EBS LIMITED

DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2014

CONTENTS

DIRECTORS AND OTHER INFORMATION

DIRECTORS

Desmond Fitzgerald	Executive Director (Managing Director)
Bernard Byrne	Group Non-Executive Director
Fidelma Clarke	Group Non-Executive Director
Denis O'Callaghan	Group Non-Executive Director
Catherine Woods	Independent Non-Executive Director and Chairman
Tom Foley	Independent Non-Executive Director
James O'Hara	Independent Non-Executive Director

SECRETARY Louise Cleary

REGISTERED OFFICE 2 Burlington Road
Dublin 4

REGISTERED NUMBER 500748

INDEPENDENT AUDITOR Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2

BANKER Allied Irish Banks, p.l.c.
7/12 Dame Street
Dublin 2

DIRECTORS' REPORT

The Directors of EBS Limited present their Directors' report and annual financial statements of EBS Limited and its' subsidiaries (the 'Group') for the year ended 31 December 2014. A statement of Directors' responsibilities in relation to the financial statements appears on page 10.

ACTIVITIES OF THE COMPANY

EBS Limited ('EBS' or 'the Company'), a private company limited by shares, domiciled in Ireland, is a member of the EBS Group ('Group') and is a wholly owned subsidiary of Allied Irish Banks p.l.c., ('AIB p.l.c. 'or 'AIB'), which is a member of AIB Group. AIB p.l.c. operates EBS as a standalone, separately branded subsidiary with its own distribution network.

EBS operates in the Republic of Ireland and has a countrywide network of 71 offices and a direct telephone based distribution division (EBS Direct). EBS' network gives it a physical presence in communities across Ireland and this is important in allowing it to provide a high quality service to its customers. The Group also distributes mortgages through Haven Mortgages Limited, a wholly owned subsidiary, to independent mortgage intermediaries.

EBS is regulated by the Central Bank of Ireland ('CBI') and has an Irish banking licence under the Central Bank of Ireland Act 1971 (as amended). AIB Group and its subsidiaries including EBS, came under direct supervision of, and are deemed to be authorised by the European Central Bank ('ECB') since the introduction on 4 November 2014 of the Single Supervisory Mechanism ('SSM'). The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB and its subsidiaries.

EBS is a covered institution within the meaning of the Government Guarantee Scheme (the 'Scheme') and stood specified under the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (Statutory Instrument No. 416 of 2008) ('CIFS') for the period 30 September 2008 to 29 September 2010.

EBS is a participating institution since 1 February 2010 under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ('ELG') which came into effect on 9 December 2009. In December 2012, the European Commission further extended the ELG issuance to the 30 June 2013. On 26 February 2013, the Irish Government announced that the ELG would end at midnight on 28 March 2013. Since that date any new liabilities are not covered by the ELG Scheme. Liabilities incurred since January 2010 and before the scheme's end continue to be guaranteed until their maturity date.

Since 1 January 2014 most of EBS' activities are outsourced to AIB under a Managed Service Agreement ("MSA"), this includes servicing of mortgage loans and provision of treasury services as well as a range of support services.

CORPORATE GOVERNANCE STATEMENT

EBS is subject to the provisions of the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the Central Bank Code") (which is available on www.centralbank.ie), which imposes minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank of Ireland. EBS is not required to comply with the additional requirements of the Central Bank Code for major institutions.

EBS' corporate governance practices are designed to ensure compliance with applicable legal and regulatory requirements including Irish company law and the listing rules of the Main Securities Market of the Irish Stock Exchange.

EBS believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent, and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal controls, including sound administrative and accounting procedures, IT systems and controls.

<u>The Board of Directors</u>

Governance is exercised through a Board of Directors ('The Board') and a senior management team. The Board is responsible for corporate governance encompassing leadership, direction, strategy and control of EBS and is responsible for financial performance to its shareholder and parent AIB p.l.c. The conditions of EBS' Central Bank of Ireland licence require that there should be a minimum of two Non-Executive Directors who are independent of the parent company. Throughout 2014, there were three independent Non-Executive Directors on the Board. The Board also included one Executive Director and three other Directors who, while also employees of the parent, AIB p.l.c., were deemed to be Non-Executive Directors by virtue of the roles they fulfilled in areas of AIB unrelated to the operations of EBS.

The Board is responsible for ensuring that appropriate systems of internal controls and risk management are maintained, specifically the Board sets the Risk Appetite Statement, approves the Risk Framework and approves the annual financial plans.

The Board receives regular updates on EBS' risk profile together with relevant updates from the Board Audit Committee. The Board held 4 scheduled meetings during 2014 and 3 additional out of course meetings or briefings.

<u>Board Committees</u>

The Board is assisted in the discharge of its duties by an Audit Committee which operates under Terms of Reference approved by the Board. The Audit Committee comprises Non-Executive Directors whom the Board has determined have the collective skills and relevant financial experience to enable the Committee to discharge its responsibilities. The Audit Committee has oversight responsibility for:

- the quality and integrity of EBS' accounting policies, financial statements and disclosure practices;
- compliance with relevant laws, regulations, codes of conduct and "conduct of business" rules;
- the independence and performance of the External Auditor ("the Auditor") and Internal Audit; and
- the adequacy and performance of systems of internal control and the management of financial and non-financial risks.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

These responsibilities are discharged through management including Internal Audit, Risk and Compliance. During 2014 the committee met on 4 occasions and amongst other activities the Committee reviewed EBS' annual financial statements prior to approval by the Board, including EBS' accounting policies and practices; reports on compliance; effectiveness of internal controls; and the findings, conclusions and recommendations of the Auditor and Internal Audit.

The Committee satisfied itself through regular reports from the Internal Audit, Finance, Risk and Compliance that the system of internal controls were effective. The Committee ensures that appropriate measures are taken into consideration and addresses control issues identified by Internal Audit and the Auditor.

BUSINESS REVIEW

During 2014 the Irish economy continued to make significant improvements against a backdrop of increased market confidence. There were a number of contributing factors, including a low interest rate environment, Ireland's return to the financial markets, significant debt reduction and two successive years of positive GDP growth. In 2014 Ireland continued to experience increases in domestic demand, further labour market stabilisation and economic growth fuelling buoyancy in tax revenues which were consistently ahead of target and sufficiently strong for the Government to introduce a modest reduction in income taxes.

Irish sovereign bonds continued to improve in 2014 and Ireland continued to converge with core European countries as the spreads on Irish bonds over equivalent German bonds narrowed during the year. In June 2014, the ECB cut the refinancing rate from 0.25% to 0.15% and to 0.05% in September 2014, while the deposit rate was moved into negative territory. The ECB also introduced a number of measures aimed at providing banks with very competitively priced long term funding for a period of up to four years based on meeting certain lending targets.

The residential mortgage market in Ireland increased in the year, albeit at a comparatively low level, with total drawdowns of €3.9bn in 2014 compared to €2.5bn in 2013. The Central Statistics Office ('CSO') Residential Property Price Index showed an increase in prices nationally of 16.3% in the 12 months to December 2014 (6.4% in 2013). This was particularly evident in Dublin where the 2014 annual increase was 22.3%. Property prices outside of Dublin increased in the 12 month period by 10.2% (reduction of 0.4% in 2013).

Unemployment levels have declined consistently throughout the year and are 10.6% at December 2014 compared to 12.2% at December 2013 (Source: CSO).

Total residential impaired loans amounted to €3,242m at 31 December 2014 (2013: €3,217m) of which €423m (2013: €551m) was individually assessed for impairment and €2,819m (2013: €2,666m) was collectively assessed for impairment.

At 31 December 2014, the Group's mortgage portfolio before impairments stood at €12.9bn (2013: €13.4bn); Residential €12.7bn and Commercial €0.2bn (2013: Residential €13.1bn and Commercial €0.3bn). The decline in mortgage balances is due to customer repayments and writeoffs exceeding new lending during the year.

MORTGAGE ARREARS RESOLUTION STRATEGY

EBS Group has developed a Mortgage Arrears Resolution Strategy ('MARS') which builds on and formalises the Group's Mortgage Arrears Resolution Process, to implement the Codes of Conduct as set out by the Central Bank of Ireland, for dealing in a professional and timely manner with mortgage customers in difficulty or likely to be in difficulty. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long-term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing primary residential mortgage customers in difficulty.

At 31 December 2014, there were forbearance solutions in place on circa 18k accounts with loan balances of €2.0bn (2013: circa 10k accounts and €1.2bn in balances). During 2014 there was a migration from short term to longer term sustainable forbearance solutions in particular a reduction loan balances on interest only of €39m with increases in arrears capitalisations of €582m and split mortgages of €248m.

ECB COMPREHENSIVE ASSESSMENT

During 2014, the ECB undertook a comprehensive assessment ('CA') of the banking system. This exercise entailed a Supervisory Risk Assessment, an Asset Quality Review and a Stress Test in order to provide a view of AIB Group's shock absorption capacity under stress. The CA methodology included forward looking stress tests over a three year 2014-2016 timeline.
The results of the CA were published on 26 October 2014 and confirmed that AIB Group has capital buffers comfortably above minimum requirements under all stress test assessment scenarios. As a result, AIB Group did not require any additional capital as a result of the CA process.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The Group reported a profit after taxation of €128m for the year, €371m greater than the 2013 loss of €243m.

<u>Net Interest Income</u>
Net interest income for the year is €243m compared to €172m in 2013, up €71m or 41%. The net interest margin (including charges under the ELG scheme) is 1.73% compared to 1.13% for 2013. The net increase of 60 basis points (bps) is due mainly to a decrease in retail funding costs.

Interest income is €446m (2013: €482m). The decrease of €36m is mainly due to a decrease in the loan book and lower average customer rates in 2014. Interest expense on customer accounts is €213m (2013: €322m). The decrease year on year is due to lower average balances as funding requirements reduce due to reduced mortgage assets and lower interest rates paid for funding.

DIRECTORS' REPORT (CONTINUED)

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Other Income/(Loss)
Other income for the year is €27m compared to €31m in 2013. The decrease is mainly due to a once off gain in 2013 from disposal of available for sale ('AFS') assets to AIB Group Treasury which was not repeated in 2014.

Operating Expenses
Operating expenses are up €20m or an increase of 27% from 2013. Administrative expenses in 2014 are €85m compared to €65m in 2013, the increase is due mainly to the Banking Levy of €15m and a lower retirement benefit gain of €3m. Adjusting for retirement benefit gains, bank levy and voluntary severance costs, the cost to income ratio for 2014 is 32% compared to 42% in 2013. The improvement in 2014 is driven by increased net interest income.

Profit before Taxation
Profit before tax of €148m is up by €420m from 31 December 2013 (2013: loss of €272m). The reported profit before tax of €148m is attributable to increased net interest income and lower impairments incurred on loans and advances to customers.

Profit after Taxation
Profit after tax of €128m was added to Shareholders Equity in 2014 compared to a loss after tax of €243m being a reduction in Shareholders Equity in 2013.

EBS Group's particular focus is on new lending and net interest margin. New residential lending for the EBS Group is €480m in 2014 up from €107m in 2013 due to increased market presence during the year. The Group's share of new mortgage lending in 2014 is 12.5% (2013: 4.4%) and the Group's share of outstanding retail mortgage balances is approximately 11.5% (2013: 10.5%). Details of net interest margin is given on page 4.

Impairment Charge on Loans and Advances to Customers
The loan impairment provisions charge for loans and advances to customers for 2014 is €28m down from €401m in 2013. Total provisions held at December 2014 amount to €1,191m (2013: €1,352m). This total provision balance represents 9.2% of total loans and advances to customers (2013: 10.1%).

The impairment charge has decreased principally due to:
- An increase in property prices;
- Lower arrears levels due to improvements in the wider economy; and
- Restructuring of loans in arrears

The detailed breakdown of the impairment provisions stock together with impaired loans is set out below:

Group 2014	Loans & Advances	Impaired Loans & Advances	Impaired % of Loans	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
Classification	€m	€m		€m		
Residential	12,675	3,242	25.6%	1,106	34.1%	8.7%
Commercial	241	148	61.4%	85	57.4%	35.3%
Total	12,916	3,390	26.2%	1,191	35.1%	9.2%

Group 2013	Loans & Advances	Impaired Loans & Advances	Impaired % of Loans	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
Classification	€m	€m		€m		
Residential	13,116	3,217	24.5%	1,272	39.5%	9.7%
Commercial	261	122	46.7%	80	65.6%	30.7%
Total	13,377	3,339	25.0%	1,352	40.5%	10.1%

Residential Loan Book Asset Quality
Residential loans more than 90 days past due or impaired increased from 24.9% at December 2013 to 25.6% at December 2014. Impaired loans were 25.6% at December 2014, up from 24.5% at December 2013.

Management remain focused on dealing constructively with customers in arrears and have taken timely action to minimise losses including providing additional resources in terms of staff and processes.

DIRECTORS' REPORT (CONTINUED)

Commercial Loan Book Asset Quality
Commercial loans more than 90 days past due or impaired increased from 51.7% at December 2013 to 63.5% at December 2014. Impaired loans were 61.4% at December 2014 up from 46.7% at December 2013. The deterioration in the underlying asset quality is due to continuing weakness in the commercial property market and economic environment generally. The level of provisions coverage on commercial loans increased marginally to 35.3% at December 2014 from 30.7% at December 2013.

Notwithstanding the improvement in the wider economy and the increased level of restructuring activity, the level of impaired loans at December 2014 (€3.4bn) are higher than 2013 (€3.3bn) as performing restructuring loans are classified as impaired for 12 months from the date of restructure.

FUNDING
EBS Group is funded through a combination of retail and wholesale deposits. The Group is committed to maintaining an appropriate customer deposit base and reducing the dependence on funding from monetary authorities (including the ECB and CBI).

Customer Funding
The Group's strategy is to optimise funding requirements by matching its funding mix to the loan book portfolio, taking into account AIB Group funding policy and Basel III developments. The Group continues to have a strong franchise in the retail deposit market and at 31 December 2014 has total customer accounts of €7,897m (2013: €9,297m). Customer funding is down by €1,400m primarily due to the AIB Group strategy of taking a lead in the market in reducing funding costs.

Retail balances were €6,246m at 31 December 2014 (2013: €6,484m) and represent 79% (2013: 70%) of customer funding.

Wholesale Funding
Over the course of 2013 the Group's wholesale funding balances were reduced by €1,036m. This was due to the reduction in repo funding secured on the AFS asset portfolio as these assets were sold to AIB p.l.c in 2013. During 2014 debt securities in issue reduced by €705m to €1,296m as maturing securities were not replaced with new issues. Funding from AIB Group increased by €2,717m to €3,382m by December 2014 and ECB funding was reduced to nil from €975m at 31 December 2013.

CAPITAL

Capital resources and regulatory capital ratios
The table below shows the components of the EBS Group's Tier 1 and Total capital ratios as at 31 December 2014 and 31 December 2013.

Basel II as reported		**CRD IV Transitional basis**	
31 December 2013		**31 December 2014**	Pro-forma 1 January 2014
€m		**€m**	€m
789	**Core/Common equity Tier 1 capital**	**909**	782
99	**Total Tier 2 capital**	**66**	80
888	**Total capital**	**975**	862
7,022	**Risk Weighted Assets**	**8,017**	8,292
9.5%	**Core tier 1/common equity tier 1 ratio**	**13.0%**	9.8%
10.7%	**Total capital ratio**	**13.9%**	10.7%

Under the fully loaded CRD IV capital basis the impact of adjustments for deferred tax asset, available for sale securities, pension filter and credit provisions reduces the capital ratio by 4.8%.

Outlook
The capital position of EBS Group is stable due to a return to profitability and the on going commitment of support from AIB Group. AIB Group is sufficiently capitalised to meet its regulatory requirements.

RISK MANAGEMENT
The risk management framework provides a firm-wide definition of risk and lays down the principles of how risk is to be identified, assessed, measured, monitored and controlled / mitigated, and the associated allocation of capital against same. Further information in relation to the risk factors affecting the Group are set out in the Risk Management Report on page 18.

GOING CONCERN
The financial statements for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the EBS Group, that it has the ability to continue in business for the period of assessment.

EBS Group is dependent on its Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Allied Irish Banks, p.l.c.

