746** |
| Performing Loans | 17,452,863 | -7,650 | 17,445,213 | 16,165,605 | -7,805 | 16,157,800 |
| **Loans and Advances to Banks and Customers** | **17,614,483** | **-68,656** | **17,545,827** | **16,347,701** | **-67,155** | **16,280,546** |

Non-performing loans decreased last year both on a gross and net exposure basis, with a net exposure representing 0.6% of the total loans and advances to banks and customers in December 2010 (0.8% in December 2009).

Gross exposure related to doubtful loans remain stable during 2010 with an amount at year-end of € 78.44 million, but individual impairment losses on these exposures were increased to cover 78% of the gross exposure at year-end 2010 (74% in December 2009) in line with market-driven recovery expectations. As a result, net exposure to doubtful loans was reduced by 27% during the course of the year, dropping from 20.07 million at the end of 2009 to €17.51 million at the end of 2010, and representing 0.1% of total loans and advances to banks and customers in December 2010 (0.1% in December 2009).

Gross exposure to restructured loans decreased by 36% in 2010 mainly due to contractual maturities and early prepayments, showing an amount of € 36.51 million in December 2010 (2009: € 57.02 million). Net exposure to restructured loans represented 0.2% of total loans and advances to banks and customers in December 2010 (0.3% in December 2009).

Gross exposure to past due loans remained also stable during 2010 with a year-end balance of €46.67 million (2009: €46.68 million), and was past due for more than 91 days at the end of the year. Net exposure to past due loans represented 0.3% of total loans and advances to banks and customers in December 2010 (0.3% in December 2009).

Exposures to both restructures and past due loans were all subject to an impairment assessment on a collective basis at the end of 2010 as none of these had shown objective evidence of impairment (loss event) during the year.

A breakdown of the Company's credit risk exposures relating to Loans & Receivables at year-ends 2010 and 2009 by country risk is shown in the table below (all collaterals including cash are assigned to the country of the location of the collateral, exposures to branches of the Parent Company are reported as Italian exposures):

**Group Exposures**

| Country of Risk | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Croatia | 59,995 | 0.37 | 100,867 | 0.66 |
| Hungary | 928,670 | 5.66 | 1,219,007 | 7.94 |
| Italy | 12,425,767 | 75.67 | 11,828,816 | 77.03 |
| Luxembourg | 2,301,516 | 14.02 | 1,500,256 | 9.77 |
| Romania | 79,945 | 0.49 | 69,844 | 0.45 |
| Slovak Republic | 198,067 | 1.21 | 195,597 | 1.27 |
| Slovenia | 281,995 | 1.72 | 300,707 | 1.96 |
| United Kingdom | 144,562 | 0.88 | 141,481 | 0.92 |
| **Total** | **16,420,516** | **100.00** | **15,356,575** | **100.00** |

**Non-Group Exposures**

| Country of Risk | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Bahrain | 29 | 0.00 | 20,858 | 2.26 |
| Cayman Islands | 12,793 | 1.14 | 16,943 | 1.83 |
| Cyprus | 170 | 0.02 | 161 | 0.02 |
| France | 62,361 | 5.54 | 76,219 | 8.25 |
| Germany | 189,272 | 16.82 | 56,402 | 6.10 |
| Greece | 4,962 | 0.44 | 5,224 | 0.57 |
| Iceland | 17,509 | 1.56 | 20,068 | 2.17 |
| Ireland | 271,593 | 24.13 | 229,660 | 24.86 |
| Italy | 303,325 | 26.95 | 255,437 | 27.65 |
| Kuwait | 7,136 | 0.63 | 9,369 | 1.01 |
| Poland | 25,461 | 2.26 | 20,399 | 2.21 |
| Portugal | 76,860 | 6.83 | 76,926 | 8.33 |
| Qatar | 23,150 | 2.06 | 21,461 | 2.32 |
| Russia | 8,696 | 0.77 | 13,446 | 1.46 |
| Spain | 6,694 | 0.59 | 7,123 | 0.77 |
| Sweden | 39,949 | 3.55 | 1,418 | 0.15 |
| Switzerland | 20,573 | 1.83 | 37,063 | 4.01 |
| United Arab Emirates | 29,938 | 2.66 | 27,745 | 3.00 |
| United Kingdom | 5,098 | 0.45 | 5,079 | 0.55 |
| United States | 19,743 | 1.75 | 22,969 | 2.49 |
| **Total** | **1,125,311** | **100.00** | **923,970** | **100.00** |

| | | |
|---|---|---|
| **Grand Total** | **17,545,827** | **16,280,546** |

Credit Risk Exposures related to Undrawn Outstanding Commitments:

The breakdown of the Company's undrawn credit risk exposures at year-ends 2010 and 2009 by activity sectors is shown in the table below:

| Sector of Risk | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Central Government | 86,064 | 8.85 | - | 0.00 |
| Credit Institutions | - | 0.00 | 10,000 | 0.91 |
| Electricity, Gas and Water Supply | 27,399 | 2.82 | 68,264 | 6.19 |
| Financial Intermediation (Excl. Credit Institutions/Central Bank) | 255,488 | 26.26 | 216,021 | 19.59 |
| Manufacturing | 475,604 | 48.89 | 476,310 | 43.20 |
| Other Community, Social and Personal Services | - | 0.00 | 360 | 0.03 |
| Real Estate, Renting and Business | - | 0.00 | 173,539 | 15.74 |
| Transport, Storage and Communications | 88,199 | 9.07 | 88,171 | 8.00 |
| Wholesale/Retail Trade & Repairs | 40,000 | 4.11 | 70,000 | 6.35 |
| **Total** | **972,754** | **100.00** | **1,102,665** | **100.00** |
| | | | | |
| **Group** | **646,869** | | **678,395** | |
| | | | | |
| **Grand Total** | **1,619,623** | | **1,781,060** | |

The breakdown of the Company's undrawn credit risk exposures at year-ends 2010 and 2009 by internal credit rating is shown in the table below:

| Rating | 2010 | % | 2009 | % |
|---|---|---|---|---|
| I.1.A | 86,064 | 8.85 | - | 0.00 |
| I.1.C | 153,950 | 15.83 | 214,891 | 19.49 |
| I.1.D | - | 0.00 | 45,554 | 4.13 |
| I.1.E | - | 0.00 | 69,416 | 6.30 |
| I.1.F | 159,864 | 16.43 | 88,505 | 8.03 |
| I2 | 69,871 | 7.18 | 355,631 | 32.25 |
| I3 | 152,930 | 15.72 | 62,436 | 5.66 |
| I4 | 232,355 | 23.89 | 173,578 | 15.74 |
| I5 | 89,094 | 9.16 | 87,194 | 7.91 |
| I6 | 24,754 | 2.54 | - | 0.00 |
| M1 | - | 0.00 | 360 | 0.03 |
| M2 | - | 0.00 | 1,230 | 0.11 |
| R3 | - | 0.00 | 3,871 | 0.35 |
| R5 | 3,872 | 0.40 | - | 0.00 |
| **Total** | **972,754** | **100.00** | **1,102,665** | **100.00** |
| | | | | |
| Group I.1.D | 125,267 | 19.37 | 171,964 | 31.36 |
| Group I.1.E | 521,602 | 80.63 | 506,431 | 68.64 |
| **Group Total** | **646,869** | **100.00** | **678,395** | **100.00** |
| | | | | |
| **Grand Total** | **1,619,623** | | **1,781,060** | |

The breakdown of the Company's undrawn credit risk exposures at year-ends 2010 and 2009 by country risk is shown in the table below:

**Group Exposures**

| Country of Risk | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Italy | 125,267 | 19.37 | 171,964 | 31.36 |
| Slovenia | 521,602 | 80.63 | 506,431 | 68.64 |
| **Total** | **646,869** | **100.00** | **678,395** | **100.00** |

**Non-Group Exposures**

| Country of Risk | 2010 | % | 2009 | % |
|---|---|---|---|---|
| Cayman Islands | 3,872 | 0.40 | 3,871 | 0.35 |
| France | 64,754 | 6.66 | 197,548 | 17.92 |
| Germany | 430,884 | 44.33 | 330,339 | 29.96 |
| Greece | 41,667 | 4.28 | 4,527 | 0.41 |
| Ireland | 27,399 | 2.82 | 68,264 | 6.19 |
| Italy | 153,950 | 15.83 | 110,768 | 10.05 |
| Netherlands | 59,871 | 6.15 | 55,532 | 5.04 |
| Poland | 56,263 | 5.78 | 59,499 | 5.40 |
| Portugal | - | 0.00 | 10,000 | 0.91 |
| Saudi Arabia | - | 0.00 | 69,416 | 6.30 |
| Sweden | 45,000 | 4.63 | 83,578 | 7.58 |
| Switzerland | 69,402 | 7.13 | 92,126 | 8.35 |
| United States | 19,693 | 2.02 | 17,197 | 1.56 |
| **Total** | **972,754** | **100.00** | **1,102,665** | **100.00** |

| | | |
|---|---|---|
| **Grand Total** | **1,619,623** | **1,781,060** |

Credit Risk Exposures related to Bonds

With regard to non intra-Group bonds, investments in permissible bonds (as per the permissible bond typology adopted by the Board) are subject to the following limit types:

- Notional limit of € 1.5 billion equivalent
- Country diversification limits
- Issuer diversification portfolio limits
- Credit rating diversification portfolio limits
- Minimum weighted average portfolio rating limit
- Single government and supranational/agency issuer exposure limits
- Single covered bond and securitisation by issue exposure limit
- Single banking issuer exposure limits
- Single corporate issuer exposure limits
- Transaction tenor limits

The total exposure of the Company derived from Available For Sale and Carried at Fair Value bonds after adjustments shown in the table below, amounted up to € 877.035 million at the end of 2010 (€ 717.661 million in 2009).

| | 2010 | 2009 |
|---|---|---|
| | **€'000** | **€'000** |
| **Securities Carried at Fair Value** *(as per Statement of Financial Position)* | 69,728 | 151,564 |
| **Securities Available For Sale** *(as per Statement of Financial Position)* | 807,307 | 566,098 |
| | **877,035** | **717,661** |

The breakdown of the Company's credit risk exposures related to bonds at year-ends 2010 and 2009 by activity sectors is shown in the table below:

| Sector of Risk | 2010 | 2009 |
|---|---|---|
| Central Government | 319,919 | 262,519 |
| Credit Institutions | 365,334 | 275,140 |
| Extra-Territorial Organisations and Bodies | 75,519 | 38,485 |
| Financial Intermediation (Excl. Credit Institutions/Central Bank) | 116,264 | 65,577 |
| Manufacturing | - | 6,495 |
| Other General Government | - | 48,676 |
| Transport, Storage and Communications | - | 20,770 |
| **Total** | **877,035** | **717,661** |

The breakdown of the Company's credit risk exposures related to bonds at year-ends 2010 and 2009 by internal credit rating is shown in the table below:

| Internal Rating | 2010 | 2009 |
|---|---|---|
| I.1.A | 111,879 | 95,267 |
| I.1.B | 5,587 | 29,694 |
| I.1.C | 67,396 | 25,101 |
| I.1.D | 46,891 | 41,629 |
| I.1.E | 396,194 | 322,799 |
| I.1.F | 132,930 | 80,761 |
| I2 | 76,628 | 97,146 |
| I3 | 4,885 | - |
| I4 | 29,669 | 9,751 |
| I5 | - | 6,428 |
| I6 | 4,974 | - |
| R2 | - | 9,086 |
| **Total** | **877,035** | **717,661** |

The breakdown of the Company's credit risk exposures related to bonds at year-ends 2010 and 2009 by country risk is shown in the table below:

| Country of Risk | 2010 | 2009 |
|---|---|---|
| Austria | 18,015 | 3,091 |
| Belgium | - | 20,562 |
| Canada | - | 40,188 |
| Cayman Islands | - | 4,940 |
| Finland | 11,772 | - |
| France | 99,265 | 56,560 |
| Germany | 18,325 | 3,321 |
| Italy | 504,378 | 442,342 |
| Luxembourg | 75,519 | 38,485 |
| Netherlands | 9,946 | 9,884 |
| Norway | 23,526 | - |
| Portugal | 13,285 | 10,014 |
| Spain | 42,500 | 9,132 |
| Sweden | - | 17,939 |
| United Kingdom | 21,528 | 7,072 |
| United States | 38,976 | 54,133 |
| **Total** | **877,035** | **717,661** |

The bond portfolio of the Company is subject to the volatility of credit spreads associated with each issuer and representative of both their specific credit worthiness as well as systematic credit market conditions. The impact of the sensitivity of the portfolio to credit spread volatility will actually vary in accordance with the accounting classification of each bond and the relevant accounting principles in application. The table below provides estimates of the material potential impact of a parallel upward shift of 25 basis points of individual credit spread curves on the revaluation of bonds classified at fair value through profit or loss ("CFV Securities") or equity ("AFS Securities) of the Company in 2010.

**Price Sensitivity Analysis as at 31-12-10 of CFV and AFS Securities to Credit Spread Volatility (€'000s)**

| | Profit & Loss | Equity |
|---|---|---|
| AFS Securities | - | (4,974) |
| Hedged CFV Securities | (782) | - |
| **Total** | **(782)** | **(4,974)** |

Price Sensitivity Analysis as at 31-Dec-09 of CFV and AFS Securities to Credit Spread Volatility (in €'000s)

| | Profit & Loss | Equity |
|---|---|---|
| AFS Securities | - | (2,925) |
| Hedged CFV Securities | (2,439) | - |
| Total | (2,439) | (2,925) |

**Credit Risk Exposures related to derivatives**

The Company had entered into stand-alone derivative transactions for a total notional of € 4.66 billion at the end of 2010 (2009: € 3.54 billion), of which € 2.82 billion were classified as hedging derivatives with application of hedge accounting rules (2009: € 1.89 billion). The rest of the stand-alone derivatives are used as macro-hedges in order to mitigate the interest rate risk derived from assets and liabilities maturity mismatches and foreign exchange risk generated by mismatches between the respective currencies of assets and liabilities.

At the end of 2010, 89% of the derivatives involving the Company were dealt with another entity of the Group (2009: 88%). The Company computes a credit risk adjustment for all derivatives with non-Group counterparts based on the risk of default of the counterpart (unless a collateral agreement exists between the counterpart and the Company), which is added to the valuation of the derivatives recorded by the Company.

### 3.2. Liquidity Risk

Liquidity is the ability of a credit institution to meet its on and off-balance sheet obligations in a timely manner as they fall due, without incurring significant cost, while continuing to fund its assets and growth therein.

Funding liquidity risk arises from the inability to meet payment obligations due to the lack of liquid funds and related difficulties in selling assets or raising funds in the market, and focuses on the short-term (below two years), as in the event of a liquidity crisis, the ability to meet payments in the first few days is a critical determinant of the subsequent evolution of the crisis.

