EBS ANNUAL REPORT & ACCOUNTS 2007

EBS BUILDING SOCIETY

CONTENTS

ACCOUNTS

CHAIRMAN'S REVIEW

2007 – A YEAR OF CHANGE

We, at EBS, have experienced a lot of change throughout 2007. We have seen turbulence in the markets in which we operate. This year also saw many changes within EBS, including building a new Board of Directors and, early in 2008, the appointment of a new Chief Executive.

We have made real progress over the past year, with an even greater focus on membership than ever. We established our Members Forum, improved the competitiveness of our products, launched our newly constituted broker business 'Haven', and delivered a strong underlying financial performance across the business.

MEMBER VALUE AND ENGAGEMENT

At last year's AGM some members expressed the view that the Board of EBS was not engaging sufficiently with members. In response, we have focused more on listening; listening more to our members, our customers and our employees.

An example of this is the Members Forum, which we established in 2007. The Members Forum, chaired by Liam Mulvihill, brings together a representative group of 26 EBS members, who meet with EBS senior management on a regular basis to provide feedback on EBS products and services. I believe that this initiative will help us deliver real improvements with tangible benefits for our members into the future.

We continue to provide competitive products to our members. For example:

» **Savings:** The EBS Regular Savings Product pays a rate of 7% and over 16,000 members have opened this account since it launched in the second half of 2007. We have also recently introduced a very competitive one year fixed rate savings product at 5.1% which is the best rate in the market.

» **Mortgages:** Our standard variable rate is second best in the Irish market. Our fixed rate products offer great value and are consistently ranked in the top three in the market.

» **Bancassurance/Insurance:** We have extended the range of products available to our members and now offer more choice and improved value across our suite of products.

» **Other Products:** Our personal loan product now priced from 7.99% offers the best rate in the market for amounts greater than €25,000. The EBS Credit Card rate of 10.9% is 2.8% cheaper than the average rate available in the market.

In summary, EBS provides consistent value to members through competitive products. We will continue to do so into the future, remaining committed to providing long term benefits for members.

As a member of EBS you are entitled to reflect your views at the AGM by voting on resolutions proposed by the Board. This year, EBS will donate 50 cent to the Simon Community for every vote returned, in order to encourage people to use their vote. These initiatives reflect our promise to engage with members, to treat members fairly and to put their interests at the heart of everything that we do.

MARKET OVERVIEW & EBS PERFORMANCE

In 2007, the environment and markets in which we operate changed considerably. The Irish housing market finally experienced its long-forecasted slowdown. International financial and credit markets experienced turbulence, particularly in the second half of the year.

In spite of this, EBS performed well and made good progress on many fronts. Highlights include:

- 16,414 new members;
- Income before Impairment Losses and Taxation was up a very positive 22%, to €85.7m;
- Operating Profit Before Tax was €66.6m, up 1%. This includes an exceptional charge of €15m relating to well publicised solicitor cases identified during the year;
- €3.7bn in gross new lending;
- Capital Ratios remain strong following a successful Tier 1 capital transaction with Total Capital at 11.9% and Tier 1 at 9.0%;
- Cost to Mean Assets ratio maintained at 0.56%;
- The quality of our lending book is strong and repeat business with long established and experienced members is the key driver of our success here, and
- Nearly 7,000 members availed of our free financial review.

Notwithstanding developments in 2007, the Irish economy is performing well, with growth remaining ahead of the Eurozone average. GDP and GNP are both expected to grow in the order of 2% respectively in 2008, still above the EU-25 average. Overall employment continues to grow, driven by natural increases in population and strong migration. We anticipate that any increase in unemployment in 2008 will be moderate.

Following periods of demand driven growth, the supply of housing is slowing to more sustainable levels. The value of new mortgage lending in 2008 is set to reach €29.8bn, down from €33.8bn in 2007. The building sector has responded well to changing market conditions and, therefore, the level of new house completions in 2008 will be below 2007 levels. However, demographics still remain strong and the medium term outlook for the housing market is to return to positive growth levels following this period of adjustment.

We are well diversified to respond to these changing market conditions in mortgages. We continue to perform ahead of the market in the first time buyer segment and we are making real progress in the mortgage switching market as more members move their mortgage to EBS. Our other product lines such as Insurance, Bancassurance and Savings are all set to have a good year in 2008.

HAVEN MORTGAGES LIMITED

In 2007, EBS launched Haven Mortgages Limited ('Haven'), a wholly owned subsidiary, which is focused exclusively on the broker market. EBS has been in the broker market for three years now, reflecting the increasing importance of this channel in the overall mortgage market. In that time, we have built up a very healthy market share of 6.3% of new business through the introduction of new technology and innovative products and services. Our strategy is to operate Haven as a separate business from our member business, to serve the specific needs of the broker market. We expect Haven to grow ahead of the market in coming years and to deliver a positive financial return to EBS and the member business.

BOARD CHANGES

Your Board has seen a lot of changes in the last year. Michael Moroney retired in April after many years as a Non-Executive member of the Board. In September, Ted McGovern retired from the post of Chief Executive after six years in the post. On your behalf, I would like to thank Ted and Michael for their contributions to EBS.

Early last year, I stated to you, the members, that one of my priorities for 2007 was to oversee the appointment of high calibre individuals to your Board, filling the vacancies that had arisen. I am pleased with the progress we have made in this regard. Early in the year, Jim Ruane and Philip Williamson joined the Board. Both Jim and Philip bring extensive experience of building societies and successful track records in banking to your Board. Emer Finnan was appointed an Executive Director in July having spent the previous two years in the role of Secretary to the Society and in her executive role with responsibility for strategy. In the autumn, Pat McCann and Liam Mulvihill were appointed. Pat brings a wealth of business success and corporate experience to your Board, while Liam brings a record of high achievement at the GAA, one of Ireland's largest member organisations.

I am happy to be able to tell you that the new Board is working positively and collectively, on behalf of members, to build an even brighter future for EBS.

In January 2008, Fergus Murphy took up the post of Chief Executive of the Society. Fergus has an excellent track record of leadership in the industry and is well placed to lead EBS from strength to strength into the future.

OUR COMMUNITY

EBS continues to invest in the communities where our offices are located and our members live. Over 400 local causes and charities benefited in 2007 from the EBS Community Investment Group Initiative and I would like to thank those members who have participated in the groups locally. We have also continued to work with the Simon Community and the National Adult Literacy Agency ('NALA'). Through our work with NALA and the EBS 'ACE' Awards, we have been able to facilitate further critical research work being carried out in the area of adult literacy.

The EBS/Simon 'Independent Living' Initiative has also made good progress over the last twelve months. The programme offers a direct route out of homelessness by providing people with quality accommodation. We hope to reach our 100th home for the initiative in 2008. EBS employees also volunteered much of their own time with a number of causes in 2007. A number of employees volunteered with Habitat for Humanity on projects in both Romania and Los Angeles and they also lent their support locally to People in Need and the Simon Community.

OUTLOOK

The current environment and immediate outlook suggest a more challenging year ahead. In particular, the global credit crunch is persisting. The cost of funding and access to wholesale funding has become more challenging for all financial institutions.

Notwithstanding these difficulties EBS is well placed to deal with the competitive and market challenges ahead. We are well capitalised and remain committed to providing excellent value to our members.

A critical part of the success of EBS is the people who work here. Throughout the past year, many of our people told me how much EBS and its members genuinely means to them. On your behalf, I would like to thank the management and employees of EBS for their commitment to making membership of EBS even better, and for delivering a strong set of results in challenging circumstances in 2007. We also value the contribution of our agents, their workforce, and our other partners who play an important role in delivering quality service and products to our members.

Finally, I would like to thank you, the members, for your support throughout 2007. I trust that you will continue to enjoy the benefits of your relationship with EBS into the future.

Mark Moran

Mark Moran
Chairman

BUSINESS REVIEW

UNDERLYING EARNINGS UP 22%

In 2007, statutory profit before tax was €66.6m, an increase of €0.7m, or 1%, compared to €65.9m in 2006. Income before impairment losses and taxation was up a very positive €15.2m, or 22% to €85.7m, compared to €70.5m in 2006. This strong performance was underpinned by continued revenue growth. Overall revenue growth of 14% exceeded cost growth of 9% and the Society continued to invest in people and our competitive position to deliver our member served strategy.

GOOD INCOME GROWTH

Net interest income increased by €23.5m, or 16%. Growth in lending balances of 9% coupled with lower wholesale funding costs particularly in the first half of the year offset the impact of better value pricing available to members.

Higher funding costs in the second half of the year triggered by the global credit crunch were offset somewhat by our funding issuance being of shorter tenor than targeted at the start of the year as post the U.S. sub prime crisis access to longer term funding for all financial institutions was challenging during this period.

Throughout the year EBS consciously choose not to follow most of the banks in increasing mortgage pricing for existing customers.

Whilst our short term profitability is suffering as a consequence of this decision and the ongoing difficult credit market conditions, we will hold our pricing position for as long as we reasonably can.

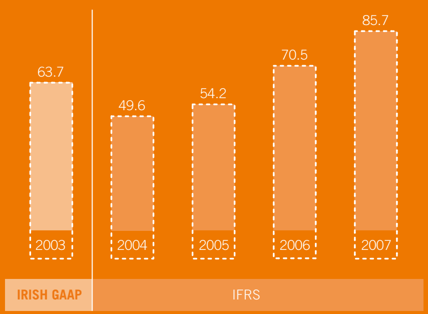
Other income increased by €0.5m or 2.5%, to €20.2m with bancassurance sales growing strongly. Other income remained broadly in line with 2006, despite lower commissions earned arising from mortgage cross sales as new mortgage volume activity declined compared to that of 2006.

IMPROVED COST CONTROL

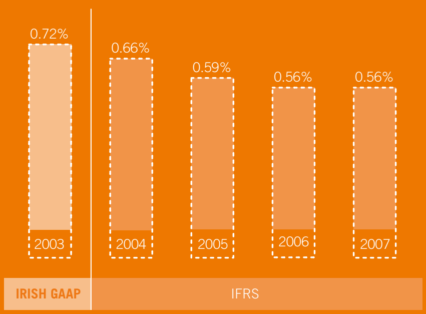
The Society made good progress in keeping income growth well ahead of cost growth. Income growth of 14% well exceeded cost growth of 9%. Our cost to income ratio is 2 percentage points lower at 55.8%. The cost to mean assets ratio, one of the principal comparators for a building society, remained at 0.56% and is amongst the lowest in the building society sector in Ireland and the UK.

Cost management is a high priority and will become even more important as the impact of the recent credit crunch and the immediate less buoyant outlook for the property market in Ireland means that sustaining underlying revenue will be very difficult in 2008. An objective for 2008 is to hold costs as flat as possible and to implement further cost reduction initiatives.

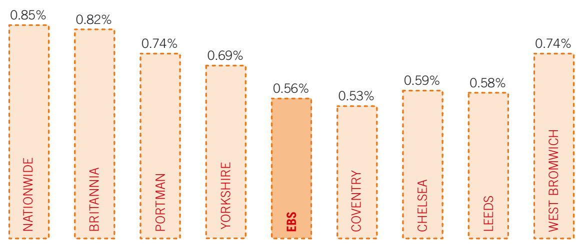
INCOME BEFORE IMPAIRMENT LOSSES AND TAXATION



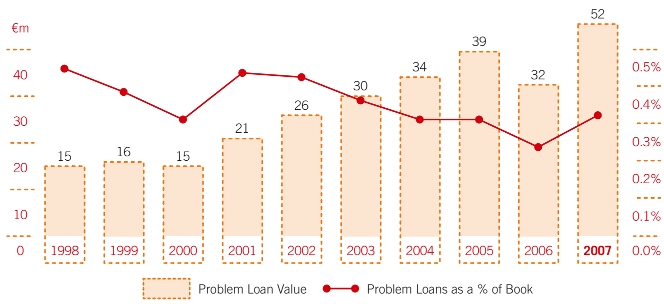
COST EFFICIENCY RATIO



COMPARISON OF COST EFFICIENCY RATIOS



PROBLEMS LOANS – 12+ PAYMENTS IN ARREARS



UNEXPECTED LOAN LOSSES

EBS did not escape the fallout from the well publicised issues with certain solicitor cases exposed during the year. We have charged a provision of €15m to cover possible losses in this respect. However, we continue to actively pursue all avenues of recovery, including recourse to our insurers under our appropriate policy cover. This is the first material loss that EBS commercial has incurred over its 16 years of operation.

It is of some comfort that the underlying cause for this provision is not credit related. Extensive reviews of controls, procedures and possible management failings have been undertaken and improvements, where required, have been made. Whilst we will continue, as a matter of course, to review our operating processes and procedures, the key issue in this case is the ongoing reliance on the Irish conveyancing system. EBS, through the IBF, together with the Law Society, are working together to determine how best to respond to this.

STRONG ASSET QUALITY

The quality of both our residential and commercial lending books continue to be strong and repeat business with long established and experienced customers is the key driver of our success here. Other than the exceptional €15m provision, impairment losses on loans and advances of €4.1m are modest and our overall balance sheet provisioning levels are prudent. We also continue to insure our credit risk on higher LTV residential and retail buy-to-let lending.

DIVERSIFIED FUNDING

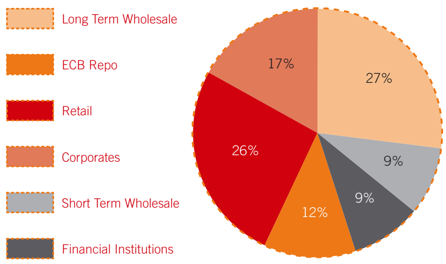
The Society's funding is well diversified. Customer accounts make up 52% of total funding, with wholesale funding at 48%. Wholesale funding is a mixture of short term and longer term and is well diversified by product, investor, geography and maturity. €1.7bn of longer term funding is due to mature in 2008, and in the event of the current credit market dislocation being prolonged, if needed, replacement funding can be achieved through a number of alternative planned initiatives. Maturities are well spread over the next five years with some funding not due to mature until 2015.

The Society benefits from an A+ rating from Fitch and an A rating from Moodys and our rating outlook is reported as stable. The EBS name attracts a diverse range of global investors who have participated in our various funding and capital programmes.

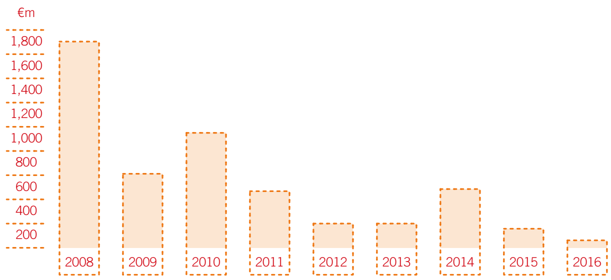
AMPLE LIQUIDITY

Until 1 July 2007, EBS was subject to a minimum liquidity ratio of 25%. However, since then the Irish Regulator has adopted a maturity mismatch approach requiring 100% of liquid assets to meet obligations falling due in 8 days and 90% of liquid assets to meet obligations falling due in 30 days. EBS continues to hold liquidity well in excess of these levels. In addition, we have substantially increased the amount of available collateral up to €4.3bn that can be used by the Society to access market funding if this is needed.

