EBS ANNUAL REPORT & ACCOUNTS **2006**

EBS
BUILDING SOCIETY

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MARK MORAN
CHAIRMAN'S REVIEW

2006 - A Landmark Year

It is my great privilege to present my first Chairman's Review to the EBS Membership. I am delighted to report that 2006 proved to be an excellent year for your Society.

For over four years EBS has been involved, with other interested parties, in a process of consultation regarding new legislation governing building societies in Ireland. Our position has been to ensure that those organisations who wished to remain mutual should be facilitated in evolving as such, creating in the process a level competitive playing field between building societies and plc banks which in turn would allow more choice for Irish consumers.

In August 2006 we finally saw the enactment of the legislation. Of its nature the legislation is quite technical, but in essence it allows EBS most of the flexibility it needs to continue to compete effectively with plc banks across a wider product, service and fundraising landscape.

Arising from the legislation, we held a Special General Meeting (SGM) in September to consider a number of changes to the Rules of the Society to enable your Board adopt the new powers made available to it. The SGM was well attended and, between proxies received by post and votes at the SGM, the proposed changes were overwhelmingly approved by you, the members.

On behalf of the Board I want to thank you for your resounding support. It's good to have all that behind us. So, what can you expect in the future?

Customer Membership - Value and Values

Elsewhere in this report you will see evidence of the real progress made in our business during 2006. I am pleased to tell you that we are strong and competitive in our core product areas and have successfully moved into new product areas and new distribution channels which diversifies our earnings base, improves the quality and sustainability of our profits and makes the EBS Mutual Difference available to a broader cross section of customer members than before.

We are committed to continuing to evolve the customer-owned, EBS mutual model in a highly commercial and competitive way. Notwithstanding this, one thing which will not change is our advocacy of member involvement and our determination to create a distinctive member service experience which will not be matched by any of our competitors. Being a customer member of EBS means you expect and experience fair play, transparency of dealing, competitive long term pricing and a real sense of having a relationship with an organisation which is 'on your side'. We track our service performance relentlessly in all our business areas and the results of these surveys are a driving force for ongoing change and process improvements.

We will continue to broaden our countrywide programme of member engagement and educational seminars on specialist topics where people tell us they want access - no strings attached - to experts and relevant, timely advice which they can apply to their own lives. These are proving to be extremely popular, whether you are a first time buyer trying to get a start in life or someone who is older and looking to plan for your retirement.

In addition we will continue with our Plain English approach to member communication. Remember, the 'EBS Member Mark' is only bestowed on correspondence and literature after it has been scrutinised by a group of suitably qualified member volunteers. They do great work keeping us on the straight and 'jargon-free' narrow. I would like to acknowledge their selfless contribution of personal time to make life better, and more understandable, for the rest of us. Also in this category are those 200 or so members who support the 52 local Community Investment Groups who last year assessed and supported over 400 projects to the tune of some €300,000. Once again, improving the quality of local community life; once again, no strings attached.

Your Board

Being a board member of a large financial institution like EBS is an increasingly demanding job. The complexity, diversity and responsibilities increase each year. At the end of 2006 there were two very significant changes to your Board.

Firstly, our Chairman, Brian Joyce, decided to retire after 17 years as a board member and 7 years as Chairman. During that time he has overseen many changes in the Society, some of them fundamental and far reaching, but at no time at the expense of our distinguishing ethos and values. Brian had decided some time ago that once the new building societies legislation was enacted and the consequential EBS Rule changes were approved by the members he would pass on the baton of mutuality evolution to someone new.

Secondly, our Vice-Chairman, Ron Bolger, having also played his part in guiding EBS through the process of legislative change and having served on the Board for 7 years, decided to retire. Most recently Ron had been chairman of the Board Audit & Compliance Committee and was also chairman of Summit Investment Funds plc and Summit Mutual Funds plc. His contribution in both of these areas was exceptional.

On your behalf I wish to thank Brian and Ron for their contributions to EBS. Given their experience they will be difficult to replace. One of my priorities as Chairman is to oversee the appointment of high calibre individuals to your Board in the coming year. I am delighted to welcome the first of these, Jim Ruane, who was co-opted to the Board in February 2007. Jim has an abundance of financial services experience which will be of great value to the Society in its continuing development.

Looking Ahead

I was appointed Chairman to succeed Brian Joyce on 1 January this year and I am honoured to have been selected by your Board to do so. I have been a board member for four years and am totally committed to EBS's continuing development as a mutual, delivering a distinctive and valuable service to our members. Once again the main economic indicators are looking positive for 2007. EBS will continue to compete strongly in its traditional product and services areas but also expects to announce new initiatives in the coming year. We see 2007 as offering us further opportunities to highlight the differences between EBS and the plc banks.

We expect greater competition but also see greater opportunity for EBS backed by the new legislation. In that regard, there is one area where the playing field is not yet level. This relates to the ability of building societies to operate in the new asset covered securities market which gives mortgage lenders access to very keenly priced funding which in turn can benefit customers. Because we are a building society we are currently precluded from accessing this increasingly important source of funding, unlike our plc competitors. We do not think this is fair. I urge the Government and the Financial Regulator to work with us to clear the technical blockages which prevent our participation.

In conclusion I would like to pay tribute to the Chief Executive, Ted McGovern and all his staff at EBS for their hard work and accomplishments in 2006, and for their commitment to serving our members.

Finally, I would like to thank you, our members, for your continued support.

Mark Moran

Mark Moran
Chairman

TED MCGOVERN
CHIEF EXECUTIVE'S REVIEW

Business Performance

2006 was an excellent year for your Society. Our business performance is covered in more detail in Alan Merriman's Operating and Financial Review on page 7 and Tony Moroney's Review of The Membership Business on page 10. The key points about the year which I would like to draw to your attention are listed below:

- Operating Profit Before Tax was €65.9m, up 23%
- Profit After Tax was €57.7m, up 49%
- EBS Net Interest Margin, a key indicator of the value we give members, at 84bps is the lowest in the industry
- Asset Growth of 17%, with a record €4.6bn in gross lending
- Asset Quality continues to be strong - all trends positive
- Customer Funding up 15%
- Efficiency continues to improve with costs to mean assets ratio of 0.56%. This represents a high upper quartile performance versus our peer group
- €100m subordinated loan capital transaction successfully concluded
- €1.5bn Emerald 4 securitisation successfully concluded
- Capital ratios remain very strong with total capital at 11% and Tier 1 at 7.5% and finally,
- Circa 18,000 new members joined the Society during the course of the year

Strong levels of lending were features of both the residential mortgage and commercial businesses. In residential mortgages this was driven in large part by the success of our recent entry into the mortgage broker channel. Less than two years ago we did not have a broker business. Today it is well established, vibrant and an important contributor of enterprise value to the Society.

Our Commercial Business has seen a significant step up, refocussing on the higher margin segments with correspondingly greater potential to grow fee income.

Meanwhile our savings and investment business experience to date with SSIA maturities has been that very significant levels of funds have been retained within EBS and an encouraging level of members are choosing to continue the monthly savings habit.

Cost management remains an important feature of our overall approach to managing the business. Once again, as shown above, our costs to mean assets ratio, which is the acknowledged key measure of efficiency in a building society, has improved. We achieved this by expanding our business and ensuring that income grew by a full 7% more than costs during the year.

Arising from the very buoyant levels of lending which have been experienced in the Irish financial services marketplace for more than a decade now, the challenge of capital management has become a particular priority for all financial institutions. EBS has been no different in this regard. In the last twelve months our approach to active capital management has involved a €1.5bn securitisation and raising €100m of subordinated loan capital. At the end of 2006 our capital ratios, both Tier 1 and Total, were very strong.

Repositioning our Business for the Future

In a full and eventful year the single most important happening was undoubtedly the enactment of the new building societies legislation in August. The Chairman has dealt with this in his review of the year. Uncertainty surrounding this legislation has been overhanging the Society for many years and with its passing into law, EBS now enters a new phase of its development with its future as a mutual assured and with genuine prospects of being able to compete on more equal terms with the larger plc banks.

Turning to our core businesses, our Membership Business, which we established in 2005, continues to perform very well, hitting its short term business targets while reorientating from product sales and transactions to a relationship focus instead.

For some time now, in response to member feedback, we have been prioritising expanding the breadth of the EBS product and service offering. The approach we have adopted has been to buy in 'best in class' products from the market customised to our own specification. This has worked very well. In recent years we have offered an EBS Member credit card in conjunction with MBNA and a Member personal loan in conjunction with GE Money. During 2006 we made further progress in broadening and deepening our offer in the area of bancassurance by signing exclusive distribution agreements with Irish Life on the life side of our business and with Allianz on the general insurance side.

This brings us many advantages including a better product range specially adapted for our customer members, superior capability via technology and dedicated specialist financial advisers. We now provide advice in a needs-based selling environment via the medium of structured financial reviews. It also gives us access to a more efficient approach to fulfilment and back office administration. From a financial bottom line perspective, the other income component of our revenues is also expected to improve as a result of increased new business volumes and improved financial arrangements.

Having the broader range of products in place is one thing, but it needs to be complemented by the right approach to needs-based selling, i.e. the way our people routinely engage with the EBS membership to establish their requirements and ultimately deliver the right solutions. We are currently devoting a good deal of organisational energy to two important areas to ensure that EBS is repositioned at the forefront of Irish financial services in embracing an advice led consultative selling culture. One is the implementation of the Financial Regulator's new Consumer Codes and the second is our MemberFirst training programme for all frontline personnel. This is a significant investment of time and resources which we believe will bear fruit in the years ahead and will serve our members well.

As referred to above, EBS has just completed a very successful first full year in the Broker Market. We believe that, going forward, this channel will account for an even bigger proportion of the overall residential mortgage market in Ireland. Today, we see a lot of upside for EBS. In order to fully avail of these opportunities EBS and Britannia Building Society, the second largest building society in the UK, are in advanced discussions to create a joint venture which will serve the Broker Market.

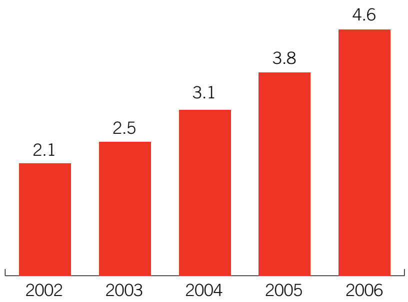
As stated previously, EBS has a proven track record of establishing relationships with like-minded organisations that are capable of working with us to create real long-term value. In Britannia we see both complementary capabilities and, being a committed mutual like ourselves, a very compatible business philosophy, ethos and values.

The joint venture will leverage EBS' local market knowledge, established distribution presence and reputation as well as Britannia's experience of intermediary channels. We have opened discussions with the Financial Regulator and, subject to regulatory approval the joint venture will be in operation in the second half of the year. Fuller details will be available at that time.

The EBS Proposition - Value and Values

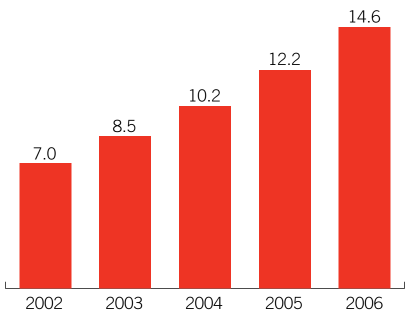
We put a premium on researching members' opinions. What you tell us is that you deal with EBS because as a mutual our approach to business is different. You appreciate that we try at all times to take a long term view of our relationship with you

LENDING ADVANCES (€bn):



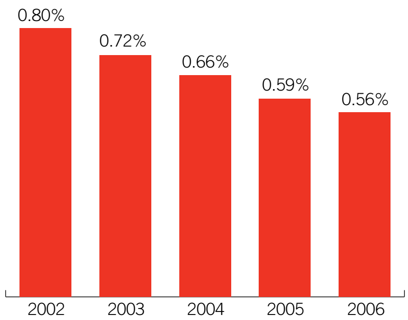
Another year of strong demand for EBS residential and commercial loans resulted in year on year value growth of 22% to €4.6bn.

LOAN BOOK (€bn):



During 2006 total value of the Loan Book grew by 20% to €14.6bn.

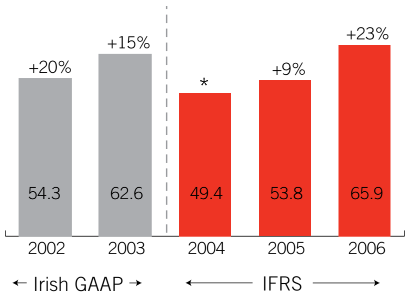
RATIO OF OPERATING EXPENSES TO ASSETS UNDER MANAGEMENT



At 0.56% the EBS Efficiency Ratio has improved yet again and has a high, top quartile positioning versus our peer group.

PRE TAX SURPLUS (€m):

**Note: Pre Tax surplus prepared under Irish GAAP was €56.1m (-10%). Irish GAAP and IFRS are not directly comparable.*



EBS seeks to maximise the sustainable value created for members and in so doing only retain the level of profits necessary to ensure the prudent financial stability and growth of the business.

and that means we follow an approach of optimising profitability rather than maximising it at your expense. The clearest tangible expression of this is our net interest margin which is the aggregate differential between what we pay savers and charge borrowers. Once again this year, at 84bps it is the lowest in the industry. Where possible we will always seek to provide a best value proposition which will incorporate not only pricing benefits (ideally top quartile positioning) but also product features, convenience and a positive, empathetic day to day service experience.

The Irish marketplace for financial services is unprecedentedly competitive at the moment and this is good news for consumers in general. But consumers need to be vigilant in terms of their long term choices. The current preoccupation with short term pricing can ultimately prove to be very costly. Recent history provides ample evidence of heroic, sometimes loss-leading offers, which are calculated to buy market share, only for the price positioning of the one-time hero to gradually and quietly creep back into the pack. At EBS we have pursued a more even, consistent, long term good value approach to pricing.