As per the Company's Liquidity Risk Policy approved by the Board of Directors in line with the Financial Regulator requirements, the Company's liquidity analysis aims at:

- Defining the liquidity risk on the basis of mismatches between maturing or readily realisable assets and maturing liabilities for each time band (liquidity gap), amounts are deemed to include accrued interest.
- Defining "target liquidity ratios" for the on-demand to 8 days and the 8 days – 1 month periods. Furthermore "attention thresholds" are defined on the liquidity gap for the 1-3 month, 3-6 month, 6-12 month, 1-2 years and more than 2 years periods. The target liquidity ratios and the attention thresholds are defined as the ratio of inflows to outflows in a given time period. The value of the first target liquidity ratio must remain above one, while the value of the second target liquidity ratio, computed on a cumulative basis (including net inflows or outflows from the previous time band), must remain above 0.9. Attention thresholds are monitored for information purposes.
- Defining rules for maintaining a minimum of liquid assets to cover very short-term liquidity risk, to be refinanced through borrowings.

Flows which are readily realisable or have variable maturity such as retail accounts, call deposits, undrawn credit lines and guarantees, are allocated to time segments on the basis of behavioural assumptions.

Behavioural assumptions for undrawn committed credit lines likely to be drawn in the case of a liquidity crunch such as medium/long term facilities and export facilities, and those with a low likelihood of drawing such as back-up revolving facilities or guarantees, are determined by the Company based on over 5 years of proprietary historical data.

Standard behavioural assumptions applicable under normal market conditions and used by the Company at year-end 2010 were:

| | **% Standard Assumption (0-8 Days) - 31 December 2010** | % Standard Assumption (0-8 Days) - 31 December 2009 |
|---|---|---|
| **Drawings on unlikely undrawn committed facilities granted** | **7.04%** | 7.42% |
| **Drawings on guarantees issued** | **3.00%** | 3.00% |
| **Drawings on likely undrawn committed facilities granted** | **43.43%**<br>Remaining undrawn portion is considered linearly drawn up to C/L maturity | 48.63%<br>Remaining undrawn portion is considered linearly drawn up to C/L maturity |

The above assumptions are regularly back-tested against actual drawings on the respective times of facilities to guarantee their prudential nature in case of sudden significant changes in the credit market conditions.

With regard to guarantees issued, the Company's assumption of a 3% drawdown in the first time-band is based on the Parent Company's own behavioural assumptions as a consequence of the very limited amount of relevant local historical data.

In addition to behavioural assumptions affecting the first bucket, the Company assumes that the remaining undrawn portion of likely to be drawn committed facilities granted beyond 0 to 1 month buckets will be linearly drawn up to the credit line maturity.

Any assumed drawings on guarantees issued and likely/unlikely to be drawn committed facilities granted by the Company are considered repaid on credit line maturity date.

A timetable of the guarantees issued and undrawn outstanding facilities at the end of 2010 based on a contractual maturity basis are shown below**:**

**At 31 December 2010**

| Timeband | 0-8 days | 9d – 1m | 1m – 3m | 3m – 6m |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| Guarantees and irrevocable Letters of Credit | - | - | - | - |
| Undrawn formal standby facilities, credit lines and other commitments | - | 350,000 | 91,602 | 91,226 |
| Timeband (cont'd) | 6m-1y | 1y-2y | over2y | **Total** |
| Guarantees and irrevocable Letters of Credit | 2,075 | 409 | 4,234 | **6,718** |
| Undrawn formal standby facilities, credit lines and other commitments | 6,418 | 598,242 | 475,416 | **1,612,905** |

At 31 December 2009

| Timeband | 0-8 days | 9d – 1m | 1m – 3ms | 3m – 6m |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| Guarantees and irrevocable Letters of Credit | 88 | - | - | 3,025 |
| Undrawn formal standby facilities, credit lines and other commitments | - | - | 10,000 | 134,679 |
| Timeband (continued) | 6m – 1y | 1y – 2y | Over 2y | **Total** |
| Guarantees and irrevocable Letters of Credit | - | 2,100 | 20,494 | **25,707** |
| Undrawn formal standby facilities, credit lines and other commitments | 140,897 | 591,192 | 878,585 | **1,755,353** |

With regard to on-demand accounts such as retail accounts and call deposits, the Company assumes that 100% of all balances will be repaid in the first time band.  This conservative assumption is driven by the limited amount of local historical data on the behaviour of such flows and the immateriality of their amount.

The monitoring of liquidity risk by the Company involves the matching of any net cash outflows (where cash outflows are greater than cash inflows) in the first time-band, with readily marketable or liquid assets. Readily marketable assets include:

- Cash;
- Lending to Monetary Financial Institutions which are repayable within the next four business days;
- Securities other than shares issued by MFI's;
- Balances with the European System of Central Banks and other Central Banks;
- Exchequer Notes/Treasury Bills;
- Central Government – Investments;
- Securities other than shares issued by non-MFI's with a minimum external rating of A-/A3 or in the case of assets deemed ECB eligible with a minimum rating of BBB-;
- Accrued interest payable within the next four business days;
- Minimum Reserve.

In the case of readily marketable or liquid securities, a haircut is applied to their market value. The haircuts are taking into account each security's negotiability and refinancing characteristics. To be considered liquid, the assets must be available to a credit institution at short notice, which under the proposed criteria is four business days or less. Haircuts must be justified on the basis of third party indications or comparables in the market. In the case of securities which can be made available between four business days and eight calendar days, a haircut will also be applied to their market value which will be directly slotted in the first time-band. Cash flows generated by securities with a lesser liquidity are instead slotted in the time bands associated with their contractual terms.

Haircuts are determined as follows:

- ECB haircut for eligible securities,
- External haircut from repo market when available for non-eligible liquid securities,
- Default 25% haircut for other liquid securities which can be made available within eight calendar days.

The Company defines its "target liquidity ratios" for the 'on-demand' to eight days and the '8 days to 1 month' periods. The value of the first ratio must remain above one, while the value of the second ratio, computed on a cumulative basis (including net inflows or outflows from the previous time band), must remain above 0.9.

"Target liquidity ratios" of the Company are monitored on an on-going basis and reported daily to the executive Asset & Liability Committee members, while they are submitted weekly to the Financial Regulator:

**Historical statistics on liquidity ratios (standard case) for 2010 & 2009**

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | *0-8 days* | *9d – 1m* | *0-8 days* | *9d – 1m* |
| | *%* | *%* | *%* | *%* |
| *Minimum* | 100.4 | 90.1 | 100.4 | 90.6 |
| *Maximum* | 253.9 | 161.5 | 347.9 | 219.2 |
| *Average* | 146.3 | 108.1 | 141.0 | 113.4 |

The overall liquidity risk management framework of the Company as well as the support provided by the Group in that respect, are helping the Company mitigate liquidity risk. Such support includes:

- The Company is inserted in the overall liquidity management of the Group since the Company has been assigned a main funding role for the Group.
- All short-term and medium / long-term debt issued by the Company under its existing programmes are fully guaranteed by the Parent Company.
- The Company is also inserted in the contingency policies of the Group in addition to the local contingency funding plan.
- An uncommitted money market line in favour of the Company for € 5.0 billion exists with the Parent Company.
- The issuance of a Letter of Comfort dated 2 July 2002 issued by the Parent Company to the Financial Regulator ensuring that the Company will remain able to meet all its liabilities.

Furthermore, this framework is committed to ensure and manage the access to diverse funding sources in the financial markets and to monitor the Company's exposure to liquidity risk under stress test scenarios, considering both a market crisis and a Company-specific crisis. Stress test scenarios impact on:

- The behavioural assumptions used for non contractual cashflows;
- The admissibility criteria of securities considered as liquid as well as the haircuts applied to liquid securities convertible into cash within '0 to 8 days'.

The Company assumes a run-off of 100% on all liabilities under normal and stress test conditions.

Finally, the Company also monitor market-specific warning indicators (providing the Company with timely information on external market stressed conditions) in addition to existing Bank-specific triggers, for the activation of the funding contingency plan.

The following two tables show the liquidity risk exposures of the Company as per the classification required by the Central Bank of Ireland for the year ended 2010 and 2009 using the behavioural assumption described above and used by the Company's Management for the daily monitoring and management of this risk factor: The "target liquidity ratio" as at 31 December 2010 reached 150.1% (2009: 124.2%) in the time bucket 'on-demand to 8 days' and reached 93.3% (2009: 97.1%) in the time bucket '8 days to 1 month', in excess of the minimum limits imposed by the Company's policy.

The third and fourth tables below show the liquidity risk exposures of the Company for the year ended 2010 and 2009 using the IFRS 7 application guidance and assuming that all undrawn loan commitments are included in the time band containing the earliest date they can be drawn (0 to 8 days). These adjusted exposures are not used by the Company's Board and Management for the monitoring and management of this risk factor:

| Standard case, 31-Dec-2010<br>€'000<br>Timeband | Sight to<br>8 days | Over 8 days<br>to 1 month | Over 1 m<br>to 3 m | Over 3 m<br>to 6 m | Over 6 m<br>to 1 year | 1 year to<br>2 years | 2 y + |
|---|---|---|---|---|---|---|---|
| **Inflows** | | | | | | | |
| **Readily Marketable Assets/Liquid Assets** | **1,697,495** | **-** | **-** | **-** | **-** | **-** | **-** |
| Cash | 1,478 | - | - | - | - | - | - |
| Lending to MFI's | 1,068,676 | - | - | - | - | - | - |
| Securities other than shares issued by MFI's | 325,469 | - | - | - | - | - | - |
| Central Government Securities | 104,698 | - | - | - | - | - | - |
| Securities other than shares issued by non MFI's | 37,653 | - | - | - | - | - | - |
| Accrued Interest | 3,524 | - | - | - | - | - | - |
| Minimum Reserve Balance | 159,467 | - | - | - | - | - | - |
| Less Deposit Protection Account | 3,470 | - | - | - | - | - | - |
| **Monetary Financial Institutions** | **327** | **2,263,026** | **721,563** | **558,517** | **1,596,964** | **1,730,765** | **11,152,353** |
| - Affiliates | - | 2,247,155 | 614,415 | 480,190 | 1,385,204 | 1,690,424 | 10,989,993 |
| - Other Credit Institutions - Non Irish | - | 15,871 | 73,309 | 8,559 | 210,667 | 39,204 | 144,501 |
| - All other Monetary Financial Institutions | - | - | - | - | 1,093 | 1,138 | 17,860 |
| - Sale of Securities or Investments in MFI's | 327 | - | 33,839 | 69,768 | - | - | - |
| **ECB and Other Central Banks** | **-** | **163,123** | **-** | **-** | **-** | **-** | **-** |
| **Central Government** | **-** | **48,626** | **-** | **177,208** | **264** | **-** | **-** |
| - from investments | - | 48,626 | - | 176,911 | - | - | - |
| - from lending operations | - | - | - | 296 | 264 | - | - |
| **Other General Government Credit** | **-** | **17,558** | **-** | **-** | **-** | **-** | **-** |
| - from investments | - | 17,558 | - | - | - | - | - |
| **Non Government Credit** | **125,664** | **376,961** | **541,804** | **143,155** | **131,853** | **258,770** | **955,961** |
| - Term Loans | 125,664 | 376,961 | 541,804 | 143,155 | 131,853 | 258,770 | 955,961 |
| **Fee Income** | **133** | **436** | **1,118** | **1,724** | **3,487** | **6,936** | **-** |
| **Derivative and OBS Activity** | **116,690** | **371,762** | **570,108** | **90,066** | **29,403** | **62,572** | **676,529** |
| - Swap | 116,690 | 371,762 | 570,108 | 90,066 | 29,403 | 62,572 | 676,529 |
| **Total Inflows** | **1,940,310** | **3,241,491** | **1,834,593** | **970,671** | **1,761,972** | **2,059,042** | **12,784,844** |
| **Outflows** | | | | | | | |
| **Monetary Financial Institutions** | **538,171** | **727,675** | **2,048,900** | **1,886,914** | **85,842** | **93,895** | **2,797,342** |
| - Affiliates | 523,364 | 707,402 | 2,028,631 | 1,848,420 | 48,140 | 2,085 | 23,635 |
| - Other Credit Institutions - non Irish | - | 14,224 | 1,203 | 3,141 | 8,153 | 6,044 | 14,099 |
| - Other Credit Institutions - Irish | - | - | - | - | - | - | - |
| - All other Monetary Financial Institutions | 14,807 | 6,049 | 19,067 | 35,353 | 29,549 | 85,765 | 2,759,608 |
| **Debt Securities Issued** | **409,370** | **2,836,206** | **4,958,065** | **459,993** | **627,949** | **341,725** | **1,305,167** |
| **ECB and Other Central Banks** | **-** | **162,937** | **-** | **-** | **-** | **-** | **-** |
| **Non Government Deposits** | **2,028** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Current Accounts | 2,028 | - | - | - | - | - | - |
| **Sale and Repurchase Agreements** | **-** | **67,882** | **35,508** | **256,335** | **-** | **-** | **-** |
| - Affiliated Credit Institutions | - | 67,882 | 35,508 | 256,335 | - | - | - |
| **Fees Payable** | **264** | **868** | **2,226** | **3,434** | **6,943** | **13,811** | **-** |
| **Other Costs** | **114** | **375** | **962** | **1,483** | **2,999** | **5,966** | **-** |
| **Undrawn Committed Facilities Granted** | **226,141** | **-** | **2,847** | **4,391** | **8,879** | **17,662** | **140,937** |
| **Derivative and OBS Activity** | **116,189** | **371,637** | **579,473** | **97,905** | **57,020** | **93,153** | **702,935** |
| - Swap | 116,189 | 371,637 | 579,473 | 97,905 | 57,020 | 93,153 | 702,935 |
| **Total Outflows** | **1,292,277** | **4,167,580** | **7,627,982** | **2,710,456** | **789,633** | **566,212** | **4,946,380** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net Position in the Period** | 648,032 | -926,089 | -5,793,388 | -1,739,785 | 972,339 | 1,492,830 | 7,838,463 |
| **Net Cumulative Inflow/Outflow** | 648,032 | -278,056 | -6,071,445 | -7,811,230 | -6,838,891 | -5,346,061 | 2,492,403 |
| **Liquidity Ratio (%)** | 150.1 | 93.3 | 23.2 | 11.1 | 20.5 | 27.8 | 124.2 |