DIRECTORS' REPORT (CONTINUED)

GOING CONCERN (CONTINUED)

The financial statements of Allied Irish Bank p.l.c for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the AIB Group Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the AIB Group Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. These have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the AIB Group Directors have considered the commitment of support provided to AIB by the Irish Government.

The AIB Group Directors have also considered the principal risks and uncertainties which could materially affect the AIB Group's future business performance and profitability.

The AIB Group Directors believe that the capital resources are sufficient to ensure that the AIB Group is adequately capitalised both in a base and stress scenario.

In relation to liquidity and funding, the AIB Group Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the AIB Group during the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to EBS Group, the Directors of EBS believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the its ability to continue as a going concern over the period of assessment.

DIRECTORS AND SECRETARY'S INTERESTS IN SHARES

The beneficial interests of the Directors and the Secretary in office at 31 December 2014, and of their spouses and minor children, in the shares of group companies are set out below. The shares referred to are €0.0025 ordinary shares in Allied Irish Banks, p.l.c., the holding company.

Ordinary shares	**31 December 2014**	**1 January 2014**
Directors:		
Catherine Woods	Nil	Nil
Bernard Byrne	Nil	Nil
Fidelma Clarke	Nil	Nil
Tom Foley	100	100
Desmond Fitzgerald	Nil	Nil
Denis O'Callaghan	13,749	13,749
Jim O'Hara	Nil	Nil
Secretary:		
Sarah McLaughlin	377	377

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND SECRETARY'S INTERESTS IN SHARES (CONTINUED)

Share options
Details of the Directors' and the Secretary's options to subscribe for ordinary shares in Allied Irish Banks p.l.c. are given below. The vesting of these options to the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met by AIB Group. Subject thereto, the options outstanding at 31 December 2014 are exercisable up to 26 April 2015, however as these options are deeply out of the money, there is no expectation that they will be exercised. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the registered office of AIB p.l.c, Bankcentre, Ballsbridge, Dublin 4.

	31 December 2014	1 January 2014	Options lapsed	Weighted average subscription price of options outstanding 31 December 2014
Directors:				€
Bernard Byrne	-	-	-	-
Fidelma Clarke	-	-	-	-
Desmond Fitzgerald	-	-	-	-
Denis O'Callaghan	5,500	10,500	5,000	16.20
Secretary				
Sarah McLaughlin	-	-	-	-

Independent Non-Executive Directors do not participate in share option plans. No options were granted or exercised during the year.

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2014.

Independent Non-Executive Directors do not participate in long term incentive plans.

Apart from the interests set out above, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2014 and 23 March 2015.

Directors and Secretary
On 12 February 2015, Ms. Louise Cleary was appointed Company Secretary of EBS Limited. On 12 February 2015, Ms. Sarah McLaughlin resigned as Company Secretary of EBS Limited. There were no other changes to the Board during 2014.

EVENTS SINCE THE YEAR END
In the Directors' view, there have been no events since the year end that have had a material effect on the financial position of the Group.

BOOK OF ACCOUNTS
The measures taken by the Directors to secure compliance with the EBS Group's obligation to keep proper books of account, are the use of appropriate systems and procedures and the employment of competent persons, which is performed under a master service agreement by Allied Irish Banks p.l.c. The books of account are kept at the Allied Irish Banks p.l.c.'s Registered Office, Bankcentre, Ballsbridge, Dublin 4, Ireland.

DIRECTORS' REPORT (CONTINUED)

POLITICAL DONATIONS
The Directors are satisfied that no political donations were made during the year.

INDEPENDENT AUDITORS
The auditors, Deloitte & Touche, Chartered Accountants and Statutory Audit Firm, have expressed their willingness to continue in office under Section 160(2) of the Companies Act, 1963.

ON BEHALF OF THE BOARD

Desmond Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

23 March 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the statement of Auditors' responsibilities set out with their Audit Report, is made with a view to distinguish for shareholders the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing the group and company financial statements, in accordance with applicable laws and regulations.

Company law requires the Directors to prepare group and company financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and as applied in accordance with the provisions of the Companies Acts, 1963 to 2013.

The Group and Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company; the Companies Acts, 1963 to 2013 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the group and company and to prevent and detect fraud and other irregularities.

Each of the Directors confirm, to the best of their knowledge and belief, that:

- they have complied with the above requirements in preparing the financial statements;
- the Company's financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- the Directors' report, Business review and Risk management section, contained in the Directorss Report and Annual Financial Statements includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks faced by the Company;

On behalf of the board;

Desmond Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EBS LIMITED

We have audited the financial statements of EBS Limited for the year ended 31 December 2014 which comprise the Group Financial Statements: the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Shareholders' Equity, the Parent Company Financial Statements: the Company Statement of Financial Position, the Company Statement of Cash Flows, the Company Statement of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is Irish law and IFRS as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is Irish law and IFRS as adopted by the European Union.

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

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and Annual Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the group's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2014 and of its profit for the year then ended;
- the parent company statement of financial position gives a true and fair view, in accordance with IFRSs, as adopted by the European Union as applied in accordance with the provisions of the Companies Acts, 1963 to 2013, of the state of the parent company's affairs as at 31 December 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2013.

Matters on which we are required to report by the Companies Acts, 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of accounts have been kept by the parent company.
- The parent company statement of financial position is in agreement with the books of account.
- In our opinion the information given in the directors' report is consistent with the financial statements.
- The net assets of the parent company, as stated in the parent company statement of financial position are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the parent company.

Matters on which we are required to report by exception
We have nothing to report in respect of the provisions in the Companies Acts, 1963 to 2013 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

John McCarroll
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2
Ireland

23 March 2015

RISK MANAGEMENT REPORT

1. INTRODUCTION
All of the EBS Group's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed on an AIB Group wide basis. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the AIB Group's risk management framework. The principal risks and uncertainties facing AIB Group are discussed on pages 51 to 56 of the Group's Annual Financial Report 2014.

2. RISK MANAGEMENT FRAMEWORK
EBS Group relies on this AIB Group framework and its supporting policies, processes and governance. The AIB Group's risk governance and management framework is described on pages 57 to 59 of the AIB Group's Annual Financial Report 2014.For more information on the operation of the Board of EBS Group and its Audit Committee see page 3 of this report.

3. INDIVIDUAL RISK TYPES
This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the AIB Group risk assessment process and which are relevant to EBS Group:

3.1 Business Risk;
3.2 Operational Risk;
3.3 Credit Risk;
3.4 Regulatory Compliance Risk;
3.5 Liquidity Risk;
3.6 Market Risk; and
3.7 Company risk information.

3.1 BUSINESS RISK
Business risk encompasses the internal and external factors that can impact on EBS Group performance and comprises EBS Group's values and beliefs, strategy and business planning risk, income and cost management risk, customer management framework risk, strategic plan management, remuneration, third party relationship management, brand management, distribution strategy, leadership and communication. Business risk also encompasses external trends which cannot be controlled but which could have a significant impact on EBS Group business such as the economic environment, market developments and technological innovation. Business risks are managed and monitored in the main by the senior management team and the EBS Group Board. Significant developments are reported directly to the EBS Group Board on a regular basis.

3.2 OPERATIONAL RISK
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, information technology risk, business continuity risk, outsourcing risk, health and safety risk and legal risk. It does not include strategic and business risk. As such, operational risk covers a broad range of potential sources of financial loss which the EBS Group and the AIB Group actively seek to mitigate against.

The key people, systems and processes supporting the EBS Group are provided by the AIB Group and this relationship is governed by an managed service agreement. The AIB Group operational risk framework applies across all areas of the AIB Group including the EBS Group and the AIB Group Operational Risk function is responsible for overseeing the management of operational risk across the AIB Group.

The EBS Group undertakes an operational risk self-assessment which focuses on activities specific to the EBS Group. This process includes periodic assessments of relevant operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes.

3.3 CREDIT RISK
Credit risk is the risk that the EBS Group will incur losses as a result of either a customer or counterparty being unable or unwilling to meet a commitment that it has entered into and that pledged collateral does not fully cover amounts due to the EBS Group. The most significant credit risks assumed by the EBS Group arise from mortgage lending activities to customers in Ireland. Credit risk also arises on funds placed with other banks and in respect of derivatives relating to interest rate risk management.

Credit risk management objectives are to:
– Establish and maintain a control framework to ensure credit risk taking is based on sound credit management principles;
– Control and plan credit risk taking in line with external stakeholder expectations;
– Identify, assess and measure credit risk clearly and accurately across EBS Group; and
– Monitor credit risk and adherence to agreed controls.

Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, financial investments available for sale, and derivatives.

Credit risk organisation and structure
EBS Group's credit risk management systems operate through a hierarchy of lending authorities. The EBS Group relies on the AIB Group credit risk framework and its supporting policies, processes and governance. All customer mortgage applications are subject to an individual credit assessment process.

The role of the AIB Group Credit Risk function is to provide direction, oversight and challenge of credit risk-taking. The AIB Group's Risk Appetite Statements sets out the credit risk appetite and framework. Credit Risk appetite is set at AIB Group Board level and is described, reported and monitored through a suit of metrics, supported by credit risk policies, concentration limits to manage risk and exposure within the AIB Group's approved risk appetite. The AIB Group's risk appetite for credit risk is reviewed and approved annually.

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Credit risk organisation and structure (continued)

In the mortgage portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment is largely informed through statistically based scoring techniques. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of the portfolio.

Maximum exposure to credit risk*

The following table sets out the maximum exposure to credit risk that arises within EBS Group and distinguishes between those assets that are carried in the Statement of Financial Position at amortised cost and those carried at fair value.

Maximum exposure to credit risk	**Amortised Cost**	**Fair Value**	**2014 Total**	Amortised Cost	Fair Value	2013 Total
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Cash and Balances with central banks	**302**	**-**	**302**	74	-	74
Derivative financial instruments	**-**	**86**	**86**	-	120	120
Available-for-sale financial assets	**-**	**252**	**252**	-	217	217
Loans and receivables to banks	**1,147**	**-**	**1,147**	1,343	-	1,343
Loans and receivables to customers	**11,725**	**-**	**11,725**	12,025	-	12,025
Included elsewhere:						
Accrued interest	**15**	**-**	**15**	17	-	17
Other assets	**318**	**-**	**318**	343	-	343
	13,507	**338**	**13,845**	13,802	337	14,139
Loan commitments	**272**	**-**	**272**	147	-	147
Maximum exposure to credit risk	**13,779**	**338**	**14,117**	13,949	337	14,286

Residential mortgages

While EBS Group considers a borrower's repayment capacity to be paramount in granting any loan, EBS Group also takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property which is acceptable as collateral and the loan to property value relationship. Collateral valuations are required at the time of origination of each residential mortgage. In assessing the value of collateral for impaired mortgage loans, the EBS Group has used a house price fall from peak of 50% (49% Dublin and 51% non-Dublin) as a base. The CSO index at 30 November 2014 shows a 37.6% fall from peak.

Commercial property

EBS Group has not issued any new commercial property lending since 2008, except for the purpose of loss mitigation. The fair value at December 2014 of commercial mortgages is assessed by reference to the AIB Group Property Valuation Guidelines.

Measurement of credit risk

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which EBS Group is exposed. The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital.

The primary model measures used are:

- Probability of default ('PD') – the likelihood that a borrower is unable to repay his obligations;
- Exposure at default ('EAD') – the exposure to a borrower who is unable to repay his obligations at the point of default;
- Loss given default ('LGD') – the loss associated with a defaulted loan or borrower; and
- Expected loss ("EL") – the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

To calculate PD, AIB Group assesses the credit quality of borrowers and other counterparties and assigns a credit grade or score to these. This grading is fundamental to the on-going credit risk management of loan portfolios. It is a key factor in determining whether credit exposure limits are sanctioned for new borrowers, at which authority level they can be approved, and how any existing limits are managed for currency borrowers.

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Measurement of credit risk (continued)

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans. In AIB Group, criticised loans include 'watch', 'vulnerable' and 'impaired' loans which are defined as follows:

Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources; and
Impaired: A loan is impaired 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/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the Income Statement.

EBS Group's criticised portfolio is subject to a more intense assessment and review because of the increased risk associated with them. Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review in order to ensure that EBS Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

The amount of incurred credit losses provided for in the financial statements differs from the amount determined from the expected loss models. For reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the balance sheet date based on objective evidence of impairment.

Provisioning for impairment*

The accounting policies of loans and receivables to customers are outlined in the Accounting Policies section.

The AIB Group policy requires impairment to be recognised promptly and consistently across the different loan portfolios. A financial asset is considered to be impaired, and therefore, its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows that can be reliably estimated.

Impairment provisions are calculated on individual loans and receivables and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

The EBS Group impairment process and structures for assessment of impaired loans are led by AIB Group structures and processes. The identification of loans for assessment as impaired is facilitated by the AIB Group's credit rating systems. As described previously, changes in the variables which drive the borrower's credit rating may result in the borrower being downgraded. This in turn influences the management of individual loans with special attention being paid to lower quality or criticised loans, i.e. in the Watch, Vulnerable or Impaired categories. The credit rating of an exposure is one of the key factors used to determine if a case should be assessed for impairment.

It is EBS Group's policy to provide for impairment promptly and consistently across the loan book. All business areas formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a quarterly basis. Forborne loans are tested for impairment on a portfolio basis and all loans are automatically impaired when the account reaches 90 days past due.

Mortgage portfolio triggers

– Deterioration in the debt service capacity.
– A material decrease in rents received on a buy-to-let property.

Commercial real estate ("CRE") portfolio triggers

– A material decrease in the property value.
– A material decrease in estimated future cash flows.
– The lack of an active market for the assets concerned.
– The absence of a market for refinancing options.

Specific provisions

Specific impairment provisions arise when the recovery of a specific loan or group of loans is in doubt based on specific impairment triggers as outlined above and an assessment that all the expected future cash flows either from the loan itself or from the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s).

When raising specific impairment provisions, AIB Group divides its impaired portfolio into two categories, namely Individually Significant and Individually Insignificant.

The Individually Significant threshold is €750,000 by customer connection. (The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.)

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Provisioning for impairment (continued)*

Individually significant (“IS”) loans and receivables

All loans that are considered individually significant are assessed on a case-by-case basis throughout the year if there is any objective evidence that a loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Group Property Valuation Guidelines. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of each credit including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

Individually insignificant (“II”) loans and receivables

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant.

Individually insignificant – Mortgage portfolio

The individually insignificant mortgage provisioning methodology applies to both owner occupier and buy-to-let exposures for customer connections less than €750,000 and greater than 90 days past due are assessed on a collective basis.

The individually insignificant mortgage specific provisions are calculated using a collective mortgage provisioning model. This methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. The methodology is regularly reviewed and updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The model parameters were refined during the year based on an additional one year data set.

Key model parameters at 31 December 2014 for owner occupier mortgages are as follows: cure (4%) and repossession / advanced forbearance (96%), in line with 2013.

The corresponding buy-to-let model parameters are as follows: cure (0.5%); repossession/advanced forbearance (99.5%). in line with 2013.

Cured loans are loans that were impaired and are no longer impaired and have performed satisfactorily for 12 months excluding any impact from forbearance.

The modelled loss is calculated case by case by subtracting the net present value of the modelled recovery amount from the current loan balance. The model parameters are determined from observed data where possible. Where not directly observable, related measures are used to infer the parameter where possible; otherwise it is based on expert judgement. The relevant model parameters include: % of forced disposals; costs and time to dispose (voluntary and forced); fall from peak, loss rate on advanced forbearance; and haircut on sale (voluntary and forced).

The model parameters are reviewed at AIB Group Credit Committee on a quarterly basis.

Incurred but not reported (“IBNR”) provisions

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that EBS Group has incurred as a result of events occurring before the balance sheet date, which the EBS Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the EBS Group, those loans are removed from the collective and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date and are not permitted for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered and having taken into account:

- historical loss experience (loss emergence rates based on historic grade migration experience or probability of default) in portfolios of similar credit risk characteristics (for example, by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (emergence period);
- loss given default rates based on historical loan loss experience, adjusted for current observable data.
- management’s judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios, for example: non-impaired forborne mortgages or restructured loans.