EBS FUNDING PROFILE 31 DECEMBER 2007



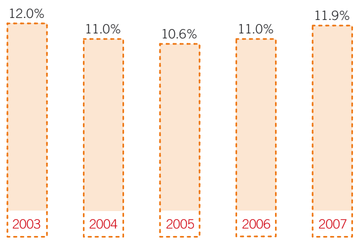
LONG TERM FUNDING MATURITY PROFILE



VERY STRONG CAPITAL POSITION

At the end of December 2007, the total capital ratio was 11.9% and the Tier 1 ratio was 9.0%. During the year, in addition to our internal capital generation, we also raised an additional €125m of hybrid capital to strengthen and better balance our overall capital structure. The low-risk nature of our business underpins the capital strength of the Society and we are very well placed in this regard to accommodate expected Balance Sheet growth.

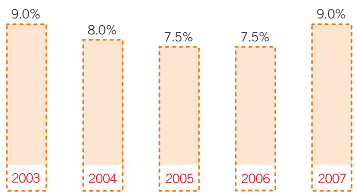
TOTAL CAPITAL RATIO



BUSINESS REVIEW

EBS activities are organised into two divisions, our Membership Business and our other businesses. The core objective of our Membership Business is to offer a broad range of competitive products to our members whilst our other businesses are run to generate profit to reinvest in our Membership Business. EBS Group has a market share of residential mortgages of circa 10% and circa 8% for deposits.

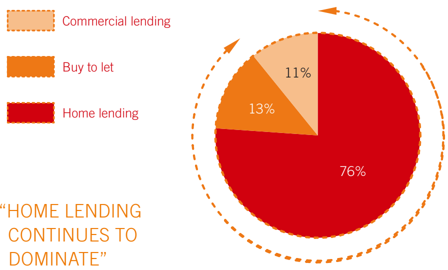
TIER 1 CAPITAL RATIO



OUR MEMBER BUSINESS

Our Membership Business provides banking, mortgages, savings, investment, life, pension and insurance services to over 440,000 personal members through our multi channel distribution capabilities. Our members increased by 16,414 this year.

LOAN PORTFOLIO – RESIDENTIAL 89%



"HOME LENDING CONTINUES TO DOMINATE"

Retail outlets: EBS operates mainly through a network of 98 outlets across Ireland (16 branches, 36 tied branch agents and 46 agents). Three new branches were opened this year. In addition, our members have access to an extensive network of ATMs and our member direct call centre.

Savings accounts: EBS offers a wide range of savings accounts and investment options. Our products frequently feature in best buy tables and include a highly competitive regular saving account paying 7% and market leading fixed term deposits.

Mortgages: EBS offers a wide variety of mortgage products for all sections of the market (first time buyers, existing owners, refinancing and investors). EBS consistently offers one of the lowest standard variable rate mortgages in the Irish market and is the market leader for affordable housing loans. EBS achieved an 11.9% share of new business originated through the retail market in 2007.

Personal Loans and Credit Cards: EBS offers members access to personal loans from GE and Credit Cards from MBNA. Market leading rates have been negotiated for the benefit of all our members.

OUR OTHER BUSINESSES

Our other businesses comprise two main businesses – our commercial lending business and Haven, our standalone broker intermediary business.

COMMERCIAL LENDING

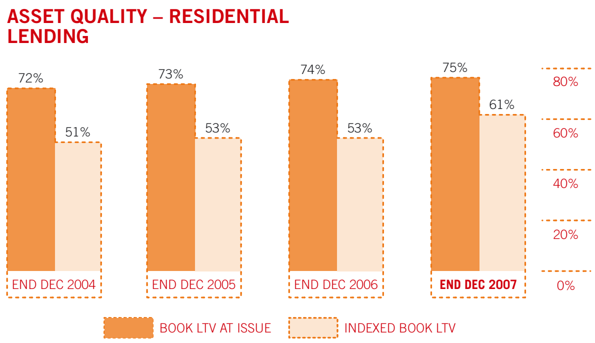
EBS commercial lending business was established in 1991 with the objective of diversifying income whilst leveraging off our property expertise and operations infrastructure. All commercial lending is fully secured on real estate, and our business with Irish customers extends to property in Ireland, UK and continental Europe.

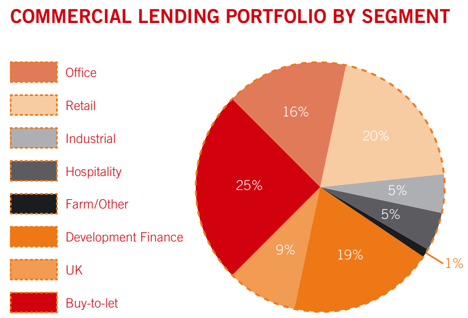
Distribution is primarily through our centralised specialist commercial lending team augmented by our retail network.

BROKER BUSINESS

Haven Mortgages Limited ('Haven') is a wholly owned subsidiary of EBS, focused exclusively on the broker market. As a separate lender in its own right, Haven mortgages are only available through appointed mortgage brokers and all systems, products and processes have been designed with the broker in mind.

EBS first entered the broker market three years ago and our strong success to date has been a real source of pride. We have already built up a reputation for innovation and dedication to the mortgage broker and have achieved a market share of 6.3% of new business in 2007. With the increasing importance of the broker market evident, our strategy is to deliver further strong momentum through the running of Haven as a standalone subsidiary, with the culture and technology to support the broker market.





Haven was formally launched in December 2007 following enabling legislative change and receipt of regulatory approval. Haven borrowers will not be members of the Society and as a non member standalone subsidiary this will also provide the Society with more options in terms of capital management, funding, product differentiation and strategic direction. To enable this, we have invested €5.5m to date in establishing Haven as a separate entity. We believe that the value of Haven will grow very substantially in the years ahead for the benefit of all our members.

RESULTS REVIEW

RESIDENTIAL MORTGAGES

In a difficult property market, our residential lending reverted back to nearer 2005 levels than the record highs of 2006. We achieved €3.1bn of gross lending in 2007, down 22% on the previous record year, broadly in line with the overall market. Our net lending of €0.9bn was down on 2006.

The profile of our lending continues to be more weighted towards first time buyers, reflecting our strong franchise in this segment and our cultural bias towards helping members get on the property ladder. We also very successfully established ourselves as the market leader with local authorities in providing loans to members for affordable housing. While we continue to be underweight in the refinance market, we have made strong inroads in 2007 with our Quickswitch offering and we have intentionally been more cautious in the buy-to-let market sector.

Following a period of interest rate uncertainty, our product profile changed significantly over the year with a strong bias towards fixed rates from our members. 45% of new business was fixed rate, with 25% of members selecting a tracker mortgage and 30% choosing our standard variable rate. All lending was stress tested for affordability against possible ECB increases. With expectations that ECB rate increases appear less likely in the near term, the proportion of fixed rate business is expected to revert to lower levels in 2008.

Our weighted average LTV for new business advanced in 2007 was 79%, and trended lower over the second half of the year as affordability improved and as we tightened our credit criteria. The indexed LTV of our residential book at year end was 61%, up compared to previous years, reflecting primarily housing price reductions throughout 2007.

Notwithstanding that our arrears levels trended back up towards 2004 levels and the loss given default of our loan book also increased over the year as property prices declined, our asset quality remains excellent.

SAVINGS & FUNDING

Overall customer funding is down 5% year on year as we experienced some corporate funding outflows, related in part to credit unions reacting to changes in their own liquidity regime. Our performance on the retail side was satisfactory in a very competitive environment for retail savings. EBS has approximately 8% share of the savings market.

We were very successful in retaining much of our members' SSIA balances which matured this year. Through our very competitive Optimise and Regular Saving offerings our members are now saving on average more per month than in 2006.

Wholesale funding supported a lower level of members' savings growth and we continue to diversify our wholesale funding.

Our funding profile at year end is prudent with over 52% of our funding coming from customers. We have a regulatory requirement to have at least 30% of our funding sourced from members and at 43% we are very strongly placed in this regard.

As our Balance Sheet and funding needs continue to grow, like all of the Irish financial lenders, we are increasingly utilising wholesale funds. We plan to avail of covered asset securities legislation to further diversify our wholesale funding and to reduce our funding costs.

COMMERCIAL LENDING

Commercial property gross lending (which includes buy-to-let property lending greater than €3.0m) was €715m, down from a high of €930m in 2006. Our commercial lending book is now over €2.3bn, up 19% on last year. Our market share is modest at circa 1.5% and we continue to be very selective in terms of business written.

Margin increased reflecting the greater success of our direct channel and a more optimum mix of business. The average LTV was circa 65%. Our direct team concentrates on about 500 key customers with a strong focus on relationship management and high quality service. Despite market difficulties, we continue to be satisfied with the profile and asset quality of our development finance book of circa €450m.

RISK REVIEW

RISK MANAGEMENT

We are now operating in a Basel II environment and are working closely with the Regulator with the objective of moving to the more sophisticated advanced retail risk models during 2009. A comprehensive overview of risk management processes in EBS is set out in the corporate governance section of the Accounts.

OUTLOOK

The current environment and immediate outlook suggests a more challenging year ahead. The property market, a very competitive retail savings environment, difficult wholesale market conditions and a slowing economy necessitate appropriate caution and prudent management at this time. In particular, the global credit crunch is still evident and access to, and the cost of, wholesale funding for all banks and building societies is difficult and indeed looks like continuing for some time yet. Against this background, revenue decline for the Society and Group in 2008 is likely.

In the medium term, as the overall environment here in Ireland as expected becomes more buoyant again and as the global credit crunch conditions abate, we believe the future for the Society and our members' financial well being is very promising. Ongoing transformation, knowing our members and their needs, a quality member service and product competitiveness will be our ongoing priorities, as will ensuring that the potential of our other businesses, Haven and Commercial, are fully exploited for the value of our members.

Our people are truly energised, morale is upbeat and we are confident that notwithstanding the challenging environment, we can compete and continue to evolve as needed to deliver ongoing value for our members.

Alan Merriman

Alan Merriman
Finance Director

EBS GROUP MANAGEMENT TEAM

GROUP MANAGEMENT BOARD

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MARK MORAN, PHILIP WILLIAMSON, EMER FINNAN.

FERGUS MURPHY, PAT MCCANN, BARBARA PATTON.

BOARD OF DIRECTORS

MARK MORAN

BE, MBA
Non-Executive Chairman (Age 45)

Appointed Non-Executive Director in 2002 and Chairman in 2007. Mark is a former Chairman and Chief Executive of the Mater Private Hospital. Before joining the Mater Private Hospital, Mark held senior positions in international pharmaceutical and financial services firms.

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

PHILIP WILLIAMSON

BA (Econ) Hons, ACIB (FCIB), PMD, Hon Doctorate Business Admin
Non-Executive Vice-Chairman (Age 60)

Appointed Non-Executive Director in 2007, after retiring from the Board of the UK Building Society, Nationwide, the world's largest Building Society. Philip joined Nationwide in 1991 and went on to become Corporate Development Director, Marketing and Commercial Director and Retail Operations Director, before being appointed CEO in 2002. Prior to Nationwide he held a variety of senior executive roles at Lloyds Bank plc and was a Director of UK Land plc. Philip is currently Chairman of Investors in People (UK). He is a past President of the European Mortgage Federation and also held the position of Chairman of the UK Building Societies Association.

Principal other directorships: None

EMER FINNAN

BComm, FCA
Executive Director, Secretary (Age 39)

Appointed Secretary to the Board in 2005 and appointed Executive Director in July 2007. Emer has over 18 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 a large number of financial services transactions. Prior to that Emer worked with ABN AMRO, Citibank and KPMG. Emer has executive responsibility for strategy and investment businesses.

Principal other directorships: RTÉ, Haven Mortgages Ltd.

FERGUS MURPHY

BSc (Mgmt), MA, DABS, AMCT
Chief Executive (Age 44)

Appointed Chief Executive in January 2008. Fergus is a career banker having spent considerable time in wholesale and international banking. In 2007 he spent a short amount of time with Shelbourne Developments. Before this he was Chief Executive of ACCBank plc a company within the Rabobank Group. Fergus joined the Rabobank Group in 1993 and fulfilled a number of positions, including Head of Asia Region of Rabobank International and Managing Director of Rabobank's Wholesale Bank in Ireland. Fergus commenced his career in Irish Intercontinental Bank and spent five years with Banque Nationale de Paris (BNP) as a Derivatives trader. He is past Chairman of the Federation of International Banks in Ireland (FIBI).

Principal other directorships: Haven Mortgages Ltd.

PAT MCCANN

H.N.D Business Studies, FIHI
Non-Executive Director (Age 56)

Appointed Non-Executive Director in 2007. Pat was Chief Executive of Jurys Doyle Hotel Group plc until his retirement from that position in June 2006. He had worked for the Group since 1989 in various roles. He is Chief Executive of Quality/Comfort Hotel Group and is a non-executive director on a number of other boards.

Principal other directorships: Greencore Group plc, The Irish Heart Foundation.

BARBARA PATTON

MBS, FMII
Non-Executive and Senior Independent Director (Age 47)

Appointed Non-Executive 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.

Principal other directorships: Social Innovations Ireland, An Post National Lottery Company.

YVONNE SCANNELL, TONY MORONEY, LIAM MULVIHILL.

CATHAL MAGEE, ALAN MERRIMAN, JIM RUANE.

YVONNE SCANNELL

PhD, LLD (h.c), Barrister
Non-Executive Director (Age 59)

Appointed Non-Executive Director in 1995. Yvonne is a 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. She has written six books on Environmental Law. She retires from the Board this year.

Principal other directorships: Tara Mines Ltd., CIÉ, Coillte.

TONY MORONEY

MBA, FMII, FIB
Executive Director (Age 43)

Appointed Executive Director in 2005, Tony has 27 years experience in financial services. Before joining EBS, he was a senior executive with Bank of Ireland Group and an Executive Director of ICS Building Society. Tony was appointed Managing Director of Haven Mortgages Limited, a subsidiary of EBS, in November 2007. Prior to that Tony had executive responsibility for the EBS Membership Business which encompassed all the main businesses in EBS including products, channels, sales and marketing. Tony is Vice President, Ireland, for the European Mortgage Federation and a past Chairman of the Irish Mortgage Council.

Principal other directorships: Haven Mortgages Ltd.