# INTESA SANPAOLO BANK IRELAND plc

## Notes to the Financial Statements for the year ended 31 December 2010

| Standard case, 31-Dec-2009<br>€'000<br>Timeband | Sight to<br>8 days | Over 8 days<br>to 1 month | Over 1 m<br>to 3 m | Over 3 m<br>to 6 m | Over 6 m<br>to 1 year | 1 year to<br>2 years | 2 y + |
|---|---|---|---|---|---|---|---|
| **Inflows** | | | | | | | |
| **Readily Marketable Assets/Liquid Assets** | **1,427,409** | - | - | - | - | - | - |
| Cash | 1,035 | - | - | - | - | - | - |
| Lending to MFI's | 619,262 | - | - | - | - | - | - |
| Securities other than shares issued by MFI's | 275,066 | - | - | - | - | - | - |
| Central Government Securities | 330,247 | - | - | - | - | - | - |
| Securities other than shares issued by non MFI's | 48,841 | - | - | - | - | - | - |
| Accrued Interest | 3,423 | - | - | - | - | - | - |
| Minimum Reserve Balance | 152,900 | - | - | - | - | - | - |
| Less Deposit Protection Account | 3,366 | - | - | - | - | - | - |
| **Monetary Financial Institutions** | **999,437** | **1,776,499** | **1,033,682** | **509,739** | **1,256,982** | **2,384,499** | **8,000,166** |
| - Affiliates | 21,503 | 1,729,054 | 1,019,943 | 471,361 | 1,227,120 | 2,151,534 | 7,912,759 |
| - Other Credit Institutions - Non Irish | - | 47,445 | 13,738 | 38,379 | 28,811 | 231,872 | 68,409 |
| - All other Monetary Financial Institutions | - | - | - | - | 1,050 | 1,093 | 18,997 |
| - Sale of Securities or Investments in MFI's | 977,935 | - | - | - | - | - | - |
| **ECB and Other Central Banks** | **-** | **156,449** | **-** | **-** | **-** | **-** | **-** |
| **Central Government** | **-** | **-** | **-** | **278** | **280** | **524** | **-** |
| - from investments | - | - | - | - | - | - | - |
| - from lending operations | - | - | - | 278 | 280 | 524 | - |
| **Other General Government Credit** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - from investments | - | - | - | - | - | - | - |
| **Non Government Credit** | **43,161** | **206,287** | **475,913** | **341,101** | **120,635** | **404,340** | **657,819** |
| - Term Loans | 43,161 | 206,287 | 475,913 | 341,101 | 120,635 | 404,340 | 657,819 |
| **Fee Income** | **118** | **386** | **990** | **1,528** | **3,089** | **6,127** | **-** |
| **Derivative and OBS Activity** | **694,655** | **1,426** | **9,438** | **130,925** | **22,565** | **58,088** | **722,620** |
| - Swap | 694,655 | 1,426 | 9,438 | 130,925 | 22,565 | 58,088 | 722,620 |
| **Total Inflows** | **3,164,780** | **2,141,047** | **1,520,023** | **983,571** | **1,403,549** | **2,853,579** | **9,380,605** |
| **Outflows** | | | | | | | |
| **Monetary Financial Institutions** | **305,663** | **248,283** | **301,320** | **25,250** | **93,784** | **124,399** | **2,368,486** |
| - Affiliates | 265,661 | 221,013 | 286,985 | 226 | 65,027 | 39,825 | 24,482 |
| - Other Credit Institutions - Irish | - | - | - | - | - | - | - |
| - Other Credit Institutions - non Irish | 40,002 | 23,021 | - | 2,962 | 3,020 | 11,067 | 19,504 |
| - All other Monetary Financial Institutions | - | 4,249 | 14,334 | 22,063 | 25,738 | 73,507 | 2,324,500 |
| **Debt Securities Issued** | **1,317,658** | **2,425,306** | **5,402,697** | **1,961,726** | **672,677** | **576,333** | **1,685,165** |
| **ECB and Other Central Banks** | **-** | **156,266** | **-** | **-** | **-** | **-** | **-** |
| **Non Government Deposits** | **3,867** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Current Accounts | 3,867 | - | - | - | - | - | - |
| **Sale and Repurchase Agreements** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Affiliated Credit Institutions | - | - | - | - | - | - | - |
| **Fees Payable** | **225** | **738** | **1,892** | **2,919** | **5,902** | **11,707** | **-** |
| **Other Costs** | **123** | **403** | **1,035** | **1,596** | **3,226** | **6,400** | **-** |
| **Undrawn Committed Facilities Granted** | **220,152** | **-** | **15,335** | **14,731** | **20,877** | **32,328** | **27,839** |
| **Derivative and OBS Activity** | **701,469** | **6,774** | **19,559** | **132,858** | **51,273** | **86,984** | **725,729** |
| - Swap | 701,469 | 6,774 | 19,559 | 132,858 | 51,273 | 86,984 | 725,729 |
| **Total Outflows** | **2,549,157** | **2,837,770** | **5,741,838** | **2,139,080** | **847,739** | **838,150** | **4,807,219** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net Position in the Period** | 615,624 | -696,723 | -4,221,815 | -1,155,509 | 555,810 | 2,015,428 | 4,573,387 |
| **Net Cumulative Inflow/Outflow** | 615,624 | -81,099 | -4,302,914 | -5,458,422 | -4,902,612 | -2,887,184 | 1,686,202 |
| **Liquidity Ratio (%)** | 124.2 | 97.1 | 26.1 | 15.3 | 22.3 | 49.7 | 121.9 |

| Outstanding Drawn, 31-Dec-2010 €'000 Timeband | Sight to 8 days | Over 8 days to 1 month | Over 1 m to 3 m | Over 3 m to 6 m | Over 6 m to 1 year | 1 year to 2 years | 2 y + |
|---|---|---|---|---|---|---|---|
| **Inflows** | | | | | | | |
| **Readily Marketable Assets/Liquid Assets** | **1,697,495** | - | - | - | - | - | - |
| Cash | 1,478 | - | - | - | - | - | - |
| Lending to MFI's | 1,068,676 | - | - | - | - | - | - |
| Securities other than shares issued by MFI's | 325,469 | - | - | - | - | - | - |
| Central Government Securities | 104,698 | - | - | - | - | - | - |
| Securities other than shares issued by non MFI's | 37,653 | - | - | - | - | - | - |
| Accrued Interest | 3,524 | - | - | - | - | - | - |
| Minimum Reserve Balance | 159,467 | - | - | - | - | - | - |
| Less Deposit Protection Account | 3,470 | - | - | - | - | - | - |
| **Monetary Financial Institutions** | **327** | **2,263,026** | **721,563** | **558,517** | **1,596,964** | **1,730,765** | **11,152,353** |
| - Affiliates | - | 2,247,155 | 614,415 | 480,190 | 1,385,204 | 1,690,424 | 10,989,993 |
| - Other Credit Institutions - Non Irish | - | 15,871 | 73,309 | 8,559 | 210,667 | 39,204 | 144,501 |
| - All other Monetary Financial Institutions | - | - | - | - | 1,093 | 1,138 | 17,860 |
| - Sale of Securities or Investments in MFI's | 327 | - | 33,839 | 69,768 | - | - | - |
| **ECB and Other Central Banks** | **-** | **163,123** | **-** | **-** | **-** | **-** | **-** |
| **Central Government** | **-** | **48,626** | **-** | **177,208** | **264** | **-** | **-** |
| - from investments | - | 48,626 | - | 176,911 | - | - | - |
| - from lending operations | - | - | - | 296 | 264 | - | - |
| **Other General Government Credit** | **-** | **17,558** | **-** | **-** | **-** | **-** | **-** |
| - from investments | - | 17,558 | - | - | - | - | - |
| **Non Government Credit** | **125,664** | **702,321** | **626,957** | **227,959** | **137,820** | **719,403** | **1,206,293** |
| - Term Loans | 125,664 | 702,321 | 626,957 | 227,959 | 137,820 | 719,403 | 1,206,293 |
| **Fee Income** | **133** | **436** | **1,118** | **1,724** | **3,487** | **6,936** | **-** |
| **Derivative and OBS Activity** | **116,690** | **371,762** | **570,108** | **90,066** | **29,403** | **62,572** | **676,529** |
| - Swap | 116,690 | 371,762 | 570,108 | 90,066 | 29,403 | 62,572 | 676,529 |
| **Total Inflows** | **1,940,310** | **3,566,851** | **1,919,747** | **1,055,474** | **1,767,938** | **2,519,676** | **13,035,176** |
| **Outflows** | | | | | | | |
| **Monetary Financial Institutions** | **538,171** | **727,675** | **2,048,900** | **1,886,914** | **85,842** | **93,895** | **2,797,342** |
| - Affiliates | 523,364 | 707,402 | 2,028,631 | 1,848,420 | 48,140 | 2,085 | 23,635 |
| - Other Credit Institutions - non Irish | - | 14,224 | 1,203 | 3,141 | 8,153 | 6,044 | 14,099 |
| - Other Credit Institutions - Irish | - | - | - | - | - | - | - |
| - All other Monetary Financial Institutions | 14,807 | 6,049 | 19,067 | 35,353 | 29,549 | 85,765 | 2,759,608 |
| **Debt Securities Issued** | **409,370** | **2,836,206** | **4,958,065** | **459,993** | **627,949** | **341,725** | **1,305,167** |
| **ECB and Other Central Banks** | **-** | **162,937** | **-** | **-** | **-** | **-** | **-** |
| **Non Government Deposits** | **2,028** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Current Accounts | 2,028 | - | - | - | - | - | - |
| **Sale and Repurchase Agreements** | **-** | **67,882** | **35,508** | **256,335** | **-** | **-** | **-** |
| - Affiliated Credit Institutions | - | 67,882 | 35,508 | 256,335 | - | - | - |
| **Fees Payable** | **264** | **868** | **2,226** | **3,434** | **6,943** | **13,811** | **-** |
| **Other Costs** | **114** | **375** | **962** | **1,483** | **2,999** | **5,966** | **-** |
| **Undrawn Committed Facilities Granted** | **1,613,106** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Derivative and OBS Activity** | **116,189** | **371,637** | **579,473** | **97,905** | **57,020** | **93,153** | **702,935** |
| - Swap | 116,189 | 371,637 | 579,473 | 97,905 | 57,020 | 93,153 | 702,935 |
| **Total Outflows** | **2,679,243** | **4,167,580** | **7,625,135** | **2,706,065** | **780,754** | **548,550** | **4,805,443** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net Position in the Period** | -738,933 | -600,729 | -5,705,388 | -1,650,590 | 987,185 | 1,971,126 | 8,229,732 |
| **Net Cumulative Inflow/Outflow** | -738,933 | -1,339,662 | -7,045,050 | -8,695,640 | -7,708,456 | -5,737,330 | 2,492,403 |
| **Liquidity Ratio (%)** | 72.4 | 72.7 | 21.4 | 10.8 | 18.7 | 30.5 | 123.6 |

| Outstanding Drawn, 31-Dec-2009<br>€'000<br>Timeband | Sight to 8 days | Over 8 days to 1 month | Over 1 m to 3 m | Over 3 m to 6 m | Over 6 m to 1 year | 1 year to 2 years | 2 y + |
|---|---|---|---|---|---|---|---|
| Inflows | | | | | | | |
| **Readily Marketable Assets/Liquid Assets** | **1,427,409** | - | - | - | - | - | - |
| Cash | 1,035 | - | - | - | - | - | - |
| Lending to MFI's | 619,262 | - | - | - | - | - | - |
| Securities other than shares issued by MFI's | 275,066 | - | - | - | - | - | - |
| Central Government Securities | 330,247 | - | - | - | - | - | - |
| Securities other than shares issued by non MFI's | 48,841 | - | - | - | - | - | - |
| Accrued Interest | 3,423 | - | - | - | - | - | - |
| Minimum Reserve Balance | 152,900 | - | - | - | - | - | - |
| Less Deposit Protection Account | 3,366 | - | - | - | - | - | - |
| **Monetary Financial Institutions** | **999,437** | **1,776,499** | **1,033,682** | **509,739** | **1,256,982** | **2,384,499** | **8,000,166** |
| - Affiliates | 21,503 | 1,729,054 | 1,019,943 | 471,361 | 1,227,120 | 2,151,534 | 7,912,759 |
| - Other Credit Institutions - Non Irish | - | 47,445 | 13,738 | 38,379 | 28,811 | 231,872 | 68,409 |
| - All other Monetary Financial Institutions | - | - | - | - | 1,050 | 1,093 | 18,997 |
| - Sale of Securities or Investments in MFI's | 977,935 | - | - | - | - | - | - |
| **ECB and Other Central Banks** | **-** | **156,449** | **-** | **-** | **-** | **-** | **-** |
| **Central Government** | **-** | **-** | **-** | **278** | **280** | **524** | **-** |
| - from investments | - | - | - | - | - | - | - |
| - from lending operations | - | - | - | 278 | 280 | 524 | - |
| **Other General Government Credit** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - from investments | - | - | - | - | - | - | - |
| **Non Government Credit** | **43,161** | **206,287** | **485,171** | **465,787** | **249,635** | **942,026** | **1,282,053** |
| - Term Loans | 43,161 | 206,287 | 485,171 | 465,787 | 249,635 | 942,026 | 1,282,053 |
| **Fee Income** | **118** | **386** | **990** | **1,528** | **3,089** | **6,127** | **-** |
| **Derivative and OBS Activity** | **694,655** | **1,426** | **9,438** | **130,925** | **22,565** | **58,088** | **722,620** |
| - Swap | 694,655 | 1,426 | 9,438 | 130,925 | 22,565 | 58,088 | 722,620 |
| **Total Inflows** | **3,164,780** | **2,141,047** | **1,529,281** | **1,108,257** | **1,532,549** | **3,391,264** | **10,004,839** |
| Outflows | | | | | | | |
| **Monetary Financial Institutions** | **305,663** | **248,283** | **301,320** | **25,250** | **93,784** | **124,399** | **2,368,486** |
| -Affiliates | 265,661 | 221,013 | 286,985 | 226 | 65,027 | 39,825 | 24,482 |
| -Other Credit Institutions-Irish | - | - | - | - | - | - | - |
| -Other Credit Institutions-non-Irish | 40,002 | 23,021 | - | 2,962 | 3,020 | 11,067 | 19,504 |
| -All other Monetary Financial Institutions | - | 4,249 | 14,334 | 22,063 | 25,738 | 73,507 | 2,324,500 |
| **Debt Securities Issued** | **1,317,658** | **2,425,306** | **5,402,697** | **1,961,726** | **672,677** | **576,333** | **1,685,165** |
| **ECB and Other Central Banks** | **-** | **156,266** | **-** | **-** | **-** | **-** | **-** |
| **Non Government Deposits** | **3,867** | **-** | **-** | **-** | **-** | **-** | **-** |
| -Current Accounts | 3,867 | - | - | - | - | - | - |
| **Sale and Repurchase Agreements** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| -Affiliated Credit Institutions | - | - | - | - | - | - | - |
| **Fees Payable** | **225** | **738** | **1,892** | **2,919** | **5,902** | **11,707** | **-** |
| **Other Costs** | **123** | **403** | **1,035** | **1,596** | **3,226** | **6,400** | **-** |
| **Undrawn Committed Facilities Granted** | **1,756,124** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Derivative and OBS Activity** | **701,469** | **6,774** | **19,559** | **132,858** | **51,273** | **86,984** | **725,729** |
| -Swap | 701,469 | 6,774 | 19,559 | 132,858 | 51,273 | 86,984 | 725,729 |
| **Total Outflows** | **4,085,128** | **2,837,770** | **5,726,504** | **2,124,349** | **826,863** | **805,822** | **4,779,380** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net Position in the Period** | -920,348 | -696,723 | -4,197,222 | -1,016,092 | 705,687 | 2,585,442 | 5,225,459 |
| **Net Cumulative Inflow/Outflow** | -920,348 | -1,617,071 | -5,814,293 | -6,830,385 | -6,124,699 | -3,539,257 | 1,686,202 |
| **Liquidity Ratio (%)** | 77.5 | 57.0 | 20.8 | 14.0 | 20.0 | 48.9 | 120.3 |

### 3.3. Interest Rate and Foreign Exchange Risks in the Banking Book:

With regard to interest rate risk in the banking book, the Company distinguishes between cash flow interest rate risk, which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and fair value interest rate risk, which is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company takes on limited exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Company mitigates both risks mainly using interest rate swaps in order to convert all fixed rate assets and liabilities with a maturity exceeding one year into floating rate, and to re-align the interest rate profile of its assets with that of the corresponding funding.