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Provisioning for impairment (continued)*

IBNR for mortgages portfolio

The portfolio IBNR is calculated using the collective mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio:

Group
2014

	Owner-Occupier			Buy-to-let		
Grade	**Exposure €m**	**Average PD %**	**Average LGD %**	**Exposure €m**	**Average PD %**	**Average LGD %**
Good upper	**6,627**	**1.5**	**19.6**	**42**	**28.2**	**16.1**
Good lower	**1,524**	**4.7**	**23.5**	**47**	**61.3**	**24.5**
Watch	**830**	**15.9**	**21.5**	**14**	**84.6**	**22.8**
Vulnerable	**244**	**56.8**	**22.4**	**5**	**74.2**	**20.2**

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	**179**	**13.3**	**20.9**	**6**	**66.3**	**23.7**
Forborne – Not impaired	**838**	**14.4**	**21.1**	**12**	**45.9**	**20.4**

2013 (unaudited)	Total	
Grade	**Average PD %**	**Average LGD %**
Good upper	1.7	19.1
Good lower	6.3	23.9
Watch	17.3	21.5
Vulnerable	50.2	22.2

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	24.2	21.7
Forborne – Not impaired	18.4	21.7

Average PD and LGD are based on the PDs and LGDs weighted by exposure for all owner-occupier and buy-to-let loans included in the collective mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR run rate provisions. Any additional IBNR as determined by management judgement is applied at a portfolio level and is not included in the analysis above.

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)
Provisioning for impairment (continued)*

Emergence period
The emergence period is key to determining the level of IBNR provisions. Emergence periods are determined by assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan requiring a provision. Emergence periods for each portfolio are determined by taking into account current credit management practices, historic evidence of assets moving from ‘good’ to ‘bad’ and actual case studies.

Emergence periods are reflective of the characteristics of the particular portfolio. Emergence periods are estimated based on historic loan loss experience supported by back testing, and as appropriate individual case sampling.

Emergence periods are reviewed on at least an annual basis. At 31 December 2014, a change to the emergence periods was made for the mortgage portfolio (increase from 9 to 12 months) and for the Commercial portfolios (decrease from 12 to 8 months). Increasing the emergence period gives rise to an increase in the level of IBNR provisions for the mortgage portfolio of €27.8m and decreasing the emergence period results in a release of €2.1m for the non-mortgage portfolio. The increases have been driven by more historical data becoming available (including the impact of forbearance) and also a continued emphasis on maintaining an appropriately conservative level of IBNR provisions.

Approval process
The AIB Group operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities and referred to Area Credit Committee level, as required. These committees are chaired by the Head of Credit in the segments where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of the segment authorities are approved by the AIB Group Credit Committee and Board (where applicable). Segment impairments and provisions are ultimately reviewed by the AIB Group Credit Committee as part of the quarterly process. The valuation assumptions and approaches used in determining the impairment provisions required are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by segment and AIB Group senior management.

Write-offs
When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of security held. Partial write-offs may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The provision is written off but the remaining reduced loan balance remains on balance sheet as impaired. In addition, some write-offs may reflect restructuring activity agreed with customers who are subject to the terms of the agreement and satisfactory performance

Reversals of Impairment
If the amount of an impairment loss decreased in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision amount accordingly. The write-back is recognised in the income statement.

Impact of changes to key assumptions and estimates on the impairment provisions
Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables. The most significant judgemental area is the calculation of collective impairment provisions. They are subject to estimation uncertainty, in part because of the large number of individually insignificant loans in the portfolio.

The methods involve the use of historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors not being fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas.

Given the relative size of the mortgage portfolio, the key variables include fall from peak house price (which determines the collateral value supporting loans in the mortgage portfolio) and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status).

Sensitivity to changes in estimates and assumptions are prepared for the Republic of Ireland portfolio and are detailed below.
A 1% favourable change in the cure rate used for the collective mortgage provisions would result in a reduction in impairment provisions of 1.5% (blended rate of owner-occupier/buy-to-let) of c. €11m.

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)
Provisioning for impairment (continued)*
Impact of changes to key assumptions and estimates on the impairment provisions (continued)

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the house price fall from peak assumption used for the collective mortgage provisions for December 2014 is estimated to result in movements in provisions of c. €14 million (€12 million specific provision and € 2 million IBNR).

An increase in the assumed repossession rate of 1% for collective mortgage provisions would result in an increase in provisions of 0.2% (blended rate of owner-occupier/buy-to-let) of c. € 3 million.

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Republic of Ireland mortgage portfolio, the emergence period is currently 12 months; a decrease of one month in the loss emergence period in respect of the loan portfolio assessed would result in a decrease of c. €9m.

Credit risk on lending activities to customers and banks
EBS Group lends to personal, retail customers and banks. Credit risk arises on the drawn amount of loans and advances, but also as a result of loan commitments, such as undrawn loans.

Credit risk also arises in EBS Group's available-for-sale portfolio where counterparties are banks, sovereigns or structured debt. These credit risks are identified and managed in line with the credit management framework of EBS Group.

Country risk
Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable to fulfil or are precluded from fulfilling their obligations to EBS Group due to economic or political circumstances.

Country risk is managed by setting appropriate maximum risk limits to reflect each country's overall creditworthiness. These limits are informed by independent credit information from international sources. Risks and limits are monitored on an on-going basis.

Settlement risk
Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. The settlement risk on many transactions is substantially mitigated when effected via assured payment systems, or on a delivery-versus-payment basis. Each counterparty is assessed in the credit process and clearing agents, correspondent banks and custodians are selected with a view to minimising settlement risk.

Credit concentration risk
Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to EBS Group capital, total assets, earnings or overall risk level to threaten its health or ability to maintain its core operations.

Risk identification and assessment
All customer requests for credit are subject to a credit assessment process, which is exercised by an independent credit function.

Depending on the size and nature of the credit, the assessment process is assisted by standard application formats in order to assist the credit decision maker in making an informed credit decision. The credit approval authority is dependent on the size of the credit application

In the retail book, which is characterised by a large number of customers with similar characteristics, risk assessment is largely informed through statistically-based scoring techniques. Mortgages are assessed centrally with particular reference to affordability and assisted by scoring models. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios.

In the commercial property book (much diminished in size following deleveraging activity in 2012) the grading systems utilise a combination of objective information, essentially financial data and qualitative assessments of non-financial risk factors such as management quality and competitive position within its sector/industry.

Forbearance strategies*
Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The AIB Group uses a range of tools and treatment strategies to support customers. The AIB Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis against their current and likely future financial circumstances and their willingness to resolve these difficulties, taking into account legal and regulatory obligations. Key principles include providing support for viable SMEs, and the objective of supporting customers to remain in a family home whenever possible. The AIB Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty as set out by the Central Bank of Ireland ensuring these customers are dealt with in a professional and timely manner.

The effectiveness of the forbearance measures over the lifetime of those arrangements will be measured and reviewed. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for the Group and the borrower.
**Forms an integral part of the audited financial statement*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Forbearance strategies (continued)*

Mortgage portfolio

The AIB Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty. This builds on and formalises the AIB Group's Mortgage Arrears Resolution Process.

The strategy is built on three key factors:
i) Segmentation – identifying customers in difficulty;
ii) Sustainability – customer assessment; and
iii) Suitable Treatment – identifying solutions.

The core objectives are to ensure that arrears solutions are sustainable in the long term and they comply with the spirit and the letter of all regulatory requirements. MARS includes the following new longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

Positive equity sustainable solution – This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as Split loans due to positive equity.

Low fixed interest rate sustainable solution – This solution is to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest on their mortgage based on their current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to the prevailing variable rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay full capital and interest throughout.

Split mortgages – a split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest, and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date, this may also include an element of debt write-off.

Negative equity trade down – This allows a customer to sell their house and subsequently purchase a new property and transfer the negative equity portion to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his/her current financial and other circumstances.

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to sell the property and put an appropriate agreement in place to repay any residual debt this may also include an element of debt-write off.

Credit policies are in place which outlines the principles and processes underpinning the AIB Group's approach to mortgage forbearance which EBS has adopted.

Credit risk mitigants

In relation to individual exposures, while the perceived strength of a borrower's repayment capacity is the primary factor in granting a loan, EBS Group uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are as follows:

- **Home mortgages:** EBS Group takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and subject to a legal charge in favour of EBS.

- **Commercial lending:** EBS Group exited commercial lending in 2008, however for property related lending that remains on EBS books, a charge over the property that was financed is in place. This includes investment and residential properties. As part of the on-going assessment of collateral, EBS Group uses an AIB Group Property Valuations standard. All of EBS Group lending is property related lending

AIB Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit grade. Each bank is assessed for the appropriate exposure limit within the policy.

Risk monitoring and reporting

Credit managers pro-actively manage EBS Group's credit risk exposures at transaction and relationship level. Credit risk at a portfolio level is monitored and reported regularly to senior management and the AIB Group Board.

Single name counterparty concentrations are monitored at transaction level and managed within the Risk Appetite Statement. Large exposures and portfolio concentrations are reported regularly to senior management and the AIB Group Board.

**Forms an integral part of the audited financial statement*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Credit quality

The following table includes total loans and receivables to customers' gross of impairment provisions split on an owner occupier and non-owner occupier basis. The numbers presented are inclusive of unearned income and related provisions and deferred acquisition costs.

Group*			2014
	Owner-Occupier	Non Owner-Occupier	Total
Loans and receivables to customers	€m	€m	€m
Residential mortgages	12,142	-	12,142
Buy-to-let	-	533	533
Commercial property	-	241	241
Total	12,142	774	12,916

Group*			2013
	Owner-Occupier	Non Owner-Occupier	Total
Loans and receivables to customers	€m	€m	€m
Residential mortgages	12,541	-	12,541
Buy-to-let	-	575	575
Commercial property	-	261	261
Total	12,541	836	13,377

In the Owner-Occupier portfolio, the Residential mortgages further declined during 2014 due to weaker customer demand and as a result of loan repayments.

			2014
Group Impairment Provisions*	Owner-Occupier	Non Owner-Occupier	Total
	€m	€m	€m
Statement of financial position provisions	936	255	1,191
Statement of financial position provisions as a % of loans and receivables	7.7%	32.9%	9.2%
Specific provision as a % of impaired loans	26.0%	48.3%	29.2%
Impairment charge as a % of total loans	(1.3%)	(0.4%)	(1.2%)

			2013
Group Impairment Provisions*	Owner-Occupier	Non Owner-Occupier	Total
	€m	€m	€m
Statement of financial position provisions	1,094	258	1,352
Statement of financial position provisions as a % of loans and receivables	8.7%	30.9%	10.1%
Specific provision as a % of impaired loans	31.0%	37.7%	32.0%
Impairment charge as a % of total loans	3.0%	4.5%	3.0%

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

The following tables show criticised loans for the total loan book split into owner occupier and buy-to-let assets. Criticised loans include watch, vulnerable and impaired loans.

			2014*
	Owner-Occupier € m	**Non Owner-Occupier € m**	**Total € m**
Satisfactory	**8,175**	**182**	**8,357**
Watch	**830**	**86**	**916**
Vulnerable	**231**	**22**	**253**
Impaired	**2,906**	**484**	**3,390**
Criticised	**3,967**	**592**	**4,559**
Gross mortgages	**12,142**	**774**	**12,916**
Criticised loans as % of total mortgages	**32.7**	**76.5**	**35.3**
Impaired loans as % of total mortgages	**23.9**	**62.5**	**26.2**

			2013*
	Owner-Occupier € m	Non Owner-Occupier € m	Total € m
Satisfactory	8,281	211	8,492
Watch	945	118	1,063
Vulnerable	440	43	483
Impaired	2,875	464	3,339
Criticised	4,260	625	4,885
Gross mortgages	12,541	836	13,377
Criticised loans as % of total mortgages	34.0	74.8	36.5
Impaired loans as % of total mortgages	22.9	55.5	25.0

EBS's criticised loans and receivables to customers amounted to €4.6 billion or 35% of total customer loans. Criticised loans have decreased by €326m since 31 December 2013. The main drivers of the decrease in criticised loans have been the improved economic conditions in the period, coupled with increased restructuring activity and was evident throughout both the early arrears (less then 90 days past due) and late arrears (greater than 90 days past due).

The main driver of the increase in the level of impaired loans on forbearance is increased restructuring activity, particularly split mortgages and arrears capitalisations. Following restructure, these loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Total impaired loans*	**2014**		2013	
	€m	**%**	€m	%
Impaired loans – Owner-occupier	**2,906**	**22.5**	2,875	21.5
Impaired loans – Non Owner-Occupier	**484**	**3.7**	464	3.5
Total	**3,390**	**26.2**	3,339	25.0

Group*				**2014**
	Owner-Occupier	**Non Owner-Occupier**	**Total**	**%**
	€m	**€m**	**€m**	
Neither past due nor impaired	**8,771**	**268**	**9,039**	**70.0**
Past due but not impaired	**466**	**22**	**488**	**3.8**
Impaired – no provision	**38**	**28**	**66**	**0.5**
Impaired – provision held	**2,867**	**456**	**3,323**	**25.7**
Gross loans and receivables	**12,142**	**774**	**12,916**	**100.0**
Provision for impairment	**(936)**	**(255)**	**(1,191)**	
Total loans and receivables after provisions	**11,206**	**519**	**11,725**	

Group*				2013
	Owner-Occupier	Non Owner-Occupier	Total	%
	€m	€m	€m	
Neither past due nor impaired	8,774	328	9,102	68.0
Past due but not impaired	892	44	936	7.0
Impaired – no provision	21	107	128	1.0
Impaired – provision held	2,854	357	3,211	24.0
Gross loans and receivables	12,541	836	13,377	100.0
Provision for impairment	(1,094)	(258)	(1,352)	
Total loans and receivables after provisions	11,447	578	12,025	

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Aged analysis of loans and receivables which are past due but not impaired*

Group	Owner-Occupier	Buy-to-Let	Total	%
				2014
	€m	**€m**	**€m**	
1–30 days	**291**	**7**	**298**	**61.2**
31–60 days	**113**	**3**	**116**	**23.8**
61–90 days	**61**	**5**	**66**	**13.6**
91–180 days	**-**	**2**	**2**	**0.4**
181–365 days	**-**	**1**	**1**	**0.2**
>365 days	**-**	**4**	**4**	**0.8**
Total	**465**	**22**	**487**	**100.0**

Group	Owner-Occupier	Buy-to-Let	Total	%
				2013
	€m	€m	€m	
1–30 days	496	14	510	54.5
31–60 days	207	6	213	22.8
61–90 days	142	6	148	15.8
91–180 days	46	2	48	5.1
181–365 days	-	4	4	0.4
>365 days	-	12	12	1.3
Total	891	44	935	100.0

Group	Loans & Receivables	Impaired Loans & Receivables	Impaired % Of Loans	Specific	IBNR	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
								2014
	€m	**€m**		**€m**	**€m**	**€m**		
Residential	**12,675**	**3,242**	**25.6%**	**909**	**197**	**1,106**	**34.1%**	**8.7%**
Commercial Property	**241**	**148**	**61.4%**	**81**	**4**	**85**	**57.4%**	**35.3%**
Total	**12,916**	**3,390**	**26.2%**	**990**	**201**	**1,191**	**35.1%**	**9.2%**

Group	Loans & Receivables	Impaired Loans & Receivables	Impaired % Of Loans	Specific	IBNR	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
								2013
	€m	€m		€m	€m	€m		
Residential	13,116	3,217	24.5%	1,037	235	1,272	39.5%	9.7%
Commercial Property	261	122	46.7%	30	50	80	65.6%	30.7%
Total	13,377	3,339	25.0%	1,067	285	1,352	40.5%	10.1%

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Residential and buy-to-let mortgages*

			2014
	Owner-Occupier € m	**Buy-to-Let € m**	**Total € m**
Total gross mortgages	**12,142**	**533**	**12,675**
In arrears (>30 days past due)[1]	**3,080**	**342**	**3,422**
In arrears (>90 days past due)[1]	**2,906**	**337**	**3,243**
Of which impaired	**2,906**	**336**	**3,242**
Statement of financial position specific provisions	**756**	**153**	**909**
Statement of financial position IBNR provisions	**180**	**17**	**197**

			2013
	Owner-Occupier € m	Buy-to-Let € m	Total € m
Total gross mortgages	12,541	575	13,116
In arrears (>30 days past due)[1]	3,272	355	3,627
In arrears (>90 days past due)[1]	2,922	346	3,268
Of which impaired	2,875	342	3,217
Statement of financial position specific provisions	892	145	1,037
Statement of financial position IBNR provisions	202	33	235

[1] Includes all impaired loans whether past due or not.