An important feature of EBS in recent years has been our Positive Impact programme where we work with a small number of national, and a large number of local, organisations to put something back into the community. This programme works on many levels including direct financial support, the contribution of organisational expertise and facilities, searching out opportunities to leverage our scale and buying power and of course, not to forget, EBS staff volunteering their own time to make a difference personally in their communities.

We are very proud of the achievements of Positive Impact in the 3 years it has been established. To highlight just one example: our partnership with the Simon Community has enabled it to leverage the direct investment it receives from EBS into almost €11 million in public funding. This has allowed it to purchase, as of December 2006, 69 units of good quality accommodation which in turn has provided homes for people in Dundalk, Galway, Waterford, Limerick, Athlone, Clonmel, Letterkenny, Portlaoise and Kilkenny.

What about the Future?

As we know, EBS is the only committed customer-owned membership organisation in Irish financial services. Our priority is to continue to develop our distinctive approach to doing business with members, engendering in them through our actions an undeniable sense that we provide them with good value and are on their side. In the process, we create a sense of belonging and advocacy. We remain true to our roots and heritage and see the provision of financial education, advice and know-how as central elements of our raison-d'être. That is our continuing mission. We embarked on this journey some time ago and are making steady, encouraging progress.

Thank you to our people who make the difference on a daily basis by going the extra mile and also to our members for your continuing support of EBS.

Ted McGovern

Ted McGovern
Chief Executive

ALAN MERRIMAN
OPERATING AND FINANCIAL REVIEW

Similar to last year it has been an eventful year, a lot has been happening and I hope this commentary provides a clear overview of how the Society has performed financially this year. I would be happy to provide further insights to members at the AGM. Alternatively I can be contacted by email at alan.merriman@mail.ebs.ie

OUR FINANCIAL VALUES

As a mutual, by necessity, we assess our financial performance differently to that of listed companies.

Firstly, and most importantly, we believe the Society should be judged in terms of the value today's members are getting - both individually and collectively. We believe this should be a "balanced scorecard" approach - i.e. it's not just about how much profit we make or how much better priced our products are compared to others. It needs to be much more holistic. For example, it should take into account the distinctiveness of the EBS service; the extra mile that our staff will go to meet our members' needs; our longer opening hours; the quality and friendliness of staff; and how much the value of the Society itself is growing from year to year.

Equally, we have to think of tomorrow's member and therefore whilst the Society continues to offer good value and service today, it also needs to ensure that we are earning sufficient profits to maintain our financial strength; to invest in our systems and capabilities; to compete to attract new members; and to enable us to keep providing long term value to you our members.

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

HOW DID WE DO IN 2006?

Our profit before tax is up a very healthy 23%; our after tax result is even stronger, up over 49%. At a headline level, this means we managed to grow total Member Value in 2006 by 20%, which is very satisfactory.

The underlying increase in our profitability was driven by very strong volume growth, improved margins helped by greater funding diversity and income growth far exceeding contained cost growth. The Society also maintained its strong credit ratings. We are rated A2 by Moody's and A+ by Fitch for our senior debt. These ratings provide a very strong and independent assurance that the Society continues to be in a sound financial position with a stable financial outlook. Our total capital position at year end, at over 11% is very strong and well above our regulatory requirement of 9%.

2006 was a year of intense competition, particularly in the mortgage market, characterised by new entrants with short term mortgage pricing policies calculated to win current account customers from the established banks. Meanwhile incumbents responded by cutting their historically expensive standard variable rates (SVR) to improve their competitiveness and protect their back books. Notwithstanding all this activity EBS continues to offer real pricing benefits to its members. In 2006 we estimate this to have been in the order of €15.6m. Today EBS has very competitive tracker offerings and still has an SVR price that at year end was circa 12bps cheaper that the average in the market and this taken together with the better service levels and our increased appetite to lend higher amounts to members, is undoubtedly a winning formula.

Approximately 18,000 new members and over €4.6bn in gross lending are new milestones and combined with the increase in our gross advances market share clearly demonstrate that EBS can continue to compete successfully and deliver compelling value for our members.

FINANCIAL REVIEW

Net Interest Income

Net interest income of €150.1m was up 25% (2005 €119.9m). This reflects the result of strong balance sheet lending growth up nearly 20% year on year whilst improving our net interest margin by 4bps to 84bps. The improved margin was helped by lower funding costs and an improvement in earnings on our reserves. At 84bps our net interest margin is still the lowest in Ireland and from a member value perspective is a simple yardstick by which to judge the competitiveness of our overall pricing.

Non-Interest Income and Other Operating Income
At a headline level non-interest income and other operating income fell by €3.9m or 17% to €19.7m (2005 €23.6m). Our 2005 results had benefited from a number of one-off items including a gain on the sale of credit card rights and additional insurance income amounting in aggregate to €4.2m.

During 2006 we disposed of our investment property crystallising over €20m of accumulated revaluation gains and whilst this was a very successful transaction, one impact is that the related income is no longer reflected in Other Income as the proceeds were reinvested in our core business.

On a like for like basis and stripping out investment property income, total other income is up circa 20% and we are confident that further momentum is likely in the coming year. The underlying uplift is driven by higher commissions and increased sales volumes benefiting from new initiatives in areas such as bancassurance, credit cards and personal loans offerings with third parties.

Operating Expenses
Total operating expenses increased by €10.0m or 11%, to €99.3m (2005 €89.3m). The EBS costs to mean total assets ratio, one of the principal measures of efficiency for a building society, improved to a new record low from 0.59% to 0.56% driven by strong asset growth. At 0.56% EBS ranks amongst the very best of our global mutual peers (including the top ten UK Building Societies).

Increased costs primarily arose from strong salary inflation in line with the Social Partnership Agreement, investing in our future by recruiting more staff and escalating costs such as rents and utilities. Cost management is a high priority but needs to be balanced with our objective of investing in delivering superior member service compared to our competitors and in this regard our overarching cost strategy is to ensure that we achieve income growth well in excess of cost growth. In financial circles this is referred to as 'positive jaws' and in the current year we achieved a very strong 7% differential in this regard.

Provisions for Impairment
The total charge for bad and doubtful debts is €4.6m which is well above last year's unusually low charge. Whilst our underlying asset quality continues to be excellent we have cautiously increased our provisions in proportion to the increase in our book size. Whilst our arrears are lower this year in both relative and absolute terms, our provisioning takes cognisance of the significant increase in interest rates in 2006 and the resulting increased affordability pressures evident which may yet lead to increased arrears in the future.

We continue to prudentially insure our credit risk on higher LTV residential and retail buy-to-let lending. Whilst this is expensive, and reduces our profitability, we believe this provides us with strong protection should a downturn arise in the future. We are also very pleased that the Financial Regulator has committed to take account of such insurance cover when assessing capital needs under Basel II. The quality of our commercial lending book continues to be excellent and repeat business with long established and experienced customers is the key driver of our success here.

Taxation
Our taxation charge at €8.2m is down €6.9m year on year (2005 €15.1m). €5.8m of this decrease is attributable to the abolition of the bank levy and this has assisted greatly in improving our after tax results.

BUSINESS REVIEW

Residential Mortgages
We achieved €4.0bn of new gross lending in 2006 up 18% on the previous year which, based on the independent IBF/PwC mortgage market statistics, is a better performance than the average growth rate for the market of 16.9%. Our net lending was also at a record high, albeit redemptions are increasing also. Our unique distribution model, product suite, good service, pricing proposition and successful entry into the broker market all continued to pay dividends. Despite increasing house prices and affordability factors in the market, our weighted average LTV for new business advanced was 74%, a marginal increase on 2005. As mentioned earlier, we have continued to insure our higher LTV mortgage loans and our asset quality is excellent.

Savings & Funding
Overall customer funding is up a very strong 15% year on year. Diversification of our non bank corporate funding supported a lower level of members' savings growth. We continue to diversify our wholesale funding and this is helping reduce our overall funding costs as well as reduce refinance risk. Longer term we hope to be able to avail of asset covered securities legislation which would facilitate further diversification of our funding at more favourable pricing, and are working with Government to accommodate this as an important contributor to sustaining a viable long term building society presence in Ireland.

Commercial Lending
Commercial property gross lending (which includes higher value buy-to-let residential property lending) was up circa 36% year on year. Our total book is now over €2.0bn. Gross advances exceeded €930m reflecting another record year for our commercial lending business. Asset quality remains very strong and we successfully supported our commercial customers beyond Ireland and the UK by providing lending for commercial investments within the European Economic Area, especially Germany. Margins increased reflecting the greater success of our direct channel which concentrates on high net worth property relationship banking.

Treasury & Capital Markets
Total wholesale funding increased by 18%. During the year we benefited from our decision to do a further securitisation for €1.5bn. Not only did we raise this money at a historic low price for EBS but this also allowed us price other wholesale funding tighter throughout the rest of the year. The EBS name now attracts a diverse range of global investors who are keen to participate in our various funding and capital programmes, and our reach has been extended further this year through having the benefit of a Fitch rating in addition to our Moody's rating. We also raised another €100m in subordinated loan capital at very keen pricing.

RISK REVIEW

Risk Management
We have continued to make significant investment in and are making good progress in preparing for Basel II working closely with the Regulator and industry focused groups. At this stage we intend to adopt the standardised approach initially, moving to a more sophisticated approach, most likely in 2009. Our key focus is now on extending our credit modelling approach to both our Commercial and Treasury businesses, and developing further our own internal capital analysis. A comprehensive overview of risk management processes in EBS is set out in the corporate governance section of the Accounts.

Capital and Liquidity
Capital ratios remain very strong, with Tier 1 capital at 7.5% and Total Capital at 11.0%. As stated earlier, during the year we raised very successfully subordinated loan capital of €100m and completed a €1.5bn securitisation which also improved our capital position. The low risk profile of our book (90% residential lending) compared to other financial institutions underpins further the relative strength of our capital position. Liquidity balances were very strong at year end and will be managed down this year in line with the Financial Regulator's new regulatory liquidity framework.

OUTLOOK

The outlook for the Irish economy remains very positive. The housing market outlook is less certain and price inflation has slowed markedly. However, recent EBS/DKM research indicates that higher interest rates are being offset somewhat by tax relief changes and higher wages. Similar to others, we have had a relatively quiet start to the year but expect market activity to pick up strongly in the second half. We will continue to focus on adaptation and innovation and are confident that we can again outperform the mortgage market in 2007.

The March and April spike in the SSIA maturities is also on the horizon and we are greatly encouraged by the vast majority of members who have already elected to retain their savings with EBS and those who are keeping up the savings habit. By doing so - not only are members providing for their own future but they are also supporting EBS and the wider community as member savings are one of the traditional cornerstones on which mutuality is built.

We will, as ever, be working hard to further improve our services and efficiency, and ultimately strongly grow value for our members. Whilst a slower market and increased competition in the mortgage and savings markets will undoubtedly put some further downward pressure on our earnings growth, our priority for 2007 is to increase member satisfaction and advocacy whilst also targeting double digit operating profit growth.

Alan Merriman

Alan Merriman
Finance Director

TONY MORONEY
MEMBERSHIP BUSINESS REVIEW

OVERVIEW
EBS has had a good year. Ultimately we believe however, that the very best measure of how we are doing is how successful we are, every day, at delivering the financial products and services that really matter to our members.

In 2006, we made great strides towards our ambition of fulfilling members' broader financial needs. Our results demonstrate that your Society continues to compete effectively for your business and, now, in more areas than ever before.

As we move into 2007, your Society is uniquely positioned as Ireland's only committed mutual and we strongly believe that this ethos makes a difference to our members.

MAKING A MUTUAL DIFFERENCE
All of our member related businesses and services operate within what we call 'The Membership Business'. This enables us to provide a clear line of sight to the needs of our members today, while providing clarity around the investments that we continuously make to serve our members future needs.

In this regard, it is my aim to ensure that we deliver strong short-term results while at the same time building an even stronger long-term financial future for your Society. Our focus has always been to benefit current members now and support the communities in which we operate while simultaneously provide for the future generations of members.

Your Society remains unstinting in its commitment to its mutual status. Mutuality in itself, however, is not intrinsically superior to any other form of business organisation, but it does have the unique advantage that our customers are also our owners. As such, they must be and are at the centre of everything we do. This makes a difference and I firmly believe mutuality will continue to provide a real alternative to plc banks in the future.

A very tangible aspect of the EBS Mutual Difference is the overall difference between the rates we pay on members' savings and the rates we charge on members' mortgages - that is called the net interest margin. You won't find anyone in this market with a lower net interest margin. In 2006, the Society's net interest margin was 0.84%, which is approximately half of the larger high street banks.

However, price is only one aspect of the value we provide to members. There's a lot more. Convenient access to products and services is critically important and in this regard EBS continues to provide longer opening hours, including Saturday opening in many of its branches and of course through our Member Direct call centre.

In 2006, we upgraded our Limerick and Galway branches and opened new outlets in Shannon and Tramore. We also extended access to our mortgage products to over 160 mortgage brokers, making it even easier for members to purchase their home.

Of increasing importance is the advice that we provide to our members. We always strive to ensure that our advice is clear and friendly as well as prompt and efficient. EBS continues to work with the National Adult Literacy Association to ensure that our documentation is both transparent and helpful.

Significantly in 2006, your Society established its own financial planning advisory service, greatly expanding the breadth of service and advice available to members. The results so far have been very encouraging with in excess of 3,400 members availing of a free financial review.

As we continue to evolve your Society, our challenge is to build on the progress of 2006 to ensure EBS stands out as a customer-owned organisation which can lay claim to be our member's financial services provider of choice.

IMPROVING SERVICE FOR MEMBERS
We are continually looking for ways to improve the quality of our service. As in previous years, we routinely mystery shopped our Branches, Agents and Member Direct to ensure that service standards are being consistently delivered upon. This programme continues to give us great insights as to what's working well while also highlighting areas for improvement, right down to individual training plans.