Interest rate exposure is measured separately for each currency by analysing assets and liabilities in terms of the dates they re-price. Interest rate risk exposure is assessed by measuring daily the potential financial impact (or sensitivity) on assets and liabilities and derivatives of the Company of a parallel upward shift of 25 basis points of index reference yield curves (i.e. EURIBOR, LIBOR), assuming that all such assets and liabilities are re-valued at fair value, and the exposure is reviewed daily by Management against the set limit. The same methodology is applied to all interest bearing and discounted assets and liabilities. Given the absence of optional risk in the Company, the sensitivity of all assets and liabilities and derivatives of the Company for a parallel downward shift of 25 basis points of index reference yield curves is similar and opposite to the measure monitored daily by Management.

As at 31 December 2010, the Company's interest rate sensitivity on all balance sheet assets, liabilities and derivatives of the Company amounted up to € 3,103,019 (2009: € 2,585,328), within the limit approved on 5 December 2008 by the Board of Directors of +/- € 4,000,000.

**Historical Interest Rate Sensitivity Review**

| | **2010** (**€'000**) | **2009 (€'000)** |
|---|---|---|
| Average | (1,686) | (663) |
| High | 226 | 1,444 |
| Low | (3,844) | (2,585) |

Whereas the above sensitivity measure on all on-balance sheet assets and liabilities and derivatives of the Company provides information as to the potential future impact which a parallel upward shift of 25 basis points of index reference yield curves would have on the interest margin of the Company, the financial impact of the sensitivity to interest rate risk of instruments will actually vary in accordance with their accounting classification and the relevant accounting principles in application. The table below provides estimates of the material potential impact of a parallel upward shift of 25 basis points of index reference yield curves on the revaluation of instruments classified at fair value through profit or loss or equity of the Company in 2010.

**Interest Rate Sensitivity Analysis as at 31-Dec-10**
**Instruments classified at Fair Value through Profit or Loss or Equity**
**(€ '000)**

| | Profit & Loss | Equity |
|---|---|---|
| AFS Securities | - | (192) |
| Hedged CFV Securities | (29) | - |
| Hedged Assets and Liabilities | (2,254) | - |
| Trading Derivatives | (3) | - |
| **Total** | **(2,286)** | **(192)** |

**Interest Rate Sensitivity Analysis as at 31-Dec-09**
**Instruments classified at Fair Value through Profit or Loss or Equity**
**(€ '000)**

| | Profit & Loss | Equity |
|---|---|---|
| AFS Securities | - | (103) |
| Hedged CFV Securities | (98) | - |
| Hedged Assets and Liabilities | (1,590) | - |
| Trading Derivatives | (3) | - |
| **Total** | **(1,691)** | **(103)** |

The Management of the Company monitors daily the concentration of interest rate risk in the banking book on a time bucket and currency basis only. The interest rate risk sensitivity of the Company at year-ends 2010 and 2009, by time bucket and by currency, is shown in the tables on next page:

### Sensitivity as at 31 December 2010

| Currency | 1 D | 1 W | 1W to 1M | 1 M | 2 M | 3 M | 4 M | 5 M | 6 M | 7 M |
|---|---|---|---|---|---|---|---|---|---|---|
| British Pound | 993 | -1,110 | 951 | 6,523 | -11,083 | -23,030 | -4 | -2 | 12,269 | 2,278 |
| European Currency | -1,883 | -55,555 | 0 | 346,110 | 36,352 | 201,121 | -65,876 | -400,445 | -97,096 | -1,906 |
| Swiss Franc | 0 | 3,072 | 0 | 1,208 | -8,257 | 2,217 | 0 | -7,882 | -55,882 | 0 |
| US Dollar | 25 | -308 | -11,767 | -36,475 | 3,471 | 83,962 | -34,772 | -77,018 | -59,156 | -156 |
| Other | 0 | 4 | 0 | 57 | -6 | -2 | -6 | -4 | -5 | -42 |
| **Total** | **-865** | **-53,897** | **-10,816** | **317,423** | **20,477** | **264,268** | **-100,658** | **-485,351** | **-199,870** | **174** |

| Currency | 8 M | 9 M | 10 M | 11 M | 12 M | 2 Y | 3 Y | 4 Y | 5 Y | Tot 31/12/2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| British Pound | -3 | 0 | -2 | -5 | -6 | -2 | 0 | 0 | 0 | **-12,233** |
| European Currency | -12,263 | -15,175 | 343,540 | 87,198 | -76,086 | -343,213 | -451,181 | -531,239 | -1,825,731 | **-2,863,328** |
| Swiss Franc | -4 | -12 | 0 | -6 | -45 | -38 | -2 | 0 | 0 | **-65,631** |
| US Dollar | 336 | 9,977 | 19,897 | -2,759 | -5,199 | -16,372 | -15,682 | -4,306 | -12,704 | **-159,006** |
| Other | -27 | -2 | -3 | -1 | -262 | -488 | -602 | -502 | -930 | **-2,821** |
| **Total** | **-11,961** | **-5,212** | **363,432** | **84,427** | **-81,598** | **-360,113** | **-467,467** | **-536,047** | **-1,839,365** | **-3,103,019** |

### Sensitivity as at 31 December 2009

| Currency | 1 D | 1 W | 1W to 1M | 1 M | 2 M | 3 M | 4 M | 5 M | 6 M | 7 M |
|---|---|---|---|---|---|---|---|---|---|---|
| British Pound | -3,909 | -2,030 | 4,329 | 6,725 | 35,123 | 9,762 | -4 | 0 | -4 | -5 |
| European Currency | 1,427 | -13,696 | 0 | 113,344 | -97,584 | -581,982 | 147,456 | -623,210 | -1,030,539 | 242,070 |
| Swiss Franc | -206 | 2,974 | 0 | 9,757 | 7,962 | -41,846 | 8,259 | -5,523 | -46,184 | 0 |
| US Dollar | 330 | 6,017 | 481 | 43,852 | 74,461 | 81,737 | 28,415 | -25,846 | -24,777 | 175 |
| Other | 1 | -3 | 0 | 0 | -6 | -1 | -5 | -3 | -4 | -38 |
| **Total** | **-2,357** | **-6,738** | **4,810** | **173,678** | **19,956** | **-532,330** | **184,121** | **-654,582** | **-1,101,508** | **242,202** |

| Currency | 8 M | 9 M | 10 M | 11 M | 12 M | 2 Y | 3 Y | 4 Y | 5 Y | Tot 31/12/2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| British Pound | 0 | -7 | -7 | 0 | -29 | -14 | 0 | 0 | 0 | **49,930** |
| European Currency | 115,889 | -2,566 | -3,944 | -9 | -69,147 | -133,722 | -166,195 | -159,949 | -357,063 | **-2,619,420** |
| Swiss Franc | -406 | -1,726 | 0 | -633 | -6,472 | -22,184 | -33,192 | -26,963 | 0 | **-156,383** |
| US Dollar | -606 | -522 | -347 | -380 | -1,838 | -7,831 | -7,974 | -6,151 | -15,234 | **143,962** |
| Other | -24 | -2 | -2 | -1 | -238 | -446 | -579 | -645 | -1,421 | **-3,417** |
| **Total** | **114,853** | **-4,823** | **-4,300** | **-1,023** | **-77,724** | **-164,197** | **-207,940** | **-193,708** | **-373,718** | **-2,585,328** |

With regard to foreign exchange risk in the banking book, such risk results from the mismatching of the currency of denomination between assets and liabilities. The Company mitigates this risk mainly using foreign exchange swaps in order to re-align the currency of denomination of its assets with that of the corresponding funding.

The Board has set a limit on the total overnight open position (measured as the maximum of the sums of all long and short open positions) of € 3,000,000 equivalent, which is monitored daily.

The Management of the Company monitors daily the concentration of foreign exchange risk in the Banking Book on a currency basis only. The table below summarises the Company's exposure to foreign currency exchange rate risk at year-ends 2010 and 2009:

| | 2010 Position ('000) | | 2009 Position ('000) | |
|---|---|---|---|---|
| **Currency** | **Original CCY** | **EUR** | **Original CCY** | **EUR** |
| USD | 348 | 260 | 326 | 226 |
| GBP | -142 | -165 | 33 | 37 |
| CHF | 52 | 42 | 180 | 121 |
| DKK | 124 | 17 | 123 | 17 |
| NOK | 68 | 9 | 67 | 8 |
| SEK | 388 | 43 | 363 | 35 |
| CAD | 32 | 24 | 31 | 20 |
| AUD | -44 | -33 | 26 | 16 |
| JPY | 5,967 | 55 | 2,874 | 22 |
| PLN | 377 | 95 | 181 | 44 |
| HKD | 492 | 47 | 367 | 33 |
| SGD | 54 | 32 | 46 | 23 |
| RUB | 1,842 | 45 | 1,506 | 35 |
| ZAR | 2 | 0 | 2 | 0 |
| NZD | 26 | 15 | 23 | 12 |
| HUF | 7,476 | 27 | 6,618 | 24 |

| **Total** | | |
|---|---|---|
| Long Foreign currency: | **709** | **673** |
| Short Foreign currency: | **198** | **-** |

| **Average position during the year** | | |
|---|---|---|
| Average Long Foreign currency: | **903** | **872** |
| Average Short Foreign currency: | **115** | **286** |

As a consequence of the limited exposure of the Company to foreign exchange risk in the Banking Book and the daily spot revaluation through the income statement of all on- and off-balance sheet assets and liabilities as well as of its cumulative yearly profit and loss, the Company does not compute any measure of sensitivity to foreign exchange risk in the Banking Book.

### 3.4. Operational Risk

As per the Guidelines for Group Operational Risk Management adopted by the Board of Directors of the Company, Operational Risk is defined in the Group as "the risk of losses resulting from the unsuitability or failure of procedures, human resources and internal systems, or from external events. Operational Risk also includes legal risk while strategic and reputation risks are not included" in line with the definition outlined in the New Basel Capital Accord.

Operational Risk Management ("ORM") is a structured framework of processes, functions and resources to support the identification, evaluation and control of operational risk, aimed at ensuring the effective prevention and reduction of these risks, in line with the Group risk appetite.

The objectives of ORM are as follows:

- Asset protection:
  - To contribute to the preservation of the Group's assets, in all its material components (capital) and non-material components (brand image, reputation), in order to optimise the economic value for the shareholders, by avoiding exposures inconsistent with the risk appetite, also expressed in terms of capital allocation;
  - To estimate the Regulatory Capital Requirement using the internal model;
  - To help guarantee the safeguard of the values, professional and intellectual assets, production of services as well as of the ethical behaviour;
  - To contribute to optimising the capital allocation process by means of risk adjusted return analysis and the adoption of a performance evaluation system consistent with such measures.
- Control and proactive monitoring of processes;
- Observance and compliance of processes with internal rules;
- Management of risks and responsibilities.

The Board of Directors of the Company also approved the classification of Operational Risk among the list of the material risk factors the Company is exposed to as part of its ICAAP submission to the Irish Financial Regulator. Although the Board has not set any quantitative limits to the amount of operational risk the Company can be exposed to, its risk appetite is best described by the high internal control quality it has delegated Senior Management to implement through the Company, as well as through the approval of an organisational structure compatible with the overall objective of operational risk-minimisation.

The operational risk-minimisation objective of the Board involves the following activities:

- Identification and implementation of mitigation actions and risk transfer, in accordance with the qualitative risk appetite defined by the Board;
- Rationalisation and optimisation, in means of costs/benefits of insurance recovery system and other forms of risk transfer adopted by the Group.

The main operational risk-minimisation options therefore can be:

- The conscious acceptance of the operational risk inseparably linked to the business activities of the Company;
- The mitigation of the operational risk through action taken on relevant risk factors;
- The risk transfer by means of insurance policies or other specific financial instruments.

In particular, the main mitigants used by the Company to reduce operational risk are:

- The monitoring of the effectiveness of internal controls using Italian Law 262-2005 compliant methodology. This monitoring involves the on-going:
  - Review of processes affecting significant accounts of the Company with a documentation of the same processes, of the attached risks, and of the controls in place;
  - Identification of key controls with operative details (frequency, manual/automated, etc.);
  - Tests of key controls compliance and execution.

- The existence of a local Disaster Recovery and Business Continuity framework including:
  - A local UPS at the main office;
  - A building with an independent generator at the main office;
  - An alternative site located 10 km away from the main office consisting of a room in a protected area with a network of work stations configured with the critical systems of the Company and tested semi-annually.

- The critical IT systems of the Company are centralised Group systems with local access. These centralised systems are replicated daily in London or at Moncalieri in Italy as well as at the disaster recovery sites in both places.

- The purchase of insurances with third parties including:
  - Property damage insurance;
  - Liability insurance (employer's liability and public liability);
  - Internal fraud insurance (i.e. internal theft, falsification of documents, internal system fraud, etc.).