Total residential impaired loans amounted to €3,242m at 31 December 2014 (2013: €3,217m) of which €423m (2013: €551m) was individually assessed for impairment and €2,819m (2013: €2,666m) was collectively assessed for impairment.

Mortgages amounted to €12.7 billion at 31 December 2014. This compares to €13.1 billion at 31 December 2013. The split of the residential mortgage book was owner occupier €12.1 billion (31 December 2013: €12.5 billion) and buy-to-let €0.5 billion (2013: €0.6 billion).

The income statement impairment charge for 2014 was a release of €166m or negative 1.2% of average mortgages, comprising a €128m specific release and a €38m IBNR release (2013: €403m charge or 3.0% of average mortgages, comprising a €348m specific charge and a €55m IBNR charge). Statement of financial position provisions of €1.2 billion were held at 31 December 2014, split €1.0 billion specific and €0.2 billion IBNR (2013: €1.4 billion, split €1.1 billion specific and €0.3 billion IBNR).

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Residential and buy-to-let mortgages (continued)*

Provision cover percentage

	Owner-Occupier %	**Buy-to-Let %**	**2014 Total %**
Specific provisions as a % of impaired loans cover	**26.0**	**45.5**	**28.0**

	Owner-Occupier %	Buy-to-Let %	2013 Total %
Specific provisions as a % of impaired loans cover	31.0	42.4	32.2

Income statement[(1)]

	Owner-Occupier €m	**Buy-to-Let €m**	**2014 Total €m**
Income statement specific provisions	**(136)**	**8**	**(128)**
Income statement IBNR provisions	**(22)**	**(16)**	**(38)**
Total impairment provisions	**(158)**	**(8)**	**(166)**

	Owner-Occupier €m	Buy-to-Let €m	2013 Total €m
Income statement specific provisions	330	18	348
Income statement IBNR provisions	50	5	55
Total impairment provisions	380	23	403

(1) In the table above, writebacks of provisions are presented as a negative and charges presented as a positive.

The following table shows the fair value of collateral held for loans and receivables to customers at 31 December 2014 and 2013.

Group Collateral Held: Loans and receivables to customers

	Owner-Occupier and Buy-to-Let €m	**Commercial mortgages €m**	**2014 Total €m**
Impaired loans	**2,747**	**132**	**2,879**
Past due but not impaired	**437**	**13**	**450**
Non impaired / non past due	**8,472**	**78**	**8,550**
Total loans	**11,656**	**223**	**11,879**

Group Collateral Held: Loans and receivables to customers

	Owner-Occupier and Buy-to-Let €m	Commercial mortgages €m	2013 Total €m
Impaired loans	2,551	113	2,664
Past due but not impaired	776	23	799
Non impaired / non past due	7,996	112	8,108
Total loans	11,323	248	11,571

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Residential and buy-to-let mortgages (continued)*

Group vintage analysis – Residential and Impaired
The following table profiles the residential mortgage book and impaired residential mortgage book at 31 December 2014 and 2013 by year of origination.

				2014
	Mortgage portfolio		**Impaired mortgage portfolio**	
	Number	**Balance €m**	**Number**	**Balance €m**
1996 and before	**3,644**	**103**	**670**	**27**
1997	**1,746**	**47**	**220**	**10**
1998	**1,953**	**66**	**277**	**14**
1999	**2,459**	**103**	**367**	**25**
2000	**2,878**	**151**	**429**	**33**
2001	**3,193**	**218**	**516**	**48**
2002	**4,541**	**372**	**765**	**82**
2003	**5,559**	**512**	**1,120**	**132**
2004	**7,368**	**842**	**1,480**	**210**
2005	**11,094**	**1,356**	**2,356**	**377**
2006	**14,356**	**2,079**	**3,657**	**676**
2007	**13,951**	**2,086**	**4,182**	**726**
2008	**13,288**	**2,048**	**3,494**	**603**
2009	**7,765**	**1,071**	**1,252**	**194**
2010	**6,677**	**955**	**537**	**81**
2011	**705**	**91**	**16**	**3**
2012	**136**	**13**	**3**	**-**
2013	**699**	**100**	**4**	**1**
2014	**2,709**	**462**	**-**	**-**
Total	**104,721**	**12,675**	**21,345**	**3,242**

				2013
	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance €m	Number	Balance €m
1996 and before	4,611	126	754	29
1997	1,923	57	230	10
1998	2,154	79	288	14
1999	2,868	120	393	28
2000	3,103	172	449	34
2001	3,369	244	541	51
2002	4,776	411	764	82
2003	5,801	562	1,128	135
2004	7,812	907	1,466	214
2005	11,488	1,458	2,313	380
2006	14,587	2,227	3,523	686
2007	14,032	2,219	3,933	706
2008	13,444	2,185	3,347	601
2009	8,168	1,132	1,127	176
2010	6,900	1,006	444	68
2011	738	97	12	3
2012	142	13	3	-
2013	705	101	-	-
Total	106,621	13,116	20,715	3,217

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Residential and buy-to-let mortgages (continued)*

Group Residential mortgage lending – Total

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index in the Republic of Ireland for November 2014. The CSO Residential Property Price Index for November 2014 reported that national residential property prices were 38% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 16% in the year to 30 November 2014.

			2014
	Owner – Occupier €m	**Buy-to-Let €m**	**Total €m**
Less than 50%	**1,640**	**62**	**1,702**
50% - 70%	**1,893**	**83**	**1,976**
71% - 80%	**1,298**	**49**	**1,347**
81% - 90%	**1,380**	**47**	**1,427**
91% - 100%	**1,277**	**108**	**1,385**
101% -120%	**1,964**	**78**	**2,042**
121% - 150%	**2,052**	**73**	**2,125**
Greater than 150%	**588**	**16**	**604**
Unsecured (Zero Collateral)	**50**	**17**	**67**
Total	**12,142**	**533**	**12,675**
Weighted average indexed LTV			
Stock of residential mortgages at year end	**91%**	**90%**	**91%**
New residential mortgages during the year	**73%**	**-**	**73%**
Impaired mortgages	**111%**	**93%**	**109%**

			2013
	Owner – Occupier €m	Buy-to-Let €m	Total €m
Less than 50%	1,324	51	1,375
50% - 70%	1,271	61	1,332
71% - 80%	840	41	881
81% - 90%	949	42	991
91% - 100%	1,130	51	1,181
101% -120%	2,387	110	2,497
121% - 150%	2,537	110	2,647
Greater than 150%	2,103	109	2,212
Total	12,541	575	13,116
Weighted average indexed LTV			
Stock of residential mortgages at year end	107%	117%	107%
New residential mortgages during year	79%	78%	79%
Impaired mortgages	129%	110%	127%

61.7% of the owner-occupier and 65.5% of the buy-to-let mortgages were in positive equity at 31 December 2014. In terms of the total portfolio, 38.2% (2013: 56.1%) was in negative equity at 31 December 2014 (including unsecured loans).

The CSO Residential Property Price Index for December 2014 reported that national residential property prices were 37.6% lower than their highest level in early 2007 and reported an annual rise in residential property prices of 16.3% in the year to December 2014.

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Group Residential mortgage lending - Neither past due nor impaired*

The following tables profile the residential mortgage portfolio that is neither past due nor impaired by the indexed loan to value ratios at 31 December 2014 and 2013.

			2014
	Owner – Occupier € m	**Buy-to-Let € m**	**Total € m**
Less than 50%	**1,400**	**25**	**1,425**
50% - 70%	**1,512**	**32**	**1,544**
71% - 80%	**1,046**	**12**	**1,058**
81% - 90%	**1,093**	**13**	**1,106**
91% - 100%	**967**	**69**	**1,036**
101% -120%	**1,386**	**20**	**1,406**
121% - 150%	**1,280**	**18**	**1,298**
Greater than 150%	**84**	**-**	**84**
Unsecured (Zero Collateral)	**2**	**-**	**2**
Total	**8,770**	**189**	**8,959**

			2013
	Owner – Occupier € m	Buy-to-Let € m	Total € m
Less than 50%	1,131	26	1,157
50% - 70%	1,021	21	1,042
71% - 80%	672	17	689
81% - 90%	749	16	765
91% - 100%	859	16	875
101% -120%	1,760	26	1,786
121% - 150%	1,606	29	1,635
Greater than 150%	976	62	1,038
Total	8,774	213	8,987

Residential mortgage loans neither past due nor impaired, 68.6% (2013: 50.5%) of the owner-occupier and 79.9% (2013: 45.1%) of the buy-to-let mortgages were in positive equity at 31 December 2014. In terms of the total portfolio, 31% (2013: 49.6%) was in negative equity at 31 December 2014.

90 days past due or impaired*

The following tables profile the residential mortgage portfolio that was > 90 days past due and /or impaired by the indexed loan to value ratios at 31 December 2014 and 2013.

			2014
	Owner – Occupier € m	**Buy-to-Let € m**	**Total € m**
Less than 50%	**191**	**37**	**228**
50% - 70%	**314**	**49**	**363**
71% - 80%	**204**	**37**	**241**
81% - 90%	**237**	**33**	**270**
91% - 100%	**254**	**38**	**292**
101% -120%	**488**	**56**	**544**
121% - 150%	**675**	**54**	**729**
Greater than 150%	**495**	**16**	**511**
Unsecured (Zero Collateral)	**48**	**17**	**65**
Total	**2,906**	**337**	**3,243**

			2013
	Owner – Occupier € m	Buy-to-Let € m	Total € m
Less than 50%	136	23	159
50% - 70%	182	38	220
71% - 80%	119	23	142
81% - 90%	137	25	162
91% - 100%	186	34	220
101% -120%	451	80	531
121% - 150%	733	77	810
Greater than 150%	978	46	1,024
Total	2,922	346	3,268

41.3% of the owner-occupier and 57.6% of the buy-to-let mortgages were in positive equity at 31 December 2014 (2013: 26.0% of owner occupier and 41.3% of buy-to-let mortgages were in positive equity). In terms of the total portfolio, 57.0% was in negative equity at 31 December 2014 (including unsecured loans).

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Group Asset Quality – Mortgages*

	Owner-Occupier € m	Buy-to-Let € m	2014 Total € m
Satisfactory	**8,175**	**150**	**8,325**
Watch	**830**	**39**	**869**
Vulnerable	**231**	**8**	**239**
Impaired	**2,906**	**336**	**3,242**
Criticised	**3,967**	**383**	**4,350**
Gross mortgages	**12,142**	**533**	**12,675**
	%	**%**	**%**
Criticised loans as % of total mortgages	**33**	**72**	**34**
Impaired loans as % of total mortgages	**24**	**63**	**26**

	Owner-Occupier € m	Buy-to-Let € m	2013 Total € m
Satisfactory	8,281	167	8,448
Watch	945	50	995
Vulnerable	440	16	456
Impaired	2,875	342	3,217
Criticised	4,260	408	4,668
Gross mortgages	12,541	575	13,116
	%	%	%
Criticised loans as % of total mortgages	34	71	36
Impaired loans as % of total mortgages	23	59	25

The following table profiles the residential mortgage portfolio that was past due but not impaired at 31 December 2014 and 31 December 2013:

	Owner – Occupier € m	Buy-to-Let € m	2014* Total € m
1 - 30 days	**291**	**3**	**294**
31 - 60 days	**113**	**3**	**116**
61 - 90 days	**60**	**2**	**62**
91 - 180 days	**-**	**1**	**1**
181 - 365 days	**-**	**1**	**1**
Over 365 days	**-**	**-**	**-**
Total past due but not impaired	**464**	**10**	**474**

	Owner – Occupier € m	Buy-to-Let € m	2013* Total € m
1 - 30 days	496	7	503
31 - 60 days	207	5	212
61 - 90 days	143	4	147
91 - 180 days	46	1	47
181 - 365 days	1	-	1
Over 365 days	-	3	3
Total past due but not impaired	893	20	913

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RISK MANAGEMENT REPORT (CONTINUED)

3.3 CREDIT RISK (CONTINUED)

Mortgages which were impaired*

The following table profiles the residential mortgage portfolio that was impaired at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Not past due	**621**	**89**	**710**
1 - 30 days	**176**	**13**	**189**
31 - 60 days	**73**	**4**	**77**
61 - 90 days	**59**	**2**	**61**
91 - 180 days	**186**	**27**	**213**
181 - 365 days	**301**	**24**	**325**
Over 365 days	**1,490**	**177**	**1,667**
Total impaired	**2,906**	**336**	**3,242**

			2013
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Not past due	207	98	305
1 - 30 days	76	14	90
31 - 60 days	55	5	60
61 - 90 days	71	13	84
91 - 180 days	359	23	382
181 - 365 days	536	39	575
Over 365 days	1,571	150	1,721
Total impaired	2,875	342	3,217

Impaired loans increased by €25m as restructuring and write offs were exceeded by newly impaired loans. New to impaired were significantly lower in 2014 compared to 2013 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2014, €710m or 22% was not past due (2013: €305m or 10%) of which €578m (2013: €158m) were subject to forbearance measures.

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.1 GROUP RESIDENTIAL PROPERTIES IN POSSESSION*

EBS seeks to avoid repossession through working with customers, but where agreement cannot be reached, EBS proceeds to repossession of the property or the appointment of a receiver, using external agents to realise the maximum value as soon as is practicable. Where the Group believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

2014

	Number of Disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Loss on sale	Average LTV at sale Price
		€ m	€ m	€ m	€ m	%
Owner-occupier	**49**	**14**	**6**	**1**	**9**	**241**
Buy-to-let	**19**	**5**	**2**	**-**	**3**	**243**
Total residential	**68**	**19**	**8**	**1**	**12**	**242**

2013

	Number of Disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Loss on sale	Average LTV at sale Price
		€ m	€ m	€ m	€ m	%
Owner-occupier	50	13	5	1	9	282
Buy-to-let	4	1	-	-	1	239
Total residential	54	14	5	1	10	279

The figures in the tables above do not cross total due to rounding.

For the purpose of the following table, a residential property is considered to be in EBS Group's possession when it has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property. This is a change from previously reported repossessions. Accordingly, the stock of residential properties in possession at 31 December 2014 now includes 196 properties (189 owner occupier and 7 buy-to-let) which were in EBS's possession through abandonment, but where EBS had not secured legal title. EBS has commenced disposing of these properties.

The number (stock) of properties as at year end is set below.

	Owner-Occupier No. of properties	Buy-to-Let No. of properties	Total No. of properties
Of which at 31 December 2014:	**465**	**19**	**484**
Of which at 31 December 2013:	268	16	284

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.2 COMMERCIAL PROPERTY*

Loans and receivables to customers in the Commercial property sector are outlined below.

	2014	2013
	€ m	€ m
Total Commercial Property	**241**	261
In arrears (> 30 days past due) (1)	**157**	138
In arrears (>90 days past due) (1)	**153**	135
Of which impaired	**148**	122
Statement of financial position specific provisions	**81**	30
Statement of financial position IBNR provisions	**4**	50

(1) Includes all impaired loans whether past due or not.