LIAM MULVIHILL

BA, H Dip. (Hons), M ED. History
Non-Executive Director (Age 61)

Appointed Non-Executive Director in 2007. Liam was Director General of the GAA from 1979 to 2008. He worked as a primary school teacher and later as a School's Inspector before accepting the post of Director General. He also filled various roles with State Bodies throughout his career including the RTÉ Authority, Bord na Gaeilge, the Irish Sports Council and was a member of the Board of the Sports Campus Ireland project at Abbottstown. Liam oversaw the era of live television sponsorship and the commercial mobilisation of the GAA and was a central figure in bringing the new Croke Park concept from genesis to fruition.

Principal other directorships: None

CATHAL MAGEE

BA (Mgt), MSc
Non-Executive Director (Age 54)

Appointed Non-Executive Director in 2002. Cathal is Managing Director of eircom Retail, the eircom voice, data and internet communications business. Prior to joining eircom, Cathal worked for the National Australia Banking Group in the United Kingdom and Ireland.

Principal other directorships: eircom Ltd., eircom ESOP Trustee Ltd., VHI Healthcare, Tetra Ireland Communications Ltd.

ALAN MERRIMAN

BCOMM, FCA
Executive Director (Age 40)

Appointed Executive 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, risk, and regulatory compliance.

Principal other directorships: Haven Mortgages Ltd.

JIM RUANE

PhD, M.Agr.SC, B.Agr.SC, FIB
Non-Executive Director (Age 63)

Appointed Non-Executive Director in 2007. Jim has over 28 years experience in financial services. He began his working career as an economist and has held senior management positions in a number of financial and accounting services firms and manufacturing companies, including KPMG, Bank of Ireland Group and John Deere & Co. He was appointed by the Government to the Higher Education Authority in 2007.

Principal other directorships: Royal Victoria Eye & Ear Hospital, nSpire Re Ltd., DIT Foundation, Scottish Re (Dublin) Ltd., Haven Mortgages Ltd.

DIRECTORS' REPORT

The Directors present to the members of EBS Building Society their report and the audited accounts for the year ended 31 December 2007.

BUSINESS REVIEW

The Chairman's Review and Business Review on pages 2 to 10 contain a look back on the business of the Society and its subsidiaries during 2007, together with the plans for 2008.

DIRECTORS

The Board consists of twelve directors, of whom four are full-time executives of the Society and eight are non-executives. Directors' names and other details are provided on pages 12 to 13. The Secretary to the Board is Emer Finnan. Dr. Yvonne Scannell will retire from the Board effective from 7 March 2008.

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 established a principal trading subsidiary, Haven Mortgages Limited, on 17 December 2007. Haven is a wholly owned subsidiary which provides mortgages through the broker intermediary network in Ireland.

SAFETY OF EMPLOYEES AND MEMBERS

The Society's policy is to maintain a safe place and system of work. During 2007 the Society has continued to promote a culture of health and safety amongst employees. Key initiatives in 2007 included a detailed review of the Head Office and Branch offices by Health & Safety expert consultants and a review of physical security in network offices. The Health & Safety Committee met on three occasions to review the Health & Safety policy and adherence to this policy.

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 and generally 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 and raise any issues that are of concern to them to make informed decisions.

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.

MATTERS RESERVED FOR THE BOARD

The day to day responsibility for the Society's business rests with management, however, strategic issues, governance, risk management and control and material policy changes require a Board decision. The Board also makes decisions in relation to significant capital expenditure projects and credits for large connected exposures. A detailed schedule of Matters Reserved for the Board forms part of the Board Manual, showing clearly what decisions require Board involvement. This was reviewed in some detail in 2007.

BOARD COMMITTEES

The Board Manual also outlines the terms of reference of seven permanent sub-committees of the Board, established to consider certain aspects of business, governance and control in detail. In addition, ad hoc committees are set up as required. The membership of all committees is reviewed from time to time and the last such review took place in February 2008. The Terms of Reference of all committees are regularly reviewed.

Each committee reports to the Board through its chair at the earliest scheduled Board meeting after the committee meeting. Reports 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, two committees, the Board Audit & Compliance Committee and the Board Risk Committee, make a formal annual report to the Board.

The key responsibilities of each committee are set out across. The full Terms of Reference of these committees may be downloaded from the Society's website on www.ebs.ie (follow the link under the Corporate Governance section in About Us).

AUDIT & COMPLIANCE COMMITTEE

This committee is responsible for monitoring the integrity of the financial statements and internal control systems. 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, the remuneration and the 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 on six occasions in 2007 and, in addition, joined the Board Risk Committee for a detailed review of the preparedness of the Society for the new capital regime which became effective on 1 January 2008.

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. One meeting during the year incorporated a detailed review of the property market, credit risk appetite and the credit management and controls environment.

NOMINATIONS COMMITTEE

The Nominations Committee is responsible for reviewing the size, structure and composition of the Board. A combination of external search consultancy and open advertising has been used in identifying new Non-Executive Directors. 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 on six occasions in 2007.

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 on four occasions in 2007.

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 on four occasions in 2007.

TRANSACTIONS COMMITTEE

The Transactions Committee reviews documentation with respect to major 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 on three occasions in 2007.

HAVEN BOARD

The Haven Board was set up in early 2008 to monitor the strategy, governance and control of the Haven subsidiary and to approve credits for large exposures. The Board comprises four Executive Directors of the Society and one Non-Executive Director.

PERFORMANCE EVALUATION OF THE BOARD AND DIRECTORS

An evaluation of Board effectiveness and the performance of individual directors is 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 Senior Independent Director. The Audit & Compliance Committee and the Risk Committee conduct annual reviews of their own effectiveness.

Board Committee Membership at 28 February 2008

Commitee	Audit & Compliance	Credit Approval	Nominations	Remuneration	Risk	Transactions
Finnan, Emer		•				•
McCann, Pat	•				•	•
Magee, Cathal		•			• (Chair)	•
Merriman, Alan	Attends	•			•	•
Moran, Mark			•	•	•	• (Chair)
Moroney, Tony					•	
Mulvihill, Liam	•	•	•			
Murphy, Fergus	Attends	•	•	Attends	•	
Patton, Barbara	•	•		• (Chair)		
Ruane, Jim	• (Chair)	• (Chair)				•
Scannell, Yvonne		•	• (Chair)	•		
Williamson, Philip				•	•	

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

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 or capitalise on corporate strengths or failure to foresee or manage events which result in unnecessary material financial loss or damage to the Society's reputation. EBS operates a continuous risk management process which identifies and evaluates the key risks facing the Society and its subsidiaries. This process includes an assessment of the effectiveness of internal control, and was in place for the full year under review up to the date of approval of the accounts; it is regularly reviewed by the Board and management and accords with The Combined Code on Corporate Governance, July 2003 as amended in 2005.

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 on a continuous basis, and is supported in this by the work of two of its subcommittees, namely the Board Risk Committee and 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 the risk occurring and/or minimise the impact in the case that the 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 and Legal & 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, key elements of which are:

» There is a clearly defined organisation structure which is regularly updated.

» Strategies, goals, objectives, authority limits and reporting mechanisms are clearly defined and performance is monitored.

» The Society's risk appetite is evaluated and risk exposure monitored by the Management Board (made up of senior management), and its underlying risk committees comprising the Asset & Liability Committee, the Capital Committee, the Credit Risk Committee, the Operations Management Committee and the Compliance Committee. Each of these committees is responsible for identifying actions to support robust risk management in line with the organisation's risk appetite and monitoring their progress.

» The Asset & Liability Committee was established to evaluate the Society's exposure to market risk, namely interest rate risk, liquidity risk, funding risk and foreign exchange risk. It is also responsible for monitoring capital ratios, including projections, and agreeing the appropriate management implementation of the capital policy.

» The Capital Committee recommends the appropriate capital policy for EBS to the Management 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 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. It has two subcommittees, namely the Health & Safety Committee and the Business Continuity Management/ Information Security Committee which support robust risk management in these key operational risk 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 compliance reviews and assessments undertaken by the Legal & 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 outputs 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 functions – Risk, Compliance and Internal Audit – each of which operates separately to and independently of the general business operation.
- The Risk function supports the Group in identifying, measuring, managing and monitoring key risks. It comprises a Credit Risk Control Unit, a Credit Review Unit, an Operational Risk Unit, and has oversight responsibility for Treasury Risk. The risk function facilitates each of the risk committees and the Management Board in conducting and evaluating risk reviews for all strategic initiatives. It monitors and reports on risk management developments and risk indicators in an Enterprise Risk report which is evaluated on behalf of the Board by the Board Risk Committee. It updates the Board on progress across EBS to mitigate risks through the Management Action Log which is reported to the Board Audit & Compliance Committee.
- The Legal & Compliance function supports each area of the Group in identifying their responsibilities in relation to prevailing and pending laws and regulations. This is reviewed and monitored by the Regulatory Compliance Committee and reports to the Board Audit & Compliance Committee on compliance with these requirements.
- Internal Audit provides independent assurance in relation to the effectiveness of the system of internal control to the Board through the Board Audit & Compliance Committee.

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

28 February 2008

REPORT OF THE REMUNERATION COMMITTEE

REMUNERATION PACKAGE FOR EXECUTIVE DIRECTORS

The remuneration package for executive directors comprises the following elements:

- Base Salary – this is paid monthly and set at a level to recognise the role and responsibilities carried out by the individual. Base salary levels are reviewed annually by the Remuneration Committee.
- A Performance Related Annual Bonus Plan - linked to the achievement of annual business objectives. The overall level of bonus pool awarded is decided by the Remuneration Committee and sub allocations are then determined by the performance of the individual against predetermined key result areas. In any financial year the value of an award shall not exceed 40% of a participant's salary.
- Medium Term Incentive Plan (MTI) – to encourage the achievement of longer term objectives and to aid the retention of key personnel. It is based on achievement of medium term objectives consistent with the Society's approved Strategic Plan. This bonus is awarded annually but is typically only payable after a three year period. The latest plan period covered was the three years to March 2007. A revised medium term scheme is being introduced for the three year period to December 2010 with a transition period covering the period from March 2007 to December 2007 to accommodate moving to a calendar year basis. In any financial year the value of an award shall not exceed 50% of the chief executive's basic salary or 45% of basic salary for the other participants.
- A Contributory Defined Benefit Pension Plan – a number of the executives participate in the senior management plan which provides for an employee contribution of 5% of pensionable salary. The maximum accrual is 40/60ths and the normal retirement age is 60. Individual executive directors' pension benefits are set out in the table below. The society makes payments to a defined contribution scheme on behalf of Emer Finnan.
- No service contract exists between the Society and any director which provides for a notice period of greater then one year.

2007 EXECUTIVE DIRECTOR REMUNERATION

The remuneration of the executive directors is listed below:

	Salary		Annual Bonus		Medium Term Incentive Plan		Benefits		Total	
	2007 €'000	2006 €'000	**2007 €'000**	2006 €'000	**2007 €'000**	2006 €'000	**2007 €'000**	2006 €'000	**2007 €'000**	2006 €'000
Ted McGovern[1]	353.4	430.0	139.8	139.7	150.5	145.1	33.9	44.9	677.6	759.7
Alan Merriman	412.1	400.0	132.5	130.0	126.0	120.0	46.3	40.2	716.9	690.2
Tony Moroney	250.4	224.6	70.5	60.0	81.0	63.0	44.0	28.0	445.9	375.6
Emer Finnan[2]	99.4	-	-	-	-	-	13.1	-	112.5	-
Total	**1,115.3**	**1,054.6**	**342.8**	**329.7**	**357.5**	**328.1**	**137.3**	**113.1**	**1,952.9**	**1,825.5**

[1] Ted McGovern retired on 30 September 2007. He received a compensation payment of €1,869,866 as part of his early retirement arrangements.
[2] Emer Finnan was appointed Director on 27 July 2007

The annual bonus amounts disclosed above are those awarded in 2007 and are typically paid in July.

The medium term incentive plan amounts disclosed above are those awarded during the year based on performance to 31 March 2007. The cumulative cash payment covering the three year period to 31 March 2007 was paid out in July 2007.

Benefits provided to the executive directors were the provision of a car or car allowances, contribution to health insurance, subsidised home loans and club subscriptions. Subsidised home loans to executive directors are on the same terms and conditions as loans to other eligible EBS management and employees. Executive directors do not receive any additional reward for acting as directors.

The executive directors are members of the EBS Pension Plan for senior managers with a retirement age of 60. An employee contribution rate of 5% of pensionable salary applies. Normal contributions made by the society in respect of the executive directors totalled €374,000 in 2007 (€384,000 in 2006). €28,750 was paid to a defined contribution scheme on behalf of Emer Finnan.

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

	Total accrued pension		Increase in accrued pension not attributable to inflation		Transfer value of the increase in accrued pension	
	(a) 2007 €'000	(a) 2006 €'000	(b) 2007 €'000	(b) 2006 €'000	(c) 2007 €'000	(c) 2006 €'000
Ted McGovern	201.3	178.7	15.4	14.3	374.7	219.6
Alan Merriman	34.6	20.1	13.8	13.2	110.2	90.7
Tony Moroney	39.7	28.2	10.4	9.6	105.6	81.3
Total	**275.6**	**227.0**	**39.6**	**37.1**	**590.5**	**391.6**

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 2007. 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 2007, in the event of the executive director leaving the society.

2007 NON-EXECUTIVE DIRECTOR REMUNERATION

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

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

	2007 €'000	2006 €'000
Brian A. Joyce (Chairman)[3]	0.0	100.0
Ronald J. Bolger (Vice-Chairman)[3]	0.0	75.0
Cathal Magee	55.0	42.0
Mark Moran (Chairman)[4]	105.0	17.5
Michael Moroney[3,6]	14.0	52.0
Barbara Patton	44.0	42.0
Yvonne Scannell	44.0	42.0
Ethna Tinney[3]	14.0	42.0
Jim Ruane[5]	56.9	0.0
Philip Williamson[5]	26.2	0.0
Pat McCann[5]	13.4	0.0
Liam Muvihill[5]	7.3	0.0
Total	**379.8**	**412.5**

[3] Details of retirements occurring in 2007 are as follows; (a) Brian A. Joyce - 31 December 06; (b) Ronald J. Bolger – 31 December 06; (c) Michael Moroney – 16 April 07; (d) Ethna Tinney – 16 April 07

[4] Mark Moran elected Chairman on 1st January 2007 and in 2006 he was on a sabbatical for seven months.

[5] Details of new appointments in 2007 to the board of directors are as follows; (a) Jim Ruane – 23 February 07; (b) Philip Williamson – 1 June 07; (c) Pat McCann – 11 September 07; (d) Liam Muvihill – 2 November 07

[6] EBS Asset Managers was sold in 2006 and hence the position of Chairman was no longer required in 2007.