### 4. Statement of financial position by accounting class

The table below summarizes the breakup of the assets and liabilities by category for 2010.

| | Loans and receivables | Held for trading | Designated at fair value through profit or loss | Derivatives used for hedging | Available for sale | *Other | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2010** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 166,012 | - | - | - | - | - | 166,012 |
| Financial instruments at fair value | - | - | 69,728 | - | - | - | 69,728 |
| Available for sale debt securities | - | - | - | - | 807,307 | - | 807,307 |
| Loans and advances to banks | 13,109,809 | - | - | - | - | - | 13,109,809 |
| Loans and advances to customers | 4,436,018 | - | - | - | - | - | 4,436,018 |
| Derivative financial instruments | - | 211,469 | - | 3,521 | - | - | 214,990 |
| Prepayment and accrued income | 501 | - | - | - | - | - | 501 |
| Deferred tax asset | - | - | - | - | - | 2,328 | 2,328 |
| Other assets | 8,378 | - | - | - | - | - | 8,378 |
| Property, plant and equipment | - | - | - | - | - | 71 | 71 |
| **Total assets** | **17,720,718** | **211,469** | **69,728** | **3,521** | **807,307** | **2,399** | **18.815.142** |
| **Liabilities** | | | | | | | |
| Debt securities in issue | 10,597,586 | - | - | - | - | - | 10,597,586 |
| Deposits from banks | 4,542,611 | - | - | - | - | - | 4,542,611 |
| Repurchase agreements | 358,978 | - | - | - | - | - | 358,978 |
| Due to customers | 1,860,810 | - | - | - | - | - | 1,860,810 |
| Derivative financial instruments | - | 234,872 | - | 83,503 | - | - | 318,375 |
| Current tax | - | - | - | - | - | 351 | 351 |
| Deferred tax liability | - | - | - | - | - | 164 | 164 |
| Accruals and deferred income | 13,528 | - | - | - | - | - | 13,528 |
| Other liabilities | 4,820 | - | - | - | - | - | 4,820 |
| Provisions for liabilities and commitments | 2,291 | - | - | - | - | - | 2,291 |
| **Equity** | | | | | | | |
| Share capital | - | - | - | - | - | 400,500 | 400,500 |
| Share premium | - | - | - | - | - | 1,025 | 1,025 |
| Available for sale reserves | - | - | - | - | (11,094) | - | (11,094) |
| Other reserves | - | - | - | - | - | 506,764 | 506,764 |
| Retained earnings | - | - | - | - | - | 218,433 | 218,433 |
| **Total liabilities and shareholders' funds** | **17,380,624** | **234,872** | **-** | **83,503** | **(11,094)** | **1,127,237** | **18,815,142** |

*Other includes non financial items and equity instruments

# INTESA SANPAOLO BANK IRELAND plc

## Notes to the Financial Statements for the year ended 31 December 2010

The table below summarizes the breakup of assets and liabilities by category for 2009.

| | Loans and receivables | Held for trading | Designated at fair value through profit or loss | Derivatives used for hedging | Available for sale | *Other | Total |
|---|---|---|---|---|---|---|---|
| As at 31 December 2009 | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 158,020 | - | - | - | - | - | 158,020 |
| Financial instruments at fair value | - | - | 151,564 | - | - | - | 151,564 |
| Available for sale debt securities | - | - | - | - | 566,098 | - | 566,098 |
| Loans and advances to banks | 12,791,748 | - | - | - | - | - | 12,791,748 |
| Loans and advances to customers | 3,488,798 | - | - | - | - | - | 3,488,798 |
| Derivative financial instruments | - | 240,739 | - | 732 | - | - | 241,471 |
| Current tax | - | - | - | - | - | - | - |
| Prepayment and accrued income | 223 | - | - | - | - | - | 223 |
| Deferred tax | - | - | - | - | - | 1,052 | 1,052 |
| Other assets | 8,651 | - | - | - | - | - | 8,651 |
| Property, plant and equipment | - | - | - | - | - | 88 | 88 |
| **Total assets** | **16,447,440** | **240,739** | **151,564** | **732** | **566,098** | **1,140** | **17,407,713** |
| **Liabilities** | | | | | | | |
| Debt securities in issue | 13,616,021 | - | - | - | - | - | 13,616,021 |
| Deposits from banks | 639,477 | - | - | - | - | - | 639,477 |
| Due to customers | 1,689,858 | - | - | - | - | - | 1,689,858 |
| Derivative financial instruments | - | 276,759 | - | 79,358 | - | - | 356,117 |
| Current tax | - | - | - | - | - | 1,004 | 1,004 |
| Deferred tax liability | - | - | - | - | - | 292 | 292 |
| Accruals and deferred income | 17,314 | - | - | - | - | - | 17,314 |
| Other liabilities | - | - | - | - | - | 3,241 | 3,241 |
| Provisions for liabilities and commitments | 2,025 | - | - | - | - | - | 2,025 |
| **Equity** | | | | | | | |
| Share capital | - | - | - | - | - | 400,500 | 400,500 |
| Share premium | - | - | - | - | - | 1,025 | 1,025 |
| Available for sale reserves | - | - | - | - | (1,392) | - | (1,392) |
| Other reserves | - | - | - | - | - | 506,764 | 506,764 |
| Retained earnings | - | - | - | - | - | 175,467 | 175,467 |
| **Total liabilities and shareholders' funds** | **15,964,695** | **276,759** | **-** | **79,358** | **(1,392)** | **1,088,293** | **17,407,713** |

*Other includes non financial items and equity instruments

### 5. Fair values of financial instruments

a. Determination of fair value of financial instruments recorded at fair value

In order to ensure the harmonisation of valuations among the different branches and subsidiaries of Intesa Sanpaolo Group, the Risk Management Department of the Parent Company has the responsibility to produce the valuation of the securities and structured derivatives for all the entities of the Group. These valuations are therefore used by the Company for the relevant instruments.

With regard to securities holdings, the existence of official prices in an active market represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the registration of financial assets and liabilities. If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date. Such techniques include:

- Reference to market values indirectly connected to the instrument to be valued and derived from products with the same risk profile (comparable approach)
- Valuations performed using – even partly - inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (mark-to-model).

The hierarchy of fair value measurement attributes utmost priority to effective market quote for identical assets and a lower priority to non-observable and more discretional inputs (mark-to-model approach).

Some of the factors typically incorporated in valuation techniques are:

- Issuer spread, that is the risk premium for the borrower with respect to the risk-free rate;
- Volatility, that is the size the estimated future variations of the price of the instrument;
- Correlations between each structure's value of underlying assets and recovery rates in case of default, necessary to estimate expected losses on collateral;
- Adjustments to consider the market illiquidity.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | 2010 (€ 000) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total |
| | € '000 | % | € '000 | % | € '000 | % | |
| **Financial Assets designated at Fair Value through Profit and Loss** | | | | | | | |
| - Debt instruments | 66,034 | 94.70 | 3,694 | 5.30 | - | - | 69,728 |
| **Available for Sale financial Assets** | | | | | | | |
| - Debt instruments | 729,165 | 90.32 | 78,142 | 9.68 | - | - | 807,307 |
| **Total Financial Assets** | 759,199 | | 81,836 | | - | - | 877,035 |

| | 2009 (€ 000) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total |
| | € '000 | % | € '000 | % | € '000 | % | |
| **Financial Assets designated at Fair Value through Profit and Loss** | | | | | | | |
| - Debt instruments | 3,321 | 2.19 | 148,243 | 97.81 | - | - | 151,564 |
| **Available for Sale financial Assets** | | | | | | | |
| - Debt instruments | 505,190 | 89.24 | 60,908 | 10.76 | - | - | 566,098 |
| **Total Financial Assets** | 508,510 | | 209,151 | | - | - | 717,661 |

A nominal amount of Euro equivalent 790.33 million of securities were valued with the effective market quotes (Level 1) methodology at the end of 2010 representing 91% of the total portfolio of the Company (Euro equivalent 507.90 million at the end of 2009 representing 71% of the total portfolio), of which € 59.83 million were designated at fair value through profit and loss (€ 6.46 million in 2009) and € 730.50 million were classified as available-for-sale (€ 501.44 million in 2009). The determination of a level 1 fair valuation approach is determined by the number of executable quotes for each asset type, the number of days since the last quote and the market depth. A nominal amount of Euro equivalent 68.81 million of securities valued with a comparable approach valuation technique (Level 2) at the end of 2009, were value with the effective market quotes (Level 1) methodology instead at the end of 2010 as a result of improved liquidity in the secondary market and greater access to quoting sources.

In the case of comparable approach valuation technique (Level 2), the valuation is not based on the price of the same identical financial instrument to be measured, but on prices or quoted credit spreads on instruments which are similar in terms of risk factors, using a given calculation methodology. In particular,

- If third party quotes are not available to measure a specific instrument, this approach requires the search for similar transactions on active markets which are comparable in terms of risk factors with the instrument to be measured;
- Calculation methodologies used in the comparable approach reproduce prices of financial instruments quoted on active markets and do not contain discretional parameters – parameters for which values may not be presumed from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets- which significantly influence the final valuation.

Where a valuation technique is used to determine fair values, it is validated and periodically reviewed by qualified personnel independent of the area that created it. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

A nominal amount of Euro equivalent 81.92 million of securities were valued with the aforesaid methodology at the end of 2010 representing 9% of the total portfolio of the Company (Euro equivalent 203.77 million at the end of 2009 representing 29% of the total portfolio), of which € 3.01 million were designated at fair value through profit and loss (€ 141.61 million in 2009) and € 78.91 million were classified as available-for-sale (€ 62.16 million in 2009). A nominal amount of Euro equivalent 49.00 million of securities valued with the effective market quotes (Level 1) methodology in 2009 at the end of 2009, were valued with a comparable approach valuation technique (Level 2) instead at the end of 2010 as a result of lesser liquidity in the secondary market and more limited access to quoting sources.

The Company had no securities valued with the mark-to-model valuation technique approach (Level 3) at the end of 2010 and 2009. Such approach would imply that:

- Valuations are based on inputs which are not presumed from parameters which may be observed on the market and therefore imply estimates and assumptions.
- In particular, the valuation of the financial instruments uses a calculation methodology which is based on specific assumptions:
  - The development of future cash-flows, which may be affected by future events which may be attributed probabilities presumed from past experience or on the basis of assumed behaviour of a given group.
  - The estimate of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where these are not available, past data on specific risk of the underlying asset or specialised reports re used.

With regard to derivatives, the Company values non-structured derivatives using a discounting method for all cash flows. The curves used for the discounting of cash flows are communicated by the Risk Management Department of the Parent Company on the basis of market quotes and are inserted in the valuation systems centrally before being applied to all entities of the Group (Level 2 approach)

A credit risk adjustment is added to the valuation of some derivatives in compliance with International Accounting Standards, whereby final valuations must take into account the component related to counterpart credit risk. The credit risk adjustment is computed on the basis of the risk of default of the counterparts (represented by the level of the credit default swap spread) and the residual life of the derivative contract. The adjustment is applied to all derivatives of the Company with a positive mark-to-market and to all counterparts (excluding Group entities), unless a collateral agreement has been entered by the Company with the relevant counterpart to mitigate the counterpart credit risk.

Structured derivatives are re-valued by the Group Risk Management Department also using a comparable approach valuation technique.

b. Fair value of financial instruments other than those carried at fair value through equity or profit or loss

Set out below is a comparison of carrying values and fair values of the financial assets and financial liabilities (excluding short term receivables, payables and items present in the Company's statement of financial position at their fair value) held as at 31 December 2010.

| | **31-Dec-10** | **31-Dec-10** | 31-Dec-09 | 31-Dec-09 |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| | **€'000** | **€'000** | €'000 | €'000 |
| **Assets** | | | | |
| Cash and balances at central banks | 163,044 | 163,044 | 158,020 | 158,020 |
| Loans and advances to banks | 13,108,348 | 12,943,293 | 12,791,748 | 12,791,748 |
| Loans and advances to customers | 4,400,308 | 4,397,576 | 3,488,798 | 3,488,798 |
| **Liabilities** | | | | |
| Deposits by banks | 4,542,483 | 4,535,930 | 639,477 | 639,477 |
| Due to customers | 1,860,307 | 1,754,922 | 1,689,858 | 1,689,858 |
| Repurchase agreements | 358,978 | 358,978 | - | - |
| Debt securities in issue | 10,597,586 | 10,542,510 | 13,616,021 | 13,616,021 |

The Company introduced in 2010 valuation methodologies developed by the Parent Company for financial assets and financial liabilities (excluding short term receivables, payables and items present in the Company's statement of financial position at their fair value).

With regard to assets, the methodology used is based on a discount of future cash flows using the observable interest rate curve on reporting date plus a credit spread estimated with an internally-developed model. The model involves the construction of a matrix of credit spreads by levels of probability of default, loss given default, and weighted average residual duration. For cash, money market transactions and balances at the Central Bank, the book value is considered to be the fair value. In the case of intra-Group assets matching with identified liabilities of the Company, the fair value of these assets has been matched with those of the associated liabilities.

With regard to liabilities, the methodology used is based on a discount of future cash flows using the observable credit curve of the Intesa Sanpaolo Group at reporting date. For intra-Group liabilities and liabilities with an original duration lesser than 12 months, the book value is considered to be the fair value.

### 6. Segmental Analysis

The Bank has one reporting segment, the provision of banking products and services carried out from Ireland. Geographic concentrations are reported in Note 36. There are no non group customers with revenue exceeding 10% of the total revenue of the Company.

### 7. Net interest income

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| **Interest and similar income** | | |
| Cash and short term funds | **15,515** | 7,866 |
| Available for sale debt securities | **16,840** | 12,409 |
| Financial assets at fair value through profit or loss | **3,253** | 7,727 |
| Loans and advances * | **380,430** | 575,305 |
| Net swap interest income | **460** | - |
| | **416,498** | 603,307 |

* Interest income includes € 1,323 (2009: € 1,501,063) accrued on impaired loans.

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| **Interest expense and similar charges** | | |
| Banks and customers | **91,496** | 98,467 |
| Debt securities in issue | **122,588** | 338,194 |
| Repurchase agreements | **121** | - |
| Net swap interest expense | **56,633** | 31,274 |
| Net expense on Fair value option trading derivatives | **2,949** | 3,545 |
| | **273,787** | 471,480 |

### 8. Fees and commission income and expense

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| **Fee and commission income** | | |
| Credit related fees and commissions | **15,292** | 8,112 |
| Other fees | **98** | 517 |
| | **15,390** | 8,629 |
| **Fee and commission expense** | | |
| Credit related fees and commissions | **22,979** | 19,559 |
| Brokerage fees paid | **40** | - |
| Other fees paid | **30** | 256 |
| | **23,049** | 19,815 |

**9. Net trading expense**

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Mark-To-Market (losses) / gains: | | |
| - Derivatives | **(2,358)** | 1,221 |
| - Net result Hedge Accounting *** | **(103)** | (6,703) |
| - Financial instruments designated at Fair Value through profit or loss | **1,553** | (9,560) |
| Net realised loss on available for sale debt securities | **(407)** | (3,519) |
| Net realised (loss) / gain on financial assets at fair value through profit or loss | **(545)** | 4,667 |
| Net realised gains on loans and advances to banks – unlisted securities | **1,130** | - |
| Net realised (loss) / gains on debt securities | **(190)** | 200 |
| | **(920)** | (13,694) |

*** Break up of the net result of hedge accounting.

Interest rate derivatives designated as Fair Value hedges are entered into, to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily fixed rate loans to banks and customers and Available-For-Sale debt securities.