During the year, we re-calibrated our mystery shop programme to put even greater emphasis on areas of particular importance to our members. Our front-line staff embraced these changes and I am happy to report that good progress continues to be made. Equally though, I recognise the need to keep upping our game to provide an even better service and experience for our members.

Recently we began the process of extending our Mystery Shop programme to the business partners we work with who provide specific specialist products to our members to ensure they too are meeting the service standards that members expect.

Despite our best efforts, we don't always get it right. We do, however, take service failures and complaints very seriously and look to resolve issues as quickly and fairly as possible. We also try to learn from our mistakes. I would encourage members to contact me about any shortcomings they experience in our service at tony.moroney@mail.ebs.ie

HELPING 25,000 MEMBERS OWN THEIR HOME

The economy continued to perform strongly in 2006 with growth rates in excess of 5%. High levels of inward migration helped to increase our population to its highest level since 1861. Job creation also remained strong and we now have over two million people working in Ireland. These factors continue to underpin demand for housing. The market continues to respond well and 2006 was yet another record year in terms of supply with over 90,000 new homes being built.

House prices grew by 11.8% in 2006, compared to 9.3% in 2005. As it transpired, 2006 turned out to be a year of two halves. House prices accelerated by 8% in the first six months and then lost momentum in the second half of the year, up 3.8%, as interest rate increases coupled with record levels of housing supply took much of the heat out of the market. This was a welcome development.

With European interest rates increasing by 1.5% over the course of 2006, mortgage affordability weakened. The recent doubling of mortgage interest relief has tempered the impact of rate changes and was a much welcomed tax break for first time buyers.

Recognising that we were moving into a period of upward interest rate movements, EBS in conjunction with economic consultants DKM and the Irish Property Buyer launched Ireland's first Affordability Index to track the impact of house price inflation and rising interest rates on First-Time Buyers. The index since its launch last summer is proving to be of great interest to policy-makers, economists, the media and the public at large.

Many members however, still find the whole process of buying their first home a daunting task. In 2006 we continued with our very popular First-Time Buyer seminars with 36 seminars in all held across the country. Since we started in 2004, some 4,000 First-Time Buyers have attended seminars with others availing of our DVD "How to buy your first home - uncovered?". We also launched our first homebuyers guide in Polish "Mala Ksiazka" and supplemented our seminars with a very successful sponsorship of the First-Time Buyer Expo in the RDS.

We will continue as a priority to help existing and prospective members make informed decisions when it comes to buying their first home. We also want to make mortgages more accessible and the process of obtaining one as straightforward as possible. In this regard, we are the market leader having partnered with 40 local authorities around the country to provide mortgages for affordable housing under our Home Access mortgage product.

The Irish mortgage market is extremely competitive. Against that background EBS continues to innovate and extend the range of mortgages it offers. Most recently, our QuickSwitch mortgage product, a streamlined, hassle-free way to switch your mortgage to EBS for free, was shortlisted for "Best New Mortgage Product in Europe".

All told, 2006 was a record year for mortgage advances in EBS with more than 25,000 members taking out a new mortgage from your Society. Year-on-year growth in the Irish mortgage market was 16.9%. EBS residential mortgage gross advances of some €4bn were 18% ahead of the previous year, which was a very satisfactory performance.

MORE OPTIONS FOR OUR SAVERS & INVESTORS

Our savings products remain very popular and by December, member savings had reached a record €4.7bn.

I was particularly pleased with our members response to our innovative high rate Platinum and SureCert products. Of course, 2006 also saw the first SSIA maturities. Our SSIA successor product, Optimise, is proving to be very successful and it is very satisfying that of those accounts that have matured, over two thirds of the funds have remained with the Society.

2006 was also a good year for equity markets, with the ISEQ up some 27.8%. With the renewed confidence in equity markets, your Society is now better placed to meet the wider investment and pension needs of members. During the year, we repositioned our investments business for the longer term by entering into a partnership with the leading life insurance company in Ireland and this has enabled us to greatly expand the range of investment products available to members. With 15 new investment options already available and more to follow, we are confident of being able to customise solutions for members in line with their individual risk-reward appetite.

These products are available in our outlets and as mentioned earlier, your Society has put in place its own specialist financial planning advisory service to advise members on investment options and to also provide advice on protecting their families and on retirement planning. This reflects our belief, and indeed experience, that financial planning is a key service which members will increasingly be demanding in the future.

THE FUTURE - CONTINUING TO PUT OUR MEMBERS FIRST

My priority must be to ensure we fully understand individual members and their individual and collective needs. Following on from that, our business must continuously adapt to fulfil those changing needs. If we don't someone else will.

Equipping our staff to understand and meet your needs is at the heart of our Member Served strategy. During 2006, we continued to embed needs based consultative selling skills in our Network and Member Direct call centre. In total, our staff undertook 5.5 days of training to improve their service capability.

During the year the Financial Regulator introduced a new Consumer Protection Code and Minimum Competency Standards. EBS welcomes and indeed fully embraces the new codes. As a customer-member owned organisation, the codes reflect our own philosophy and the high standards we aspire to in all our dealings with members. A lot of work has already been undertaken to ensure timely implementation of the new codes and this will continue into 2007.

It is only through the capabilities and positive attitudes of our people that EBS will be successful in the future. My priority is to make sure that we continue to invest single-mindedly in enhancing members experience of dealing with us.

INVOLVING OUR MEMBERS MORE

We have always prided ourselves on the extent to which we involve and seek feedback from members. This year has seen even greater involvement than previously through member surveys, research and seminars.

In total, we consulted some 3,000 EBS members again in 2006 as we carried out research on SSIAs, mortgages, investment property purchase and account switching. We also held dedicated seminars for SSIAs, First-Time Buyers and for "Members Over 50".

Your Society is very proud to facilitate members continued involvement in their local communities. Once again over 200 members worked unselfishly throughout the year with their local offices' Community Investment Groups. As a result over 400 community initiatives all over Ireland received valuable financial support.

In 2007, we are intent on finding even more innovative means to bring the voice of members into the business. We see this as a "must do", as bringing the voice of members into the business enables us to respond better to the changing needs of our members.

Finally, through the medium of our Positive Impact programme we continued to work closely with both Simon and Habitat for Humanity in the fight against homelessness at various levels and with the National Adult Literacy Association who do great work in the area of financial literacy. We learn as a corporate organisation from our involvement with these good causes and our staff value the opportunity it affords them to make a difference at a personal level.

I would like to take this opportunity to thank you for your membership and for your continued support in helping to make your Society altogether better.

Tony Moroney

Tony Moroney
Director, Membership Business

EBS MANAGEMENT TEAM

MANAGEMENT BOARD

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(Left to Right) Jim Ruane, Emer Finnan, Mark Moran, Ted McGovern

BOARD OF DIRECTORS

MARK MORAN
BE, MBA
Non-Executive Chairman (Age 44)
Appointed Non-Executive Director in 2002 and Chairman in 2007. Mark is the Chairman of the Mater Private Hospital. Before joining the Mater Private Hospital, Mark held senior positions in international pharmaceutical and financial services firms.
Principal other directorships: Mater Private Hospital Ltd., Common Purpose (Ireland) Ltd., Irish Blood Transfusion Service.

TED MCGOVERN
B ACC, FCA, FIB
Chief Executive (Age 53)
Appointed Chief Executive in 2001. Ted has more than 21 years experience in banking, including 15 years with Bank of Ireland Group in a number of senior positions. Prior to joining EBS, he was Chief Executive of ICS Building Society. He is a past president of both the Institute of Bankers in Ireland and the International Union of Housing Finance.
Principal other directorships: None

CATHAL MAGEE
BA (Mgt), MSc
Non-Executive Director (Age 53)
Appointed director in 2002. Cathal is Managing Director of eircom Retail, the eircom voice, data and internet communications business. His previous business experience includes periods in banking and manufacturing, mainly in the Human Resources area.
Principal other directorships: eircom Ltd., eircom ESOP Trustee Ltd., VHI, Tetra Ireland Communications Ltd.

MICHAEL MORONEY
PhD, M Litt, BA, HDE
Non-Executive Director (Age 70)
Appointed director in 1988. Michael served as General Treasurer of the Irish National Teachers Organisation for 19 years until his retirement in 1997.
Principal other directorships: Juvent Ltd., Medivibes Ltd.

Michael Moroney, Ethna Tinney, Tony Moroney

Cathal Magee, Yvonne Scannell, Alan Merriman, Barbara Patton

BARBARA PATTON
MBS
Non-Executive Director and Senior Independent Director (Age 46)
Appointed director in 2002. Barbara worked in the financial services industry for 13 years, firstly with AIB Capital Markets and then with Irish Permanent plc. Barbara is now an independent marketing consultant specialising in Services Marketing in the SME sector, and is also a part-time lecturer at the Michael Smurfit Graduate School of Business.
Principal other directorships: Social Innovations Ireland, An Post National Lottery Company, Crawford Art Gallery Cork.

JIM RUANE
PhD, M.Agr.SC, B.Agr.SC, FIB
Non-Executive Director (Age 62)
Appointed director in 2007. Jim started his working career as an economist and has held numerous senior management positions in a number of financial services firms and manufacturing companies, including Bank of Ireland Group and John Deere & Co. He has recently been appointed by the Government to the Higher Education Authority.
Principal other directorships: Royal Victoria Eye & Ear Hospital, nSpire Re Ltd., DIT Educational Trust, Whitcas (Ireland) Ltd., Mater Private Hospital Ltd., Scottish Re (Dublin) Ltd., The King and Shaxson Fund plc.

YVONNE SCANNELL
PhD, LLD (h.c), Barrister
Non-Executive Director (Age 58)
Appointed director in 1995. Yvonne is Professor of Law at Trinity College Dublin and specialises in Environmental and Planning Law. She works with Arthur Cox Solicitors as a consultant in planning and environmental law.
Principal other directorships: Tara Mines Ltd., CIÉ.

ETHNA TINNEY
BA (Mod), LRAM
Non-Executive Director (Age 52)
Appointed director in 2000. Ethna is a producer with RTÉ lyric fm, the music and arts radio station, and has extensive experience in the field of classical music as an artist, teacher, producer and entrepreneur.
Principal other directorships: None

ALAN MERRIMAN
BCOMM, FCA
Executive Director (Age 39)
Appointed director in 2005. Alan joined the Society in July 2005 from PricewaterhouseCoopers, where he was a partner. He has extensive experience in financial services having led PricewaterhouseCoopers Audit and Advisory Banking business and their Financial Services Regulatory Services practice. Alan has executive responsibility for finance, treasury, commercial lending, risk, and regulatory compliance.
Principal other directorships: None

TONY MORONEY
MBA, FIB
Executive Director (Age 42)
Appointed director in 2005. Tony has 25 years experience in financial services. Before joining EBS, he was a senior executive with Bank of Ireland Group. Tony has executive responsibility for the EBS Membership Business which encompasses all the main businesses in EBS including products (mortgages, savings, investments and insurance), channels, sales and marketing. Tony is currently Vice President, Ireland, for the European Mortgage Federation and immediate past Chairman of the Irish Mortgage Council.
Principal other directorships: None

EMER FINNAN
BComm, FCA
Secretary (Age 38)
Appointed Secretary to the Board in 2005, Emer has over 17 years experience in financial services. Prior to joining EBS, Emer worked as a Director with NCB Corporate Finance with responsibility for financial services and advised on the majority of the significant financial services transactions in Ireland over the last number of years. Prior to that Emer worked with ABN AMRO, Citibank and KPMG. Emer has executive responsibility for the Strategic Development of the Society.
Principal other directorships: RTÉ

DIRECTORS' REPORT

The directors present to the members of EBS Building Society their report and the audited accounts for the year ended 31 December 2006.

BUSINESS REVIEW

The Chairman's Review, Chief Executive's Review, Operating and Financial Review and the Membership Business Review on pages 2 to 12 contain a look back on the business of the Society and its subsidiaries during 2006, together with the plans for 2007.

DIRECTORS

The Board consists of ten directors, of whom three are full-time executives of the Society and seven are non-executives. Directors' names and other details are provided on pages 14 to 15. The Secretary to the Board is Emer Finnan.

At the 2007 Annual General Meeting Michael Moroney is retiring.

Ethna Tinney retires in accordance with the Society's Rules and offers herself for re-election. The Board's Nominations Committee has recommended and the Board has accepted its recommendation not to support Ms. Tinney's re-election to the Board for a third three-year term. Despite the Board's decision, Ms. Tinney has decided, as is her right under the Society's Rules, to offer herself to the members for re-election.

EVENTS SINCE THE YEAR END

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

SUBSIDIARY COMPANIES

The Society has no principal trading subsidiaries. During the year the Society sold EBS Asset Managers Ltd.

SAFETY OF EMPLOYEES AND CUSTOMERS

The Society's policy is to maintain a safe place and system of work. During the year the Society has continued to promote a culture of health and safety amongst employees. Key initiatives in 2006 included a detailed review of the Head Office and Branch offices by Health and Safety experts and a review of physical security in network offices.

CORPORATE GOVERNANCE

The Board seeks to comply with the highest standards of Corporate Governance.

Role of the Board

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

Board Meetings

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

Board of Directors and Independence

The Board has determined that each Non-Executive Director is independent within the meaning of the Combined Code on Corporate Governance, July 2003, as amended in 2005 ('the Combined Code').

In considering the independence of Dr. Yvonne Scannell, the Board had regard to the fact that she has served on the Board for more than 9 years and that she is a consultant to Arthur Cox, which is one of the Society's suppliers of legal services. The Board determined the independence of Dr. Scannell in light of her integrity, strength of character and objectivity.

In considering the independence of Dr. Michael Moroney, the Board had regard to the fact that he has served on the Board for more than 9 years. The Board determined the independence of Dr. Moroney in light of his integrity, strength of character and objectivity.