Barbara Patton
Chairman of Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Building Societies Act, 1989 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and the Group and of the income and expenditure and cash flow statement of the Society and the Group for that period. The Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations endorsed by the European Union and with those parts of the Buildings Societies Acts, 1989-2006 applicable to organisations reporting under IFRS. 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; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Society and the Group 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 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 2007 which comprise the Group and Society's Income Statements, Balance Sheets, Cash Flow Statements and Statements of Recognised Income and Expense and the related notes 1 to 38. These financial statements have been prepared under the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Review and the 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 judgements 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 2007 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 2007 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

28 February 2008

ACCOUNTS

GROUP AND SOCIETY INCOME STATEMENT
for the year ended 31 December 2007

Society 2007 €m	Society 2006 €m		Note	Group 2007 €m	Group 2006 €m
172.8	148.2	Net interest income	3	173.6	150.1
16.0	13.3	Non interest income	4	16.1	16.3
188.8	**161.5**			**189.7**	**166.4**
20.1	15.6	Other operating income	5	4.1	3.4
208.9	**177.1**	**Total income**		**193.8**	**169.8**
(106.1)	(98.6)	Total operating expenses	6	(108.1)	(99.3)
102.8	**78.5**	**Income before impairment losses and taxation**		**85.7**	**70.5**
(19.1)	(4.6)	Impairment losses on loans and advances	12(b)	(19.1)	(4.6)
83.7	**73.9**	**Income before taxation**		**66.6**	**65.9**
(10.1)	(8.9)	Taxation	7	(10.7)	(8.2)
73.6	**65.0**	**Income after taxation**		**55.9**	**57.7**

Mark Moran, Chairman
Fergus Murphy, Chief Executive
Alan Merriman, Finance Director

28 February 2008

The notes on pages 30 to 52 form part of these financial statements.

GROUP AND SOCIETY BALANCE SHEET

at 31 December 2007

Society 2007 €m	Society 2006 €m		Note	Group 2007 €m	Group 2006 €m
		Assets			
281.0	310.3	Cash and balances with central banks	8(a)	281.0	310.3
-	24.0	Central government bills and other eligible bills	9	-	24.0
57.5	44.3	Derivative financial instruments	32	57.5	44.3
2,301.5	2,732.5	Available-for-sale financial assets	10	2,301.5	2,732.5
262.7	1,000.3	Loans and advances to credit institutions	11	273.5	1,011.8
15,882.2	14,634.4	Loans and advances to customers	12(a)	15,882.2	14,634.4
375.9	260.9	Held-to-maturity financial assets	13	375.9	260.9
1.0	0.5	Shares in group undertakings	14	-	-
64.0	60.4	Property, plant and equipment	16	71.1	68.2
18.6	16.7	Intangible assets	17	21.2	16.7
9.3	9.9	Deferred taxation asset	18	9.3	9.9
248.3	213.7	Other assets	19	202.6	193.0
19,502.0	**19,307.9**	**Total assets**		**19,475.8**	**19,306.0**
		Liabilities			
2,907.2	1,233.2	Deposits by credit institutions	20	2,657.2	1,108.2
11,352.8	12,236.7	Customer accounts	21	9,543.6	10,071.0
153.2	73.3	Derivative financial instruments	32	153.2	73.3
3,859.4	4,643.6	Debt securities in issue	22	5,676.5	6,820.5
9.0	7.7	Current taxation liabilities	23	9.5	8.6
6.3	5.2	Deferred taxation liabilities	24	13.3	11.9
358.3	306.4	Other liabilities	25	330.2	278.7
2.3	8.1	Retirement benefit liabilities	26	2.3	8.1
260.5	266.0	Subordinated liabilities	27	260.5	266.0
18,909.0	**18,780.2**			**18,646.3**	**18,646.3**
-	-	Minority interest	28	245.2	122.8
23.0	24.3	Revaluation reserve		23.0	24.3
(13.6)	(1.3)	Available-for-sale reserve		(13.6)	(1.3)
(22.3)	(22.3)	Cashflow hedge reserve		(22.3)	(22.3)
605.9	527.0	General reserve		597.2	536.2
19,502.0	**19,307.9**	**Total liabilities and reserves**		**19,475.8**	**19,306.0**

Mark Moran, Chairman
Fergus Murphy, Chief Executive
Alan Merriman, Finance Director

28 February 2008

The notes on pages 30 to 52 form part of these financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2007

Group

	Revaluation Reserve €m	Available-for-Sale Reserve €m	Cashflow Hedge Reserve €m	General Reserve €m	Total €m
At 1 January 2006	**18.2**	**0.6**	**(2.6)**	**466.9**	**483.1**
Net movement on revaluation reserve	6.1	-	-	-	6.1
Net movement on available-for-sale reserve	-	(1.9)	-	-	(1.9)
Net movement on 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)
Net actuarial gain on retirement benefits	-	-	-	12.0	12.0
At 31 December 2006	**24.3**	**(1.3)**	**(22.3)**	**536.2**	**536.9**
Net movement on revaluation reserve	(1.3)	-	-	1.8	0.5
Net movement on available-for-sale reserve	-	(12.3)	-	-	(12.3)
Net movement on cashflow hedge reserve	-	-	-	-	-
Income after taxation	-	-	-	55.9	55.9
Amortisation of issue costs on capital securities	-	-	-	(0.2)	(0.2)
Net actuarial gain on retirement benefits	-	-	-	3.5	3.5
At 31 December 2007	**23.0**	**(13.6)**	**(22.3)**	**597.2**	**584.3**

Society

	Revaluation Reserve €m	Available-for-Sale Reserve €m	Cashflow Hedge Reserve €m	General Reserve €m	Total €m
At 1 January 2006	**18.2**	**0.6**	**(2.6)**	**450.0**	**466.2**
Net movement on revaluation reserve	6.1	-	-	-	6.1
Net movement on available-for-sale reserve	-	(1.9)	-	-	(1.9)
Net movement on cashflow hedge reserve	-	-	(19.7)	-	(19.7)
Income after taxation	-	-	-	65.0	65.0
Net actuarial gain on retirement benefits	-	-	-	12.0	12.0
At 31 December 2006	**24.3**	**(1.3)**	**(22.3)**	**527.0**	**527.7**
Net movement on revaluation reserve	(1.3)	-	-	1.8	0.5
Net movement on available-for-sale reserve	-	(12.3)	-	-	(12.3)
Net movement on cashflow hedge reserve	-	-	-	-	-
Income after taxation	-	-	-	73.6	73.6
Net actuarial gain on retirement benefits	-	-	-	3.5	3.5
At 31 December 2007	**23.0**	**(13.6)**	**(22.3)**	**605.9**	**593.0**

The notes on pages 30 to 52 form part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2007

Society 2007 €m	Society 2006 €m		Note	Group 2007 €m	Group 2006 €m
		Cash flows from operating activities			
73.6	65.0	Income after taxation		55.9	57.7
		Adjustments for:			
2.9	3.5	Depreciation	16	5.7	4.2
4.4	5.8	Amortisation of intangibles	17	4.4	5.8
0.1	1.4	Write off of property impairment losses	16	0.1	1.4
-	0.8	Impairment of intangibles	17	-	0.8
-	-	Investment property revaluation		-	(3.2)
10.1	8.9	Income tax expense	7	10.7	8.2
91.1	**85.4**	**Operating income before changes in working capital and provisions**		**76.8**	**74.9**
(0.5)	41.6	Net (increase) decrease in loans & advances to credit institutions		(0.4)	41.6
(2.5)	(2.8)	Net increase in mandatory reserve balance		(2.5)	(2.8)
(1,249.1)	(2,460.5)	Net increase in loans and advances to customers		(1,249.1)	(2,423.7)
(39.5)	10.3	Net increase in other assets		(14.5)	17.3
1,674.0	(419.3)	Net increase (decrease) in deposits from credit institutions		1,549.0	(419.4)
(864.6)	2,571.0	Net (decrease) increase in amounts due to customers		(508.1)	1,319.0
53.2	105.2	Increase in other liabilities		52.6	74.7
(0.6)	0.3	Other non cash movements		(0.3)	0.3
(338.5)	**(68.8)**	**Cash generated from operations**		**(96.5)**	**(1,318.1)**
(8.7)	(7.5)	Income taxes paid		(9.5)	(14.6)
(347.2)	**(76.3)**	**Net cash from operating activities**		**(106.0)**	**(1,332.7)**
		Cash flows from investing activites			
(5.9)	(4.7)	Purchase of property, plant and equipment	16	(8.0)	(4.9)
(6.3)	(5.7)	Purchase of intangible assets	17	(8.9)	(5.7)
4.9	0.3	Proceeds from disposal of fixed assets		4.9	0.3
-	-	Proceeds from disposal of investment property		-	40.1
(0.5)	0.4	(Investment in) Disposal of subsidiaries		-	-
3.5	(690.7)	Net movement on short term securities		3.5	(690.7)
(4.3)	**(700.4)**	**Net cash from investing activities**		**(8.5)**	**(660.9)**
		Cash flows from financing activities			
(728.1)	424.2	Net (decrease) increase in debt securities in issue		(1,087.9)	1,613.4
(5.4)	96.4	(Decrease) Increase in subordinated debt		(5.4)	96.4
-	-	Net investment by minority interests		122.2	-
(733.5)	**520.6**	**Net cash from financing activities**		**(971.1)**	**1,709.8**
(1,085.0)	**(256.1)**	**Net decrease in cash and cash equivalents**		**(1,085.6)**	**(283.8)**
1,781.5	2,037.6	Cash and cash equivalents at 1 January		1,793.0	2,076.8
696.5	**1,781.5**	**Cash and cash equivalents at 31 December**	8(b)	**707.4**	**1,793.0**

The notes on pages 30 to 52 form part of these financial statements.

NOTES TO THE ACCOUNTS
31 December 2007

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 Acts, 1989 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 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) and International Financial Reporting Interpretations Committee (IFRIC) as issued by the International Accounting Standards Board and adopted by the European Union. The financial statements also comply with those parts of the Building Societies Acts 1989 to 2006 applicable to organisations reporting under IFRS.

(c) Basis of preparation

The financial statements have been prepared on an historical cost basis, except for freehold 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 IFRS 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 is 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.

(1) 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 impairments at 31 December 2007 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.

(2) 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.

(3) 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 a development finance loan 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.

(4) Corporation Taxes

The Group is subject to corporation taxes in two jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain at the balance sheet date.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period.

In the opinion of the directors, the judgements made are appropriate and the level of provision is adequate to cover the likely liability.

(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 and using the same accounting policies.

(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. In accordance with Standing Interpretations Committee (SIC) 12 the Group continues to recognise the securitised assets as loans and advances to customers on the Balance Sheet and income from securitised assets continues to be recognised as group income.

(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 and recognised immediately in the Income Statement.

Derivative financial instruments are recognised initially at fair value. 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. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

1. Accounting Policies (cont'd)

the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

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

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

(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. They arise when the Group provides loans directly to a customer with no intention of trading the loan.

(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, this 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 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) Segmental Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The Group's only geographical segment is considered to be the Republic of Ireland.

(k) Property, plant and equipment

Property is stated at revalued amount less accumulated depreciation. Office equipment and motor vehicles are stated at cost or 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 IFRS, 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 and 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 in which 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. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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 substantively 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 substantively enacted at the balance sheet date that are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. 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; or

(ii) a breach of contract, such as a default or delinquency in interest or principal payments; or

(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 consider; or

(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) adverse changes in the payment status of the Group's borrowers; or

(vii) national or local economic conditions that correlate with defaults on the assets of the Group.

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced 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

1. Accounting Policies (cont'd)

any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

The computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

(s) Available-for-sale current assets

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. 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 on which the fair value was determined.

(v) Off-setting financial instruments

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

(w) Adoption of new accounting standards

As of 1 January 2007, the Society adopted the amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures and IFRS7 Financial Instruments: Disclosures which has resulted in additional disclosures relating to capital and risk management policies and processes for the years ended 31 December 2007 and 31 December 2006. IFRIC 9 Re-assessment of Embedded Derivatives and IFRIC 10 Interim Financial Reporting and Impairment were also adopted in 2007 but did not result in additional disclosures in the financial statements.

(x) Comparatives

The 2006 comparatives incorporate a number of balance sheet reclassifications made following a review of the 2006 financial statements, to aid comparisons with other lenders.

The main area of reclassification involves the amounts previously disclosed within deposits by credit institutions, which have been reallocated to debt securities in issue. In addition, the non recourse funding issued by the Society in relation to the securitisation vehicles has been reclassified from loans and advances to customers to customer accounts in the Balance Sheet of the Society.

(y) New standards and interpretations not applied

During the year, the IASB and IFRIC have issued a number of new accounting standards and interpretations with an effective date after the date of these financial statements including:

International Accounting Standards (IAS / IFRSs)		Effective date
The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	IFRIC14	01-Jan-08
Operating Segments	IFRS 8	01-Jan-09
Borrowing Costs	IAS 23	01-Jan-09
Amendment – Presentation of Financial Statements Revised	IAS 1	01-Jan-09

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.

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.

3. Net Interest Income

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Interest Income	943.3	660.7	945.8	661.9
Interest Expense	(770.5)	(512.5)	(772.2)	(511.8)
	172.8	**148.2**	**173.6**	**150.1**
Interest Income				
Loans and advances to credit institutions	39.1	51.4	39.1	51.4
Loans and advances to customers	763.4	514.1	763.4	514.1
Available-for-sale financial assets	127.4	85.0	127.4	85.0
Held-to-maturity financial assets	12.1	7.6	12.1	7.6
Other interest receivable	1.3	2.6	3.8	3.8
	943.3	**660.7**	**945.8**	**661.9**
Interest Expense				
Subordinated liabilities	(14.5)	(8.7)	(14.5)	(8.7)
Capital securities	(10.4)	(6.3)	(9.9)	(6.1)
Debt securities in issue	(190.2)	(150.8)	(275.4)	(201.5)
Other interest payable	(555.4)	(346.7)	(472.4)	(295.5)
	(770.5)	**(512.5)**	**(772.2)**	**(511.8)**

The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through the Income Statement are the income and expense on derivative assets and liabilities held for risk management purposes. Interest income on derivative assets held for risk management for the year ended 31 December 2007 is €146.7m (2006: €67.9m) and interest expense on derivative liabilities held for risk management purposes for the year ended 31 December 2007 is €14.8m (2006: €7.6m). The balance of interest income and interest expense, €799.1m and €757.4m (2006: €594.0m and €504.2m) respectively arises on financial assets and financial liabilities not carried at fair value through the Income Statement.

Included within various captions under interest income for the year ended 31 December 2007 is a total of €3.4m (2006: €1.8m) accrued on individually significant impaired financial assets.