**2010 - Net results of hedge accounting (€'000)**

| | **Loans and Receivables** | **Available for Sale** | **Total** |
|---|---|---|---|
| Net gains / (losses) on Hedged Asset / Liability | (11,382) | 2,930 | (8,454) |
| Net gains / (losses) on Fair Value of Hedged Derivatives | 11,233 | (2,882) | 8,351 |
| | **(150)** | **47** | **(103)** |

2009 - Net results of hedge accounting (€'000)

| | **Loans and Receivables** | **Available for Sale** | **Total** |
|---|---|---|---|
| Net gains / (losses) on Hedged Asset / Liability | (3,647) | 2,348 | (1,299) |
| Net gains / (losses) on Fair Value of Hedged Derivatives | (3,152) | (2,252) | (5,404) |
| | (6,799) | 96 | (6,703) |

## 10. Employee numbers

The average number of persons employed by the company (including executive directors) during the year was as follows:

| | Number of employees | |
|---|---|---|
| | **2010** | 2009 |
| Administration | **30** | 31 |

## 11. Administrative expenses

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Staff costs | | |
| - wages and salaries | **2,674** | 2,710 |
| - social welfare costs | **191** | 195 |
| - pension costs | **363** | 401 |
| - other personnel expenses | **6** | 4 |
| | **3,234** | 3,310 |
| Other administrative expenses | **1,666** | 1,524 |
| | **4,900** | 4,834 |

## 12. Profit before taxation

| | | **2010** | 2009 |
|---|---|---|---|
| | | **€'000** | €'000 |
| Profit before tax is stated after charging: | | | |
| Depreciation – property, plant and equipment | | **50** | 48 |
| Auditors' remuneration *(including VAT):* | | | |
| Audit services | Statutory audit | **68** | 60 |
| Non-audit services | Taxation services | **58** | 9 |
| | Other consultancy | **12** | 12 |
| | Subtotal | **70** | 21 |
| | | **138** | 81 |
| Directors' remuneration: | | | |
| Executive | | **385** | 418 |
| Non-executive | | **95** | 82 |
| | | **480** | 500 |

The following tables detail the total remuneration of the directors.

| **2010** | **Salary (‘000)** | **Directors Fees (‘000)** | **Taxable/ Other Benefits (‘000)** | **Pension Contribution (‘000)** | **Total (‘000)** |
|---|---|---|---|---|---|
| Executive Director | | | | | |
| *G. Pizzutto* | 256 | 0 | 52 | 58 | 366 |
| *P.C. Arena* | 12 | 0 | 12 | (5) | 19 |
| | | | | | |
| Total | 268 | 0 | 64 | 53 | 385 |
| | | | | | |
| Non – Executive Directors | | | | | |
| *Ian Letchford* | 0 | 30 | 0 | 0 | 30 |
| *Nathaniel Healy* | 0 | 45 | 0 | 0 | 45 |
| *Salvatore Catalano* | 0 | 20 | 0 | 0 | 20 |
| Total | 0 | 95 | 0 | 0 | 95 |

| 2009 | **Salary (‘000)** | **Directors Fees (‘000)** | **Taxable / Other Benefits (‘000)** | **Pension Contribution (‘000)** | **Total (‘000)** |
|---|---|---|---|---|---|
| Executive Director | | | | | |
| *P.C. Arena* | 262 | 0 | 56 | 100 | 418 |
| | | | | | |
| Total | 262 | 0 | 56 | 100 | 418 |
| | | | | | |
| Non – Executive Directors | | | | | |
| *Ian Letchford* | 0 | 29 | 0 | 0 | 29 |
| *Nathaniel Healy* | 0 | 40 | 0 | 0 | 40 |
| *Salvatore Catalano* | 0 | 13 | 0 | 0 | 13 |
| Total | 0 | 82 | 0 | 0 | 82 |

### 13. Income Tax expense

| | **2010 €’000** | 2009 €’000 |
|---|---|---|
| Corporation tax charge 12.5% (2009: 12.5%) on the profit for the year on ordinary activities | **15,896** | 12,196 |
| Current tax charge for the year | **15,896** | 12,196 |
| Under provision in prior year | **3** | 13 |
| **Total Current Tax** | **15,899** | 12,209 |
| | **15,899** | 12,209 |

The current tax charge for the year is higher (2009: higher) than the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The difference is explained below:

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| Profit on ordinary activities before tax | **127,150** | 97,543 |
| Profit on ordinary activities multiplied by the average rate of Irish Corporation tax for year of 12.5% (2009: 12.5%) | **15,894** | 12,193 |
| Effects of: | | |
| Adjustments to tax charge in respect of previous periods | **3** | 13 |
| Other adjustments | **2** | 3 |
| Current tax charge for the year | **15,899** | 12,209 |

## 14. Dividends paid and proposed

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| **Declared and paid during the year** | | |
| Declared on ordinary shares: | | |
| Final dividend for 2009: 17.05 cent per share | **68,285** | - |
| **Proposed for approval at Annual General Meeting (not recognised as a liability as at 31 December )** | | |
| Dividend on ordinary shares: | | |
| Final dividend for 2010: 16.67 cent per share (2009: 17.05 cent per share) | **66,763** | 68,285 |

## 15. Cash and balances with central banks

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| Mandatory reserve deposits with central bank | **163,044** | 156,368 |
| Other cash balances | **2,968** | 1,652 |
| | **166,012** | 158,020 |

Mandatory reserve deposits are available for use in the Company's day to day operations. The balances earn interest based on average Main Refinancing Operations (MRO) interest rate issued by the European Central Bank.

Included in cash and cash equivalents (Note 32) € 162,434,928 (2009: € 154,551,880).

### 16. Financial instruments at fair value through profit or loss

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| **Debt securities at fair value** | | |
| Issued by public bodies | | |
| - government securities | **66,034** | 143,583 |
| Issued by other issuers | | |
| - banks | **3,694** | 7,981 |
| | **69,728** | 151,564 |
| Of which: | | |
| - listed on a recognized exchange | **3,232** | 93,865 |
| - unlisted | **66,496** | 57,699 |
| | **69,728** | 151,564 |

### 17. Available for sale debt securities

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Issued by public bodies | | |
| - government securities | **275,369** | 178,191 |
| - other public sector securities | **74,581** | 48,676 |
| Issued by other issuers | | |
| - banks | **457,357** | 326,308 |
| - other debt securities | **-** | 12,923 |
| | **807,307** | 566,098 |
| Of which: | | |
| - listed on a recognized exchange | **802,421** | 561,287 |
| - unlisted | **4,886** | 4,811 |
| | **807,307** | 566,098 |

### 18. Loans and advances to banks

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Placement with other banks | **12,973,061** | 11,656,863 |
| Unlisted securities | **198,067** | 1,195,800 |
| Gross loans and advances | **13,171,128** | 12,852,663 |
| Less allowances for losses | **(61,319)** | (60,915) |
| | **13,109,809** | 12,791,748 |

Of which included in cash and cash equivalents (Note 32) €2,575,000,000 (2009: € 1,845,598,406).

**19. Loans and advances to customers**

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Loans to corporate entities - Syndicated and Bilateral loans | **4,443,354** | 3,495,038 |
| Gross loans and advances | **4,443,354** | 3,495,038 |
| Less allowances for losses | **(7,336)** | (6,240) |
| | **4,436,018** | 3,488,798 |

**20. Movement in the allowance for impairment / provisions for bad and doubtful debts**

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Balance at beginning of year | **67,155** | 64,307 |
| Disposed loans | **(913)** | (1,875) |
| Charge to income statement | **5,387** | 7,698 |
| Released to income statement | **(3,018)** | (2,907) |
| Translation adjustment | **44** | (68) |
| Balance at end of year | **68,655** | 67,155 |

Included in the Provisions for Bad Debts figure in the income statement is a credit of € 952,906 (2009: € 845,519) in relation to loans previously written-off.

Further, included in the Provisions for Bad Debts figure in the income statement is a charge of €54,083 (2009: Nil) in relation to commitment fee income written off.

Amounts include:

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Loans and advances to banks (Note 18) | **61,319** | 60,915 |
| Loans and advances to customers (Note 19) | **7,336** | 6,240 |
| Balance at end of year | **68,655** | 67,155 |

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios at the statement of financial position date. For large accounts impairment allowances are calculated on an individual basis using discounted expected future cash flows.

The following is a reconciliation of the individual and collective allowances for impairment / provision of bad and doubtful debts.

| | **2010** | **2010** | **2010** |
|---|---|---|---|
| | **€'000** | **€'000** | **€'000** |
| | **Individual** | **Collective** | **Total** |
| Balance at beginning of year | **59,265** | **7,890** | **67,155** |
| Disposed loans | **(913)** | **-** | **(913)** |
| Charge to income statement | **2,559** | **2,828** | **5,387** |
| Released to income statement | **(86)** | **(2,932)** | **(3,018)** |
| Translation adjustment | **111** | **(67)** | **44** |
| Balance at end of year | **60,936** | **7,719** | **68,655** |

| | 2009 | 2009 | 2009 |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| | Individual | Collective | Total |
| Balance at beginning of year | 57,426 | 6,881 | 64,307 |
| Disposed loans | (1,875) | - | (1,875) |
| Charge to income statement | 3,847 | 3,851 | 7,698 |
| Released to income statement | (74) | (2,833) | (2,907) |
| Translation adjustment | (59) | (9) | (68) |
| Balance at end of year | 59,265 | 7,890 | 67,155 |

Impaired loans: Amounts include:

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Loans and advances to banks | **60,220** | 57,661 |
| Loans and advances to customers | **715** | 1,604 |
| Balance at end of year | **60,935** | 59,265 |

Impaired loans have increased due to the Company's exposure to Icelandic banks totalling € 77.73 million (2009: € 77.73 million) with an individual impairment amounting to € 60.22 million (2009: € 57.66 million).

### 21. Derivative financial instruments

The Company uses the following derivative instruments for both hedging and non-hedging purposes:

**Currency forwards** represent commitments to purchase foreign and domestic currency.

**Credit default swaps** are commitments for the buyer to pay an annuity to the seller until the time of a credit event or the maturity date of the swap, whichever comes first. Should a credit event occur the seller must pay the buyer face value on the underlying security or some contingent amount. The Company buys protection only in order to hedge the credit risk related to specific exposures.

**Equity options** give the right, without the obligation, to the holder to buy or sell the underlying stock, at a specified price, by a specific date. The Company does not carry optional risk and any equity option embedded in a financial instrument is hedged with the Parent Company.

**Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation as well as an add-on calculated as a proportion of the notional amount and representing the potential volatility in the replacement cost. This risk is monitored on a daily basis. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

| **At 31 December 2010** | | **Fair values including accruals** | |
|---|---|---|---|
| | **Contract / notional amount €'000** | **Assets €'000** | **Liabilities €'000** |
| **1) Derivatives held for trading** | | | |
| *a) Foreign exchange derivatives* | | | |
| Currency swaps | 1,104,926 | 16,394 | (4,616) |
| Total OTC derivatives | | 16,394 | (4,616) |
| *b) Interest rate derivatives* | | | |
| Interest rate swaps | 703,015 | 108,060 | (108,926) |
| Cross-currency interest rate swaps | 36,981 | - | (34,316) |
| Total OTC derivatives | | 108,060 | (143,242) |
| *c) Equity options* | | | |
| Equity options purchased | 353,870 | 87,015 | - |
| Equity options sold | 353,870 | - | (87,015) |
| Total OTC derivatives | | 87,015 | (87,015) |
| **Total derivative assets/(liabilities) held for trading** | | 211,469 | (234,873) |

| | | | | |
|---|---|---|---|---|
| 2) | **Derivatives held for risk management** | | | |
| | *a) Derivatives designated as fair value hedges* | | | |
| | Interest rate swaps | 2,820,022 | 3,521 | (83,502) |
| | Total OTC derivatives | | 3,521 | (83,502) |
| | **Total derivative assets/(liabilities) held for risk management** | | 3,521 | (83,502) |
| | **Total derivative financial instruments** | | **214,990** | **(318,375)** |

| | At 31 December 2009 | | **Fair values including accruals** | |
|---|---|---|---|---|
| | | **Contract / notional amount €'000** | **Assets €'000** | **Liabilities €'000** |
| 1) | **Derivatives held for trading** | | | |
| | *a) Foreign exchange derivatives* | | | |
| | Currency swaps | 817,752 | 4,413 | (6,348) |
| | Total OTC derivatives | | 4,413 | (6,348) |
| | *b) Interest rate derivatives* | | | |
| | Interest rate swaps | 794,382 | 105,953 | (115,500) |
| | Cross-currency interest rate swaps | 34,301 | - | (24,538) |
| | Forward rate agreements | | - | - |
| | Total OTC derivatives | | 105,953 | (140,038) |
| | *c) Equity options* | | | |
| | Equity options purchased | 609,550 | 130,373 | - |
| | Equity options sold | 609,550 | - | (130,373) |
| | Total OTC derivatives | | 130,373 | (130,373) |
| | **Total derivative assets/(liabilities) held for trading** | | 240,739 | (276,759) |
| 2) | **Derivatives held for risk management** | | | |
| | *a) Derivatives designated as fair value hedges* | | | |
| | Interest rate swaps | 1,894,700 | 732 | (79,358) |
| | Total OTC derivatives | | 732 | (79,358) |
| | **Total derivative assets/(liabilities) held for risk management** | | 732 | (79,358) |
| | **Total derivative financial instruments** | | 241,471 | (356,117) |

### 22. Deferred Taxation

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| **Deferred Tax assets:** | | |
| Provision for impairment of loans and receivables | **561** | 569 |
| Available For Sale debt securities | **1,748** | 490 |
| Exchange Translation adjustment | **19** | (7) |
| **Total deferred tax assets** | **2,328** | 1,052 |
| **Deferred Tax liabilities:** | | |
| Available For Sale debt securities | **164** | 292 |
| **Total deferred tax liabilities** | **164** | 292 |
| **Net Deferred Tax assets** | **2,164** | 760 |

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| **Analysis of movement in deferred taxation** | | |
| At 1 January | **760** | 4,676 |
| Exchange translation adjustment | **18** | (7) |
| Deferred tax through equity | **1,386** | (3,909) |
| **At 31 December** | **2,164** | 760 |

### 23. Investments in Group undertakings

In 2010 the Company held an investment of Nil (2009: 2 shares at GBP 3.50 each) Ordinary shares in Sanpaolo IMI Bank (International) S.A.

The Company holds an investment of 2 Ordinary shares at a cost of € 1.27 each in Tobuk Limited. This represents 100% of the share capital of Tobuk. The Company has not consolidated Tobuk as there is no activity in this company and the impact of consolidation would be to increase total assets and total liabilities by € Nil. On the 24th November 2010 the directors of Tobuk requested the Registrar of Companies to strike off Tobuk Limited. The second notice of voluntary strike off was issued by the Registrar of Companies on the 14th January 2011 and the directors await final confirmation that Tobuk Limited has been struck off.

The registered office of TOBUK Limited is at AIB International Centre, International Financial Services Centre, Dublin 1, Ireland.