In considering the independence of Dr. Jim Ruane, the Board had regard to the fact that he has a cross-directorship with the Chairman. The Board determined the independence of Dr. Ruane in light of his integrity, strength of character and objectivity.

Matters Reserved for the Board

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

Board Committees

The Board has established six permanent committees to consider certain issues and functions in detail. Each committee through its chair reports to the Board at the earliest scheduled Board meeting after each committee meeting. Reports will cover any matters that in the opinion of the committee should be brought to the attention of the Board and any recommendations requiring Board approval and/or action. In addition, ad hoc committees are set up from time to time, as required.

The membership of all committees is reviewed from time to time; the last such review took place in December 2006. The Terms of Reference of all committees are regularly reviewed.

The key responsibilities of each committee is shown overleaf, while the full Terms of Reference of these committees may be downloaded from the Society's web site on www.ebs.ie (follow the link under the Corporate Governance section in About Us).

Audit & Compliance Committee

This committee is responsible for monitoring the integrity of the financial statements and internal control systems. The committee also assesses the effectiveness of the internal audit and regulatory compliance functions, as well as the independence and objectivity of the external auditors. The committee makes recommendations regarding the appointment, as well as the remuneration and terms of engagement, of the external auditors; it also makes recommendations regarding the provision of non-audit services by the external auditors. The committee met seven times in 2006.

Board Credit Approval Committee

The Board Credit Approval Committee approves large credits which are above the delegated authority level given to management and below the threshold reserved for the Board. The committee meets as required to consider such credit decisions.

Capital Transactions Committee

The Capital Transactions Committee reviews documentation with respect to major capital transactions. Such major transactions include the raising of capital and renewal of programmes such as our Euro Medium Term Note debt securities programme. The committee met twice in 2006.

Nominations Committee

The Nominations Committee is responsible for reviewing the size, structure and composition of the Board. In identifying new Non-Executive Directors, a combination of external search consultancy and open advertising has been used; the Nominations Committee acts as the interview board for such appointments, submitting its recommendations to the Board. The committee also oversees the process for evaluating the performance of the Board and individual directors. The committee met four times in 2006.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Executive Directors and other senior management and also deals with senior management succession planning. The committee met five times in 2006.

Risk Committee

The Board Risk Committee is responsible for identifying, evaluating and monitoring significant corporate risks and opportunities associated with the achievement of EBS's strategic goals and objectives. The committee makes recommendations to manage material risks through prevention, elimination, mitigation, insurance or a combination of these options. It also recommends enhancements to the operation and/or reporting of risk management to the Board where appropriate. The committee assesses the quality, adequacy, resources, scope and nature of the work of the risk function in particular, and the risk management framework in general, of EBS. The committee met seven times in 2006.

Performance Evaluation of the Board and Directors

An evaluation of Board effectiveness and the performance of individual directors are carried out on a regular basis. This exercise is facilitated by an external consultant, whose findings are presented to the Board for consideration. Arising from this, follow-up actions are agreed where necessary. The external consultant also reports to the Chairman on the assessed performance of each director, with the report on the performance of the Chairman being presented to the Vice Chairman. The Audit & Compliance Committee and the Risk Committee conduct regular reviews of their own effectiveness.

Risk Management

The Directors are responsible for the effective management of risks and opportunities and for the system of internal control in the Society and its subsidiaries. Risk is defined as failure to maximise opportunities, capitalise on corporate strengths or a failure to foresee or manage events which result in unnecessary material financial loss or damage to the Society's reputation. EBS operates a

Board Committee Membership at 1 March 2007

	Audit & Compliance	Board Credit Approval	Capital Transactions	Nominations	Remuneration	Risk
Cathal Magee		•	•			• (chair)
Ted McGovern		•	•	•		•
Mark Moran			•(chair)	•	•(chair)	•
Michael Moroney		•		•	•	
Barbara Patton	•	•			•	
Alan Merriman		•	•			•
Tony Moroney						•
Jim Ruane	• (chair)	• (chair)	•			
Yvonne Scannell		•		• (chair)	•	
Ethna Tinney	•	•				

Note: In addition to the membership shown above, Executive Directors and other members of senior management attend Board committee meetings, as required.

continuous risk management process which identifies and evaluates the key risks facing the Society and its subsidiaries. This process includes an assessment of the effectiveness of internal control, and was in place for the full year under review up to the date of approval of the accounts. It is regularly reviewed by the Board and management and complies with the Combined Code.

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

The Board reviews the effectiveness of the system of internal control, and is supported in this by the work of two of its subcommittees, namely the Board Risk Committee and the Board Audit & Regulatory Compliance Committee. Any areas for improvement identified are proactively actioned and progress on these areas is monitored by the Board Audit & Compliance Committee. The Board Risk Committee supports the Board in identifying potential risks to the strategic objectives of the Society and evaluating the risk management policies and practices which are in place to reduce the likelihood of a risk occurring and/or to minimise the impact in the case that a risk event did occur.

The Board Audit & Compliance Committee supports the Board in reviewing, inter alia, existing internal control mechanisms to assess whether they are performing effectively. Internal Audit & Compliance report separately and independently to the Board Audit & Compliance Committee. The Risk function also provides a regular update on management actions to improve the control environment.

There are management systems and procedures in place in the Society to identify, measure, manage and report on material risks. The key elements of these are:

- There is a clearly defined organisation structure which is regularly updated.
- Strategies, goals, objectives, authority limits and reporting mechanisms are clearly defined and performance is monitored.
- The Society's risk appetite is evaluated and risk exposure is monitored by the Board, supported by a comprehensive risk governance structure incorporating the Board Risk Committee, the Management Board (made up of senior management), and its underlying risk committees comprising the Asset & Liability Committee, the Capital Committee, the Credit Risk Committee, the Operations Management Committee and the Regulatory Compliance Committee. Each of these committees is responsible for identifying actions to support robust risk management in line with the organisation's risk appetite and monitoring their progress.
- The Asset & Liability Committee was established to evaluate the Society's exposure to market risk, namely, interest rate risk, liquidity risk, funding risk and foreign exchange risk. It is also responsible for monitoring capital ratios, including projections, and agreeing the appropriate management implementation of the capital policy.
- The Capital Committee recommends the appropriate capital policy for EBS to the Management Board including agreement on the appropriate level and composition of capital which should be held. It is also responsible for approving the allocation of the cost of capital across each key business line and the appropriate return on capital, given the Society's risk appetite. The Committee monitors the return on capital and promotes the development of risk adjusted return on capital (RAROC) capabilities and use. The Committee also acts as a steering committee for the Basel II programme of work, which is developing more sophisticated risk evaluation tools and techniques to meet the requirements of the new Capital Requirements Directive which became law on 1 January 2007.
- The Credit Risk Committee reviews and recommends appropriate credit risk management structures and policies in line with the credit risk appetite of the organisation. It is also responsible for monitoring the performance of the loan book, external economic and other developments and new business credit risk trends. The committee is charged with ensuring that an appropriate level of credit risk insurance is being maintained and is responsible for reviewing and approving provision levels for bad and doubtful debts. Two subcommittees, the Counterparty Credit Committee and the Credit Risk Rating Approval Committee support robust monitoring of counterparty credit policy and procedures and the approval and use of credit risk rating models respectively.
- The Operations Management Committee reviews and monitors business operation and process risks and improvement initiatives across the organisation. It is also responsible for reviewing loss and near miss events and making recommendations for changes in operational processes to the Management Board where appropriate. The committee is responsible for evaluating the organisation's appetite for operational risk and ensuring that it is well communicated and understood. The Health & Safety Committee was reconstituted in 2006 and now reports to the Operations Management Committee. A separate committee focusing on Business Continuity Management and Information Security supports robust risk management in these key operational areas.
- The Regulatory Compliance Committee ensures that there is an appropriate framework in place for ensuring that EBS is compliant with regulations across all areas of the business. It is also responsible for evaluating any compliance reviews and assessments undertaken by the Compliance function, external audit or other third parties, and for ensuring appropriate action plans are put in place where compliance risk gaps are identified.
- Detailed risk control self assessments of the risks associated with business targets and responsibilities are undertaken by business and support units and by project teams on an ongoing basis. The output of these assessments are agreed by the appropriate Executive Director and evaluated by the Operations Management Committee and the relevant Steering Committee.
- There are three independent review functions - Risk, Compliance

and Internal Audit - each of which operates separately to, and independently of, the general business operation.

- The Risk function supports each part of the organisation in identifying, measuring, managing and monitoring risk in their area of responsibility. It is comprised of a Credit Risk Unit and an Operational Risk Unit and has oversight of market risk management in the Society as well as the Basel II programme of work. The Risk function facilitates the risk committees and supports detailed risk reviews for all strategic initiatives. It monitors and reports on risk management developments and actions to the Board through the Board Risk Committee and the Board Audit & Compliance Committee.
- The Compliance function supports each area of the business in identifying its responsibilities in relation to prevailing and pending laws and regulations. This is reviewed and monitored by the Regulatory Compliance Committee and reports to the Board Audit & Compliance Committee on compliance with these requirements.
- Internal Audit provides independent assurance in relation to the effectiveness of the system of internal control to the Board through the Board Audit & Compliance Committee.

CONTRACTS

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

On behalf of the Board

Mark Moran	Chairman
Barbara Patton	Senior Independent Director

1 March 2007

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee is made up of the following Non-Executive Directors: Mark Moran (Chairman), Michael Moroney, Barbara Patton and Yvonne Scannell. The Chief Executive and the Director - People, Communication and Change (who is Secretary to the Committee) normally attend, except when their own performance reviews and remuneration are being discussed.

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

It is the policy of the Committee to engage external independent consultants to advise the Committee on appropriate remuneration policy for senior executives.

REMUNERATION POLICY

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

REMUNERATION PACKAGE FOR EXECUTIVE DIRECTORS

The remuneration package for Executive Directors comprises the following elements:

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

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

2006 EXECUTIVE DIRECTORS REMUNERATION

The remuneration of the Executive Directors is listed below:

	Salary		Annual Bonus		Medium Term Incentive Plan		Benefits		Total	
	2006 €000	2005 €000	**2006 €000**	2005 €000	**2006 €000**	2005 €000	**2006 €000**	2005 €000	**2006 €000**	2005 €000
Ted McGovern	430.0	392.5	139.7	119.7	145.1	102.0	44.9	40.4	759.7	654.6
Alan Merriman[1]	400.0	214.3	130.0	-	120.0	-	40.2	17.8	690.2	232.1
Tony Moroney[2]	224.6	105.0	60.0	-	63.0	-	28.0	13.0	375.6	118.0
John Cullen[3]	-	109.8	-	50.0	-	-	-	14.9	-	174.7
Joe Ryan[4]	-	171.0	-	115.0	-	55.0	-	15.2	-	356.2
Total	**1,054.6**	**992.6**	**329.7**	**284.7**	**328.1**	**157.0**	**113.1**	**101.3**	**1,825.5**	**1,535.6**

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

The annual bonus amounts disclosed on the previous page are those awarded in 2006 and are typically paid in July.

The Medium Term Incentive plan amounts disclosed on the previous page are those awarded during the year based on performance to 31 March. The MTI cumulative cash payment is made on a three year cycle, with the next payment due in July 2007.

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

The Executive Directors are members of the EBS Pension Plan for senior managers with a retirement age of 60. An employee contribution rate of 5% of pensionable salary applies. Normal contributions made by the Society in respect of the Executive Directors totalled €378,412 in 2006 (€364,500 in 2005).

The Executive Directors' pension benefits under the defined benefit pension scheme of which they are members are as follows:

	Total accrued pension		Increase in accrued pension not attributable to inflation		Transfer value of the increase in accrued pension	
	(a) 2006 €000	(a) 2005 €000	**(b) 2006 €000**	(b) 2005 €000	**(c) 2006 €000**	(c) 2005 €000
Ted McGovern	178.7	158.1	14.3	48.2	219.6	713.5
Alan Merriman	20.1	6.7	13.2	6.7	90.7	38.7
Tony Moroney	28.2	17.9	9.6	3.5	81.3	24.1
John Cullen	-	200.0	-	45.3	-	1,024.7
Joe Ryan	-	172.7	-	13.5	-	291.7
Total	**227.1**	**555.4**	**37.2**	**117.2**	**391.7**	**2,092.7**

Column (a) represents the pension which the directors would have been entitled to receive, on reaching pensionable age, had they left the Society at the end of the financial year.
Column (b) is the increase in the amount shown in column (a) over and above the increase that would be payable on account of inflation.
Column (c) represents the transfer values of the increases in accrued benefits during 2006. These transfer values do not represent sums paid or due, but the amounts that the pension plan would transfer to another pension plan, in relation to the benefits accrued in 2006, in the event of the Executive Director leaving the Society.

2006 NON-EXECUTIVE DIRECTORS REMUNERATION

The Committee, after taking appropriate qualified advice, also recommends to the Board the level of fees for Non-Executive Directors to be proposed to members at the Annual General Meeting.

The remuneration of the Non-Executive Directors is listed below:

	2006 €000	2005 €000
Brian A. Joyce (Chairman)	100.0	95.0
Ronald J. Bolger (Vice-Chairman)	75.0	70.0
Cathal Magee	42.0	40.0
Mark Moran[1]	17.5	40.0
Michael Moroney[2]	52.0	54.0
Barbara Patton	42.0	40.0
Yvonne Scannell	42.0	40.0
Ethna Tinney	42.0	40.0
Total	**412.5**	**419.0**

[1] Mark Moran was on sabbatical for seven months of 2006.
[2] Michael Moroney was Chairman of EBS Asset Managers Ltd., until September 2006 when EBS Asset Managers Ltd., was sold.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Building Societies Act, 1989 requires the directors to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Society and the Group and of the income and expenditure and cash flow statement of the Society and the Group for that period. In preparing these financial statements, the directors are required to:

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF EBS BUILDING SOCIETY

We have audited the Group and Society financial statements (the "financial statements") of EBS Building Society for the year ended 31 December 2006 which comprise the Group and Society's Income Statements, Balance Sheets, Cash Flow Statements and Statements of Recognised Income and Expense and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with section 88(1) of the Building Societies Act, 1989. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the Group as at 31 December 2006 and of its profit for the year then ended;
- the Society financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, as applied in accordance with the Building Societies Act, 1989, of the state of affairs of the Society as at 31 December 2006 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Building Societies Act, 1989.