Net ineffectiveness recognised on cash flow hedges transferred to the Income Statement from equity during 2007 was €0.1m (2006: €0.4m).

Net gains recognised on fair value hedging instruments held in a qualifying fair value hedging relationship amount to €66.9m (2006: €3.1m) with net losses on the hedged item attributable to the hedged risk amounting to €67.0m (2006: €2.8m) giving rise to total ineffectiveness on fair value hedges for the year ended 31 December 2007 of €0.1m (2006: €0.3m)

4. Non Interest Income

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Fees and commissions receivable	23.8	21.4	23.8	27.0
Fees and commissions payable	(7.8)	(8.1)	(7.7)	(10.7)
	16.0	**13.3**	**16.1**	**16.3**
Fees and commissions receivable				
Insurance commission income	13.8	16.3	13.8	16.3
Investment management commission income	9.4	4.4	9.4	10.0
Credit card income	0.3	0.2	0.3	0.2
Personal loan income	0.3	0.5	0.3	0.5
	23.8	**21.4**	**23.8**	**27.0**
Fees and commissions payable				
Insurance commissions payable	(4.9)	(6.2)	(4.9)	(6.2)
Investment management commissions payable	(2.8)	(1.1)	(2.8)	(3.7)
Other	(0.1)	(0.8)	-	(0.8)
	(7.8)	**(8.1)**	**(7.7)**	**(10.7)**

Investment management commission income relates to fees earned by the Group and Society on investment advisory services provided to its members.

5. Other Operating Income

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Rental income	2.5	1.4	2.5	2.8
Investment property income	-	-	-	0.2
Dividend income - intragroup	15.9	13.7	-	-
Profit on disposal of land and buildings	1.0	-	1.0	-
Other income	0.7	0.5	0.6	0.4
	20.1	**15.6**	**4.1**	**3.4**

NOTES TO THE ACCOUNTS
31 December 2007

6. Total Operating Expenses

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Staff costs	50.5	45.1	50.6	45.5
Other administrative expenses	48.3	44.2	47.4	43.8
Depreciation and amortisation of intangibles (note 16,17)	7.3	9.3	10.1	10.0
	106.1	**98.6**	**108.1**	**99.3**

Auditors' remuneration (including value added tax) in 2007: €0.3m (2006: €0.4m).

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 655 and is analysed into the following categories:

Group and Society	2007	2006
Full time staff	629	616
Part time staff	26	18
	655	**634**

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Staff costs comprise:				
Wages and salaries	42.2	35.8	42.3	36.2
Social welfare costs	4.1	3.9	4.1	3.9
Defined benefit and defined contribution pension costs (note 26)	4.2	5.4	4.2	5.4
	50.5	**45.1**	**50.6**	**45.5**

7. Taxation

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
The taxation charge for the year is as follows:				
Corporation tax	6.9	8.0	7.5	15.8
Deferred tax (Note 18, 24)	3.2	-	3.2	(8.5)
Government Social Finance Initiative Levy	-	0.9	-	0.9
	10.1	**8.9**	**10.7**	**8.2**
The deferred taxation charge arises from:				
Capital allowances in excess of depreciation	0.2	(0.2)	0.2	-
Transfer from deferred tax to current tax	-	-	-	(7.5)
Release of deferred tax provision	-	-	-	(1.2)
Other timing differences	3.0	0.2	3.0	0.2
	3.2	**-**	**3.2**	**(8.5)**

In 2006 the Irish Government approved the Social Finance Initiative, under this initiative the Social Finance Company was established with seed capital of €25m contributed by Irish Banks and Building Societies. The Society's contribution to the initiative is €0.05m (2006: €0.9m).

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

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Income before tax at 12.5% (2006: 12.5%)	10.5	9.2	8.3	8.2
Effects of:				
Corporation tax on chargeable gains	0.1	0.1	0.1	3.6
Capital allowances in excess of depreciation	(0.1)	0.3	0.2	0.3
Capital allowances repaid	-	-	-	3.6
Over provision in prior years	(0.7)	(0.6)	(0.7)	(0.6)
Intragroup dividend income not taxable	(2.0)	(1.7)	-	-
Addbacks and income not taxable at standard rates	(0.5)	0.7	-	0.7
Other timing differences	(0.4)	-	(0.4)	-
Corporation tax	**6.9**	**8.0**	**7.5**	**15.8**
Deferred tax	3.2	-	3.2	(8.5)
Government Social Finance Initiative Levy	-	0.9	-	0.9
Total tax	**10.1**	**8.9**	**10.7**	**8.2**

8(a). Cash and Balances with Central Banks

Group and Society	2007 €m	2006 €m
Cash in hand	4.1	3.7
Balances with Central Banks other than mandatory reserve deposits	256.9	289.1
Included in cash and cash equivalents	**261.0**	**292.8**
Mandatory reserve deposits with Central Banks	20.0	17.5
Total cash and balances with Central Banks	**281.0**	**310.3**

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

8(b). Cash and Cash Equivalents

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
For the purposes of the cashflow statement the cash and cash equivalents comprise the following:				
Cash and balances with Central Banks	261.0	292.8	261.0	292.8
Central Government and other eligible bills	-	24.0	-	24.0
Available-for-sale financial assets	178.6	469.7	178.6	469.7
Loans and advances to credit institutions	256.9	995.0	267.8	1,006.5
	696.5	**1,781.5**	**707.4**	**1,793.0**

9. Central Government Bills and Other Eligible Bills

Group and Society	2007 €m	2006 €m
Other eligible bills - at amortised cost	-	24.0
Maturing within three months	-	24.0
Market value	**-**	**24.0**

10. Available-for-sale Financial Assets

Group and Society	2007 €m	2006 €m
Central Government bills - at fair value	138.9	167.8
Debt securities - at fair value	2,162.6	2,564.7
	2,301.5	**2,732.5**
Maturing within three months	178.6	469.7
Maturing between three months and one year	345.9	469.8
Maturing between one and five years	1,409.1	1,379.8
Maturing between five and ten years	367.9	413.2
	2,301.5	**2,732.5**

10(a). Unrealised Gains (Losses) not Recognised in Income Statement on Available-for-sale Assets

Group and Society – 31 December 2007	Fair value €m	Gross gains €m	Gross losses €m	Net €m
Central Government bills	138.9	-	(3.1)	(3.1)
Debt securities	2,162.6	-	(32.9)	(32.9)
	2,301.5	**-**	**(36.0)**	**(36.0)**

Group and Society – 31 December 2006	Fair value €m	Gross gains €m	Gross losses €m	Net €m
Central Government bills	167.8	-	(2.8)	(2.8)
Debt securities	2,564.7	1.5	(13.3)	(11.8)
	2,732.5	**1.5**	**(16.1)**	**(14.6)**

The amount of loss on available-for-sale financial assets removed from equity and recognised in the Income Statement for the year ended 31 December 2007 is (€20.4m) (2006: (€13.1m)).

11. Loans and Advances to Credit Institutions

	Society		Group	
	2007 €m	2006 €m	**2007 €m**	2006 €m
Repayable in less than three months	256.9	995.0	267.8	1,006.5
Repayable in more than three months but less than one year	5.8	5.3	5.7	5.3
	262.7	**1,000.3**	**273.5**	**1,011.8**

At 31 December 2007 the Group has €81.1m (2006: €93.5m) included in loans and advances to credit institutions which is not available for use by the Group.

12(a). Loans and Advances to Customers

Group and Society	**2007 €m**	2006 €m
Repayable on demand	-	5.0
Repayable in less than three months	130.4	37.6
Repayable in more than three months but less than one year	287.6	188.9
Repayable in more than one but less than five years	492.8	426.6
Repayable in more than five years	15,008.3	13,994.3
Total loans and advances to customers before provisions	**15,919.1**	**14,652.4**
Less provision for loan impairments	(36.9)	(18.0)
	15,882.2	**14,634.4**

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 2007 the aggregate amount outstanding in loans to directors was €4.4m (2006: €0.8m).

12(b). Provision for Loan Impairments

Group and Society	**2007 €m**	2006 €m
Individual provision for loan impairments		
At 1 January	2.7	0.2
Charge for impairment losses	17.0	2.5
At 31 December	**19.7**	**2.7**
Collective provision for loan impairments		
At 1 January	15.3	14.1
Charge of impairment losses	2.1	2.1
Loans and advances written off	(0.2)	(0.9)
At 31 December	**17.2**	**15.3**
Total provision for loan impairments at 31 December	**36.9**	**18.0**

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

At 31 December 2007 the Group had advances secured on residential property subject to non-recourse funding. These loans which have not been derecognised are shown within loans and advances to customers and the non-recourse funding is shown within debt securities in issue within the Group.

The total carrying amount of the original secured loans transferred by the Society to Emerald Mortgages No.1 plc, Emerald Mortgages No.2 plc, Emerald Mortgages No.3 plc and Emerald Mortgages No.4 plc amounted to €3,270m. The amount of transferred secured loans that the Society continues to recognise at 31 December 2007 is €1,798.0m (2006: €2,152.7m) with the carrying amount of the associated liability amounting to €1,809.3m (2006: €2,165.8m). These companies issued bonds to finance the purchase of the loans in the securitised pools.

Under the terms of the securitisation, the rights of the providers of the related funds are limited to the loans in the securitised portfolios and any related income generated by the portfolios, without recourse to EBS.

The Group participates in the securitisation through the provision of administration services and unsecured loan financing of €34.2m (2006: €34.2m), which is subordinated to the interest of the bond holders.

13. Held-to-maturity Financial Assets

Group and Society	**2007 €m**	2006 €m
Central Government Bills – at amortised cost	375.9	260.9
Maturing between one and five years	232.2	153.0
Maturing between five and ten years	143.7	107.9
	375.9	**260.9**

The market value of the held-to-maturity financial assets at 31 December 2007 is €365.0m (2006 €252.3m).

14. Shares in Group Undertakings

Society	2007 €m	2006 €m
At 1 January	0.5	0.9
Investment in subsidiary	0.5	-
Disposal of subsidiary	-	(0.4)
At 31 December	**1.0**	**0.5**

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 an investment holding 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 leases a property on behalf of the Group. 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 leases a property on behalf of the Group. The registered address of the company is 2 Burlington Road, Dublin 4.
(v) The Society holds 1 €1 ordinary share in Haven Mortgages Limited, incorporated in the Republic of Ireland in 2007. The company trades as a mortgage lender. The registered address of the company is 110 Amiens Street, Dublin 1.
(vi) The Society holds 750,000 €1.25 Class A shares in EBS Capital No. 1 SA, a 75% owned subsidiary incorporated in Luxembourg. The company raised external capital for the Society in 2005 and in 2007. The registered address of the company is 2 Avenue Charles De Gaulle, L 1653, Luxembourg.

15. Pledged Collateral

Group and Society	2007 €m	2006 €m
Government bonds	176	195
Debt securities	1,059	-
Mortgage backed promissory notes	1,563	653
	2,798	**848**

Pledged collateral sets out the total financial assets that have been pledged as collateral for liabilities at the balance sheet date.

Pledged collateral can be collateral pledged to the ECB or to market counterparts. ECB pledged collateral is comprised of financial assets that are pledged to the ECB as part of Sale & Repurchase (Repo) agreements. These financial assets are in the form of (a) Government Bonds, (b) Debt Securities and (c) Mortgage Backed Promissory Notes. Market counterpart pledged collateral are financial assets pledged as collateral as part of a Sale & Repurchase agreement (Repo) with other Credit Institutions as market counterparts. These financial assets are in the form of (a) Government Bonds or (b) other securities.

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Society acts as an intermediary.

16. Property, Plant and Equipment

Group	2007			2006		
	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
Cost or Valuation						
At 1 January	46.9	42.2	89.1	43.7	40.1	83.8
Additions	-	8.0	8.0	-	4.9	4.9
Disposals	-	(1.6)	(1.6)	-	(1.4)	(1.4)
Transfers	-	-	-	(3.9)	-	(3.9)
Revaluation surplus	0.9	-	0.9	7.1	-	7.1
Impairments	(0.1)	-	(0.1)	-	(1.4)	(1.4)
At 31 December	**47.7**	**48.6**	**96.3**	**46.9**	**42.2**	**89.1**
Accumulated Depreciation						
At 1 January	-	20.9	20.9	-	17.8	17.8
Charge for year	-	5.7	5.7	-	4.2	4.2
Disposals	-	(1.4)	(1.4)	-	(1.1)	(1.1)
At 31 December	**-**	**25.2**	**25.2**	**-**	**20.9**	**20.9**
Net book amounts at 31 December	**47.7**	**23.4**	**71.1**	**46.9**	**21.3**	**68.2**

NOTES TO THE ACCOUNTS

31 December 2007

16. Property, Plant and Equipment (cont'd)

Society	2007			2006		
	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
Cost or Valuation						
At 1 January	46.9	32.2	79.1	43.7	30.3	74.0
Additions	-	5.9	5.9	-	4.7	4.7
Disposals	-	(1.6)	(1.6)	-	(1.4)	(1.4)
Transfers	-	-	-	(3.9)	-	(3.9)
Revaluation surplus	0.9	-	0.9	7.1	-	7.1
Impairments	(0.1)	-	(0.1)	-	(1.4)	(1.4)
At 31 December	**47.7**	**36.5**	**84.2**	**46.9**	**32.2**	**79.1**
Accumulated Depreciation						
At 1 January	-	18.7	18.7	-	16.3	16.3
Charge for year	-	2.9	2.9	-	3.5	3.5
Disposals	-	(1.4)	(1.4)	-	(1.1)	(1.1)
At 31 December	**-**	**20.2**	**20.2**	**-**	**18.7**	**18.7**
Net book amounts at 31 December	**47.7**	**16.3**	**64.0**	**46.9**	**13.5**	**60.4**

Land and buildings to the value of €47.7m are occupied by the Group (Society: €47.7m) for its own activities. The carrying value of land and buildings comprises Freeholds of €38.5m (Society:€38.5m) and Long Leaseholds of €9.2m (Society €9.2m). The value of land and buildings under the cost model comprises Freeholds €17.7m and Long Leaseholds €4.1m.

The disposal figure of €1.6m for the year includes €0.5m of Group assets (Society: €0.5m) which are being eliminated from the cumulative cost and depreciation figures, as they are already fully depreciated.

In 2006 land and buildings of €3.9m were transferred to other assets as the directors had taken a decision to dispose and lease back premises at Liffey Street. The transaction was completed in January 2007.

Land and buildings were revalued as at 31 December 2007 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.