**24. Other assets**

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Deferred expenses * | **8,303** | 8,607 |
| Stamp duty | **34** | 34 |
| Sundry debtors | **41** | 10 |
| | **8,378** | 8,651 |

***** the majority include fees paid in advance in relation to debt securities in issue.

**25. Property, plant and equipment**

| | **Office equipment** | **Computer equipment and software** | **Total** |
|---|---|---|---|
| | **€'000** | **€'000** | **€'000** |
| **Cost** | | | |
| At beginning of year | 271 | 626 | 897 |
| Additions in year | 2 | 31 | 33 |
| Disposals in year | - | - | - |
| At end of year | **273** | **657** | **930** |
| **Depreciation** | | | |
| At beginning of year | 211 | 598 | 809 |
| Charge for year | 30 | 20 | 50 |
| Disposals in year | - | - | - |
| At end of year | **241** | **618** | **859** |
| **Net book value** | | | |
| At 31 December 2010 | **32** | **39** | **71** |
| At 31 December 2009 | 60 | 28 | 88 |

| | Office equipment €'000 | Computer equipment and software €'000 | Total €'000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | 269 | 607 | 876 |
| Additions in year | 2 | 19 | 21 |
| Disposals in year | - | - | - |
| At end of year | **271** | **626** | **897** |
| **Depreciation** | | | |
| At beginning of year | 182 | 579 | 761 |
| Charge for year | 29 | 19 | 48 |
| Disposals in year | - | - | - |
| At end of year | **211** | **598** | **809** |
| **Net book value** | | | |
| At 31 December 2009 | **60** | **28** | **88** |
| At 31 December 2008 | 87 | 28 | 115 |

**26. Debt securities in issue**

**At 31 December 2010**

| Currency | Type | Maturity | Interest Rates % | Average Rate % | €'000 |
|---|---|---|---|---|---|
| **European medium Term Notes (EMTN) - Listed** | | | | | |
| EUR | Floating Rate Note | 29/04/2011 | 0.000% | | 19,720 |
| EUR | Floating Rate Note | 16/05/2011 | 2.150% | | 5,022 |
| EUR | Floating Rate Note | 02/08/2011 | 1.700% | | 10,222 |
| EUR | Fixed Note | 27/09/2011 | 5.108% | | 87,333 |
| EUR | Fixed Note | 31/10/2011 | 5.125% | | 77,176 |
| EUR | Fixed Note | 30/11/2011 | 1.500% | | 70,092 |
| EUR | Fixed Note | 14/12/2011 | 1.370% | | 20,008 |
| EUR | Fixed Note | 27/12/2011 | 5.019% | | 107,479 |
| EUR | Floating Rate Note | 30/03/2012 | 0.000% | | 6,158 |
| EUR | Floating Rate Note | 04/05/2012 | 1.387% | | 25,056 |
| EUR | Floating Rate Note | 20/06/2012 | 1.104% | | 7,503 |
| EUR | Floating Rate Note | 23/06/2012 | 1.000% | | 10,454 |
| EUR | Floating Rate Note | 07/07/2012 | 1.000% | | 5,225 |
| EUR | Fixed Note | 07/12/2012 | 3.117% | | 4,670 |
| EUR | Fixed Note | 27/09/2013 | 2.530% | | 4,732 |
| EUR | Floating Rate Note | 10/05/2015 | 1.000% | | 15,021 |
| EUR | Floating Rate Note | 27/07/2015 | 2.032% | | 46,668 |
| EUR | Fixed Note | 27/09/2015 | 5.738% | | 50,772 |
| EUR | Fixed Note | 31/10/2015 | 5.858% | | 48,113 |
| EUR | Fixed Note | 27/12/2015 | 5.773% | | 64,883 |
| EUR | Fixed Note | 18/02/2016 | 5.806% | | 131,023 |
| EUR | Floating Rate Note | 15/03/2016 | 2.138% | | 27,371 |
| EUR | Floating Rate Note | 21/03/2016 | 4.050% | | 7,736 |
| EUR | Floating Rate Note | 28/03/2016 | 1.584% | | 80,264 |
| EUR | Floating Rate Note | 09/05/2016 | 1.890% | | 26,524 |
| EUR | Floating Rate Note | 17/05/2016 | 2.150% | | 5,067 |
| EUR | Floating Rate Note | 23/06/2016 | 1.862% | | 23,111 |
| EUR | Floating Rate Note | 01/09/2016 | 1.787% | | 52,330 |
| EUR | Floating Rate Note | 01/01/2018 | 4.550% | | 9,200 |
| EUR | Floating Rate Note | 06/04/2021 | 1.500% | | 20,221 |
| EUR | Floating Rate Note | 01/08/2022 | 3.809% | | 50,323 |
| EUR | Floating Rate Note | 06/03/2023 | 7.785% | | 20,270 |
| EUR | Floating Rate Note | 01/10/2024 | 7.000% | | 50,875 |
| EUR | Floating Rate Note | 15/12/2024 | 7.000% | | 40,124 |
| EUR | Floating Rate Note | 20/04/2025 | 5.274% | | 13,828 |
| EUR | Floating Rate Note | 20/06/2035 | 5.000% | | 20,531 |
| EUR | Floating Rate Note | 25/01/2036 | 5.000% | | 5,233 |

| | | | | | |
|---|---|---|---|---|---|
| EUR | Floating Rate Note | 01/01/2038 | 4.980% | | 24,250 |
| | | | | 4.048% | |
| GBP | Floating Rate Note | 08/02/2011 | 0.816% | | 149,380 |
| | | | | 0.816% | |
| HKD | Fixed Note | 18/09/2012 | 3.640% | | 9,728 |
| HKD | Fixed Note | 30/07/2013 | 4.405% | | 12,261 |
| | | | | 4.067% | |
| CHF | Fixed Note | 30/11/2013 | 2.150% | | 1,603 |
| | | | | 2.150% | |
| USD | Floating Rate Note | 17/05/2012 | 0.434% | | 187,199 |
| USD | Floating Rate Note | 07/06/2013 | 0.435% | | 26,201 |
| USD | Floating Rate Note | 15/04/2014 | 2.400% | | 3,761 |
| | | | | 0.468% | |
| **Total EMTN - Listed** | | | | | 1,684,720 |

**At 31 December 2010**

| **Currency** | **Type** | **Maturity** | **Interest Rates %** | **Average Rate %** | **€'000** |
|---|---|---|---|---|---|
| **European medium Term Notes (EMTN) - unlisted** | | | | | |
| EUR | Fixed Note | 03/01/2012 | 3.121% | | 5,830 |
| EUR | Floating Rate Note | 25/10/2017 | 6.000% | | 15,168 |
| EUR | Fixed Note | 30/06/2021 | 0.000% | | 20,000 |
| EUR | Fixed Note | 30/06/2026 | 0.000% | | 20,000 |
| | | | | 1.790% | |
| GBP | Floating Rate Note | 20/02/2012 | 1.190% | | 58,187 |
| | | | | 1.190% | |
| HKD | Fixed Note | 14/08/2018 | 4.480% | | 38,737 |
| | | | | 4.480% | |
| JPY | Fixed Note | 14/06/2011 | 1.710% | | 18,580 |
| JPY | Fixed Note | 25/06/2014 | 1.820% | | 46,452 |
| JPY | Floating Rate Note | 22/06/2015 | 0.961% | | 9,206 |
| | | | | 1.686% | |
| **Total EMTN - unlisted** | | | | | 232,160 |
| **Total EMTN** | | | | | 1,916,880 |
| **Certificates of Deposits (ECD)** | | | | | |
| AUD | | | | 4.965% | 24,118 |
| CHF | | | | 0.210% | 12,795 |
| EUR | | | | 0.983% | 2,637,848 |
| GBP | | | | 0.794% | 199,750 |
| NZD | | | | 3.330% | 21,919 |
| USD | | | | 0.459% | 35,149 |
| **Total ECD** | | | | | **2,931,579** |

| | | | | | |
|---|---|---|---|---|---|
| **European Commercial Paper (ECP)** | | | | | |
| AUD | | | | 4.750% | 31,086 |
| CHF | | | | 0.218% | 204,281 |
| SGD | | | | 0.270% | 8,752 |
| EUR | | | | 1.038% | 4,626,073 |
| GBP | | | | 0.813% | 610,694 |
| USD | | | | 0.562% | 222,244 |
| CHF | | | | 0.330% | 45,997 |
| **Total ECP** | | | | | **5,749,127** |
| **Total Debt Securities Issued** | | | | | **10,597,586** |

### Debt securities in issue at 31 December 2009

| **Currency** | **Type** | **Maturity** | **Interest Rates %** | **Average Rate %** | **€'000** |
|---|---|---|---|---|---|
| **European medium Term Notes (EMTN) - Listed** | | | | | |
| CAD | Floating Rate Note | 13/07/2010 | 0.466% | | 16,543 |
| | | | | 0.466% | |
| EUR | Floating Rate Note | 19/02/2010 | 1.265% | | 140,212 |
| EUR | Floating Rate Note | 30/03/2010 | 1.218% | | 50,157 |
| EUR | Floating Rate Note | 09/04/2010 | 1.996% | | 14,207 |
| EUR | Floating Rate Note | 23/04/2010 | 1.790% | | 17,513 |
| EUR | Fixed Note | 04/06/2010 | 4.438% | | 51,301 |
| EUR | Floating Rate Note | 14/06/2010 | 1.172% | | 10,006 |
| EUR | Floating Rate Note | 30/09/2010 | 4.500% | | 10,001 |
| EUR | Floating Rate Note | 29/04/2011 | -0% | | 21,000 |
| EUR | Floating Rate Note | 16/05/2011 | 1.814% | | 5,015 |
| EUR | Floating Rate Note | 02/08/2011 | 2.240% | | 10,245 |
| EUR | Fixed Note | 27/09/2011 | 5.108% | | 83,510 |
| EUR | Fixed Note | 31/10/2011 | 5.125% | | 73,773 |
| EUR | Fixed Note | 30/11/2011 | 1.500% | | 70,092 |
| EUR | Fixed Note | 27/12/2011 | 5.019% | | 102,793 |
| EUR | Floating Rate Note | 30/03/2012 | -0% | | 6,158 |
| EUR | Floating Rate Note | 20/06/2012 | 0.792% | | 7,502 |
| EUR | Floating Rate Note | 23/06/2012 | 6.735% | | 124,221 |
| EUR | Floating Rate Note | 07/07/2012 | 7.084% | | 62,054 |
| EUR | Fixed Note | 07/12/2012 | 3.117% | | 4,529 |
| EUR | Floating Rate Note | 10/05/2015 | 1.000% | | 15,021 |
| EUR | Floating Rate Note | 27/07/2015 | 1.730% | | 46,643 |
| EUR | Fixed Note | 27/09/2015 | 5.738% | | 48,318 |
| EUR | Fixed Note | 31/10/2015 | 5.858% | | 45,736 |

| | | | | | |
|---|---|---|---|---|---|
| EUR | Fixed Note | 27/12/2015 | 5.773% | | 61,693 |
| EUR | Fixed Note | 18/02/2016 | 5.806% | | 124,503 |
| EUR | Floating Rate Note | 15/03/2016 | -0% | | 27,200 |
| EUR | Floating Rate Note | 21/03/2016 | 4.000% | | 7,733 |
| EUR | Floating Rate Note | 28/03/2016 | 1.276% | | 80,261 |
| EUR | Floating Rate Note | 09/05/2016 | 1.556% | | 26,511 |
| EUR | Floating Rate Note | 23/06/2016 | 1.549% | | 23,109 |
| EUR | Floating Rate Note | 01/09/2016 | 1.478% | | 52,316 |
| EUR | Floating Rate Note | 01/01/2018 | 3.420% | | 9,101 |
| EUR | Floating Rate Note | 06/04/2021 | 1.500% | | 20,221 |
| EUR | Floating Rate Note | 01/08/2022 | 4.450% | | 50,371 |
| EUR | Floating Rate Note | 06/03/2023 | -0% | | 19,000 |
| EUR | Floating Rate Note | 01/10/2024 | 4.000% | | 50,500 |
| EUR | Floating Rate Note | 15/12/2024 | 4.000% | | 40,071 |
| EUR | Floating Rate Note | 20/04/2025 | 6.920% | | 13,250 |
| EUR | Floating Rate Note | 20/06/2035 | 5.000% | | 20,531 |
| EUR | Floating Rate Note | 25/01/2036 | 6.000% | | 5,280 |
| EUR | Floating Rate Note | 01/01/2038 | 3.420% | | 23,890 |
| | | | | 3.760% | |
| GBP | Floating Rate Note | 26/08/2010 | 0.785% | | 18,030 |
| GBP | Floating Rate Note | 08/02/2011 | 0.686% | | 143,677 |
| | | | | 0.697% | |
| HKD | Fixed Note | 18/09/2012 | 3.640% | | 9,046 |
| HKD | Fixed Note | 30/07/2013 | 4.405% | | 11,399 |
| | | | | 4.067% | |
| JPY | Floating Rate Note | 07/01/2010 | 0.344% | | 37,580 |
| | | | | 0.344% | |
| USD | Fixed Note | 12/03/2010 | 0.404% | | 208,289 |
| USD | Floating Rate Note | 29/03/2010 | 0.361% | | 277,670 |
| USD | Floating Rate Note | 27/07/2010 | 0.422% | | 312,611 |
| USD | Floating Rate Note | 17/05/2012 | 0.423% | | 173,630 |
| USD | Floating Rate Note | 07/06/2013 | 0.389% | | 24,301 |
| | | | | 0.401% | |
| **Total EMTN - Listed** | | | | | 2,908,326 |

| **Currency** | **Type** | **Maturity** | **Interest Rates %** | **Average Rate %** | **€'000** |
|---|---|---|---|---|---|
| **European medium Term Notes (EMTN) - Unlisted** | | | | | |
| EUR | Fixed Note | 13/07/2010 | 2.805% | | 30,182 |
| EUR | Fixed Note | 03/01/2012 | 3.121% | | 5,653 |
| EUR | Floating Rate Note | 25/10/2017 | 6.000% | | 15,168 |
| EUR | Fixed Note | 30/06/2021 | -0% | | 20,000 |
| EUR | Fixed Note | 30/06/2026 | -0% | | 20,000 |
| | | | | 2.124% | |

| | | | | | |
|---|---|---|---|---|---|
| HKD | Fixed Note | 14/08/2018 | 4.480% | | 36,009 |
| | | | | 4.480% | |
| JPY | Fixed Note | 14/06/2011 | 1.710% | | 15,160 |
| JPY | Fixed Note | 25/06/2014 | 1.820% | | 37,902 |
| JPY | Floating Rate Note | 22/06/2015 | 1.040% | | 7,512 |
| | | | | 1.696% | |
| **Total EMTN - unlisted** | | | | | 187,586 |
| **Total EMTN** | | | | | **3,095,912** |
| | | | | | |
| **Certificates of Deposits (ECD)** | | | | | |
| CHF | | | | 0.126% | 43,803 |
| EUR | | | | 0.577% | 4,630,052 |
| GBP | | | | 0.450% | 22,504 |
| SGD | | | | 0.420% | 7,428 |
| USD | | | | 0.301% | 1,025,356 |
| **Total ECD** | | | | | **5,729,143** |
| | | | | | |
| **European Commercial Paper (ECP)** | | | | | |
| CHF | | | | 0.167% | 171,852 |
| DKK | | | | 1.000% | 21,496 |
| EUR | | | | 0.577% | 3,692,789 |
| GBP | | | | 0.473% | 464,145 |
| USD | | | | 0.288% | 440,684 |
| **Total ECP** | | | | | **4,790,966** |
| **Total Debt Securities Issued** | | | | | **13,616,021** |

### 27. Deposits from banks

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Deposits from other banks | **4,542,611** | 639,477 |
| | **4,542,611** | 639,477 |

Included in cash and cash equivalents (Note 32) € 2,265,634,524 (2009: € 68,406,612).