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

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

Ernst & Young
Registered Auditors

Dublin
1 March 2007

ACCOUNTS

Group and Society Income Statement
for the year ended 31 December 2006

Society 2006 €m	Society 2005 €m		Note	Group 2006 €m	Group 2005 €m
148.2	121.7	Net interest income	3	150.1	119.9
13.3	12.5	Non interest income	4	16.3	16.0
161.5	**134.2**			**166.4**	**135.9**
15.6	3.0	Other operating income	5	3.4	7.6
177.1	**137.2**	**Total income**		**169.8**	**143.5**
(98.6)	(88.8)	Total operating expenses	6	(99.3)	(89.3)
78.5	**48.4**	**Income before impairment losses and taxation**		**70.5**	**54.2**
(4.6)	(0.4)	Impairment losses on loans and advances	12(b)	(4.6)	(0.4)
73.9	**48.0**	**Income before taxation**		**65.9**	**53.8**
(8.9)	(13.5)	Taxation	7	(8.2)	(15.1)
65.0	**34.5**	**Income after taxation**		**57.7**	**38.7**

The notes on pages 30 to 50 form part of these financial statements.

Group and Society Balance Sheet

at 31 December 2006

Society 2006 €m	Society 2005 €m		Note	Group 2006 €m	Group 2005 €m
		Assets			
310.3	253.9	Cash and balances with central banks	8	310.3	253.9
24.0	107.0	Central government bills and other eligible bills	9	24.0	107.0
44.3	35.3	Derivative financial instruments	32	44.3	35.3
2,732.5	2,183.0	Available-for-sale financial assets	10	2,732.5	2,183.0
1,000.3	1,388.3	Loans and advances to credit institutions	11	1,011.8	1,427.5
12,468.6	11,297.3	Loans and advances to customers	12	14,634.4	12,210.7
260.9	-	Held to maturity financial assets	13	260.9	-
0.5	0.9	Shares in group undertakings	14	-	-
-	-	Investment property	15	-	36.5
60.4	57.7	Property, plant and equipment	16	68.2	66.0
16.7	17.6	Intangible assets	17	16.7	17.6
9.9	8.5	Deferred taxation asset	18	9.9	8.5
213.7	224.0	Other assets	19	193.0	210.3
17,142.1	**15,573.5**	**Total assets**		**19,306.0**	**16,556.3**
		Liabilities			
2,744.1	3,367.6	Deposits by credit institutions	20	2,744.1	3,367.5
10,195.9	8,877.3	Customer accounts	21	10,071.0	8,752.0
73.3	41.2	Derivative financial instruments	32	73.3	41.2
3,007.7	2,416.2	Debt securities in issue	22	5,184.6	3,367.3
7.7	6.3	Current taxation liabilities	23	8.6	6.3
5.2	3.7	Deferred taxation liabilities	24	11.9	18.6
306.4	202.3	Other liabilities	25	278.7	205.3
8.1	23.1	Retirement benefit liabilities	26	8.1	23.1
266.0	169.6	Subordinated liabilities	27	266.0	169.6
16,614.4	**15,107.3**			**18,646.3**	**15,950.9**
-	-	Minority interest	28	122.8	122.3
24.3	18.2	Revaluation reserve		24.3	18.2
(1.3)	0.6	Available-for-sale reserve		(1.3)	0.6
(22.3)	(2.6)	Cashflow hedge reserve		(22.3)	(2.6)
527.0	450.0	General reserve		536.2	466.9
17,142.1	**15,573.5**	**Total liabilities and reserves**		**19,306.0**	**16,556.3**

Mark Moran, Chairman
Ted McGovern, Chief Executive
Alan Merriman, Finance Director

1 March 2007

The notes on pages 30 to 50 form part of these financial statements.

Statement of Recognised Income and Expense

for the year ended 31 December 2006

	Revaluation Reserve €m	Available for Sale Reserve €m	Cashflow Hedge Reserve €m	General Reserve €m	Total €m
Group					
At 1 January 2005	14.8	0.8	1.7	442.6	459.9
Revaluation reserve	3.4	-	-	-	3.4
Available-for-sale reserve	-	(0.2)	-	-	(0.2)
Cashflow hedge reserve	-	-	(4.3)	-	(4.3)
Income after taxation	-	-	-	38.7	38.7
Actuarial loss on retirement benefits	-	-	-	(14.4)	(14.4)
At 31 December 2005	**18.2**	**0.6**	**(2.6)**	**466.9**	**483.1**
Revaluation reserve	6.1	-	-	-	6.1
Available-for-sale reserve	-	(1.9)	-	-	(1.9)
Cashflow hedge reserve	-	-	(19.7)	-	(19.7)
Income after taxation	-	-	-	57.7	57.7
Amortisation of issue costs on capital securities	-	-	-	(0.4)	(0.4)
Actuarial gain on retirement benefits	-	-	-	12.0	12.0
At 31 December 2006	**24.3**	**(1.3)**	**(22.3)**	**536.2**	**536.9**

	Revaluation Reserve €m	Available for Sale Reserve €m	Cashflow Hedge Reserve €m	General Reserve €m	Total €m
Society					
At 1 January 2005	14.8	0.8	1.7	429.9	447.2
Revaluation reserve	3.4	-	-	-	3.4
Available-for-sale reserve	-	(0.2)	-	-	(0.2)
Cashflow hedge reserve	-	-	(4.3)	-	(4.3)
Income after taxation	-	-	-	34.5	34.5
Actuarial loss on retirement benefits	-	-	-	(14.4)	(14.4)
At 31 December 2005	**18.2**	**0.6**	**(2.6)**	**450.0**	**466.2**
Revaluation reserve	6.1	-	-	-	6.1
Available-for-sale reserve	-	(1.9)	-	-	(1.9)
Cashflow hedge reserve	-	-	(19.7)	-	(19.7)
Income after taxation	-	-	-	65.0	65.0
Actuarial gain on retirement benefits	-	-	-	12.0	12.0
At 31 December 2006	**24.3**	**(1.3)**	**(22.3)**	**527.0**	**527.7**

The notes on pages 30 to 50 form part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2006

Society 2006 €m	Society 2005 €m		Note	Group 2006 €m	Group 2005 €m
		Cash flows from operating activities			
65.0	34.5	Income after taxation		57.7	38.7
		Adjustments for:			
3.5	3.0	Depreciation	16	4.2	3.7
5.8	5.6	Amortisation of intangibles	17	5.8	5.6
1.4	(0.6)	Write off (reversal) of property impairment losses	16	1.4	(0.6)
0.8	-	Impairment of intangibles	17	0.8	-
-	-	Investment property revaluation		(3.2)	(2.6)
8.9	13.5	Income tax expense	7	8.2	15.1
85.4	**56.0**	**Operating income before changes in working capital and provisions**		**74.9**	**59.9**
41.6	75.2	Net decrease in loans and advances to credit institutions		41.6	75.2
(2.8)	(2.6)	Net increase in mandatory reserve balance		(2.8)	(2.6)
(1,171.3)	(2,252.4)	Net increase in loans and advances to customers		(2,423.7)	(2,040.9)
10.3	(66.0)	Net decrease (increase) in other assets		17.3	(67.3)
(623.4)	741.9	Net (decrease) increase in deposits from credit institutions		(623.4)	741.9
1,318.6	1,613.0	Net increase in amounts due to customers		1,319.0	1,487.7
105.2	59.4	Increase in other liabilities		74.7	62.1
0.3	15.3	Other non cash movements		0.3	15.4
(236.1)	**239.8**	**Cash generated from operations**		**(1,522.1)**	**331.4**
-	(5.8)	Bank levy paid	7	-	(5.8)
(7.5)	(6.1)	Income taxes paid		(14.6)	(6.8)
(243.6)	**227.9**	**Net cash from operating activities**		**(1,536.7)**	**318.8**
		Cash flows from investing activities			
(4.7)	(4.3)	Purchase of property, plant and equipment	16	(4.9)	(6.1)
(5.7)	(7.6)	Purchase of intangible assets		(5.7)	(7.6)
0.3	-	Proceeds from disposal of fixed assets		0.3	-
-	-	Proceeds from disposal of investment property	15	40.1	-
0.4	(0.5)	Disposal of (investment in) subsidiaries		-	-
(690.7)	(1,095.5)	Net movement on short term securities		(690.7)	(1,095.5)
(700.4)	**(1,107.9)**	**Net cash from investing activities**		**(660.9)**	**(1,109.2)**
		Cash flows from financing activities			
591.5	749.1	Net increase in debt securities in issue		1,817.3	522.1
96.4	8.5	Increase in subordinated debt		96.4	8.5
-	-	Net investment by minority interests		-	122.3
687.9	**757.6**	**Net cash from financing activities**		**1,913.7**	**652.9**
(256.1)	**(122.4)**	**Net decrease in cash and cash equivalents**		**(283.8)**	**(137.5)**
2,037.6	2,160.0	Cash and cash equivalents at 1 January		2,076.8	1,473.8
1,781.5	**2,037.6**	**Cash and cash equivalents at 31 December**	8(b)	**1,793.0**	**2,076.8**

The notes on pages 30 to 50 form part of these financial statements.

Notes to the Accounts

31 December 2006

1. Accounting Policies

(a) *Corporate information*

The Group consists of EBS Building Society (the 'Society') a building society registered and domiciled in the Republic of Ireland and its subsidiaries. The principal activities of the Group are described in note 2. The financial statements have been drawn up in accordance with the Building Societies Act, 1989 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 which implemented the EU Directive on annual accounts of financial institutions.

(b) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and issued by the International Accounting Standards Board.

(c) *Basis of preparation*

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

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

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

The critical accounting judgements and estimates set out below in note 1(d) have been applied consistently to all periods presented in these consolidated financial statements. These have also been applied consistently by Group entities.

(d) *Critical accounting judgements and estimates*

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards. In preparing these accounts, management are required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. Full details of the significant accounting policies are set out below.

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

(i) Impairment losses on loans and advances

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

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

The Group considers that the provisions for loan impairment at 31 December 2006 were adequate based on information available at that time. However, actual losses may differ as a result of changes in collateral values, the timing and amounts of cash flows or other economic events.

(ii) Employee Benefits

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial value of the assets and liabilities of the scheme are calculated. This involves modelling their future growth and requires management, with the advice of an external actuary, to make assumptions as to price inflation, dividend growth, salary and pension increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. Further details are contained in Note 26.

(iii) Effective Interest Rate

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

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

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

(e) *Basis of consolidation*

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

(i) Subsidiaries and special purpose entities

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

Minority interests represent the portion of profit or loss and net assets not owned directly or indirectly by the group and are presented separately in the consolidated balance sheet.

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

(ii) Transactions eliminated on consolidation

All intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(f) *Derivative financial instruments*

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

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

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

Embedded derivatives

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

(g) *Hedging*

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. A hedge is regarded as highly effective if the changes in fair value or cashflows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

(i) Fair value hedges

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised on a straight line basis to the Income Statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(ii) Cash flow hedges

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

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

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

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

1. Accounting Policies (Continued)

(h) Financial Assets

Classification

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

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

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

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

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

Recognition of financial assets

Purchases and sales of financial assets at fair value through the Income Statement, held-to-maturity and available-for-sale are recognised on settlement date – this is the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to borrowers. Financial assets are initially recognised at cost being the fair value of the consideration given plus transaction costs for all financial assets not carried at fair value through the Income Statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Measurement of financial assets

Available-for-sale financial assets and financial assets designated at fair value through the income statement are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets designated at fair value through the income statement' category are recognised in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity in the available-for-sale reserve, until the financial asset is derecognised, collected or otherwise disposed of or until the asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement. Interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

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

(i) Financial Liabilities

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

(j) Investment Properties

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

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

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. Any gain or loss arising from a change in fair value is recognised in the Income Statement.

Investment properties are derecognised when they have been disposed of. Any gains or losses on disposal are recognised in the income statement in the year of disposal.

(k) Property, plant and equipment

Property is stated at revalued amount less accumulated depreciation. Office equipment and motor vehicles are stated at cost and deemed cost less accumulated depreciation and any impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2005, the date of transition to IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less the residual value over the estimated useful lives of the assets as follows:

Land and buildings	Not depreciated
Fixtures & Fittings, Equipment and Motor Vehicles	10% - 33% per annum

Asset useful lives and residual values are reviewed annually. Assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognised in the Income Statement whenever the carrying amount exceeds its recoverable amount.

Gains and losses on disposal, being the difference between proceeds and the carrying amount, are included in the Income Statement within other income or operating expenses in the year the asset is derecognised.

(l) Leases

Group as lessee

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Income Statement as an integral part of the total lease expense. All payments under operating lease contracts are charged to operating expenses in the year in which the expenditure is incurred.

Group as lessor

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. The group earns rental income on properties leased as operating leases.

(m) Taxation

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

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

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

Deferred tax relating to items recognised directly in equity are not recognised in the Income Statement

(n) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined contribution pension plans
The group also operates defined contribution pension plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a fund and has no legal or constructive obligations to pay any further contributions. The contributions payable to a defined contribution plan is in proportion to the services rendered by the employees and is recorded under operating expenses.

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

(q) Revenue Recognition
(i) Interest income and expense
Interest income and expense are recognised in the Income Statement for all interest bearing financial instruments measured at amortised cost using the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period

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

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

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

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, between 3 and 10 years. The amortisation expense is recognised in the Income Statement in operating expenses.