17. Intangible Assets

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Computer software (and development costs)				
Cost				
At 1 January	47.1	42.3	47.1	42.3
Additions - Internal development	6.0	5.2	8.6	5.2
Additions - Purchased	0.3	0.5	0.3	0.5
Impairments	-	(0.9)	-	(0.9)
At 31 December	**53.4**	**47.1**	**56.0**	**47.1**
Amortisation				
At 1 January	30.4	24.7	30.4	24.7
Charge for year	4.4	5.8	4.4	5.8
Impairments	-	(0.1)	-	(0.1)
At 31 December	**34.8**	**30.4**	**34.8**	**30.4**
Net book amounts at 31 December	**18.6**	**16.7**	**21.2**	**16.7**

Computer software costs are amortised on a straight line basis over a period not exceeding ten years.

18. Deferred Taxation Asset

Group and Society	2007 €m	2006 €m
At 1 January	9.9	8.5
Amount (charged) credited to Income Statement	(1.8)	0.8
Amount credited to reserves	1.2	0.6
At 31 December	**9.3**	**9.9**
The amounts provided for deferred tax are as follows:		
Impairment provision	1.8	1.8
Retirement benefits	0.8	2.3
Other timing differences	6.7	5.8
	9.3	**9.9**

19. Other Assets

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Loans to subsidiary undertakings	54.8	31.7	-	-
Deferred loan acquisition costs	73.7	69.5	73.7	69.5
Interest accrued	76.2	85.9	75.9	86.0
Other	43.6	26.6	53.0	37.5
	248.3	**213.7**	**202.6**	**193.0**

20. Deposits By Credit Institutions

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Repayable in less than three months	2,535.1	1,038.2	2,535.1	1,038.2
Repayable in more than three months but less than one year	72.1	70.0	72.1	70.0
Repayable in more than one year but less than five years	50.0	-	50.0	-
Repayable in more than five years	250.0	125.0	-	-
	2,907.2	**1,233.2**	**2,657.2**	**1,108.2**

21. Customer Accounts

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Repayable on demand	2,706.9	2,189.9	2,706.9	2,190.0
Repayable in less than three months	4,188.4	5,462.5	4,188.4	5,462.5
Repayable in more than three months but less than one year	1,167.1	878.3	1,167.3	878.3
Repayable in more than one year but less than five years	1,321.1	1,381.2	1,321.1	1,381.2
Repayable in more than five years	1,969.3	2,324.8	159.9	159.0
	11,352.8	**12,236.7**	**9,543.6**	**10,071.0**

Included in customer accounts in the Group and Society are embedded derivatives with a nominal value of €26.0m (2006: €26.5m) and a fair value of (€6.8m) (2006: (€6.6m)).

22. Debt Securities in Issue

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Medium term notes	2,461.4	3,007.7	2,461.4	3,007.7
Certificate of Deposits	950.4	1,008.4	950.4	1,008.4
Commercial Paper	166.9	466.0	166.9	466.1
Schuldschein Issued	280.7	161.5	280.7	161.5
Other debt securities in issue	-	-	1,817.1	2,176.8
	3,859.4	**4,643.6**	**5,676.5**	**6,820.5**
Details of Debt Securities in Issue are as follows:				
Medium term notes, Certificate of deposits, Commercial paper and Schuldschein				
EUR	2,448.8	3,647.6	2,448.8	3,647.7
GBP	899.1	626.2	899.1	626.2
USD	123.8	125.1	123.8	125.1
JPY	266.3	159.1	266.3	159.1
CZK	56.3	54.6	56.3	54.6
SFR	65.1	31.0	65.1	31.0
	3,859.4	**4,643.6**	**3,859.4**	**4,643.7**
Other debt securities in issue				
Emerald Mortgages No. 1 plc	-	-	144.3	157.7
Emerald Mortgages No. 2 plc	-	-	114.1	190.7
Emerald Mortgages No. 3 plc	-	-	332.8	409.0
Emerald Mortgages No. 4 plc	-	-	1,225.9	1,419.4
	-	**-**	**1,817.1**	**2,176.8**
	3,859.4	**4,643.6**	**5,676.5**	**6,820.5**

There have been no defaults or breaches in respect of the debt securities in issue.

23. Current Tax Liabilities

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Corporation tax	(0.5)	1.3	-	2.0
Other taxes	9.5	6.4	9.5	6.6
	9.0	**7.7**	**9.5**	**8.6**

24. Deferred Taxation Liability

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
At 1 January	5.2	3.7	11.9	18.6
Transfer to current taxation	(0.4)	(0.2)	(0.4)	0.1
Amount charged to Income Statement	1.4	0.8	1.4	(7.7)
Amount charged to Other Assets	-	-	0.3	-
Amount charged to Reserves	0.1	0.9	0.1	0.9
At 31 December	**6.3**	**5.2**	**13.3**	**11.9**
The amounts provided for deferred tax are as follows:				
Capital allowances in excess of depreciation	0.9	0.8	7.9	7.5
Revaluation of properties	2.9	3.3	2.9	3.3
Other timing differences	2.5	1.1	2.5	1.1
	6.3	**5.2**	**13.3**	**11.9**

25. Other Liabilities

	Society		Group	
	2007 €m	2006 €m	2007 €m	2006 €m
Interest accrued	276.6	244.1	276.6	244.1
Other accruals and deferred income	81.7	62.3	53.6	34.6
	358.3	**306.4**	**330.2**	**278.7**

26. Employee Benefits

Defined contribution schemes:
The total cost charged to the Income Statement which is included in staff costs of €0.2m (2006: €0.2m), represents contributions payable to these plans by the Group. The assets of the schemes are held separately from those of 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.

Group and Society	2007 €m	2006 €m
The amounts recognised in the Balance Sheet are determined as follows:		
Present value of pension obligations	(108.9)	(121.1)
Fair value of plan assets	106.6	113.0
Liability in the Balance Sheet	**(2.3)**	**(8.1)**

	2007 €m	2006 €m
Movement in the present value of pension obligations:		
At 1 January	(121.1)	(120.0)
Current service costs	(5.8)	(5.7)
Interest cost	(5.9)	(5.2)
Past service costs	0.2	(0.4)
Participants' contributions	(1.1)	(1.0)
Actuarial gains	20.4	8.9
Benefits paid from plan	3.6	2.1
Premiums paid	0.8	0.2
At 31 December	**(108.9)**	**(121.1)**

	2007 €m	2006 €m
Movement in the fair value of plan assets:		
At 1 January	113.0	96.9
Expected return on plan assets	7.9	6.1
Employer contributions	5.6	6.0
Participants' contributions	1.1	1.0
Actuarial (losses) gains	(16.6)	5.3
Benefits paid from plan	(3.6)	(2.1)
Premiums paid	(0.8)	(0.2)
At 31 December	**106.6**	**113.0**

26. Employee Benefits (cont'd)

Group and Society	2007 €m	2006 €m
Movement in the fair value of plan assets:		
At 1 January	113.0	96.9
Expected return on plan assets	7.9	6.1
Employer contributions	5.6	6.0
Participants' contributions	1.1	1.0
Actuarial (losses) gains	(16.6)	5.3
Benefits paid from plan	(3.6)	(2.1)
Premiums paid	(0.8)	(0.2)
At 31 December	**106.6**	**113.0**

The amounts recognised in the Income Statement are as follows: **Defined Benefit schemes**	2007 €m	2006 €m
Current service costs	(5.8)	(5.7)
Past service costs	(0.2)	(0.4)
Interest cost	(5.9)	(5.2)
Future expected return on plan assets	7.9	6.1
Total expenses (included in staff costs)	**(4.0)**	**(5.2)**

Pension Plan Assets	2007 €m	2006 €m
The fair value of the pension plan assets	106.6	113.0
The actual return on pension plan assets	(8.6)	11.4

Pension Plan Assets at 31 December 2007 **Asset Category**	Percentage of Plan Assets	Future Expected Return on Plan Assets
Equity securities	77.1%	7.7%
Debt securities	13.0%	4.3%
Real estate and other	9.9%	10.0%
	100.0%	**7.0%**

The principal actuarial assumptions used were as follows:	2007	2006
Rate of inflation	2.25%	2.25%
Discount rate	5.50%	4.68%
Expected return on plan assets	6.91%	6.10%
Future salary increases	3.75%	3.75%
Future pension increases	2.50%	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. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection.

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

The main post retirement mortality assumptions used at 31 December 2007 were 115% PMA92 C=2025 (2006: 115% PMA92 (C=2025)) for active and deferred members and 115% PMA92 C=2010 (2006: 115% PMA92 (C=2010)) for pensioners.

On this basis the life expectancy for a male pensioner aged 65 at 31 December 2007 was 17.99 years (2006: 17.99 years) and for a female pensioner aged 65 years was 20.83 years (2006: 20.83 years). Based on the assumed mortality improvements in 15 years time, the life expectancy for a male pensioner aged 65 years will have increased to 19.20 years (2006: 19.20 years) and for a female pensioner then aged 65 years will have increased to 22.03 years (2006: 22.03 years).

The contributions to be paid in 2008 are estimated to be €2.8m.

	2007	2006	2005	2004	2003
History of experience gains and losses					
Difference between the expected and actual return on plan assets:					
(i) Amount (€m)	(16.5)	5.3	9.8	2.1	3.8
(ii) % of plan assets	(15.5%)	5.0%	10.1%	3.0%	6.0%
Experience (gains) losses on plan liabilities:					
(i) Amount (€m)	(20.4)	(8.9)	26.2	10.3	3.4
(ii) % of present value of plan liabilities	(18.8%)	(7.0%)	22.0%	12.0%	5.0%

27. Subordinated Liabilities

Group and Society	2007 €m	2006 €m
Repayable in more than five years but less than ten years	199.6	199.5
Repayable in more than ten but less than fifteen years	60.9	66.5
	260.5	**266.0**

27. Subordinated Liabilities (cont'd)

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	GBP £14.6m
19 December 2002	Nov-19	Fixed rate	6.44%	Dec-14	GBP £30.0m
14 December 2004	Dec-14	Variable	euribor +55bps	Dec-09	€60.0m
28 November 2006	Nov-16	Variable	euribor +35bps	Dec-11	€100.0m

The interest expense on the subordinated bonds amounted to €14.5m (2006: €8.7m) during the year. There have been no defaults or breaches in respect of subordinated liabilities.

28. Minority Interest

Group	2007 €m	2006 €m
At 1 January	122.8	122.3
Capital securities issued in subsidiary undertakings	122.1	-
Amortisation of upfront costs through reserves	0.2	0.4
Amortisation of discount costs through Income Statement	0.1	0.1
At 31 December	**245.2**	**122.8**

The Society holds 750,000 €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. in 2005 and again in 2007.

In 2005 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') and in 2007 it issued 125,000 class B shares in the form of non-cumulative Capital Securities. The issuance of Capital Securities in 2005 are classified for regulatory purposes as Innovative Tier 1 capital and the issuance of Capital Securities in 2007 are classified as non-innovative 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.

29. Assets and Liabilities Denominated in Foreign Currencies

Group and Society	2007 €m	2006 €m
Assets denominated in currencies other than euro	3,734.2	2,975.6
Liabilities denominated in currencies other than euro	3,731.1	2,975.8

30. Leasing Commitments

Group and Society	2007 €m	2006 €m
At 31 December, future minimum payments under non cancellable operating leases relating to land and buildings are as follows:		
Payments to be made:		
Less than one year	7.4	6.2
Between one and five years	28.8	24.2
After five years	92.0	83.4
	128.2	**113.8**

These leases have average lives of between 25 and 35 years with renewal options included in the contracts. The actual amount incurred on operating lease charges in 2007 was €7.4m (2006: €7.7m).

31. Capital Commitments

Group and Society	2007 €m	2006 €m
Capital expenditure contracted but not provided for	0.4	0.3
Capital expenditure authorised but not contracted for	16.0	14.9

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.

32. Derivative Financial Instruments (cont'd)

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 2007 was (€47.2m) (2006: (€11.3m)).

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 2007 was (€26.0m) (2006: (€26.0m)). The periods in which the future forecasted cashflows are hedged range from 1 month to 10 years.

The effective portion of changes in fair value recognised in equity relating to cash flow hedges for the year ended 31 December 2007 is €22.4m (2006: €22.7m).

Group and Society	2007		2006	
	Contract/notional amount €m	Fair Values €m	Contract/notional amount €m	Fair Values €m
Derivatives held for trading				
Asset derivatives				
Interest rate caps	7.0	0.1	9.3	-
Equity swaps	26.3	6.9	26.7	6.7
Cross currency interest rate swaps	87.2	2.7	388.5	2.3
Interest rate swaps	230.4	0.2	36.1	-
Equity Options	49.4	-	86.6	-
Total asset derivatives held for trading	**400.3**	**9.9**	**547.2**	**9.0**
Liability derivatives				
Cross currency interest rate swaps	1,443.2	(31.9)	417.4	(0.4)
Interest rate swaps	289.1	(0.5)	185.0	(0.3)
Total liability derivatives held for trading	**1,732.3**	**(32.4)**	**602.4**	**(0.7)**
Total derivatives held for trading	**2,132.6**	**(22.5)**	**1,149.6**	**8.3**
Total embedded derivatives	**26.0**	**(6.8)**	**26.5**	**(6.6)**
Derivatives held for hedging				
Asset derivatives				
Interest rate swaps	2,391.8	45.4	1,410.0	29.8
Cross currency interest rate swaps	184.1	2.2	519.2	5.5
Total asset derivatives held for hedging	**2,575.9**	**47.6**	**1,929.2**	**35.3**
Liability derivatives				
Interest rate swaps	5,349.9	(53.8)	8,019.1	(49.4)
Cross currency interest rate swaps	1,472.4	(67.0)	557.9	(23.2)
Total liability derivatives held for hedging	**6,822.3**	**(120.8)**	**8,577.0**	**(72.6)**
Total derivatives held for hedging	**9,398.2**	**(73.2)**	**10,506.2**	**(37.3)**
Derivatives designated as fair value hedges				
Interest rate swaps	1,108.5	17.5	1,870.7	6.3
Cross currency interest rate swaps	1,656.5	(64.7)	1,077.1	(17.6)
Total derivatives designated as fair value hedges	**2,765.0**	**(47.2)**	**2,947.8**	**(11.3)**
Derivatives designated as cash flow hedges				
Interest rate swaps	6,633.2	(26.0)	7,558.4	(26.0)
Total derivatives designated as cash flow hedges	**6,633.2**	**(26.0)**	**7,558.4**	**(26.0)**
Total derivative held for hedging	**9,398.2**	**(73.2)**	**10,506.2**	**(37.3)**
Total derivatives	**11,556.8**	**(102.5)**	**11,682.3**	**(35.6)**
Asset derivatives	2,976.2	57.5	2,476.4	44.3
Liability derivatives	8,554.6	(153.2)	9,179.4	(73.3)
Embedded derivatives	26.0	(6.8)	26.5	(6.6)
Total derivatives	**11,556.8**	**(102.5)**	**11,682.3**	**(35.6)**

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 and the expected period over which the Income Statement will be affected is 4.9 years. The maximum remaining term of any individual cash flow hedge is 9.8 years.