### 28. Repurchase agreements

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Due to banks | **358,978** | - |
| | **358,978** | - |

**Collateral given:** The carrying amount of securities sold under agreements to repurchase at 31 December 2010 was € 357,085,015 (2009:€ Nil) of which securities with a fair value of €357,085,015 (2009: € Nil) are classified as available for sale (Note 17).

### 29. Other liabilities

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Other accrued expenses | **4,818** | 2,659 |
| VAT | **2** | 8 |
| Other liabilities | **-** | 574 |
| | **4,820** | 3,241 |

### 30. Movement in the provisions for liabilities and commitments

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Balance at beginning of year | **2,025** | 1,234 |
| Charge to income statement | **724** | 1,020 |
| Released to income statement | **(562)** | (221) |
| Translation adjustment | **104** | (8) |
| Balance at end of year | **2,291** | 2,025 |

Please refer to Note 1.8 (c) for the accounting policy and Note 33 for the outstanding undrawn commitments.

**31. Share capital**

| | Number of shares | Ordinary shares | Share Premium | Total |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| At 1 January 2009 | 400,500 | 400,500 | 1,025 | 401,525 |
| At 31 December 2009 / 1 January 2010 | 400,500 | 400,500 | 1,025 | 401,525 |
| At 31 December 2010 | 400,500 | 400,500 | 1,025 | 401,525 |

The total authorised number of ordinary shares at year end was 500,000,000 (2009: 500,000,000) with a par value of €1 per share (2009: €1 per share). All issued shares are fully paid.

At 31 December 2010, the capital and reserves of the Company amounted to € 1,004.38 million (2009: € 997.03 million) (€ 1,115.63 million including YTD profits after Tax) (2009: € 1,082.36 million including YTD profits after Tax).

**32. Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Cash and balances with central bank (Note 15) | **162,435** | 154,552 |
| Loans and advances to banks (Note 18) | **2,575,000** | 1,845,599 |
| Deposits from banks (Note 27) | **(2,265,635)** | (68,407) |
| | **471,800** | 1,931,744 |

**33. Contingent liabilities and commitments**

At 31 December 2010 the contracted amounts of contingent liabilities and financial commitments were:

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Guarantees and irrevocable Letters of Credit | **6,718** | 25,707 |
| Undrawn formal standby facilities, credit lines and other commitments to lend with a maturity of: | | |
| - less than one year or | | |
| Unconditionally | | |
| cancellable at any time | **539,246** | 285,576 |
| - one year and over | **1,073,659** | 1,469,777 |
| | **1,619,623** | 1,781,060 |

### 34. Pension scheme

The Company operates a defined contribution pension scheme. The scheme is trustee administered and the assets are kept separate from those of the Company. Contributions to the scheme are charged to the income statement as incurred. The pension charge for the year was €362,800 (2009: € 400,787).

### 35. Related party transactions

The ultimate parent company is Intesa Sanpaolo S.p.A., incorporated in Italy. A number of banking transactions are entered into with related parties in the normal course of business. The volumes of related party transactions outstanding balances at the year end and related income and expenses for the year are as follows:

**31 December 2010**

| | PARENT | FELLOW SUBSIDIARIES | TOTAL |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| **ASSETS** | | | |
| Cash and balances with central banks | 1,489 | - | **1,489** |
| Loans and advances to banks | 4,074,846 | 5,903,835 | **9,978,681** |
| Loans and advances to customers | - | 2,515,765 | **2,515,765** |
| Financial instruments at fair value though profit or loss | 462 | - | **462** |
| Derivative financial instruments | 106,783 | 180,095 | **286,878** |
| **LIABILITIES** | | | |
| Deposits from banks | 4,445,911 | - | **4,445,911** |
| Repurchase agreements | 358,978 | - | **358,978** |
| Derivative financial instruments | 39,726 | 2,339 | **42,065** |
| Due to Customers | - | 96,306 | **96,306** |
| **INCOME STATEMENT** | | | |
| Interest and similar income | 178,135 | 170,049 | **348,184** |
| Interest expense and similar charges | (21,777) | (52,156) | **(73,933)** |
| Fees and commission income | 73 | 743 | **816** |
| Fees and commission expense | (21,410) | (291) | **(21,701)** |
| Net trading income | (5,023) | (8,002) | **(13,025)** |
| **FINANCIAL COMMITMENTS** | | | |
| Commitments - financial commitments | 14,210 | 521,602 | **535,812** |
| **DERIVATIVES** | | | |
| Derivatives (notional) | 1,712,139 | 2,790,015 | **4,502,154** |

31 December 2009

| | PARENT | FELLOW SUBSIDIARIES | TOTAL |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| **ASSETS** | | | |
| Cash and balances with central banks | 613 | - | 613 |
| Loans and advances to banks | 6,112,515 | 4,657,014 | 10,769,529 |
| Financial instruments at fair value though income statement | 1,406 | - | 1,406 |
| Derivative financial instruments | 134,814 | 704 | 135,518 |
| Loans and advances to clients | - | 1,679,922 | 1,679,922 |
| **LIABILITIES** | | | |
| Deposits from banks | 568,674 | - | 568,674 |
| Derivative financial instruments | 36,678 | 184,186 | 220,864 |
| **INCOME STATEMENT** | | | |
| Interest and similar income | 295,388 | 179,897 | 475,285 |
| Interest expense and similar charges | (27,812) | (4,212) | (32,024) |
| Fees and commission income | 55 | 726 | 781 |
| Fees and commission expense | (17,861) | (389) | (18,250) |
| Net trading income | (12,312) | - | (12,312) |
| **FINANCIAL COMMITMENTS** | | | |
| Commitments - financial commitments | 3,926 | 506,431 | 510,357 |
| **DERIVATIVES** | | | |
| Derivatives (notional) | 1,614,354 | 2,097,983 | 3,712,338 |

**Number of transactions performed with connected parties in 2010**

| | PARENT | FELLOW SUBSIDIARIES | TOTAL |
|---|---|---|---|
| Loans and advances to banks | 667 | 174 | 841 |
| Loans and advances to clients | - | 30 | 30 |
| Derivative financial instruments | 365 | 33 | 398 |
| Deposits from banks | 709 | 15 | 841 |
| Repos | 14 | - | 14 |
| **Total** | **1,755** | **252** | **2,124** |

**Number of transactions performed with connected parties in 2009**

| | PARENT | FELLOW SUBSIDIARIES | TOTAL |
|---|---|---|---|
| Loans and advances to banks | 765 | 173 | 938 |
| Loans and advances to clients | - | 14 | 14 |
| Derivative financial instruments | 237 | 28 | 265 |
| Deposits from banks | 701 | 18 | 719 |
| Repos | - | - | - |
| | | - | |
| **Total** | **1,703** | **233** | **1,936** |

The cumulative total value of loans and advances to banks issued to Parent and other group companies during the year has not been disclosed as the maturity profile for the majority ranged from overnight up to 5 years. The cumulative total value of deposits from banks received from the Parent and other group companies during the year has not been disclosed as the maturity profile for the majority ranged from overnight up to 5 years.

**Transactions with other related parties**

**Significant shareholder of INTESA SANPAOLO S.p.A**

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| **ASSETS** | | |
| Available for sale debt securities | **24,944** | 25,149 |
| **INCOME STATEMENT** | | |
| Interest and similar income | **399** | 523 |
| **Number of transactions** | **1** | 1 |

**36. Geographic Concentrations**

| **Geographic concentrations of assets, liabilities and off balance sheet items 31 December 2010** | **Total assets €'000** | **Total Liabilities & Equity €'000** | **Credit commitments €'000** | **Operating Income €'000** |
|---|---|---|---|---|
| Ireland | 719,511 | 1,248,149 | 27,399 | 9,654 |
| E.U. (excl. Ireland) | 16,418,029 | 17,381813 | 1,190,500 | 84,718 |
| U.S.A. | 243,554 | 87,989 | 19,600 | 4,626 |
| Rest of the World | 1,434,048 | 97,191 | 382,124 | 33,102 |
| **Total** | **18,815,142** | **18,815,142** | **1,619,623** | **132,100** |

| **Geographic concentrations of assets, liabilities and off balance sheet items** 31 December 2009 | **Total assets €'000** | **Total Liabilities & Equity €'000** | **Credit commitments €'000** | **Operating Income €'000** |
|---|---|---|---|---|
| Ireland | 663,149 | 1,215,812 | 73,477 | 8,416 |
| E.U. (excl. Ireland) | 15,131,406 | 15,919,927 | 1,360,043 | 52,800 |
| U.S.A. | 291,055 | 149,858 | 17,914 | (3,452) |
| South America | - | - | - | 16 |
| Rest of the World | 1,322,103 | 122,116 | 329,626 | 44,645 |
| **Total** | 17,407,713 | 17,407,713 | 1,781,060 | 102,425 |

Geographic sector risk concentrations within the portfolio of loans and advances to corporates were as follows:

| | **2010 €'000** | **2010 %** | 2009 €'000 | 2009 % |
|---|---|---|---|---|
| Ireland | 538,967 | 13 | 505,610 | 14 |
| E.U. (excl. Ireland) | 2,899,771 | 65 | 2,055,964 | 59 |
| U.S.A. | 203,307 | 4 | 236,246 | 7 |
| Rest of the World | 793,973 | 18 | 690,978 | 20 |
| **Total** | 4,436,018 | 100 | 3,488,798 | 100 |

Geographic sector risk concentrations within the portfolio of loans and advances to banks (excluding Central Bank) were as follows:

| | **2010 €'000** | **2010 %** | 2009 €'000 | 2009 % |
|---|---|---|---|---|
| Ireland | 14,996 | - | - | - |
| E.U. (excl. Ireland) | 12,479,475 | 95 | 12,176,102 | 95 |
| Rest of the World | 615,338 | 5 | 15,646 | 5 |
| **Total** | 13,109,809 | 100 | 12,791,748 | 100 |

Geographic sector risk concentrations within the portfolio of financial instruments at fair value through profit or loss were as follows:

| | **2010** | **2010** | 2009 | 2009 |
|---|---|---|---|---|
| | **€'000** | **%** | €'000 | % |
| E.U. (excl. Ireland) | 69,728 | 100 | 151,564 | 100 |
| **Total** | 69,728 | 100 | 151,564 | 100 |

Geographic sector risk concentrations within the portfolio of available for debt securities were as follows:

| | **2010** | **2010** | 2009 | 2009 |
|---|---|---|---|---|
| | **€'000** | **%** | €'000 | % |
| E.U. (excl. Ireland) | 744,805 | 92 | 496,891 | 88 |
| U.S.A. | 38,976 | 5 | 54,133 | 10 |
| Rest of the World | 23,526 | 3 | 15,074 | 2 |
| **Total** | 807,307 | 100 | 566,098 | 100 |

### 37. Financial Assets and Financial Liabilities by contractual residual maturity

| €'000 31-Dec-2010 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Timeband** | **On demand** | **up to 1 month** | **up to 3 months** | **3 to 12 months** | **1 to 5 years** | **over 5 years** | **Total** |
| **ASSETS** | | | | | | | |
| Cash and Balances with CB | 2,968 | 159,574 | - | 3,470 | - | - | **166,012** |
| Financial Assets CFV (1) | 5,039 | 462 | 1,057 | 771 | 32,947 | 29,452 | **69,728** |
| Available for Sale Securities (1) | -7,398 | 7,592 | 51,262 | 98,856 | 621,998 | 34,997 | **807,307** |
| Loans and Advances to Banks (2) | - | 2,337,380 | 634,180 | 1,583,090 | 3,066,982 | 5,488,177 | **13,109,809** |
| Loans and Advances to Customers (2) | 1,826 | 177,186 | 329,875 | 986,849 | 2,224,255 | 716,027 | **4,436,018** |
| Derivative Financial Instruments (1) | 214,990 | - | - | - | - | - | **214,990** |
| **Total** | **217,425** | **2,682,194** | **1,016,374** | **2,673,036** | **5,946,182** | **6,268,653** | **18,803,864** |
| **LIABILITIES** | | | | | | | |
| Debt securities in issue | - | 3,244,305 | 4,969,242 | 1,087,396 | 623,177 | 673,466 | **10,597,586** |
| Deposits from Banks | - | 1,234,549 | 2,024,706 | 1,162,031 | 10,000 | 111,325 | **4,542,611** |
| Repurchase Agreements | - | 67,872 | 35,449 | 255,657 | - | - | **358,978** |
| Due to customers | 186 | 90,770 | 17,702 | 72,033 | 61,019 | 1,619,100 | **1,860,810** |
| Derivatives (1) | 318,375 | - | - | - | - | - | **318,375** |
| **Total** | **318,561** | **4,637,496** | **7,047,099** | **2,577,117** | **694,196** | **2,403,891** | **17,678,360** |

(1) Market values reported in time band "on demand"
(2) Collective impairment provision allocated to time band "up to 1 month"

| €'000 31-Dec-2009 Timeband | On demand | up to 1 month | up to 3 months | 3 to 12 months | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and Balances with CB | 1,652 | 153,002 | 0 | 3,366 | - | - | **158,020** |
| Financial Assets CFV (1) | 3,487 | 523 | 875 | 3,271 | 3,793 | 139,615 | **151,564** |
| Available for Sale Securities (1) | 761 | 1,755 | 15,588 | 155,714 | 344,814 | 47,466 | **566,098** |
| Loans and Advances to Banks (2) | - | 1,891,374 | 899,733 | 2,483,410 | 4,004,625 | 3,512,606 | **12,791,748** |
| Loans and Advances to Customers (2) | 1,656 | 22,354 | 63,034 | 1,052,262 | 2,019,861 | 329,631 | **3,488,798** |
| Derivative Financial Instruments (1) | 241,471 | - | - | - | - | - | **241,471** |
| **Total** | **249,027** | **2,069,008** | **979,230** | **3,698,023** | **6,373,093** | **4,029,318** | **17,397,699** |
| LIABILITIES | | | | | | | |
| Debt securities in issue | - | 3,741,350 | 5,381,270 | 2,661,394 | 958,646 | 873,361 | **13,616,021** |
| Deposits from Banks | - | 277,439 | 269,726 | 802 | 20,000 | 71,510 | **639,477** |
| Repurchase Agreements | - | - | - | - | - | - | **-** |
| Due to customers | 1,681 | 6,347 | 10,648 | 114,890 | 159,098 | 1,397,194 | **1,689,858** |
| Derivatives (1) | 356,117 | - | - | - | - | - | **356,117** |
| **Total** | **357,798** | **4,025,136** | **5,661,644** | **2,777,086** | **1,137,744** | **2,342,065** | **16,301,473** |

(1) Market values reported in time band "on demand"
(2) Collective impairment provision allocated to time band "up to 1 month"

## 38. Events after the statement of financial position date

The directors have proposed a dividend of 16.67 cent (2009: 17.05 cent) per ordinary share, amounting to €66.76 million in respect of the year 2010 (2009: €68.29). Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

## 39. Date of approval

The financial statements were approved and authorised by the directors on 4 March 2011.