In addition to the capitalisation of internally generated computer software, purchased software that does not form an integral part of the related hardware is also capitalised and amortised using the straight-line method over their useful lives, between 3 and 10 years. Computer software that does form an integral part of the related hardware is capitalised as office equipment in other tangible fixed assets.

(s) Available-for-sale current assets
An asset is classified as held for sale if its carry amount will be recovered principally through a sale transaction rather than through continuing used. The sale transaction must be highly probable and the asset available for immediate sale in its present condition.

(t) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

(u) Foreign currency transactions
The functional and presentation currency of the Group and its subsidiaries is Euro.

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

(v) Change in accounting policies
As of 1 January 2006, the Society adopted the amendments to IAS 19 Employee Benefits. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plan and assumptions underlying the components of the defined benefit cost. The change has resulted in additional disclosures being made but has not had a recognition or measurement impact.

(w) New standards and interpretations not applied
During the year, the IASB and IFRIC have issued a number of accounting standards and interpretations with an effective date after the date of these financial statements including:

International Accounting Standards (IAS/IFRSs)		Effective Date
Financial Instruments: Disclosures	IFRS 7	1-Jan-07
Amendment - Presentation of Financial Statements: Capital Disclosures	IAS 1	1-Jan-07

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

These will be adopted in future years and are not expected to have a material impact on the Group's results. IFRS 7 and the Amendment to IAS 1 will result in additional disclosures relating to capital and risk management policies and processes.

2. Reporting by Business Segments and Geographical Location

All the Group's activities are carried out exclusively in the financial services sector in the Republic of Ireland. The principal activities of the Group involve the provision of mortgage lending, savings, investments and insurance arrangement services to members.

Notes to the Accounts

31 December 2006

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
3. Net Interest Income				
Interest Income	660.7	451.9	661.9	454.0
Interest Expense	(512.5)	(330.2)	(511.8)	(334.1)
	148.2	121.7	150.1	119.9
Interest Income				
Loans and advances to credit institutions	51.4	35.3	51.4	37.3
Loans and advances to customers	514.1	352.5	514.1	352.6
Available-for-sale and held to maturity financial assets	92.6	44.1	92.6	44.1
Other interest receivable	2.6	20.0	3.8	20.0
	660.7	451.9	661.9	454.0
Interest Expense				
Subordinated liabilities	(8.7)	(8.4)	(8.7)	(8.4)
Capital securities	(6.3)	(2.7)	(6.1)	(2.6)
Debt securities in issue	(99.0)	(55.5)	(99.0)	(55.5)
Other interest payable	(398.5)	(263.6)	(398.0)	(267.6)
	(512.5)	(330.2)	(511.8)	(334.1)

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
4. Non Interest Income				
Fees and commissions receivable	21.4	15.2	27.0	22.2
Fees and commissions payable	(8.1)	(2.7)	(10.7)	(6.2)
	13.3	12.5	16.3	16.0

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
5. Other Operating Income				
Rental Income	1.4	1.7	2.8	3.8
Investment property income (note 15)	-	-	0.2	2.6
Dividend income - intragroup	13.7	-	-	-
Other income	0.5	1.3	0.4	1.2
	15.6	3.0	3.4	7.6

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
6. Total Operating Expenses				
Staff costs	45.1	42.6	45.5	42.8
Other administrative expenses	44.2	37.6	43.8	37.2
Depreciation and amortisation of intangibles	9.3	8.6	10.0	9.3
	98.6	88.8	99.3	89.3

Auditor's remuneration (including value added tax) in 2006: €0.4m (2005: €0.3m).
Details of Directors' remuneration are given in the Report of the Remuneration Committee on page 20

The average number of persons employed by the Group and Society in the financial year was 634 and is analysed into the following categories:

	2006	2005
Full time staff	616	617
Part time staff	18	24
	634	641

Notes to the Accounts
31 December 2006

6. Total Operating Expenses (continued)

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
Staff costs comprise:				
Wages and salaries	35.8	35.3	36.2	35.5
Social welfare costs	3.9	3.5	3.9	3.5
Defined benefit and defined contribution pension costs (note 26)	5.4	3.8	5.4	3.8
	45.1	42.6	45.5	42.8

7. Taxation

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
The taxation charge for the year is as follows:				
Corporation tax	8.0	7.2	15.8	7.7
Deferred tax (note 18, 24)	-	0.5	(8.5)	1.6
Government Social Finance Initiative Levy	0.9	-	0.9	-
Bank levy	-	5.8	-	5.8
	8.9	13.5	8.2	15.1
The deferred taxation charge arises from:				
Capital allowances in excess of depreciation	(0.2)	0.1	-	0.6
Revaluation of investment properties	-	-	-	0.7
Transfer from deferred tax to current tax	-	-	(7.5)	-
Release of deferred tax provision	-	-	(1.2)	-
Other timing differences	0.2	0.4	0.2	0.3
	-	0.5	(8.5)	1.6

In 2006 the Irish Government approved the Social Finance Initiative, under this initiative the Social Finance Company will be established with seed capital of €25m contributed by Irish Banks and Building Societies. The Society's contribution to the initiative is €0.95m.

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

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

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
Income before tax at 12.5% (2005: 12.5%)	9.2	6.0	8.2	6.7
Effects of:				
Corporation tax on chargeable gains	0.1	-	3.6	-
Capital allowances in excess of depreciation	0.3	(0.4)	0.3	(0.4)
Capital allowances repaid	-	-	3.6	-
(Over) under provision in prior years	(0.6)	1.1	(0.6)	1.1
Intragroup dividend income not taxable	(1.7)	-	-	-
Other timing differences	-	-	-	(0.6)
Addbacks and income not taxable at standard rates	0.7	0.5	0.7	0.9
Corporation tax	8.0	7.2	15.8	7.7
Deferred tax	-	0.5	(8.5)	1.6
Government Social Finance Initiative Levy	0.9	-	0.9	-
Bank levy	-	5.8	-	5.8
Total tax	8.9	13.5	8.2	15.1

Notes to the Accounts

31 December 2006

		2006 €m	2005 €m
8(a).	**Cash and Balances with Central Banks**		
	Group and Society		
	Cash in hand	3.7	3.7
	Balances with Central Banks other than mandatory reserve deposits	289.1	235.5
	Included in cash and cash equivalents	292.8	239.2
	Mandatory reserve deposits with Central Bank	17.5	14.7
	Total cash and balances with central banks	310.3	253.9

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

		Society		Group	
		2006 €m	2005 €m	**2006 €m**	2005 €m
8(b).	**Cash and Cash Equivalents**				
	For the purposes of the cashflow statement the cash and cash equivalents comprise the following:				
	Cash and balances with Central Banks	292.8	239.2	292.8	239.2
	Central Government and other eligible bills	24.0	107.0	24.0	107.0
	Available-for-sale financial assets	469.7	350.0	469.7	350.0
	Loans and advances to credit institutions	995.0	1,341.4	1,006.5	1,380.6
		1,781.5	2,037.6	1,793.0	2,076.8

		2006 €m	2005 €m
9.	**Central Government Bills and Other Eligible Bills**		
	Group and Society		
	Other eligible bills - at amortised cost	24.0	107.0
	Maturing within three months	24.0	107.0
	Market value	24.0	107.0

		2006 €m	2005 €m
10.	**Available-for-sale Financial Assets**		
	Group and Society		
	Central Government bills - at fair value	167.8	83.3
	Debt securities - at fair value	2,564.7	2,099.7
		2,732.5	2,183.0
	Maturing within three months	469.7	350.0
	Maturing between three months and one year	469.8	370.6
	Maturing between one and five years	1,379.8	1,124.0
	Maturing between five and ten years	413.2	338.4
		2,732.5	2,183.0

		Fair Value €m	Gross Gains €m	Gross Losses €m	Net €m
10(a).	**Unrealised gains/losses not recognised in Income statement on Available-for-sale Assets**				
	Group and Society - 31 December 2006				
	Central Government bills	167.8	-	(2.8)	(2.8)
	Debt securities	2,564.7	13.1	(11.8)	1.3
		2,732.5	13.1	(14.6)	(1.5)
	Group and Society - 31 December 2005				
	Central Government bills	83.3	-	(0.4)	(0.4)
	Debt securities	2,099.7	7.1	(6.0)	1.1
		2,183.0	7.1	(6.4)	0.7

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
11. Loans and Advances to Credit Institutions				
Repayable in less than three months	995.0	1,341.4	1,006.5	1,380.6
Repayable in more than three months but less than one year	5.3	46.9	5.3	46.9
	1,000.3	1,388.3	1,011.8	1,427.5

At 31 December 2006 the Group has €93.5m (2005: €70.4m) included in loans and advances to credit institutions which is not available for use by the Group.

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
12(a). Loans and Advances to Customers				
Repayable on demand	5.0	4.6	5.0	4.6
Repayable in less than three months	37.6	22.9	37.6	22.9
Repayable in more than three months but less than one year	188.9	170.3	188.9	170.3
Repayable in more than one but less than five years	426.6	310.8	426.6	310.8
Repayable in more than five years	11,828.5	10,803.0	13,994.3	11,716.4
Total loans and advances to customers before provisions	12,486.6	11,311.6	14,652.4	12,225.0
Less provision for loan impairment	(18.0)	(14.3)	(18.0)	(14.3)
	12,468.6	11,297.3	14,634.4	12,210.7

Loans to directors are made in the ordinary course of business and are on terms similar to those available to staff generally and in accordance with established policy. At 31 December 2006 the aggregate amount outstanding in loans to directors was €0.8m (2005: €0.3m).

	2006 €m	2005 €m
12(b). Provision for Loan Impairments		
Group and Society		
At 1 January	14.3	13.9
Loans and advances written off	(0.9)	-
Charge for impairment losses	4.6	0.4
At 31 December	18.0	14.3

12(c). Continuing Involvement in Assets that have been Transferred

The Society sold the rights to 100% of the cash flows arising on 4 separate portfolios of loans secured on residential property, to Emerald Mortgages No. 1 plc, Emerald Mortgages No. 2 plc, Emerald Mortgages No. 3 plc and Emerald Mortgages No. 4 plc. These entities issued bonds to finance the purchase of the loans in the securitised pools. Under the terms of the securitisation the rights of the bond holders are limited to the loans in the securitised portfolios and any related income generated by the portfolios, without recourse to EBS. The Society agreed to absorb €34.2m (2005:€20.1m) of the default losses on these portfolios and continues to recognise this asset as its continuing involvement in the assets that have been transferred.

	2006 €m	2005 €m
13. Held to Maturity Financial Assets		
Group and Society		
Central Government Bills - at amortised cost	260.9	-
Maturing between one and five years	153.0	-
Maturing between five and ten years	107.9	-
	260.9	-

The market value of the held to maturity financial assets at 31 December 2006 is €252.3m.

		2006 €m	2005 €m
14.	**Shares in Group Undertakings**		
	Society		
	At 1 January	0.9	0.9
	Disposal of subsidiary	(0.4)	-
	At 31 December	0.5	0.9

Principal subsidiary undertakings:

All subsidiaries are 100% subsidiaries unless otherwise stated.

(i) The Society holds 2 €2 ordinary shares in Educational Finance Limited, incorporated in the Republic of Ireland. The company trades as an investment holding company. The registered address of the company is 2 Burlington Road, Dublin 4.

(ii) Educational Finance Limited holds 2 €2 ordinary shares in EBS Property, incorporated in the Republic of Ireland. The company trades as a property investment company. The registered address of the company is 2 Burlington Road, Dublin 4.

(iii) The Society holds 2 €2 ordinary shares in Hinsona Limited, incorporated in the Republic of Ireland. The company trades as a property investment company. The registered address of the company is 2 Burlington Road, Dublin 4.

(iv) The Society holds 2 €2 ordinary shares in Breezewalk Limited, incorporated in the Republic of Ireland. The company trades as a property investment company. The registered address of the company is 2 Burlington Road, Dublin 4.

(v) The Society holds 375,000 €1.25 Class A shares in EBS Capital No. 1 S.A. a 75% owned subsidiary incorporated in Luxembourg. The company raised external capital for the Society in 2005. The registered address of the company is 5 Boulevard de la Foire, L 1528, Luxembourg.

During 2006 the Society disposed of a wholly owned subsidiary EBS Asset Managers Limited.

15. Investment Property

During the year the Group disposed of its investment property for €40.1m and realised a net profit of €0.2m in the current year. The carrying amount of the investment property at 31 December 2005 was €36.5m. All revaluation gains prior to disposal were recognised through the Income Statement.

	2006			2005		
	Land and buildings €m	**Fixtures & Fittings, equipment and motor vehicles €m**	**Total €m**	Land and buildings €m	Fixtures & Fittings, equipment and motor vehicles €m	Total €m
16. Property, Plant and Equipment						
Group						
Cost or valuation						
At 1 January	43.7	40.1	83.8	39.1	36.3	75.4
Additions	-	4.9	4.9	-	6.1	6.1
Disposals	-	(1.4)	(1.4)	-	(2.3)	(2.3)
Transfers	(3.9)	-	(3.9)	-	-	-
Revaluation surplus	7.1	-	7.1	4.0	-	4.0
(Impairments) reversal of impairments	-	(1.4)	(1.4)	0.6	-	0.6
At 31 December	46.9	42.2	89.1	43.7	40.1	83.8
Accumulated Depreciation						
At 1 January	-	17.8	17.8	-	15.4	15.4
Charge for year	-	4.2	4.2	-	3.7	3.7
Disposals	-	(1.1)	(1.1)	-	(1.3)	(1.3)
At 31 December	-	20.9	20.9	-	17.8	17.8
Net book amounts						
at 31 December	46.9	21.3	68.2	43.7	22.3	66.0
Society						
Cost or valuation						
At 1 January	43.7	30.3	74.0	39.1	28.3	67.4
Additions	-	4.7	4.7	-	4.3	4.3
Disposals	-	(1.4)	(1.4)	-	(2.3)	(2.3)
Transfers	(3.9)	-	(3.9)	-	-	-
Revaluation surplus	7.1	-	7.1	4.0	-	4.0
(Impairments) reversal of impairments	-	(1.4)	(1.4)	0.6	-	0.6
At 31 December	46.9	32.2	79.1	43.7	30.3	74.0
Accumulated Depreciation						
At 1 January	-	16.3	16.3	-	14.6	14.6
Charge for year	-	3.5	3.5	-	3.0	3.0
Disposals	-	(1.1)	(1.1)	-	(1.3)	(1.3)
At 31 December	-	18.7	18.7	-	16.3	16.3
Net book amounts						
At 31 December	46.9	13.5	60.4	43.7	14.0	57.7

Land and buildings to the value of €46.9m are occupied by the Group (Society: €46.9m) for its own activities. The carrying value of land and buildings comprises Freeholds of €38.5m (Society:€35.6m) and Long Leaseholds of €8.4m (Society €7.8m). The value of land and buildings under the cost model comprises Freeholds of €20.1m and Long Leaseholds of €3.6m.