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

There were no forecast transactions for which a cashflow hedge previously designated has ceased or been discontinued in 2006 or 2007.

32. Derivative Financial Instruments (cont'd)

Group and Society – Derivative Maturity Table at 31 December 2007

	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
Interest rate swaps	190.2	129.2	192.9	1,685.1	424.8	2,622.2
Cross currency interest rate swaps	210.9	7.6	-	52.8	-	271.3
Interest rate caps	-	-	6.2	0.8	-	7.0
Equity swaps	-	-	-	25.3	1.0	26.3
Equity options	4.6	14.0	5.7	25.1	-	49.4
Total assets	**405.7**	**150.8**	**204.8**	**1,789.1**	**425.8**	**2,976.2**
Interest rate swaps	2,554.0	601.5	464.2	1,671.1	348.2	5,639.0
Cross currency interest rate swaps	2,427.6	163.6	216.4	108.0	-	2,915.6
Total liabilities	**4,981.6**	**765.1**	**680.6**	**1,779.1**	**348.2**	**8,554.6**
Embedded derivatives	**-**	**-**	**-**	**25.0**	**1.0**	**26.0**

Group and Society – 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
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**

33. Risk Management and Control

The Group defines risk as a failure to maximise opportunities or a failure to foresee or manage events which could result in unnecessary material financial loss, interruption in business operations 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.

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. All material risk policies are reviewed by the Board Risk Committee on an annual basis and approved by the Board. 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. Risk management in the Society is supported by three independent risk functions, Regulatory & Compliance, Internal Audit and Risk.

RISK MANAGEMENT FRAMEWORK

EBS categorises risks under the following headings; strategic, operational, compliance and financial risks. Together, these form the EBS Risk Universe. This helps the Society to assess and manage risk on an enterprise wide, holistic basis. The Risk Universe is continuously reviewed and updated, reflecting the changing risk environment and was reviewed by the Board during 2007.

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.

Operational risk management

Operational risk is the current or prospective risk of loss arising from inadequate or failed internal processes or systems, human error or external events.

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.

33. Risk Management and Control (cont'd)

Regulatory compliance risk management

Regulatory Compliance risk is the risk that the Society fails to meet the standards and requirements of the Regulator in relation to the provision of financial services to consumers.

The Regulatory Compliance function 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.

Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

(i) Credit risk
(ii) Liquidity risk
(iii) Market risks

This note presents information about the Group's exposure to each of the above risks and about the Group's objectives, policies and processes for measuring and managing risk.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and credit institutions. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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. The Credit Risk Control Unit is responsible for the development and ongoing validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the Group's loan assets. Credit Review assesses the application of credit policies, processes and procedures across all areas of the Society. The Retail and Commercial credit functions approve credits and manage credit control in line with EBS credit risk policies.

The Credit Risk Committee is responsible for reviewing credit risk appetite and risk policies, monitoring adherence to these policies, reviewing the quality of the loan book on an ongoing basis, evaluating changes in the external economic landscape and competitor behaviour and making recommendations to the Board in relation to credit management.

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.

Maximum exposure to credit risk

The following table shows the Group's credit exposure, which is the maximum potential exposure including the committed facilities:

	Society		Group	
	2007 €m	2006 €m	**2007 €m**	2006 €m
Non-derivative financial assets				
Cash and balances with central banks	281.0	310.3	281.0	310.3
Central government bills and other eligible bills	-	24.0	-	24.0
Available-for-sale financial assets	2,301.5	2,732.5	2,301.5	2,732.5
Loans and advances to credit institutions	262.7	1,000.3	273.5	1,011.8
Loans and advances to customers	15,882.2	14,634.4	15,882.2	14,634.4
Held-to-maturity financial assets	375.9	260.9	375.9	260.9
Interest accrued	76.2	85.9	75.9	86.0
Derivatives				
Interest rate swaps	(8.7)	(19.9)	(8.7)	(19.9)
Cross currency interest rate swaps	(94.0)	(15.8)	(94.0)	(15.8)
Interest rate caps	0.1	-	0.1	-
Equity swaps	6.9	6.7	6.9	6.7
Loan commitments (not unconditionally cancellable)	664.1	768.0	664.1	768.0

Loan commitments disclosed above comprise formal loan offers which EBS has a legal obligation to fulfil at the balance sheet date. This excludes any offer letters where the Society's legal commitment to fulfil has elapsed.

HOLDING OF COLLATERAL

EBS holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. For residential property, these values are updated using the PTSB/ESRI index. Processes to monitor the collateral underpinning commercial lending are in place as part of the annual review of each commercial connected exposure ('Obligor'). Otherwise, values are updated when a loan is individually assessed as impaired at which time the fair value of the collateral held is factored into the estimate of the impairment provision required. Against possession cases, collateral with a fair value of €2.8m (2006: €0.5m) is held. The Society has put in place a number of Credit Support Annexes (CSAs) covering in excess of 75% of outstanding derivatives. Collateral is not generally held over loans and advances to credit institutions, nor over debt securities or government and other eligible bills.

CREDIT QUALITY

EBS lending credit risk is measured both at transaction level and at portfolio level. Individual loan transactions are assessed for credit risk using a combination of factors, including the risk rating attached to the credit (application score or obligor grade or external rating of a counterparty), the security exposure and an assessment of the member's, customer's or obligor's ability to repay the debt.

Portfolio risk is measured by reference to the volume and value of loans in default, the arrears aged analysis migration, the volume of legal recovery activity and repossessions, movements in credit impairment provisions and the level of write-offs.

The credit quality of the portfolio of loans and advances to customers is set out below by reference to retail assets and commercial assets. Group retail originated assets represent €13,534.8m (2006: €12,628.0m) and commercial originated assets represent €2,347.4m (2006: €2,006.4m).

33. Risk Management and Control (cont'd)

RETAIL ASSETS

The EBS retail lending portfolio comprises loans for owner occupation and buy to let loans for single properties or small portfolios.

Credit application scoring (which evaluates an applicant's willingness to pay based on an analysis of previous loan performance history) is used to assess credit applications in addition to an assessment of applicants' ability to repay the credit and the security exposure. The primary tool in use for monitoring the credit quality of retail assets is a probability of default (PD) and loss given default (LGD) matrix. The matrix is based on PD and LGD bands, calculated during the monthly regulatory capital calculation cycle. It is reported monthly to the Credit Risk Committee where trends, movements and migrations are analysed to assess changes in the risk profile of the portfolio. Statistical methods of measuring risk were first introduced in March 2004 for mortgage applications. Since then, all Retail assets have been modelled for risk assessment in a Basel 2 Internal Ratings Based Approach ('IRB') compliant manner.

The retail book risk is assessed on the basis of two categories: Performing loans and Non-performing loans. Within the Performing loans pool, loans with a PD in excess of 30% and loans with an LGD of greater than 25% where the PD exceeds 5% are categorised as 'watch risk' loans. Non-performing loans are defined using the standard definition of default under Basel 2.

The following analysis is based on the above groupings:

Group and Society	2007	2006
Retail Assets		
Performing loans (of which watch risk loans: 0.5% (2006 0.5%))	98.6%	98.9%
Non-performing loans	1.4%	1.1%
	100.0%	**100.0%**

COMMERCIAL ASSETS

The EBS Commercial loan portfolio comprises loans to individuals and companies to purchase income earning real estate (i.e. commercial investment property), development finance and loans for properties for owner-managed enterprises.

Loans are categorised according to the obligor, and obligors are graded for default risk under a 10 point grading system.
The Credit Risk Grading model is used for all credit assessments, is a central feature of all loan reviews, and informs the credit risk appetite in relation to large exposures. Apart from day-to-day use in credit and pricing decisions, the credit risk grades are used to analyse the quality of exposures at book level on an ongoing basis. Credit risk rating migrations are reported to the Credit Risk Committee and the Board on a monthly basis. In 2007 the credit grading system was enhanced to improve consistency in application and override approval authority and to increase the number of risk grades from 9 to 10. With seven performing grades, the model now meets Basel 2 requirements for the foundation Internal Ratings Based (IRB) approach to capital calculation, and the grading system is calibrated to a probability of default (PD) for use in capital adequacy assessment.

The commercial book is categorised into two groups: Performing loans (including loans on 'watch') and Non-performing loans. Non-performing loans are defined using the standard definition of default under the Basel 2 capital regime. Loans on watch are those where there are indications of a possible future difficulty and which require individual and sustained review.

The following analysis is based on the above groupings:

Group and Society	2007	2006
Commercial Assets		
Performing loans (of which loans on watch: 2.1% (2006: 1.4%))	96.5%	98.2%
Non performing loans	3.5%	1.8%
	100.0%	**100.0%**

ALL LOAN ASSETS - PAST DUE BUT NOT IMPAIRED AND IMPAIRED ANALYSIS

Provisions are calculated for assets which are deemed to be impaired where there is objective evidence of impairment. If the asset is deemed to be significant, then it is reviewed on an individual basis. Where the asset is impaired, but not significant, it is reviewed on a pooled or collective basis. Provisions are also calculated for assets where there is no objective evidence of impairment yet, but where impairment may have been incurred. In this way, all loan assets are reviewed for impairment assessment purposes. The Society does not restructure loans in order to capitalise arrears.

DEFINITION OF PAST DUE

The definition of past due used is consistent with the Basel 2 capital regime definition of default. For loans where interest is paid in advance, the default level is the total arrears amount divided by the next payment due amount. For accounts where interest is paid in arrears (i.e., with a variable payment amount) the default level is taken to be the number of days since any portion of a payment was missed divided by 30. An account is in default where the default level is greater than 3. An account is 'past due' where the default level is greater than zero.

Group and Society	2007	2006
Retail Assets		
Not impaired:		
Neither past due nor impaired	93.0%	93.5%
Past due :		
Up to 30 days	4.3%	4.2%
30 to 60 days	0.9%	0.8%
60 to 90 days	0.5%	0.4%
90+ days	1.3%	1.1%
Impaired individually significant:		
Past due 90 to 180 days	-	-
Past due over 180 days	-	-
Possessions	-	-
Total	**100.0%**	**100.0%**

33. Risk Management and Control (cont'd)

Group and Society	2007	2006
Commercial Assets		
Not impaired:		
Neither past due nor impaired	83.4%	88.6%
Past due :		
Up to 30 days	11.5%	6.9%
30 to 60 days	1.1%	0.7%
60 to 90 days	1.7%	2.6%
90+ days	1.0%	0.4%
Impaired individually significant:		
Past due 90 to 180 days	0.5%	0.4%
Past due over 180 days	0.8%	0.4%
Possessions	-	-
Total	**100.0%**	**100.0%**

The fair value of loans and advances to customers for the Group that are past due but not impaired at the balance sheet date is €1,305m (2006: €1,022m). The fair value of loans and advances to customers for the Group that are impaired at the balance sheet date is €37.2m (2006: €20m)

ALL LOAN ASSETS – ANALYSIS BY SECTOR

The Group monitors concentrations of credit risk by sector: an analysis is shown below.

Group and Society	2007	2006
Loans and advances		
Retail	85.2%	86.3%
Commercial	10.7%	9.8%
Commercial Buy to let	4.1%	3.9%
	100.0%	**100.0%**

The Group's activities are exclusively in the financial services sector, and almost exclusively in the Republic of Ireland. 98.7% of the loan book is secured against property assets in the Republic of Ireland.

TREASURY ASSETS AND DERIVATIVES

Treasury assets consist of cash and balances with central banks, central government bills and other eligible bills, derivative financial instruments, available-for-sale and held-to-maturity financial assets, and loans and advances to credit institutions excluding operating bank accounts.

The following tables present an analysis of Treasury asset counterparties by rating agency designation, based on Moody's ratings or their equivalent:

Group and Society 2007	Cash & Balances with central banks	Government and eligible bills	AFS financial assets	HTM financial assets	Derivatives	Loans & Advances to credit institutions
Aaa	100.0%	100.0%	5.7%	80.0%	29.0%	2.3%
Aa3 to Aa1	-	-	54.1%	20.0%	57.9%	50.6%
A3 to A1	-	-	32.5%	-	7.9%	40.7%
Lower than A3	-	-	-	-	-	-
Unrated	-	-	7.7%	-	5.2%	6.4%

Group and Society 2006	Cash & Balances with central banks	Government and eligible bills	AFS financial assets	HTM financial assets	Derivatives	Loans & Advances to credit institutions
Aaa	100.0%	100.0%	4.4%	80.0%	3.5%	3.9%
Aa3 to Aa1	-	-	33.4%	20.0%	92.5%	30.1%
A3 to A1	-	-	57.9%	-	4.0%	61.6%
Lower than A3	-	-	0.5%	-	-	0.9%
Unrated	-	-	3.8%	-	-	3.5%

As at 31 December 2007 and 2006 no Treasury assets were either Past Due or Impaired.

EBS has established and enforces operating limits and other practices that maintain exposures within levels consistent with their internal policies. EBS adheres to the principles of sound practices for managing interest rate risk and complies with any regulatory requirements as a minimum. EBS transacts derivatives for the purpose of reducing or eliminating Interest Rate Risk in the Banking Book (IRRBB). EBS uses Interest rate, Cross Currency and Foreign Exchange Swaps for this purpose.

(ii) Liquidity risk

Group Treasury is 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 ('ALCO') monitors these risks and reports on key developments to the Board on a regular basis.

Liquidity risk relates to the ability of the Group to meet its on and off balance sheet obligations in a timely manner as they fall due, without incurring excessive cost, whilst continuing to fund its assets and growth therein.

The Group applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the Financial Regulator in July 2007. The overall purpose of a maturity mismatch approach is to ensure that the Group will have, at any given time, a pool of highly liquid assets capable of being converted into cash within four business days, sufficient to cover a certain percentage of foreseeable cash outflows for future periods of time ('time bands'). The maturity mismatch approach requires cash flows to be analysed under various headings and assigned to predetermined time bands depending on when the cash is received or paid out.

Assumptions are made about the retention rates of certain retail and corporate flows, which are based on historical behaviour together with additional prudential reductions (haircuts). Maturity mismatches are assessed on a net cumulative basis, with statutory limits imposed on the first (up to eight days) and second (over eight days to one month) time bands. The Group applies internal limits in excess of the regulatory requirements for these two time bands.

A key measure used by the Group for managing liquidity risk are the liquidity ratios, calculated and reported on a daily basis to the Group Treasurer, on a weekly basis to the Financial Regulator and on a monthly basis to the ALCO. Any breaches of limits by liquidity ratios are reported immediately to the Group Treasurer and the Head of Risk. There have been no breaches of the liquidity ratio limits during 2007.