Provision cover percentage

	2014	2013
	%	%
Specific provisions as a % of impaired loans cover	**54.7**	24.6

Income statement(2)

	2014	2013
	€m	€m
Income statement specific provisions	**51**	3
Income statement IBNR provisions	**(46)**	12
Total impairment provisions	**5**	15

(2) In the table above, writebacks of provisions are presented as a negative and charges presented as a positive

Asset quality

	2014	2013
	€ m	€ m
Satisfactory	**33**	44
Watch	**46**	68
Vulnerable	**14**	27
Impaired	**148**	122
Criticised	**208**	217
Gross commercial property	**241**	261

	2014	2013
	%	%
Criticised loans as % of total loans	**86**	83
Impaired loans as % of total loans	**61**	47

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE

Forbearance stock – summary*

			2014
	Owner – Occupier €m	**Buy-to-let €m**	**Total €m**
Past due but not impaired	**160**	**4**	**164**
Impaired	**1,088**	**100**	**1,188**
Neither past due nor impaired	**675**	**13**	**688**
Total	**1,923**	**117**	**2,040**

			2013
	Owner - Occupier €m	Buy-to-let €m	Total €m
Past due but not impaired	174	2	176
Impaired	443	92	535
Neither past due nor impaired	512	24	536
Total	1,129	118	1,247

Forbearance stock – movement analysis* **2014**

	Owner Occupier		**Buy-to-let**		**Total**	
	Number	**Balance € m**	**Number**	**Balance € m**	**Number**	**Balance € m**
Opening stock 1 January	**9,669**	**1,129**	**324**	**118**	**9,993**	**1,247**
Additions	**10,421**	**1,219**	**142**	**34**	**10,563**	**1,253**
Expired arrangements	**(1,634)**	**(206)**	**(83)**	**(26)**	**(1,717)**	**(233)**
Payments	**-**	**(114)**	**-**	**(7)**	**-**	**(120)**
Interest	**-**	**56**	**-**	**3**	**-**	**60**
Closed accounts(1)	**(433)**	**(20)**	**(11)**	**(3)**	**(444)**	**(23)**
Other Movement	**-**	**(141)**	**-**	**(1)**	**-**	**(142)**
Closing stock 31 December 2014	**18,023**	**1,924**	**372**	**117**	**18,395**	**2,042**

						2013
	Owner Occupier		Buy-to-let		Total	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
Opening stock 1 January	10,375	1,353	420	123	10,795	1,476
Additions	3,913	477	108	50	4,021	527
Expired arrangements	(4,410)	(678)	(199)	(52)	(4,609)	(730)
Payments	-	(59)	-	(6)	-	(65)
Interest	-	43	-	3	-	46
Closed accounts(1)	(210)	(7)	(4)	-	(214)	(7)
Other Movement	1	-	(1)	-	-	-
Closing stock 31 December 2013	9,669	1,129	324	118	9,993	1,247

(1) Accounts closed during the year due primarily to customer repayments and redemptions

The stock of loans subject to forbearance increased by €795m due mainly to arrears capitalisations and split mortgages.

The following tables further analyses by type of forbearance (i) Owner occupier (ii) Buy to Let (iii) Total residential mortgages which were subject to forbearance measures at 31 December 2014 and 31 December 2013

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Owner Occupier Forbearance Stock*

						2014
				Loans >90 days in arrears and/or impaired		**Loans neither >90 days in arrears nor impaired**
	Number	**Total Balance € m**	**Number**	**Balance € m**	**Number**	**Balance € m**
Interest only (I.O.)	**2,123**	**297**	**1,136**	**161**	**987**	**136**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Low Fixed Interest Rate	**326**	**49**	**250**	**38**	**76**	**11**
Arrears capitalisation	**8,834**	**1,023**	**4,955**	**562**	**3,879**	**461**
Term extension	**2,774**	**246**	**344**	**29**	**2,430**	**217**
Split mortgage	**3,616**	**276**	**1,810**	**276**	**1,806**	**-**
Sale for loss	**208**	**17**	**149**	**15**	**59**	**2**
Positive Equity Solution	**125**	**11**	**91**	**8**	**34**	**3**
Other	**17**	**4**	**4**	**1**	**13**	**3**
Total	**18,023**	**1,923**	**8,739**	**1,090**	**9,284**	**833**

						2013
				Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only (I.O.)	2,122	304	776	113	1,346	191
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	-	-	-	-	-	-
Arrears capitalisation	3,646	464	2,081	253	1,565	211
Term extension	3,644	324	725	65	2,919	259
Split mortgage	192	28	137	19	55	9
Sale for loss	47	4	43	3	4	1
Positive Equity Solution	-	-	-	-	-	-
Other	18	5	4	1	14	4
Total	9,669	1,129	3,766	454	5,903	675

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Buy-to-let Forbearance Stock*

						2014
			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only (I.O.)	119	50	88	44	31	6
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	-	-	-	-	-	-
Arrears capitalisation	136	47	107	43	29	4
Term extension	67	7	12	1	55	6
Split mortgage	-	-	-	-	-	-
Sale for loss	50	13	45	12	5	1
Positive Equity Solution	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**372**	**117**	**252**	**100**	**120**	**17**

						2013
			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only (I.O.)	181	82	108	66	73	16
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	-	-	-	-	-	-
Arrears capitalisation	57	25	49	23	8	2
Term extension	80	10	20	2	60	8
Split mortgage	-	-	-	-	-	-
Sale for loss	6	1	6	1	-	-
Positive Equity Solution	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	324	118	183	92	141	26

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Residential Mortgage Forbearance Stock*

2014	Number	Total Balance € m	Loans >90 days in arrears and/or impaired Number	Loans >90 days in arrears and/or impaired Balance € m	Loans neither >90 days in arrears nor impaired Number	Loans neither >90 days in arrears nor impaired Balance € m
Interest only (I.O.)	**2,242**	**347**	**1,224**	**205**	**1,018**	**142**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Low Fixed Interest Rate	**326**	**49**	**250**	**38**	**76**	**11**
Arrears capitalisation	**8,970**	**1,070**	**5,062**	**605**	**3,908**	**465**
Term extension	**2,841**	**253**	**356**	**30**	**2,485**	**223**
Split mortgage	**3,616**	**276**	**1,810**	**276**	**1,806**	**-**
Sale for loss	**258**	**30**	**194**	**27**	**64**	**3**
Positive Equity Solution	**125**	**11**	**91**	**8**	**34**	**3**
Other	**17**	**4**	**4**	**1**	**13**	**3**
Total	**18,395**	**2,040**	**8,991**	**1,190**	**9,404**	**850**

2013	Number	Total Balance € m	Loans >90 days in arrears and/or impaired Number	Loans >90 days in arrears and/or impaired Balance € m	Loans neither >90 days in arrears nor impaired Number	Loans neither >90 days in arrears nor impaired Balance € m
Interest only (I.O.)	2,303	386	884	179	1,419	207
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	-	-	-	-	-	-
Arrears capitalisation	3,703	489	2,130	276	1,573	213
Term extension	3,724	334	745	67	2,979	267
Split mortgage	192	28	137	19	55	9
Sale for loss	53	5	49	4	4	1
Positive Equity Solution	-	-	-	-	-	-
Other	18	5	4	1	14	4
Total	9,993	1,247	3,949	546	6,044	701

Of the total residential mortgage book of €12,675m, 16.1% are subject to forbearance measures as at 31 December 2014, compared to 9.5% as at 31 December 2013.

52% of the loans subject to forbearance measures at 31 December 2014 are loans on which arrears have been capitalised. These loans, along with Term Extensions, remain within the stock of forbearance for a period of 5 years. The increase in the stock of loans on arrears capitalisation in 2014 includes some customers whose interest only arrangement had expired during 2014 but who received a capitalisation of arrears at some time over the last 5 years.

€1,190m (58.3%) of the loans under forbearance were >90 days past due and/or impaired as at 31 December 2014, compared to 43.6% as at 31 December 2013. Arrears capitalisations represent 51% of Forbearance Stock >90 days past due and/or impaired at 31 December 2014 (also 51% at 31 December 2013).

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

COMMERCIAL PROPERTY*

						2014
			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only (I.O.)	**59**	**29**	**38**	**17**	**21**	**12**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Arrears capitalisation	**48**	**16**	**39**	**11**	**9**	**5**
Term extension	**11**	**1**	**5**	**1**	**6**	**-**
Other	**40**	**13**	**35**	**13**	**5**	**-**
Total	**158**	**59**	**117**	**42**	**41**	**17**

						2013
			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only (I.O.)	98	44	47	21	51	23
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Arrears capitalisation	31	14	13	8	18	6
Term extension	14	2	5	1	9	1
Other	-	-	-	-	-	-
Total	143	60	65	30	78	30

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Group Residential Mortgages in Forbearance - index linked LTV*

The following table profiles the residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to value ratios at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier € m	Buy-to-Let € m	Total € m
Less than 50%	209	12	221
50% - 70%	303	18	321
71% - 80%	198	21	219
81% - 90%	215	18	233
91% - 100%	213	16	229
101% -120%	341	11	352
121% - 150%	357	8	365
Greater than 150%	68	1	69
Unsecured (Zero Collateral)	18	13	31
Total forbearance	**1,922**	**118**	**2,040**

			2013
	Owner – Occupier € m	Buy-to-Let € m	Total € m
Less than 50%	105	8	113
50% - 70%	105	9	114
71% - 80%	80	12	92
81% - 90%	87	18	105
91% - 100%	95	11	106
101% -120%	211	29	240
121% - 150%	253	26	279
Greater than 150%	193	5	198
Total forbearance	1,129	118	1,247

			2014
Forbearance stock - past due but not impaired*	Owner – Occupier € m	Buy-to-Let € m	Total € m
1 - 30 days	96	2	98
31 - 60 days	41	1	42
61 - 90 days	23	-	23
91 - 180 days	-	1	1
181 - 365 days	-	-	-
Over 365 days	-	-	-
Total past due but not impaired	**160**	**4**	**164**

			2013
	Owner – Occupier € m	Buy-to-Let € m	Total € m
1 - 30 days	100	-	100
31 - 60 days	36	1	37
61 - 90 days	27	1	28
91 - 180 days	11	-	11
181 - 365 days	-	-	-
Over 365 days	-	-	-
Total past due but not impaired	174	2	176

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

The following table profiles the residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2014 and 31 December 2013:

Forbearance stock – impaired*	**Owner – Occupier**	**Buy-to-Let**	**2014 Total**
	€ m	**€ m**	**€ m**
Not past due	**529**	**49**	**578**
1 - 30 days	**158**	**6**	**164**
31 - 60 days	**58**	**2**	**60**
61 - 90 days	**38**	**2**	**40**
91 - 180 days	**78**	**6**	**84**
181 - 365 days	**79**	**8**	**87**
Over 365 days	**148**	**27**	**175**
Total impaired	**1,088**	**100**	**1,188**

	Owner – Occupier	Buy-to-Let	2013 Total
	€ m	€ m	€ m
Not past due	99	59	158
1 - 30 days	44	5	49
31 - 60 days	30	3	33
61 - 90 days	24	2	26
91 - 180 days	70	3	73
181 - 365 days	66	6	72
Over 365 days	110	14	124
Total impaired	443	92	535

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Group Mortgage Lending with Fair Value Collateral*

Loan-to-value ('LTV') (index linked information)
For residential mortgages, EBS takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. EBS adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 November 2014 is based on property values at origination or date of latest valuation and applying the CSO Residential Property Price index (Republic of Ireland) and indices to these values to take account of price movements in the interim.

				2014
Fully collateralised	**Neither past due nor impaired € m**	**Past due but not impaired € m**	**Impaired € m**	**Total € m**
Loan-to-value ratio:				
Less than 50%	**1,424**	**51**	**227**	**1,702**
50%-70%	**1,544**	**69**	**362**	**1,975**
71%-80%	**1,059**	**47**	**241**	**1,347**
81%-90%	**1,106**	**51**	**270**	**1,427**
91%-100%	**1,036**	**56**	**293**	**1,385**
	6,169	**274**	**1,393**	**7,836**
Partially collateralised				
Collateral value relating to loans over 100% LTV	**2,303**	**163**	**1,354**	**3,820**
Total collateral value	**8,472**	**437**	**2,747**	**11,656**
Gross residential mortgages	**8,959**	**474**	**3,242**	**12,675**
Statement of financial position specific provisions			**(909)**	**(909)**
Statement of financial position IBNR provisions				**(197)**
Net residential mortgages			**2,333**	**11,569**

				2013
Fully collateralised	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Loan-to-value ratio:				
Less than 50%	1,158	60	158	1,376
50%-70%	1,042	75	215	1,332
71%-80%	689	52	140	881
81%-90%	765	67	159	991
91%-100%	875	89	216	1,180
	4,529	343	888	5,760
Partially collateralised				
Collateral value relating to loans over 100% LTV	3,467	432	1,664	5,563
Total collateral value	7,996	775	2,552	11,323
Gross residential mortgages	8,987	913	3,216	13,116
Statement of financial position specific provisions			(1,037)	(1,037)
Statement of financial position IBNR provisions				(235)
Net residential mortgages			2,179	11,844

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Group Mortgage Lending with Fair Value Collateral (continued)*

Group Residential Mortgage lending – 90 days past due or impaired
The following tables profile the residential mortgage portfolio that was >90 days past due or impaired by the indexed loan to value ratios at 31 December 2014 and 2013.

			2014
90 days past due or impaired	**Owner-Occupier €m**	**Buy-to-Let €m**	**Total €m**
Fully Collateralised			
Less than 50%	**191**	**36**	**227**
50% - 70%	**314**	**49**	**363**
71% - 80%	**204**	**37**	**241**
81% - 90%	**238**	**33**	**271**
91% - 100%	**254**	**39**	**293**
Partially Collateralised			
Book Value	*1,657*	*126*	*1,783*
Value of Collateral	**1,250**	**104**	**1,354**
Unsecured (Zero Collateral)	**48**	**17**	**65**
Total	**2,451**	**298**	**2,749**

			2013
90 days past due or impaired	Owner-Occupier €m	Buy-to-Let €m	Total €m
Fully Collateralised			
Less than 50%	136	23	159
50% - 70%	182	38	220
71% - 80%	119	23	142
81% - 90%	137	25	162
91% - 100%	186	34	220
Partially Collateralised			
Book Value	*2,162*	*203*	*2,365*
Value of Collateral	1,531	159	1,690
Total	2,291	302	2,593

3.3.4 ANALYSIS OF LOANS AND RECEIVABLES TO CUSTOMERS BY INTEREST RATE SENSITIVITY*

The following table analyse gross loans to customers by interest rate sensitivity. Approximately 7.3% of the loan portfolio is provided on a fixed rate basis. The interest rate risk exposure is managed by AIB Group Treasury level within agreed policy parameters.

Group loans and receivables to customers

	Fixed €m	**Variable €m**	**Total €m**
2014	**938**	**11,978**	**12,916**
2013	873	12,504	13,377

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RISK MANAGEMENT REPORT (CONTINUED)

3.3.5 CROSS-BORDER OUTSTANDINGS*

Cross-border outstandings are based on the country of domicile of the borrower and comprise placings with banks and money at call and short notice, loans to customers and other monetary assets. EBS monitors geographic breakdown based on the country of the borrower and the guarantor of ultimate risk. Cross-border outstandings exceeding 1% of total assets in 2014 were Nil (2013: Nil).

3.3.6 LARGE EXPOSURES*

At 31 December 2014, the EBS Group's top 50 exposures amounted to €176m, and accounted for 1.4% (€180m and 1.4% at 31 December 2013) of the on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeds regulatory guidelines.

3.3.7 TREASURY ASSETS *

Treasury assets consist of cash and balances with CBI, derivative financial instruments, available-for-sale and loans and receivables to banks excluding operating bank accounts.

The following tables present an analysis of counterparties based on internal ratings mapped to an external rating agency scale. Where the counterparty is government guaranteed a sovereign rating has been used.

The ratings listed below are provided by Moody's, Fitch or S&P and are sourced from Bloomberg.

	Cash & Balances with Central Bank of Ireland €m	**Govt. & Other Eligible Bills €m**	**Other AFS Financial Assets €m**	**Loans & Receivables to Banks €m**	**Commitments & Contingent Liabilities €m**
Group					
Balances at 31 December 2014	**302**	**236**	**16**	**1,147**	**272**
	%	**%**	**%**	**%**	**%**
Aaa	**100**	**-**	**-**	**2**	**-**
Aa3 to Aa1	**-**	**-**	**-**	**-**	**-**
A3 to A1	**-**	**-**	**-**	**17**	**-**
Lower than A3	**-**	**100**	**100**	**81**	**-**
Unrated	**-**	**-**	**-**	**-**	**100**
	€m	€m	€m	€m	€m
Group					
Balances at 31 December 2013	74	214	3	1,343	147
	%	%	%	%	%
Aaa	100	-	-	2	-
Aa3 to Aa1	-	-	-	-	-
A3 to A1	-	-	-	17	-
Lower than A3	-	100	100	81	-
Unrated	-	-	-	-	100

Historically, EBS had put in place a number of Credit Support Annexes ('CSA') which covered the majority of outstanding derivatives. Derivatives covered by these agreements are marked to market on an ongoing basis resulting in the determination of the amount to be posted as collateral under the CSA and thereby removing the counterparty credit risk.