The disposal figure of €1.4m for the year includes €0.3m of Group assets (Society: €0.3m) which are being eliminated from the cumulative cost and depreciation figures, as they are already fully depreciated.

Land and buildings were revalued as at 31 December 2006 by Quinn Agnew, as independent valuers. These assets were valued on the basis of market value in accordance with the provisions of the RICS / SCS Appraisal and Valuation Standards.

Land & Buildings of €3.9m were transferred to other assets as the directors had taken a decision to dispose and lease back the premises at Liffey street. The transaction was not completed at year end but was finalised in January 2007.

	2006 €m	2005 €m
17. Intangible Assets		
Group and Society		
Computer software (and development costs)		
Cost		
At 1 January	42.3	35.1
Additions - Internal development	5.2	6.7
Additions - Purchased	0.5	0.9
Disposals	-	(0.4)
Impairments	(0.9)	-
At 31 December	47.1	42.3
Amortisation		
At 1 January	24.7	19.4
Charge for year	5.8	5.6
Disposals	-	(0.3)
Impairments	(0.1)	-
At 31 December	30.4	24.7
Net book amounts		
31 December	16.7	17.6

Computer software costs are amortised on a straight line basis over a period typically between three and ten years dependent on the expected useful life of the underlying software.

	2006 €m	2005 €m
18. Deferred Taxation Asset		
Group and Society		
At 1 January	8.5	6.8
Transfer to current taxation	-	(0.7)
Amount charged to Income Statement	0.8	-
Amount charged to Reserves	0.6	2.4
At 31 December	9.9	8.5
The amounts provided for deferred tax are as follows:		
Impairment provision	1.8	1.8
Retirement benefits	2.3	3.4
Other timing differences	5.8	3.3
	9.9	8.5

	Society		Group	
	2006 €m	2005 €m	**2006 €m**	2005 €m
19. Other Assets				
Loans to subsidiary undertakings	31.7	55.1	-	-
Deferred loan acquisition costs	69.5	57.5	69.5	57.5
Interest accrued	85.9	55.0	86.0	55.0
Other	26.6	56.4	37.5	97.8
	213.7	224.0	193.0	210.3

	Society		Group	
	2006 €m	2005 €m	**2006 €m**	2005 €m
20. Deposits by Credit Institutions				
Repayable in less than three months	2,383.6	3,011.7	2,383.6	3,011.6
Repayable in more than three months but less than one year	219.0	309.1	219.0	309.1
Repayable in more than one year but less than five years	117.5	-	117.5	-
Repayable in more than five years	24.0	46.8	24.0	46.8
	2,744.1	3,367.6	2,744.1	3,367.5

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
21. Customer Accounts				
Repayable on demand	2,189.9	2,323.3	2,190.0	2,323.0
Repayable in less than three months	5,462.5	3,646.0	5,462.5	3,646.0
Repayable in more than three months but less than one year	878.3	1,096.2	878.3	1,096.2
Repayable in more than one year but less than five years	1,381.2	1,359.5	1,381.2	1,359.5
Repayable in more than five years	284.0	452.3	159.0	327.3
	10,195.9	8,877.3	10,071.0	8,752.0

Included in customer accounts are embedded derivatives with a nominal value of €26.5m (2005: €25.8m) and a fair value of (€6.6m) (2005: (€4.4m)).

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
22. Debt Securities in Issue				
Medium term notes	3,007.7	2,416.2	3,007.7	2,416.2
Other debt securities in issue	-	-	2,176.9	951.1
	3,007.7	2,416.2	5,184.6	3,367.3
Details of bonds issued are as follows:				
Medium term notes				
EURO medium term notes	2,560.3	2,145.6	2,560.3	2,145.6
GBP medium term notes	269.1	124.2	269.1	124.2
USD medium term notes	60.0	92.4	60.0	92.4
JPY medium term notes	63.7	54.0	63.7	54.0
CZK medium term notes	54.6	-	54.6	-
	3,007.7	2,416.2	3,007.7	2,416.2
Securitised non-recourse funding				
Emerald Mortgages No. 1 plc	-	-	157.8	207.3
Emerald Mortgages No. 2 plc	-	-	190.7	244.7
Emerald Mortgages No. 3 plc	-	-	409.0	499.1
Emerald Mortgages No. 4 plc	-	-	1,419.4	-
	-	-	2,176.9	951.1
	3,007.7	2,416.2	5,184.6	3,367.3

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
23. Current Taxation Liabilities				
Corporation tax	1.3	1.0	2.0	1.0
Other taxes	6.4	5.3	6.6	5.3
	7.7	6.3	8.6	6.3

	Society 2006 €m	Society 2005 €m	Group 2006 €m	Group 2005 €m
24. Deferred Taxation Liability				
At 1 January	3.7	3.0	18.6	16.8
Transfer to current taxation	(0.2)	-	0.1	-
Amount charged to Income Statement	0.8	0.5	(7.7)	1.6
Amount charged to Reserves	0.9	0.2	0.9	0.2
At 31 December	5.2	3.7	11.9	18.6
The amounts provided for deferred tax are as follows:				
Capital allowances in excess of depreciation	0.8	0.7	7.5	10.5
Revaluation of properties	3.3	2.6	3.3	2.6
Revaluation of investment properties	-	-	-	5.1
Other timing differences	1.1	0.4	1.1	0.4
	5.2	3.7	11.9	18.6

		Society		Group	
		2006	2005	**2006**	2005
		€m	€m	**€m**	€m
25.	**Other Liabilities**				
	Interest accrued	244.1	175.1	244.1	175.1
	Other accruals and deferred income	62.3	27.2	34.6	30.2
		306.4	202.3	278.7	205.3

26. Employee benefits

Group and Society

Defined contribution schemes:
The assets of the schemes are held separately from those of the Group. The total cost charged to the income statement in staff costs of €0.2m (2005: €Nil) represents contributions payable to these plans by the group.

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

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

	2006	2005
	€m	€m
Present value of pension obligations	(121.1)	(120.0)
Fair value of plan assets	113.0	96.9
Liability in the Balance Sheet	(8.1)	(23.1)

Movement in the present value of pension obligations:

	2006	2005
	€m	€m
At 1 January	(120.0)	(85.7)
Current service costs	(5.7)	(3.8)
Interest cost	(5.2)	(4.3)
Past service costs	(0.4)	(1.1)
Participants contributions	(1.0)	(1.0)
Actuarial gains (losses)	8.9	(26.2)
Benefits paid from plan	2.1	1.8
Premiums paid	0.2	0.3
At 31 December	(121.1)	(120.0)

Movement in the fair value of plan assets:

	2006	2005
	€m	€m
At 1 January	96.9	80.3
Expected return on plan assets	6.1	5.4
Employer contributions	6.0	2.5
Participants contributions	1.0	1.0
Actuarial gains	5.3	9.8
Benefits paid from plan	(2.1)	(1.8)
Premiums paid	(0.2)	(0.3)
At 31 December	113.0	96.9

The amounts recognised in the Income Statement are as follows:

	2006	2005
	€m	€m
Defined Benefit schemes		
Current service costs	(5.7)	(3.8)
Past service costs	(0.4)	(1.1)
Interest cost	(5.2)	(4.3)
Future expected return on plan assets	6.1	5.4
Total expenses (included in staff costs)	(5.2)	(3.8)

Pension Plan Assets

	2006	2005
	€m	€m
The fair value of the pension plan assets	113.0	96.9
The actual return on pension plan assets	11.4	15.2

26. Employee benefits (continued)

Asset Category	Percentage of Plan Assets	Future Expected Return on Plan Assets
Equity securities	80.4%	7.5%
Debt securities	11.6%	3.9%
Real estate and other	8.0%	6.5%
	100.0%	7.0%

The principal actuarial assumptions used are as follows:

	2006 %	2005 %
Rate of inflation	2.25%	2.25%
Discount rate	4.68%	4.21%
Expected return on plan assets	6.10%	6.66%
Future salary increases	3.75%	3.75%
Future pension increases	2.25%	2.25%

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

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

History of experience gains and losses

	2006	2005	2004	2003	2002
Difference between the expected and actual return on plan assets:					
(i) Amount (€m)	5.3	9.8	2.1	3.8	(17.0)
(ii) Percentage of plan assets	5.0%	10.1%	3.0%	6.0%	(26.0%)
Experience (gains) losses on plan liabilities:					
(i) Amount (€m)	(8.9)	26.2	10.3	3.4	3.0
(ii) Percentage of present value of plan liabilities	(7.0%)	22.0%	12.0%	5.0%	5.0%

The contributions to be paid in 2007 are estimated to be €2.6m.

	2006 €m	2005 €m
27. Subordinated Liabilities		
Group and Society		
Repayable in more than five years but less than ten years	199.5	97.8
Repayable in more than ten but less than fifteen years	66.5	71.8
	266.0	169.6

Details of bonds issued are as follows:

Issue date	Maturity Date	Interest Rate		Call dates	Amount
31 July 1998	Jul-13	Fixed rate	5.81%	Jul-08	€38.1m
26 November 1999	Nov-19	Fixed rate	7.00%	Nov-14	GBP14.6m
19 December 2002	Nov-19	Fixed rate	6.44%	Nov-14	GBP30.0m
14 December 2004	Dec-14	Variable	Euribor +55bps	Dec-09	€60m
28 November 2006	Nov-16	Variable	Euribor +35bps	Nov-11	€100m

The interest expense on the subordinated bonds amounted to €8.7m (2005: €8.4m) during the year.

	2006 €m	2005 €m
28. Minority Interest		
Group		
At 1 January	122.3	-
Capital securities issued in subsidiary undertakings	-	122.3
Amortisation of upfront costs through Reserves	0.4	-
Amortisation of upfront costs through Income Statement	0.1	-
At 31 December	122.8	122.3

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

		2006 €m	2005 €m
29.	**Assets and Liabilities Denominated in Foreign Currencies**		
	Group and Society		
	Assets denominated in currencies other than euro	2,975.6	1,019.8
	Liabilities denominated in currencies other than euro	2,975.8	1,020.0

		2006 €m	2005 €m
30.	**Leasing Commitments**		
	Group and Society		
	At 31 December, future minimum payments under non cancellable operating leases relating to land and buildings:		
	Payments to be made:		
	Less than one year	6.2	6.4
	Between one and five years	24.2	24.7
	After five years	83.4	88.2
		113.8	119.3

These leases have lives of between 20 and 35 years with no renewal option included in the contracts. The actual amount incurred on operating lease charges in 2006 was €7.7m (2005: €6.9m).

		2006 €m	2005 €m
31.	**Capital Commitments**		
	Group and Society		
	Capital expenditure contracted but not provided for	0.3	0.3
	Capital expenditure authorised but not contracted for	14.9	16.9

32. Derivative Financial Instruments

Group

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

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

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

Derivative instruments are contractual agreements whose value is derived from the price movements in underlying assets, interest rates, exchange rates or indices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposure. The Board approves policy with respect to credit risk, market risk and liquidity risk and has delegated its monitoring and control responsibilities to the Group Asset and Liability Committee. Membership of this committee consists of senior management including executive directors.

Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from any potential movement in the fair value of fixed rate assets or liabilities and movement in fair value of assets and liabilities denominated in foreign currencies using interest rate and cross-currency interest rate swaps. The net fair value of these swaps at 31 December 2006 was (€11.3m) (2005: (€6.4m)).

Cash flow hedges

The Group also hedges part of its existing interest rate risk from any potential movement in variable cashflows using interest rate swaps. The net fair value of these swaps at 31 December 2006 was (€26.0m) (2005: (€3.8m)). The periods in which the future forecasted cashflows are hedged range from 1 month to 10 years.