33. Risk Management and Control (cont'd)

EXPOSURE TO LIQUIDITY RISK

The table below analyses gross contractual maturities of financial liabilities held by the Group:

Group	Up to 1 month €m	Over 1 month to 3 months €m	Over 3 months to 6 months €m	Over 6 months to 1 year €m	1 to 2 years €m	Over 2 years €m
31 December 2007						
Financial liabilities						
Deposits by credit institutions	1,033.3	1,528.9	30.4	45.0	-	50.0
Customer accounts	5,621.7	1,305.4	634.2	586.0	570.1	1,041.2
Derivative financial instruments	-	65.9	(3.2)	34.8	38.2	17.5
Debt securities issued	726.7	728.5	369.9	382.2	439.6	3,102.1
Minority interest	-	1.9	-	6.3	-	250.0
Subordinated liabilities	-	2.1	-	44.4	60.0	161.4
Unrecognised loan commitments	232.6	311.3	71.7	48.5	-	-
Total financial liabilities	**7,614.3**	**3,944.0**	**1,103.0**	**1,147.2**	**1,107.9**	**4,622.2**
31 December 2006						
Financial liabilities						
Deposits from credit institutions	752.8	291.2	72.3	-	-	-
Customer accounts	5,220.7	1,706.4	900.3	736.2	468.2	1,274.5
Derivative financial instruments	-	11.5	4.8	4.8	38.5	13.7
Debt securities issued	471.7	972.4	648.2	417.8	718.7	3,703.4
Minority interest	-	-	-	6.3	-	125.0
Subordinated liabilities	-	0.6	-	6.7	38.1	227.0
Loan commitments	267.0	360.5	140.5	-	-	-
Total financial liabilities	**6,712.2**	**3,342.6**	**1,766.1**	**1,171.8**	**1,263.5**	**5,343.6**

The table below analyses gross contractual maturities of financial liabilities held by the Society:

Society	Up to 1 month €m	Over 1 month to 3 months €m	Over 3 months to 6 months €m	Over 6 months to 1 year €m	1 to 2 years €m	Over 2 years €m
31 December 2007						
Financial liabilities						
Deposits from credit institutions	1,033.3	1,530.8	30.4	51.3	-	300.0
Customer accounts	5,621.7	1,305.4	634.2	586.0	570.1	2,858.3
Derivative financial instruments	-	65.9	(3.2)	34.8	38.2	17.5
Debt securities issued	726.7	728.5	369.9	382.2	439.6	1,285.0
Subordinated liabilities	-	2.1	-	44.4	60.0	161.4
Unrecognised loan commitments	232.6	311.3	71.7	48.5	-	-
Total financial liabilities	**7,614.3**	**3,944.0**	**1,103.0**	**1,147.2**	**1,107.9**	**4,622.2**
31 December 2006						
Financial liabilities						
Deposits from credit institutions	752.8	291.2	72.3	6.3	-	125.0
Customer accounts	5,220.7	1,706.4	900.3	736.2	468.2	3,489.6
Derivative financial instruments	-	11.5	4.8	4.8	38.5	13.7
Debt securities issued	471.7	972.4	648.2	417.8	718.7	1,488.3
Subordinated liabilities	-	0.6	-	6.7	38.1	227.0
Loan commitments	267.0	360.5	140.5	-	-	-
Total financial liabilities	**6,712.2**	**3,342.6**	**1,766.1**	**1,171.8**	**1,263.5**	**5,343.6**

The previous tables show the undiscounted cash flows on each of the Group and Society's financial liabilities and unrecognised loan commitments on the basis of contractual maturity. Liabilities and unrecognised loan commitments, which include offers and undrawn credit facilities, are included according to the earliest possible date of obligation. The Group's expected cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

(iii) Market risks

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (funding risk) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Group Treasury manages these risks using gap and sensitivity analysis. Derivatives such as interest rate and foreign currency swap agreements and equity index options are used to hedge these market risks.

Interest rate risk in the banking book portfolio is the Group's primary source of interest rate risk and is managed principally through monitoring interest rate gaps and by having various limits, processes and procedures. In addition, the Group conducts regular stress testing to evaluate the exposure of the banking book portfolio to a 100 basis point upward or downward shift.

Interest rate risk in the reserve investment portfolio is managed under the Reserve Investment Policy as approved by the Board.

33. Risk Management and Control (cont'd)

INTEREST RATE SENSITIVITY GAP ANALYSIS

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.

Group – Interest rate sensitivity gap analysis 2007

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Non interest bearing €m	Total €m
Non - Trading Book							
ASSETS							
Cash and balances with central banks	281.0	-	-	-	-	-	281.0
Derivative financial instruments	-	-	-	-	-	57.5	57.5
Available-for-sale financial assets	178.6	160.6	185.3	1,409.1	367.9	-	2,301.5
Held-to-maturity financial assets	-	-	-	224.4	140.6	10.9	375.9
Loans and advances to credit institutions	267.7	5.8	-	-	-	-	273.5
Loans and advances to customers	12,587.0	103.9	268.7	2,720.3	202.3	-	15,882.2
Other assets	-	-	-	-	-	304.2	304.2
Total assets	**13,314.3**	**270.3**	**454.0**	**4,353.8**	**710.8**	**372.6**	**19,475.8**
LIABILITIES							
Deposits by credit institutions	2,585.1	29.1	43.0	-	-	-	2,657.2
Customer accounts	6,895.7	607.5	559.6	1,321.0	159.8	-	9,543.6
Derivative financial instruments	-	-	-	-	-	153.2	153.2
Debt securities in issue	3,218.0	522.1	159.8	532.9	1,243.7	-	5,676.5
Other liabilities	-	-	-	-	-	355.3	355.3
Subordinated liabilities	161.5	-	38.1	-	60.9	-	260.5
Minority interest	-	-	-	-	245.2	-	245.2
Total liabilities	**12,860.3**	**1,158.7**	**800.5**	**1,853.9**	**1,709.6**	**508.5**	**18,891.5**
Derivatives	(336.9)	1,167.5	445.2	(1,194.5)	(81.3)	-	-
Interest rate sensitivity gap	**117.1**	**279.1**	**98.7**	**1,305.4**	**(1,080.1)**	**(135.9)**	**584.3**
Cumulative gap	**117.1**	**396.2**	**494.9**	**1,800.3**	**720.2**	**584.3**	**584.3**

Group – 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							
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	-	-	-	-	-	287.8	287.8
Total assets	**16,236.4**	**132.1**	**343.6**	**1,638.6**	**623.2**	**332.1**	**19,306.0**
LIABILITIES							
Deposits by credit institutions	869.1	234.6	4.5	-	-	-	1,108.2
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	6,259.9	-	135.9	424.7	-	-	6,820.5
Other liabilities	-	-	-	-	-	307.3	307.3
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**	**380.6**	**18,769.1**
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**	**(48.5)**	**536.9**
Cumulative gap	**(146.8)**	**(77.1)**	**(7.3)**	**405.3**	**585.4**	**536.9**	**536.9**

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 are €5,788.9m (2006: €2,737.3m), exposed to cash flow interest rate risk are €13,314.3m (2006: €16,236.6m) and not exposed to interest rate risk are €372.6m (2006: €328.6m).

There are some limitations associated with the above analysis, mainly due to market effects, over aggregation, run-offs and cashflows arising from off balance sheet activities. However, measures have been taken to minimise the effect of these limitations in line with industry practice and we are satisfied that the sensitivity analysis is an appropriate tool for measuring interest rate risk.

33. Risk Management and Control (cont'd)

INTEREST RATE STRESS TESTING

The Group conducts daily stress testing on the Banking Book Portfolio, evaluating the exposure of the Group and Society to a parallel interest rate shift of 100 bps. The Group also conducts at least monthly interest rate stress testing on the Reserve Investment Portfolio, evaluating the exposure of the Group and Society to a parallel interest rate shift of 100 bps. The results of these stress tests are presented to ALCO on a monthly basis.

The tables below provide an analysis of the Group's sensitivity to an increase or decrease in market rates:

Group and Society	100 bps parallel shift (increase/ decrease) 2007 €'000		2006 €'000	
Banking book portfolio				
Average for the period	-/+	10,455	-/+	3,882
Maximum for the period	-/+	13,551	-/+	6,903
Minimum for the period	-/+	5,435	-/+	953
Reserve investment portfolio				
Average for the period	-/+	17,866	-/+	17,942
Maximum for the period	-/+	19,903	-/+	18,563
Minimum for the period	-/+	15,052	-/+	16,876

The above table shows the present value effect that would be realised on an accrual basis on the banking book and reserve investment book over the life of the assets and liabilities contained therein.

Overall interest rate risk positions are managed by Group Treasury. The use of derivatives to manage interest rate risk is described in note 32. There have been no changes in methods or assumptions used from the prior year for managing interest rate risk.

Exposure to Other Market Risks

FOREIGN EXCHANGE RISK

The Group and Society take the euro as their base currency. However, through the normal course of business operations, EBS naturally accumulates foreign currency positions. The Group is therefore exposed to movements in foreign exchanges rates that may have an adverse effect on the economic value of the Group and Society. The size of the foreign currency open positions are kept within small operational limits.

The main methods used for mitigating foreign exchange risk include prohibiting the running of a trading book in any foreign currency, monitoring and centrally managing foreign exchange risk and hedging open currency positions through the use of derivatives. The Group and Society has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

FUNDING RISK - CREDIT SPREADS

Funding risk (not relating to changes in the obligor / issuer's credit standing) is closely managed by Group Treasury and is monitored on an ongoing basis by ALCO.

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.

Group	2007			2006		
	Carrying value €m	Fair value €m	Unrecognised gain (loss) €m	Carrying value €m	Fair value €m	Unrecognised gain (loss) €m
ASSETS						
Cash and balances with central banks	281.0	281.0	-	310.3	310.3	-
Central government bills and other eligible bills	-	-	-	24.0	24.0	-
Derivative financial instruments	57.5	57.5	-	44.3	44.3	-
Available-for-sale financial assets	2,301.5	2,301.5	-	2,732.5	2,732.5	-
Held-to-maturity financial assets	375.9	365.0	(10.9)	260.9	252.3	(8.6)
Loans and advances to credit institutions	273.5	248.1	(25.4)	1,011.8	1,011.8	-
Loans and advances to customers	15,882.2	15,917.1	34.9	14,634.4	14,626.6	(7.8)
LIABILITIES						
Deposits by credit institutions	2,657.2	2,657.2	-	1,108.2	1,108.2	-
Customer accounts	9,543.6	9,541.3	(2.3)	10,071.0	10,097.6	(26.6)
Derivative financial instruments	153.2	153.2	-	73.3	73.3	-
Debt securities in issue	5,676.5	5,679.6	3.1	6,820.5	6,820.5	-
Subordinated liabilities	260.5	260.5	-	266.0	266.0	-

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, the Group have applied market prices obtained from independent sources.

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

33. Risk Management and Control (cont'd)

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 is predominantly hedged by derivative financial instruments, mainly 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 value 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

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 2007 is €49.4m (2006: €86.6m). 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) Included in Deposits by credit institutions at 31 December 2007 is €1,200m (2006: €506.3m) 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. MBPN is an ECB eligible asset since 1 January 2007. There is no limit to the size of this facility provided the mortgages submitted meet the selection criteria set down. 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.
(iii) At 31 December 2007 loan approvals not advanced, as calculated under the Basel II definition, amounted to €664.1m.

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.

Group and Society	2007 €m	2006 €m
Loans to related parties		
At 1 January	86.2	75.4
Net movement in loans during the year	9.8	10.8
At 31 December	**96.0**	**86.2**
Deposits from related parties		
At 1 January	2,244.3	957.9
Net movement in deposits during the year	(353.9)	1,286.4
At 31 December	**1,890.4**	**2,244.3**
Permanent Interest Bearing Shares		
At 1 January	125.0	125.0
Issued in the year	125.0	-
At 31 December	**250.0**	**125.0**
Included in the Income Statement:		
Interest Income on loans to related parties	7.7	7.7
Interest Expense on deposits from related parties	97.0	60.9
Interest Expense on Permanent Interest Bearing Shares	10.5	6.3
Other income	10.0	8.6
Rental expense on leased assets	4.9	4.2

The above transactions arose in the ordinary course of business. Loans to related parties include loans to group subsidiaries including securitisation vehicles and loans to key management personnel. Deposits from related parties include loans from group subsidiaries together with non-recourse funding from securitisation vehicles. The interest charged to related parties is at normal commercial rates appropriate to the transaction. Outstanding balances at year end are secured and there have been no guarantees provided. 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 €4.4m (2006: €0.4m)

37. Capital Management

REGULATORY CAPITAL

EBS Group policy sets and monitors capital policy in line with regulatory and legislative requirements. Capital adequacy is monitored by the Asset and Liability Committee.

The Group's regulatory capital comprises:

Tier 1 capital, which includes general reserve capital, innovative and non-innovative Tier 1 securities, which are classified as minority interests, deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities, revaluation reserve, collective impairment allowances and other regulatory adjustments.

Within these tiers, limits are set for different components of capital. The amount of innovative Tier 1 securities cannot exceed 15 percent of total Tier 1 capital, qualifying Tier 2 capital cannot exceed Tier 1 capital, and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Other deductions from capital include the carrying amounts of the first loss deductible in relation to the securitisation vehicles.

Banking operations are categorised as either banking book or reserve investments, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Group has complied with all capital requirements throughout the period and has transitioned fully to the Basel 2 framework with effect from 1 January 2008. There have been no material changes in the Group's capital policy during the period.

The Group's regulatory capital position at 31 December was as follows:

Group	2007 €m	2006 €m
Tier 1 capital		
General reserve	597.2	536.2
Minority interests	245.2	122.8
Intangible assets	(21.2)	(16.7)
Other regulatory adjustments	(9.9)	(25.3)
Total	**811.3**	**617.0**
Tier 2 capital		
Qualifying subordinated liabilities	260.5	266.0
Collective allowances for impairment	17.2	15.3
Revaluation reserves	23.0	24.3
Other regulatory adjustments	(35.3)	(14.7)
Total	**265.4**	**290.9**
Total regulatory capital	**1,076.7**	**907.9**
Risk-weighted assets		
Banking book	9,049.0	8,277.0
Total risk-weighted assets	**9,049.0**	**8,277.0**

Group	2007	2006
Capital ratios		
Total capital ratio:	11.9%	11.0%
Tier 1 capital ratio:	9.0%	7.5%

CAPITAL ALLOCATION

The allocation of capital between different business lines is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The allocation of capital to specific business lines and activities is approved by the Group's Management Board and is monitored by the Asset and Liability Committee.

Although risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

38. Approval of Financial Statements

The financial statements were authorised for issue by the Board of Directors on 28 February 2008.

EBS
BUILDING SOCIETY