In quarters two and three of 2013, EBS novated the vast majority of its derivative book to AIB, leaving just one external Rabobank deal, which is covered by a CSA. It is not envisaged that any future external derivative deals will be entered into by EBS, as AIB has been, and is expected to be, the market facing brand going forward.

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 swaps for this purpose. Treasury Assets are monitored on a daily basis.

Commitments and contingent liabilities include EBS' obligations to the CBI and loan commitments.

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RISK MANAGEMENT REPORT (CONTINUED)

3.4 REGULATORY COMPLIANCE RISK

Regulatory Compliance Risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation which EBS may suffer as a result of a failure to comply with the laws, regulations and self-regulatory codes which relate to EBS's regulated banking and financial services activities i.e. those activities which EBS is licenced to conduct.

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of EBS's operating markets. Regulatory Compliance work closely with management in assessing compliance risks and provide advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken. The Regulatory Compliance function also promotes the embedding of an ethical framework to ensure that the Group operates with honesty, fairness and integrity. A Code of Business Ethics is in place for all staff alongside a Leadership Code for more senior staff. These are supported by a suite of policies.

New Board driven codes are being put in place to enhance and build on the existing codes. Regulatory Compliance report to the ERC, business unit management teams and independently to the Board of Directors, through the Audit Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

3.5 LIQUIDITY RISK*

Liquidity risk relates to the ability of EBS 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.

EBS's liquidity risk has been incorporated into the AIB centralised risk management model in line with AIB common approach to Treasury Risk management. Under this centralised approach the management of liquidity and related activities are overseen and controlled by AIB Treasury, and as a consequence, EBS Group is integrated with its parent, the AIB Group for funding and liquidity management.

EBS applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the CBI in July 2007. The overall purpose of a maturity mismatch approach is to ensure that EBS 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'). Funding contingency plans are continually under review.

AIB Group conducts both regular and ad-hoc funding and liquidity risk stress testing to assess on an ongoing basis the ability of the Group to withstand various idiosyncratic and systemic stress scenarios. Liquidity contingency plans are developed and updated on a continual basis reflecting the results of the stress tests. These activities are conducted in conjunction with AIB Group Asset & Liability Management.

Key measures used for managing liquidity risk are the liquidity ratios, calculated and reported on a daily basis internally to the Treasury Front Office and to AIB Group on a weekly basis for consolidation into the AIB Group Regulatory Liquidity Reports. They are also reported on a monthly basis to EBS's Management team and bi-monthly to EBS's Board. Any breaches of limits are escalated immediately in line with the escalation procedure.

EBS was one of the Irish institutions included in the CIFS Scheme which ran from September 2008 to September 2010. EBS also joined the 'ELG' Scheme in early February 2010. EBS continues to be one of the Irish covered institutions that are part of the 'ELG' Scheme. This scheme assisted EBS in attracting and maintaining customer funding in times of great economic uncertainty. The cost of the ELG scheme for 2014 was €23m (see note 3). On 26 February 2013, the Minister for Finance announced that the ELG 2009 will end for all new liabilities with effect from midnight on 28 March 2013. After this date, no new liabilities are guaranteed under the scheme.

AIB Group Treasury is responsible for the daily management of liquidity for EBS, supported by a dedicated Bank Treasury team, i.e. to ensure that resources are available at all times to meet EBS's obligations arising from the daily business of EBS. EBS reports its Liquidity positions to the CBI as part of the AIB Consolidated Liquidity Reporting.

The Management team monitors these risks and reports on key developments to the Board on a regular basis via the Chief Risk Officers report.

In October 2011, the CBI revoked the requirement for EBS to comply with the 'Requirements for the Management of Liquidity Risk' regulatory document under Section 9.2 of that document. From this time EBS's Liquidity Ratios would henceforth be reflected in the AIB Group Consolidated Liquidity Reports.

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.5 LIQUIDITY RISK (CONTINUED)

Exposure to liquidity risk*

The following table analyses financial liabilities by contractual residual maturity.

Group

							2014
	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	Total € m
Deposits by Banks	3	3,379	-	-	-	-	3,382
Derivative financial instruments	-	6	-	-	5	50	61
Deposits by Central Bank	-	-	-	-	-	-	-
Debt securities in issue	-	641	-	25	55	575	1,296
Customer accounts	2,118	680	825	1,937	860	1,477	7,897
Total	**2,121**	**4,706**	**825**	**1,962**	**920**	**2,102**	**12,636**
Commitments	10	25	136	-	1	100	272

							2013
	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	Total € m
Deposits by Banks	-	665	-	-	-	-	665
Derivative financial instruments	40	4	-	2	10	24	80
Deposits by Central Bank	375	-	-	-	600	-	975
Debt securities in issue	9	55	-	75	1,009	853	2,001
Customer accounts	2,241	1,239	1,361	2,599	582	1,275	9,297
Total	2,665	1,963	1,361	2,676	2,201	2,152	13,018
Commitments	25	27	7	-	1	87	147

3.6 MARKET RISK*

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates basis risk and credit spreads (funding risk) will affect EBS'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. EBS has aligned the measurement methods and reporting of its market risk exposures to those employed by the AIB Group.

EBS does not engage in proprietary trading i.e. does not trade on its own account. EBS's Treasury manages market risks using gap and sensitivity analysis in conjunction with AIB Group Treasury. Derivatives such as interest rate and foreign currency swap agreements are used to hedge these market risks. EBS's Management team monitors these risks and reports on key developments to the Board on a regular basis.

Changes in the shape and level of interest rate curves impact the economic value of EBS's underlying assets and liabilities. The level of the EBS's earnings is exposed to basis risk i.e. an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics. The persistence of exceptionally low interest rates for an extended period could adversely impact EBS's earnings through the compression of net interest margin.

Interest rate risk in banking book portfolio is EBS's primary source of interest rate risk and is managed principally through monitoring interest rate gaps and by having various limits, processes and procedures. Interest rate risk in the reserve investment portfolio is managed under the Reserve Investment Policy as approved by the Board. In addition, AIB conducts regular Interest Rate Risk in banking Book ('IRRBB') stress testing to evaluate the exposure of banking book portfolio and reserve investment portfolio to a parallel interest rate shift of 100 and 200 basis points and a series of yield curve twists. EBS has in place small operational foreign currency open position limits which are monitored on a daily basis.

Interest rate sensitivity gap analysis 2014

The tables overleaf give an indication of the interest rate re-pricing mismatch in the Statement of Financial Position. A cumulative net liability position in a time band indicates an exposure to a rise in interest rates.

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RISK MANAGEMENT REPORT (CONTINUED)

3.6 MARKET RISK (CONTINUED)*

Interest rate sensitivity gap analysis 2014 (continued)

Group

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Rate Insensitive	Trading	Total
Assets	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cash and balances with Central Bank of Ireland	296	-	-	-	-	-	-	-	6	-	302
Loans and receivables to customers	11,917	68	266	258	228	44	62	73	(1,191)	-	11,725
Loans and receivables to bank	1,124	-	-	-	-	-	-	-	23	-	1,147
Available-for-sale financial assets	-	-	-	-	-	-	-	236	16	-	252
Other assets	-	-	-	-	-	-	-	-	389	30	419
Total Assets	13,337	68	266	258	228	44	62	309	(757)	30	13,845
Liabilities											
Deposits by banks	3,382	-	-	-	-	-	-	-	-	-	3,382
Customer accounts	2,137	662	2,761	860	971	448	58	-	-	-	7,897
Debt issued	575	696	25	-	-	-	-	-	-	-	1,296
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	97	-	97
Other liabilities	-	-	-	-	-	-	-	-	245	30	275
Shareholders' equity	-	-	-	-	-	-	-	-	898	-	898
Total Liabilities	6,094	1,358	2,786	860	971	448	58	-	1,240	30	13,845
Total derivatives (interest rate swaps)	4,335	(450)	(2,535)	(601)	(704)	(259)	(32)	246	-	-	-
Interest sensitivity gap	2,908	(840)	15	(1)	(39)	(145)	36	63	(1,997)	-	-
Cumulative interest sensitivity gap	2,908	2,068	2,083	2,082	2043	1,898	1,934	1,997	-	-	-

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RISK MANAGEMENT REPORT (CONTINUED)

3.6 MARKET RISK (CONTINUED)*

Interest rate sensitivity gap analysis 2013

Group

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Rate Insensitive	Trading	Total
Assets	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cash and balances with Central Bank of Ireland	-	-	-	-	-	-	-	-	74	-	74
Loans and receivables to customers	12,500	262	75	192	211	53	41	43	(1,352)	-	12,025
Loans and receivables to bank	1,324	-	-	-	-	-	-	-	19	-	1,343
Derivatives and other financial instruments	-	-	-	-	-	-	-	214	3	-	217
Other assets	-	-	-	-	-	-	-	-	438	42	480
Total Assets	13,824	262	75	192	211	53	41	257	(818)	42	14,139
Liabilities											
Deposits by banks	1,640	-	-	-	-	-	-	-	-	-	1,640
Customer accounts	2,955	1,280	3,318	485	311	782	166	-	-	-	9,297
Debt issued	833	160	21	987	-	-	-	-	-	-	2,001
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	37	-	37
Other liabilities	-	-	-	-	-	-	-	-	339	44	383
Shareholders’ equity	-	-	-	-	-	-	-	-	781	-	781
Total Liabilities	5,428	1,440	3,339	1,472	311	782	166	-	1,157	44	14,139
Total derivatives (interest rate swaps)	6,475	(1,646)	(3,479)	(614)	(150)	(598)	(16)	28	-	-	-
Interest sensitivity gap	1,921	468	215	(666)	50	(131)	(109)	229	(1,975)	(2)	
Cumulative interest sensitivity gap	1,921	2,389	2,604	1,938	1,988	1,857	1,748	1,977	2	-	

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RISK MANAGEMENT REPORT (CONTINUED)

3.6 MARKET RISK (CONTINUED)*

Interest rate sensitivity gap analysis 2014 (continued)

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

There are some limitations associated with the above analysis, mainly due to market effects, over aggregation and run-offs. 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.

Interest rate stress testing

EBS historically conducted daily stress testing on the Banking Book Portfolio, evaluating the exposure of the Group and EBS to a parallel interest rate shift of 100 bps and a series of yield curve twist tests. The Group also conducts at least monthly interest rate stress testing on the Reserve Investment Portfolio, evaluating the exposure of the Group to a parallel interest rate shift of 100 bps and a series of yield curve twist tests. Stress testing methodologies are now aligned and prepared on an AIB Group basis.

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

	2014 100 bps parallel shift (increase / decrease)		2013	
		€m		€m
Banking book portfolio				
Average for the period	**- / +**	**10**	- / +	2
Maximum for the period	**- / +**	**13**	- / +	8
Minimum for the period	**- / +**	**8**	- / +	-
Reserve investment portfolio				
Average for the period	**- / +**	**13**	- / +	16
Maximum for the period	**- / +**	**14**	- / +	19
Minimum for the period	**- / +**	**12**	- / +	13

The above table shows the present value effect that would be realised in the Statement of Comprehensive Income on an accruals 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 AIB Group Treasury. The use of derivatives to manage interest rate risk is described in note 31.

Foreign exchange risk*

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

Group and Company

	2014	2013
	€m	€m
Net of Assets and Liabilities (including derivatives) denominated in currency other than Euro:		
Sterling	**1**	1
Total	**1**	1

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. EBS have no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

Funding risk

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

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION

Credit exposure

The following table sets out the maximum exposure to credit risk that arises within EBS and distinguishes between those assets that are carried in the Statement of Financial Position at amortised cost and those carried at fair value.

Maximum exposure to credit risk*

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

			2014			2013
	Amortised Cost	**Fair Value**	**Total**	Amortised Cost	Fair Value	Total
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Cash and Balances with central banks	**302**	**-**	**302**	73	-	73
Derivative financial instruments	**-**	**108**	**108**	-	153	153
Available-for-sale financial assets	**-**	**2,338**	**2,338**	-	3,009	3,009
Loans and receivables to banks	**4,330**	**-**	**4,330**	4,079	-	4,079
Loans and receivables to customers	**5,757**	**-**	**5,757**	5,641	-	5,641
Included elsewhere:						
Accrued interest	**12**	**-**	**12**	34	-	34
Other assets	**971**	**-**	**971**	571	-	571
	11,372	**2,446**	**13,818**	10,398	3,162	13,996
Loan commitments	**165**	**-**	**165**	107	-	107
Maximum exposure to credit risk	**11,537**	**2,446**	**13,983**	10,505	3,162	13,667

The following table shows the fair value of collateral held for loans and receivables to customers at 31 December 2014 and 2013:

Company Collateral Held: Loans and receivables to customers*

			2014			2013
	Residential mortgages	**Commercial mortgages**	**Total**	Residential mortgages	Commercial mortgages	Total
	€m	**€m**	**€m**	€m	€m	€m
Impaired loans	**1,448**	**132**	**1,580**	1,388	113	1,501
Past due but not impaired	**172**	**13**	**185**	294	23	317
Non impaired/non past due	**3,314**	**78**	**3,392**	3,032	112	3,144
Total loans	**4,934**	**223**	**5,157**	4,714	248	4,962

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION (CONTINUED)

IBNR for mortgages portfolio

The portfolio IBNR is calculated using the collective mortgage model as in section 3.3.1. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio:

Company*
2014

	Owner-occupier			Buy-to-let		
Grade	**Exposure €m**	**Average PD %**	**Average LGD %**	**Exposure €m**	**Average PD %**	**Average LGD %**
Good upper	**2,592**	**0.9**	**19.4**	**27**	**2.4**	**12.6**
Good lower	**487**	**3.8**	**22.8**	**17**	**16.7**	**24.4**
Watch	**331**	**16.5**	**21.6**	**8**	**76.3**	**21.4**
Vulnerable	**91**	**62.3**	**22.4**	**4**	**67.0**	**18.9**

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	**73**	**16.2**	**21.5**	**2**	**26.1**	**23.6**
Forborne – Not impaired	**333**	**14.5**	**21.0**	**11**	**43.0**	**20.2**

2013 (unaudited)	**Total**	
Grade	**Average PD %**	**Average LGD %**
Good upper	1.1	19.4
Good lower	4.6	24.6
Watch	17.8	21.8
Vulnerable	66.7	23.3

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	23.5	22.9
Forborne – Not impaired	19.7	22.1

Average PD and LGD are based on the PDs and LGDs weighted by exposure for all owner-occupier and buy-to-let loans included in the collective mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR run rate provisions. Any additional IBNR as determined by management judgement is applied at a portfolio level and is not included in the analysis above. Non-performing, non-impaired loans in the table above, are defined as loans that are more than 90 days past due but not impaired.

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RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION (CONTINUED)

Credit quality (excluding commercial)*

The following table includes loans and receivables to customers' gross of impairment provisions split on a owner-occupier / buy-to-let basis. The numbers presented are inclusive of unearned income and related provisions and deferred acquisition costs.

			2014
	Owner-Occupier €m	**Buy-to-Let €m**	**Total €m**
Total gross residential mortgages	**4,930**	**432**	**5,362**
In arrears (>30 days past due) [1]	**1,481**	**292**	**1,773**
In arrears (>90 days past due) [1]	**1,416**	**288**	**1,704**
Of which impaired	**1,416**	**287**	**1,703**
Statement of financial position specific provisions	**390**	**134**	**524**
Statement of financial position IBNR provisions	**85**	**6**	**91**

			2013
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Total gross residential mortgages	5,004	467	5,471
In arrears (>30 days past due) [1]	1,579	306	1,885
In arrears (>90 days past due) [1] [1]	1,448	298	1,746
Of which impaired	1,434	294	1,728
Statement of financial position specific provisions	467	126	593
Statement of financial position IBNR provisions	118	24	142

[1] Includes all impaired loans whether past due or not.