32. Derivative Financial Instruments (continued)

Derivative analysis	2006 Contract/ notional amount €m	2006 Fair Values €m	2005 Contract/ notional amount €m	2005 Fair Values €m
Group				
Derivatives held for trading				
Assets derivatives				
Interest rate caps	9.3	-	9.3	-
Equity swaps	26.7	6.7	25.8	4.3
Cross currency interest rate swaps	388.5	2.3	-	-
Interest rate swaps	36.1	-	22.1	-
Equity Options	86.6	-	98.2	-
Total asset derivatives held for trading	547.2	9.0	155.4	4.3
Liability derivatives				
Cross currency interest rate swaps	417.4	(0.4)	-	-
Interest rate swaps	185.0	(0.3)	4.0	-
Total liability derivatives held for trading	602.4	(0.7)	4.0	-
Total derivatives held for trading	**1,149.6**	**8.3**	**159.4**	**4.3**
Total embedded derivatives	**26.5**	**(6.6)**	**25.8**	**(4.4)**
Derivatives held for hedging				
Assets derivatives				
Interest rate swaps	1,410.0	29.8	1,534.7	22.3
Cross currency interest rate swaps	519.2	5.5	532.3	8.7
Total asset derivatives held for hedging	1,929.2	35.3	2,067.0	31.0
Liability derivatives				
Interest rate swaps	8,019.1	(49.4)	7,500.9	(26.7)
Cross currency interest rate swaps	557.9	(23.2)	960.3	(14.5)
Total liability derivatives held for hedging	8,577.0	(72.6)	8,461.2	(41.2)
Total derivative held for hedging	**10,506.2**	**(37.3)**	**10,528.2**	**(10.2)**
Derivatives designated as fair value hedges				
Interest rate swaps	1,870.7	6.3	958.5	(0.6)
Cross currency interest rate swaps	1,077.1	(17.6)	1,492.5	(5.8)
Total derivatives designated as fair value hedges	2,947.8	(11.3)	2,451.0	(6.4)
Derivatives designated as cash flow hedges				
Interest rate swaps	7,558.4	(26.0)	8,077.2	(3.8)
Total derivatives designated as cash flow hedges	7,558.4	(26.0)	8,077.2	(3.8)
Total derivatives held for hedging	**10,506.2**	**(37.3)**	**10,528.2**	**(10.2)**
Total derivatives	**11,682.3**	**(35.6)**	**10,713.4**	**(10.3)**
Asset Derivatives	2,476.4	44.3	2,222.4	35.3
Liability Derivatives	9,179.4	(73.3)	8,465.2	(41.2)
Embedded Derivatives	26.5	(6.6)	25.8	(4.4)
Total derivatives	**11,682.3**	**(35.6)**	**10,713.4**	**(10.3)**

The Group holds derivative financial instruments for hedging purposes only, however there are instances where some of these instruments fail to meet IAS 39 criteria for application of hedge accounting and are classified as held for trading.

The weighted average remaining term of the Group's cash flow hedges is 5 years. The maximum remaining term of any individual cash flow hedge is 9.7 years.

The fair values for all of the company's financial assets carried at fair value, were taken from independent market sources.

32. Derivative Financial Instruments (continued)

Derivative Maturity Table - at 31 December 2006

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Group						
Interest rate swaps	43.1	105.5	79.0	831.4	387.1	1,446.1
Cross currency interest rate swaps	674.7	49.7	56.1	127.2	-	907.7
Interest rate caps	-	-	2.3	7.0	-	9.3
Equity swaps	-	-	-	25.7	1.0	26.7
Equity options	20.4	16.8	-	49.4	-	86.6
Total assets	**738.2**	**172.0**	**137.4**	**1,040.7**	**388.1**	**2,476.4**
Interest rate swaps	4,527.6	1,286.8	590.8	1,384.6	414.3	8,204.1
Cross currency interest rate swaps	806.7	56.2	44.0	68.4	-	975.3
Total liabilities	**5,334.3**	**1,343.0**	**634.8**	**1,453.0**	**414.3**	**9,179.4**
Embedded derivatives	**-**	**-**	**-**	**25.5**	**1.0**	**26.5**

Derivative Maturity Table - at 31 December 2005

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

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

33. Risk Management And Control

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

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

Financial Risk Management
The Board through the workings of the Board Risk Committee approves all material changes to both market and credit risk policies. Market risk policies cover interest rate risk in the banking book, reserves investment, foreign exchange, open currency positions and hedging as well as liquidity management and liquid asset investments. Credit risk policies cover counterparty credit, commercial lending and residential lending as well as credit impairment and large exposures. Along with funding and capital adequacy, these policies are closely managed on a day to day basis throughout the Group, and are monitored by specific business units with oversight by relevant risk management committees.

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

Credit risk management in EBS is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. Group Credit Risk is responsible for developing credit risk rating models which are used to support a robust capital adequacy assessment process, for independently monitoring the quality of the Groups' loan assets and for reviewing the application of credit processes and procedures. With the support of the Credit Operations function (underwriting and credit control), it is responsible for monitoring and reporting on new lending business trends, loan book exposures and loan book performance. Credit Risk, the lending businesses and Credit Operations comprise the Credit Risk Committee at which asset quality trends are monitored, credit developments tracked and policy recommendations are evaluated. Counterparty credit is monitored by a subcommittee and, similarly, credit risk rating models are approved by an appropriate subcommittee. The Credit Risk Committee recommends changes to the Management Board which, in turn, recommends material changes in policy to the Board for approval. The Society insures the Group against risk in the Irish residential property market through mortgage indemnity insurance. Credit impairment provisions are put in place in line with International Financial Reporting Standards.

Group Risk conducts a regular review of the insurances in place to protect the Group against unexpected events. Finance monitors cost management and income concentration for the Group.

Capital adequacy is monitored by the Capital Committee which is responsible for reviewing the capital policy and the capital plan. This committee also has responsibility for the transition to the new capital requirements regime (i.e., the Capital Requirements Directive) which became effective on 1 January 2007 and which will be fully implemented by 1 January 2008.

Operational Risk Management
Group Operational Risk is responsible for supporting and monitoring operational risk management throughout the organisation and for recommending changes to the operational risk policy as appropriate to the Operations Management Committee. The core focus of operational risk management is delivery of optimal products and services to members and customers, operational efficiency, fraud prevention, clear lines of authority, employee development, health, safety and personal security of all employees and customers, solutions development, systems integrity, business continuity management, and third party partnership management. Group Operational Risk supports the business in conducting regular self-assessments of the risks in individual functions, in key processes and in significant projects.

The self-assessment process helps identify key risks, the materiality of the risks (based on the probability of their occurrence and the impact if they did occur), an evaluation of the management activities to control and/or mitigate the risks and the level of residual risk. This supports the business in identifying actions to improve the Group's risk management capabilities. Further actions are identified from the evaluation of losses and near misses which are recorded in each part of the organisation and monitored by the Operational Risk function. These, and other actions arising from internal audit reviews or risk committee prompts, are monitored on an ongoing basis and progress against actions is reported on a regular basis to the Management Board and the Board.

Regulatory Risk Management
Regulatory & Compliance is responsible for advising and facilitating the business in identifying, managing and monitoring its legal and regulatory obligations. It supports an ongoing review of the framework used to enable each area of the business to clearly determine their legal and regulatory risks, identify the controls in place that mitigate those risks, ensuring appropriate allocation of responsibility for risks and controls is in place and that feedback is monitored and reported. Regulatory & Compliance reports to the Board Audit and Compliance Committee on key compliance issues and trends on a regular basis.

Enterprise Risk Management
Risk management in EBS is supported by a clear risk management governance structure and a significant investment of both senior management and Board time in reviewing the system of internal control. There is regular reporting to the Board on emerging risk issues and key risk indicators both directly and also through the Board Audit and Compliance Committee and the Board Risk Committee.

Risk is managed on a day to day basis with a second line of defence provided by specific functions, in particular Group Risk. Regulatory & Compliance also supports the business in managing compliance risks more effectively. Internal Audit, which has a direct reporting line to the Board Audit and Compliance Committee provides a third, independent line of defence.

33. Risk Management and Control (continued)

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

Interest rate sensitivity gap analysis 2006

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Non Interest Bearing €m	**Total €m**
Non-Trading Book							
Group							
Assets							
Cash and balances with central banks	310.3	-	-	-	-	-	310.3
Central government bills and other eligible bills	24.0	-	-	-	-	-	24.0
Derivative financial instruments	-	-	-	-	-	44.3	44.3
Available-for-sale financial assets	2,081.4	14.2	73.2	140.0	423.7	-	2,732.5
Held to maturity financial assets	-	-	-	153.0	107.9	-	260.9
Loans and advances to credit institutions	1,006.4	2.7	2.7	-	-	-	1,011.8
Loans and advances to customers	12,814.3	115.2	267.7	1,345.6	91.6	-	14,634.4
Other assets	-	-	-	-	-	284.3	284.3
Total assets	**16,236.4**	**132.1**	**343.6**	**1,638.6**	**623.2**	**328.6**	**19,302.5**
Liabilities							
Deposits by credit institutions	2,505.0	234.6	4.5	-	-	-	2,744.1
Customer accounts	6,961.0	821.9	705.9	1,405.6	176.6	-	10,071.0
Derivative financial instruments	-	-	-	-	-	73.3	73.3
Debt securities in issue	4,624.0	-	135.9	424.7	-	-	5,184.6
Other liabilities	-	-	-	-	-	306.8	306.8
Subordinated liabilities	161.4	-	-	38.1	66.5	-	266.0
Minority interest	-	-	-	-	122.8	-	122.8
Total liabilities	**14,251.4**	**1,056.5**	**846.3**	**1,868.4**	**365.9**	**380.1**	**18,768.6**
Derivatives	(2,131.8)	994.1	572.5	642.4	(77.2)	-	-
Interest rate sensitivity gap	(146.8)	69.7	69.8	412.6	180.1	(51.5)	533.9
Cumulative gap	(146.8)	(77.1)	(7.3)	405.3	585.4	533.9	533.9

33. Risk Management and Control (continued)

Interest rate sensitivity gap analysis 2005

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

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

The financial assets exposed to fair value interest rate risk is €2,737.3m (2005: €1,612.3m), exposed to cash flow interest rate risk is €16,236.6m (2005: €14,605.1m) and not exposed to interest rate risk is €328.6m (2005: €338.9m).

33. Risk Management and Control (continued)

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

	2006			2005		
	Carrying value €m	**Fair value €m**	**Unrecognised gain (loss) €m**	Carrying value €m	Fair value €m	Unrecognised gain (loss) €m
Group						
Assets						
Cash and balances with central banks	310.3	310.3	-	253.9	253.9	-
Central government bills and other eligible bills	24.0	24.0	-	107.0	107.0	-
Derivative financial instruments	44.3	44.3	-	35.3	35.3	-
Available-for-sale financial assets	2,732.5	2,732.5	-	2,183.0	2,183.0	-
Held to maturity financial assets	260.9	252.3	(8.6)	-	-	-
Loans and advances to credit institutions	1,011.8	1,011.8	-	1,427.5	1,427.5	-
Loans and advances to customers	14,634.4	14,626.6	(7.8)	12,210.7	12,217.3	6.6
Liabilities						
Deposits by credit institutions	2,744.1	2,744.1	-	3,367.5	3,367.5	-
Customer accounts	10,071.0	10,097.6	(26.6)	8,752.0	8,755.5	(3.5)
Deriviative financial instruments	73.3	73.3	-	41.2	41.2	-
Debt securities in issue	5,184.6	5,184.6	-	3,367.3	3,367.3	-
Subordinated liabilities	266.0	266.0	-	169.6	169.6	-

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

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

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

(i) trading and available-for-sale assets are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of recognised valuation techniques.
(ii) the carrying value of liquid assets and other assets maturing within 12 months is assumed to be their fair value.
(iii) the fair value of variable rate financial instruments is assumed to be equal to their carrying value, as the instruments continually reset to the market rate.
(iv) the fair value of fixed rate financial instruments carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates on similar loans.

The fair value of the Group's fixed rate instruments are predominantly hedged by derivative financial instruments, such as interest rate swaps as explained in the accounting policies (note 1(f)). Derivative financial instruments used for hedging are carried on the Balance Sheet at fair values, those with a positive replacement cost are classified as assets and those with a negative value are classified as liabilities.

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

34. Unmatured Forward Transactions

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

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

35. Commitments and Contingent Liabilities

Group and Society

(i) The 'Secure' and 'Perfect Balance' range of products incorporate a guarantee provided by the Society in respect of capital invested. The amount outstanding at 31 December 2006 is €86.6m (2005: €98.2m). The total guarantee is restricted under the terms of the agreement and the Society has in turn received a guarantee from a third party in respect of the guarantee provided, which will meet the potential liability of the Society, provided that the Society has fulfilled its obligation under the terms and conditions of the products and there is no counterparty default.

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

(iii) Included in Deposits by credit institutions at 31 December 2006 is €506.3m (2005:€696.5m) relating to the Society's obligations to the Central Bank and Financial Services Authority ("CBFSAI") under the terms of the Mortgage Backed Promissory Note (MBPN) programme. These obligations have been secured by way of a first floating charge to the CBFSAI over all rights, title, interest and benefits, in €900m of loans and advances to customers. Other than with the prior written consent of the CBFSAI, the Society has pledged under the terms of the floating charge to maintain the assets so charged, free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets.

(iv) At 31 December 2006 loan approvals not advanced, as calculated using the Basel II definitions, amounted to €768m.

36. Related Party Transactions

Group

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

Society

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

	2006 €m	2005 €m
Loans to related parties		
At 1 January	75.1	77.4
Net movement in loans during the year	11.1	(2.3)
At 31 December	**86.2**	75.1
Deposits from related parties		
At 1 January	28.9	46.5
Net movement in deposits during the year	33.0	(17.6)
At 31 December	**61.9**	28.9
Permanent Interest Bearing Shares		
At 1 January	125.0	-
Issued in the year	-	125.0
At 31 December	**125.0**	125.0
Included in the Income Statement:		
Interest on loans	6.4	6.8
Interest on Permanent Interest Bearing Shares	6.3	2.7
Other income	8.6	8.7
Rental expense on leased assets	4.2	4.2

The above transactions arose from the ordinary course of business. The interest charged to related parties is at normal commercial rates appropriate to the transaction. Outstanding balances at year end are secured. There is no provision for doubtful debts relating to amounts owed by related parties.

Loans outstanding with key management personnel relate to executive board members and amount to €0.4m at 31 December 2006.

	2006	2005
36. Other Information		
Group and Society		
Risk weighted assets - €m's	8,277	7,406
Liquidity ratio	24.0%	25.6%
Total capital ratio (The Financial Regulator minimum total capital ratio is 9%)	11.0%	10.6%
Tier 1 capital ratio	7.5%	7.5%

Notes

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