Provision cover percentage

			2014
	Owner-Occupier	**Buy-to-Let**	**Total**
Specific provisions as a % of impaired loans cover	**27.5%**	**46.7%**	**30.8%**

Provision cover percentage

			2013
	Owner-Occupier	Buy-to-Let	Total
Specific provisions as a % of impaired loans cover	32.6%	42.9%	34.3%

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION (CONTINUED)

Credit quality*

Income statement[1]

	Owner-Occupier €m	Buy-to-Let €m	Total €m
			2014
Income statement specific provisions	**(77)**	**9**	**(68)**
Income statement IBNR provisions	**(33)**	**(18)**	**(51)**
Total impairment provisions	**(110)**	**(9)**	**(119)**

	Owner-Occupier €m	Buy-to-Let €m	Total €m
			2013
Income statement specific provisions	170	22	192
Income statement IBNR provisions	28	(2)	26
Total impairment provisions	198	20	218

[1] In the table above, writebacks of provisions are presented as a negative and charges presented as a positive

Asset quality*

Residential and buy-to-let mortgages

The following table shows criticised loans for the total residential mortgages portfolio analysed between owner-occupier and buy-to-let. Criticised loans include watch, vulnerable and impaired loans.

	Owner-Occupier € m	Buy-to-Let € m	Total € m
			2014
Satisfactory	**3,096**	**105**	**3,201**
Watch	**331**	**33**	**364**
Vulnerable	**87**	**7**	**94**
Impaired	**1,416**	**287**	**1,703**
Criticised	**1,834**	**327**	**2,161**
Gross mortgages	**4,930**	**432**	**5,362**

	Owner-Occupier € m	Buy-to-Let € m	Total € m
			2013
Satisfactory	3,045	116	3,161
Watch	364	42	406
Vulnerable	161	15	176
Impaired	1,434	294	1,728
Criticised	1,959	351	2,310
Gross mortgages	5,004	467	5,471

	%	**%**	**%**
Criticised loans as % of total mortgages	**37**	**76**	**40**
Impaired loans as % of total mortgages	**29**	**66**	**32**

	%	%	%
Criticised loans as % of total mortgages	39	75	42
Impaired loans as % of total mortgages	29	63	32

EBS's criticised loans and receivables to customers amounted to €2,161m or 40% of total customer loans. Criticised loans have decreased by €149m since 31 December 2013. The main drivers of the decrease in criticised loans have been increased restructuring activity and improved economic conditions.

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RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION (CONTINUED)

Asset quality*

Company	2014		2013	
Total impaired loans	**€m**	**%**	€m	%
Impaired loans – Owner-occupier	**1,416**	**25.3**	1,434	25.0
Impaired loans – Buy-to-let	**435**	**7.8**	416	7.3
Total	**1,851**	**33.0**	1,850	32.3

Past due but not impaired				**2014**
	Owner-Occupier	**Buy-to-Let**	**Total**	**%**
	€m	**€m**	**€m**	
Neither past due nor impaired	**3,336**	**218**	**3,554**	**63.4**
Past due but not impaired	**178**	**20**	**198**	**3.5**
Impaired – no provision	**16**	**27**	**43**	**0.8**
Impaired – provision held	**1,400**	**408**	**1,808**	**32.3**
Gross loans and receivables	**4,930**	**673**	**5,603**	**100**
Provision for impairment	**(475)**	**(225)**	**(700)**	
Total loans and receivables after provisions	**4,455**	**448**	**4,903**	

Past due but not impaired				2013
	Owner-Occupier	Buy-to-Let	Total	%
	€m	€m	€m	
Neither past due nor impaired	3,245	270	3,515	61.3
Past due but not impaired	325	42	367	6.4
Impaired – no provision	6	107	113	2.0
Impaired – provision held	1,428	309	1,737	30.3
Gross loans and receivables	5,004	728	5,732	100.0
Provision for impairment	(585)	(230)	(815)	
Total loans and receivables after provisions	4,419	498	4,917	

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION (CONTINUED)

Asset quality*

			2014
Aged analysis of loans and receivables which are past due but not impaired*	**Owner – Occupier € m**	**Buy-to-Let € m**	**Total € m**
1 - 30 days	**113**	**2**	**115**
31 - 60 days	**41**	**3**	**44**
61 - 90 days	**23**	**1**	**24**
91 - 180 days	**-**	**1**	**1**
181 - 365 days	**-**	**1**	**1**
Over 365 days	**-**	**-**	**-**
Total past due but not impaired	**177**	**8**	**185**

			2013
Aged analysis of loans and receivables which are past due but not impaired*	Owner – Occupier € m	Buy-to-Let € m	Total € m
1 - 30 days	180	6	186
31 - 60 days	78	4	82
61 - 90 days	53	4	57
91 - 180 days	14	2	16
181 - 365 days	-	-	-
Over 365 days	-	3	3
Total past due but not impaired	325	19	344

Residential Mortgages

								2014*
Company	**Loans & Receivables**	**Impaired Loans & Receivables**	**Impaired % of Loans**	**Individually Assessed**	**IBNR Assessed**	**Total Impairment Provision**	**Provision % of Impaired Loans**	**Provision % of Loans**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**		
Residential	5,362	1,703	31.8%	524	91	615	36.1%	11.5%
Commercial Property	241	148	61.4%	81	4	85	57.4%	35.3%
Total	**5,603**	**1,851**	**33.0%**	**605**	**95**	**700**	**37.8%**	**12.5%**

								2013*
Company	Loans & Receivables	Impaired Loans & Receivables	Impaired % of Loans	Individually Assessed	IBNR Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	5,471	1,728	31.6%	593	142	735	42.5%	13.4%
Commercial Property	261	122	46.7%	30	50	80	65.6%	30.7%
Total	5,732	1,850	32.3%	623	192	815	44.1%	14.2%

**Forms an integral part of the audited financial statements*

RISK MANAGEMENT REPORT (CONTINUED)

3.7 COMPANY RISK INFORMATION (CONTINUED)

3.7.1 TREASURY ASSETS*

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

The following tables present an analysis of Treasury asset counterparties based on internal ratings mapped to an external rating agency scale. Where the counterparty is government guaranteed a sovereign rating has been used.

The ratings listed below are provided by Moody's, Fitch or S&P and are sourced from Bloomberg.

	Cash & Balances with Central Bank of Ireland €m	Govt. & Other Eligible Bills €m	Other AFS Financial Assets €m	Loans & Receivables to Banks €m	Commitments & Contingent Liabilities €m
Company					
Balances at 31 December 2014	**302**	**236**	**2,102**	**4,330**	**165**
	%	**%**	**%**	**%**	**%**
Aaa	**100**	**-**	**-**	**1**	**-**
Aa3 to Aa1	**-**	**-**	**16**	**-**	**-**
A3 to A1	**-**	**-**	**78**	**-**	**-**
Lower than A3	**-**	**100**	**6**	**99**	**-**
Unrated	**-**	**-**	**-**	**-**	**100**

Company	€m	€m	€m	€m	€m
Balances at 31 December 2013	73	214	2,795	4,079	107
	%	%	%	%	%
Aaa	100	-	-	1	-
Aa3 to Aa1	-	-	24	-	-
A3 to A1	-	-	-	-	-
Lower than A3	-	100	76	99	-
Unrated	-	-	-	-	100

3.7.2 EXPOSURE TO LIQUIDITY RISK*

The following table analyses financial liabilities by contractual residual maturity.

Company							**2014**
	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**	**Total € m**
Deposits by Banks	**23**	**3,379**	**-**	**-**	**-**	**-**	**3,402**
Derivative financial instruments	**-**	**6**	**-**	**-**	**5**	**45**	**56**
Deposits by Central Bank	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities in issue	**-**	**641**	**-**	**25**	**55**	**-**	**721**
Customer accounts	**2,850**	**680**	**825**	**1,937**	**860**	**1,477**	**8,629**
Total	**2,873**	**4,706**	**825**	**1,962**	**920**	**1,522**	**12,808**
Commitments	**6**	**16**	**75**	**-**	**1**	**67**	**165**

Company							2013
	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	Total € m
Deposits by Banks	15	665	-	-	-	39	719
Derivative financial instruments	4	4	-	2	10	56	76
Deposits by Central Bank	-	375	-	-	600	-	975
Debt securities in issue	9	55	-	25	1,009	55	1,153
Customer accounts	3,017	1,239	1,361	2,599	582	1,275	10,073
Total	3,045	2,338	1,361	2,626	2,201	1,425	12,996
Commitments	25	27	7	-	1	87	147

**Forms an integral part of the audited financial statements*

ACCOUNTING POLICIES*

**Forms an integral part of the audited financial statements*

ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

1. REPORTING ENTITY

EBS Limited is a company domiciled in Ireland. The address of the Company's registered office is 2 Burlington Road, Dublin 4, Ireland. The consolidated financial statements include the financial statements of EBS Limited and its subsidiary undertakings, collectively referred to as the EBS Group, where appropriate, including certain special purpose entities and are prepared to the end of the financial year. The Group is and has been primarily involved in retail banking.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards as adopted by the European Union ("EU") and applicable for the year ended 31 December 2014. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described. The consolidated financial statements also comply with the Companies Acts 1963 to 2013 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended) and the Asset Covered Securities Acts 2001 and 2007. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB and International Financial Reporting Standards as adopted by the EU as applicable for the year ended 31 December 2014 and with Irish Statute. In publishing the parent company financial statements together with the Group financial statements, EBS has taken advantage of the exemption in paragraph 2 of Regulation 5 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 not to present its parent company income statement, statement of comprehensive income and related notes that form part of these financial statements.

3. BASIS OF PREPARATION

Functional and presentation currency
The financial statements are presented in euro, which is the functional currency of the parent company and its subsidiaries, rounded to the nearest million.

Basis of measurement
The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Risk management sections of this Annual Financial Statements. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; and retirement benefit obligations.

In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these estimates and judgements is set out in the next section "critical accounting judgements and estimates".

ACCOUNTING POLICIES (CONTINUED)

3. BASIS OF PREPARATION (CONTINUED)

GOING CONCERN
The financial statements for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the EBS Group, that it has the ability to continue in business for the period of assessment.

EBS Group is dependent on its Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Allied Irish Banks, p.l.c.

The financial statements of Allied Irish Bank p.l.c for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the AIB Group Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the AIB Group Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. These have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the AIB Group Directors have considered the commitment of support provided to AIB by the Irish Government.

The AIB Group Directors have also considered the principal risks and uncertainties which could materially affect the AIB Group's future business performance and profitability.

The AIB Group Directors believe that the capital resources are sufficient to ensure that the AIB Group is adequately capitalised both in a base and stress scenario.

In relation to liquidity and funding, the AIB Group Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the AIB Group during the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to EBS Group, the Directors of EBS believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the its ability to continue as a going concern over the period of assessment.

ADOPTION OF NEW ACCOUNTING STANDARDS
The following standards/amendments to standards have been adopted by EBS Group during the year ended 31 December 2014. The impact of these amendments on the financial statements is set out in the notes to the accounts.

Amendments to IAS 32 Financial Instruments: Presentation on Offsetting Financial Assets and Financial Liabilities
These amendments are effective from 1 January 2014. The amendments clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of these amendments did not impact on the presentation of the financial position of the Group.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement on Novation of Derivatives and Continuation of Hedge Accounting
These amendments, which are effective from 1 January 2014, provide an exception to the requirement to discontinue hedge accounting where a hedging derivative is novated, provided certain criteria are met.

Changes to accounting policies
Arising from the adoption of the IFRSs set out above, the following accounting policy was revised effective from 1 January 2014:
– Derivatives and hedge accounting (Accounting Policy number 21).

ACCOUNTING POLICIES (CONTINUED)

4. BASIS OF CONSOLIDATION

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

I. derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
II. derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);
III. recognises the fair value of any consideration received and any distribution of shares of the subsidiary;
IV. recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
V. recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IAS 39 Financial Instruments: Recognition and Measurement, or when appropriate, IAS 28 Investments in Associates and Joint Ventures.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

5. FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

6. INTEREST INCOME AND EXPENSE RECOGNITION

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 financial liability (or group of financial assets or financial 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 estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense 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 calculation takes into account all fees, including those for any expected 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 rate 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.

Interest income and expense presented in the consolidated income statement includes:

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on financial investments available for sale on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

ACCOUNTING POLICIES (CONTINUED)

7. FEE AND COMMISSION INCOME

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over the period the service is provided.

8. NET TRADING INCOME

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes.

9. DIVIDEND INCOME

Dividend income is recognised when the right to receive dividend income is established.

10. OPERATING LEASES

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 and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

11. EMPLOYEE BENEFITS

Retirement benefit obligations

The Group has provided a number of funded defined benefit pension schemes, one defined contribution pension scheme as well as a hybrid scheme that has both defined benefit and defined contribution elements. These schemes were closed to future accrual and future contributions from 31 December 2013 and future pension provision for current employees is provided through the AIB Defined Contribution Scheme.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method.

Retirement benefit obligations

The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in other comprehensive income.

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 Provisions, Contingent Liabilities and Contingent Assets are accounted for as a negative past service cost. These are recognised in the income statement.

The cost of providing defined benefit pension schemes to employees, comprising the service cost and net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset), is charged to the income statement within personnel expenses. Re-measurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to re-measurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in profit or loss when they are incurred.

The cost of the Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which includes the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

ACCOUNTING POLICIES (CONTINUED)

12. NON-CREDIT RISK PROVISIONS

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting 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. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

13. INCOME TAX, INCLUDING DEFERRED INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the financial statement liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount is reduced to the extent that sufficient taxable profits will be available to allow all of the asset to be recovered.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

ACCOUNTING POLICIES (CONTINUED)

14. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset’s recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

15. IMPAIRMENT OF FINANCIAL ASSETS

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the reporting date (‘a loss event’), and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower’s financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

    i) adverse changes in the payment status of borrowers in the portfolio; and
    ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). 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 includes these performing assets under the collective incurred but not reported (“IBNR”) assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. 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.

Collective evaluation of impairment

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty’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 currently exist.

ACCOUNTING POLICIES (CONTINUED)

15. IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss
For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. 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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Collateralised financial assets – Repossessions
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, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. AIB will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

Past due loans
When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower:
- has breached an advised limit;
- has been advised of a limit lower than the current outstanding's; or
- has drawn credit without authorisation.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Financial investments available for sale
In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had previously been recognised in other comprehensive income is recognised in the income statement as a reclassification adjustment. Reversals of impairment of equity securities are not recognised in the income statement and increases in the fair value of equity securities after impairment are recognised in other comprehensive income.

In the case of debt securities classified as available for sale, impairment is assessed on the same criteria as for all other debt financial assets. Impairment is recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the income statement. Any subsequent increase in the fair value of an available for sale debt security is included in other comprehensive income unless the increase in fair value can be objectively related to an event that occurred after the impairment was recognised in the income statement, in which case the impairment loss or part thereof is reversed.

Loans renegotiated and forbearance
From time to time, the Group will modify the original terms of a customer's loan either as part of the on-going relationship with the customer or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments.

Forbearance
A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk section 3.3. A request for a forbearance solution acts as a trigger for an impairment test.

ACCOUNTING POLICIES (CONTINUED)

15. IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Group continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelve months, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in the Group's collective assessment for IBNR provisions

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement. Interest accrues on the new loan based on the current market rates in place at the time of the renegotiation.

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation
Occasionally, the Group may temporarily amend the contractual repayment terms on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39 paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement.

However, where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

16. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and offer prices for liability positions.

ACCOUNTING POLICIES (CONTINUED)

16. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks ('contributors') publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group's valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques
In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equity and commodity prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

17. FINANCIAL ASSETS

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established.

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss
This category can have two sub categories: Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

ACCOUNTING POLICIES (CONTINUED)

17. FINANCIAL ASSETS (CONTINUED)

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or qualify as financial guarantee contracts.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available for sale
Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. 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. Available for sale financial assets are initially recognised at fair value adjusted for direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a recycling adjustment. Assets reclassified from the held for trading category are recognised at fair value.

Parent Company financial statements: Investment in subsidiary and associated undertakings
The Company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

Dividends from a subsidiary or an associated undertaking are recognised in the income statement, when the Company's right to receive the dividend is established.

18. FINANCIAL LIABILITIES

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement within net trading income.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or measurement of a financial liability is recognised in profit or loss.

ACCOUNTING POLICIES (CONTINUED)

19. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic lives. The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long- leasehold property	50 years
Short leasehold property	life of lease, up to 50 years

Costs of adaptation of freehold and leasehold property

Branch properties	up to 10 years(1)
Office properties	up to 15 years(1)
Computers and similar equipment	3 – 7 years
Fixtures and fittings and other equipment	5 – 10 years

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life. Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

(1)Subject to the maximum remaining life of the lease.

20. INTANGIBLE ASSETS

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 10 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

ACCOUNTING POLICIES (CONTINUED)

21. DERIVATIVES AND HEDGE ACCOUNTING

Derivatives such as interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

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 or 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.

Hedging

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 'Financial Instruments: Recognition and Measurement', the Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
- hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging 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 the hedged items.

The Group discontinues hedge accounting when:

a. it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b. the derivative expires, or is sold, terminated, or exercised;
c. the hedged item matures or is sold or repaid; or
d. a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with 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 fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale financial assets, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is re-classed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

ACCOUNTING POLICIES (CONTINUED)

21. DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Derivatives that do not qualify for hedge accounting
Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

22. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale
A non-current asset is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset.

On initial classification as held for sale, generally, non-current assets are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent re-measurement. Financial assets within the scope of IAS 39 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value less costs to sell of assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on re-measurement and impairment losses subsequent to classification as non-current assets held for sale are shown within continuing operations in the income statement

Non-current assets held for sale are presented separately on the statement of financial position. Prior periods are not reclassified.

23. COLLATERAL AND NETTING
The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral
The Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and receivables to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

24. SALE AND REPURCHASE AGREEMENTS (INCLUDING STOCK BORROWING AND LENDING)
Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell ('reverse repos'), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

25. LEASES

Lessor
Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

ACCOUNTING POLICIES (CONTINUED)

25. LEASES (CONTINUED)

Lessor (Continued)

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

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

26. SHAREHOLDERS' EQUITY

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Ordinary share capital
Ordinary share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, convertible non-voting shares and preference shares of the entity.

Dividends and distributions
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders or in the case of the interim dividend when it has been approved for payment by the Board of Directors.

Available-for-sale reserves
Available-for-sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the Statement of Financial Position of financial investments available-for-sale at fair value. This is reflected within the Reserves balance in the Statement of Financial Position.

Cash flow hedge reserves
Cash flow hedge reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss. This is reflected within the Reserves balance in the Statement of Financial Position.

Capital contribution
Capital contribution represents the initial principal amount net of costs of a promissory note issued by the Minister for Finance to EBS Group.

Revenue reserves
Revenue reserves represent retained earnings of the parent company and subsidiaries. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

27. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

28. PROSPECTIVE ACCOUNTING CHANGES

The following new accounting standards and amendments to existing standards approved by the IASB, but not early adopted by the Group, will impact the Group's financial reporting in future periods. The Group is currently considering the impacts of these amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below.

(a) Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative

Nature of Change
The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

These amendments are not expected to have a significant impact on the Group. The amendments are subject to EU endorsement.

IASB Effective Date
Annual periods beginning on or after 1 January 2016.

(b) Annual improvements to IFRSs 2012–2014 cycle

Nature of Change
The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2012-2014 Cycle amend IFRSs in relation to four issues addressed during this cycle.

ACCOUNTING POLICIES (CONTINUED)

28. PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

None of the amendments are expected to have a significant impact on reported results or disclosures. The amendments are subject to EU endorsement.

IASB Effective Date
Annual periods beginning on or after 1 January 2016.

(c) IFRS 15 Revenue from Contracts with Customers

Nature of Change
IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitive disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The impacts of this standard are being considered by the EBS Group. The standard is subject to EU endorsement.

IASB Effective Date
Annual periods beginning on or after 1 January 2017.

(d) IFRS 9 Financial Instruments

Nature of Change
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. This completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The main changes are as follows:

Classification and measurement
IFRS 9 introduces a single, principles-based classification approach that has two measurement categories: amortised cost and fair value. The basis of classification depends on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

Impairment
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model with this model being applied to all financial instruments. IFRS 9 requires an entity to account for expected credit losses from when financial instruments are fist recognised and to recognise full lifetime credit losses on a timely basis.

Hedge accounting
IFRS 9 replaces the rules-based general hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* with a principles-based approach that more closely aligns the accounting treatment with risk management activities. However, an entity may continue to apply the hedge accounting requirements of IAS 39. The accounting for macro hedges is not included within IFRS 9 and continues to be accounted for in accordance with the requirements of IAS 39.

Own credit
IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality be recognised in other comprehensive income rather than in profit and loss.

EBS Group are currently assessing the impact that IFRS 9 will have on its financial statements. While the impact is expected to be significant, it is not practicable to provide a reasonable estimate of the effects at this time but expect to do so prior to the effective date. The standard is subject to EU endorsement.

IASB Effective Date
Annual periods beginning on or after 1 January 2018.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

The estimates that have a significant impact on these financial statements, and estimates with a significant risk of material adjustment in the next year, are set out below:

(a) Loan impairment

EBS Groups' accounting policy for impairment of financial assets is set out in accounting policy number 15. The provisions for impairment on loans and receivables at 31 December 2014 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date. The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which the Group is exposed, and other external factors such as legal and regulatory requirements.

The management process for the identification of loans requiring provision is underpinned by a series of independent stages, including regular monitoring of credit quality and loan loss provisions by AIB Group credit and risk management. The Group assesses and approves its provisions on a quarterly basis. A quarterly assessment of provision adequacy is also considered by AIB Group Credit Committee, prior to AIB Group Audit Committee and Board approval being sought.

After a period of time when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, the Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

<u>Specific provisions</u>

A specific provision is made against an impaired loan when, in the judgement of management, the estimated realisable value, including available security, is expected to fall short of the principal and interest amount outstanding on the loan. A specific provision is set aside based on the estimate of the difference between the present value of future cash flows, and the assets' carrying value.

As the amount of specific provision required is primarily model driven, and based on estimates of the timing and amount of future cash flows, the amount of the Group's provision is somewhat uncertain, and may not fully reflect the impact of the prevailing market conditions. Underlying assumptions are reviewed and updated on a regular basis. For further details please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 17 and 18 of the Risk management section of this report.

Incurred but not reported provisions

Incurred but not reported ("IBNR") provisions are maintained to cover impaired loans which are known to be present within the portfolio, but have not been specifically identified as impaired at the reporting date. IBNR provisions are maintained at levels that are deemed appropriate following management assessment of a wide range of credit, portfolio, sectorial, and other economic factors.

The total amount of impairment loss in the Group's non-impaired portfolio, and therefore the adequacy of the IBNR provision is inherently uncertain. Key assumptions underpinning the Group's estimates of collective and IBNR provisions are regularly reviewed in line with experience. For further details of the potential impact of an increase in the emergence period, please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 17 and 18 of the Risk management section of this report.

Forbearance

The Group has developed a number of forbearance strategies to assist customers experiencing financial difficulties, which involve modifications to contractual repayment terms, in order to improve the recoverability of outstanding debt. Advanced forbearance strategies currently being implemented are subject to high levels of judgement and estimation, which may impact on loan impairment provisions. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions. Further information on forbearance strategies is set out in the 'Risk management' section of this report.

**Forms an integral part of the audited financial statements*

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)*

(b) Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability, and the sufficiency of profits to absorb losses carried forward. It requires significant judgements to be made about long-term profitability projections over several future accounting periods over which recovery extends.

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include the:

– absence of any expiry dates for Irish tax losses;
– non-enduring nature of the loan impairments at levels which resulted in recent years' losses;
– return to profitability in 2014.

The Board considered negative evidence and the inherent uncertainties in any long-term financial assumptions and projections, including:

– the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
– the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
– potential instability in the eurozone and global economies over an extended period; and – recent taxation changes (including Bank Levy) and the likelihood of future developments and their impact on profitability and utilisation.

The Group returned to profitability in 2014. Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, EBS further believes that it is more likely than not that there will be future profits in the medium term, and beyond, against which to use the tax losses. In this regard, EBS has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2015-2017. Assuming a sustainable market return on equity (9%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take in excess of 13 years for the deferred tax asset to be utilised. Furthermore, under this scenario, it is expected that 33% of the deferred tax asset will be utilised within 5 years, with 73% utilised within 10 years.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further 2 years. EBS' analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish tax losses. As a result, the carrying value of the deferred tax assets on the Statement of financial position does not reflect the economic value of those assets.

(c) Fair value of financial instruments

The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate
credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives and contingent capital instruments, the income statement.

(d) Retirement benefit obligations

EBS' accounting policy for retirement benefit plans is set out in accounting policy number 11.

EBS provides three funded defined benefit schemes, as well as one defined contribution retirement benefit scheme. These schemes were closed to future accrual and future contribution from 31 December 2013.
Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial assumptions within an acceptable range which include price inflation, pension increases, earnings growth and the longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used. The assumptions adopted for the Group's pension schemes are set out in note 26 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

**Forms an integral part of the audited financial statements*

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)*

(e) Going concern

The financial statements for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the EBS Group, that it has the ability to continue in business for the period of assessment.

EBS Group is dependent on its Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Allied Irish Banks, p.l.c.

The financial statements of Allied Irish Bank p.l.c for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the AIB Group Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the AIB Group Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. These have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the AIB Group Directors have considered the commitment of support provided to AIB by the Irish Government.

The AIB Group Directors have also considered the principal risks and uncertainties which could materially affect the AIB Group's future business performance and profitability.

The AIB Group Directors believe that the capital resources are sufficient to ensure that the AIB Group is adequately capitalised both in a base and stress scenario.

In relation to liquidity and funding, the AIB Group Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the AIB Group during the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to EBS Group, the Directors of EBS believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the its ability to continue as a going concern over the period of assessment.

**Forms an integral part of the audited financial statements*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 €m	2013 €m
Interest income and similar income	2	534	621
Interest expense and similar charges	3	(291)	(449)
Net Interest Income		**243**	172
Dividend income	4	1	-
Net fees and commissions income	5	12	14
Net trading income	6	1	2
Other operating income	7	13	15
Total Other Income		**27**	31
Total Operating Income		**270**	203
Administrative expenses	8	(85)	(65)
Impairment and amortisation of intangible assets	18	(6)	(5)
Impairment and depreciation of property, plant and equipment	17	(3)	(4)
Total Operating Expenses	8	**(94)**	(74)
Operating profit before impairment losses and taxation		**176**	129
Writeback/(provisions) for impairment of loans and receivables to customers	15	(28)	(401)
Total Impairment losses		**(28)**	(401)
Operating profit/(loss) before taxation		**148**	(272)
Income tax (charge)/credit	9	(20)	29
Profit/(loss) for the year		**128**	(243)

The profit for the year is wholly attributable to the equity holders of EBS.

The operating profit/(loss) arises from continuing operations.

The notes on pages 81 to 112 are an integral part of these financial statements.

Director: Desmond Fitzgerald, Managing Director

Director: Catherine Woods, Non-Executive Director

Director: Tom Foley, Non-Executive Director

Secretary: Louise Cleary

Date: 23 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 €m	2013 €m
Profit/(loss) for the year		**128**	(243)
Comprehensive profit/(loss), net of taxation			
Items that will not be reclassified to profit and loss:			
Net actuarial movement in retirement benefits	9	(59)	11
		(59)	11
Items that may be reclassified subsequently to profit and loss:			
Net movement in cash flow hedge reserve	9	6	4
Net movement in available-for-sale reserve	9	42	(10)
Comprehensive profit/(loss) for the year, net of taxation		48	(6)
Total comprehensive profit/(loss) for the year		**117**	(238)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 €m	2013 €m
Assets			
Cash and balances at central banks	10	**302**	74
Derivative financial instruments	31	**86**	120
Available-for-sale financial assets	12	**252**	217
NAMA senior bonds	13	**-**	-
Loans and receivables to banks	14	**1,147**	1,343
Loans and receivables to customers	15	**11,725**	12,025
Deferred taxation	19	**270**	279
Other assets	20	**5**	9
Prepayments and accrued income		**19**	24
Current taxation		**-**	2
Property held for sale		**1**	-
Intangible assets	18	**10**	14
Property, plant and equipment	17	**28**	32
Total assets		**13,845**	14,139
Liabilities			
Deposits by central bank and banks	21	**3,382**	1,640
Customer accounts	22	**7,897**	9,297
Derivative financial instruments	31	**61**	80
Provisions for liabilities and commitments	25	**8**	7
Accruals and deferred income		**167**	225
Current taxation		**1**	2
Other liabilities	24	**38**	69
Debt securities in issue	23	**1,296**	2,001
Retirement benefit liability	26	**97**	37
Total liabilities		**12,947**	13,358
Shareholders' equity			
Ordinary share capital	27	**1,654**	1,654
Capital contribution	28	**249**	249
Reserves		**43**	(5)
Revenue reserves		**(1,048)**	(1,117)
Total shareholders' equity		**898**	781
Total liabilities and shareholders' equity		**13,845**	14,139

The notes on pages 81 to 112 are an integral part of these financial statements

Director: Desmond Fitzgerald, Managing Director

Director: Catherine Woods, Non-Executive Director

Director: Tom Foley, Non-Executive Director

Secretary: Louise Cleary

Date: 23 March 2015

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 €m	2013 €m
Assets			
Cash and balances at central banks	10	**302**	73
Derivative financial instruments	31	**108**	153
Available-for-sale financial assets	12	**2,338**	3,009
NAMA senior bonds	13	**-**	-
Loans and receivables to banks	14	**4,330**	4,079
Loans and receivables to customers	15	**5,757**	5,641
Deferred taxation	19	**301**	318
Other assets	20	**15**	28
Prepayments and accrued income		**16**	36
Current taxation		**-**	4
Property held for sale		**1**	-
Intangible assets	18	**10**	12
Shares in Group undertakings	16	**612**	612
Property, plant and equipment	17	**28**	31
Total assets		**13,818**	13,996
Liabilities			
Deposits by central bank and banks	21	**3,402**	1,694
Customer accounts	22	**8,629**	10,073
Derivative financial instruments	31	**56**	76
Provisions for liabilities and commitments	25	**8**	7
Accruals and deferred income		**177**	234
Current taxation		**1**	-
Other liabilities	24	**44**	90
Debt securities in issue	23	**721**	1,153
Retirement benefit liability	26	**97**	37
Total liabilities		**13,135**	13,364
Shareholders' equity			
Ordinary share capital	27	**1,654**	1,654
Capital contribution	28	**249**	249
Reserves		**(201)**	(277)
Revenue reserves		**(1,019)**	(994)
Total shareholders' equity		**683**	632
Total liabilities and shareholders' equity		**13,818**	13,996

The notes on pages 81 to 112 are an integral part of these financial statements

Director: Desmond Fitzgerald, Managing Director

Director: Catherine Woods, Non-Executive Director

Director: Tom Foley, Non-Executive Director

Secretary: Louise Cleary

Date: 23 March 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2014

	Note	2014 €m	2013 €m
Cash flows from operating activities			
Operating profit / (loss) before taxation		148	(272)
Impairment and depreciation of property, plant and equipment	17	3	4
Amortisation and impairment of intangibles	18	6	5
Writeback/(provisions) for impairment on loans and receivables	15	28	401
Retirement benefits – defined benefit		(5)	(9)
Fair value movement on hedging derivatives		(4)	(2)
Fair value movement on hedged items		18	(46)
		194	**81**
Changes in operating assets and liabilities			
Change in loans and receivables to banks		159	(298)
Change in loans and receivables to customers		282	543
Change in other assets		8	55
Change in deposits from Central Bank of Ireland and banks		1,742	(1,058)
Change in of debt securities		(708)	(165)
Change in amounts due to customers		(1,400)	(820)
Change in other liabilities		(92)	(85)
Net cash flows from operations before taxation		**185**	**(1,747)**
Taxation paid		-	-
Net cash flows from operations		**185**	**(1,747)**
Cash flows from investing activities			
Disposals to property, plant and equipment	17	1	-
Additions to intangible assets	18	(2)	(1)
Change in available-for-sale financial assets		7	1,646
Net cash flow from investing activities		**6**	**1,645**
Cash flows from financing activities			
Proceeds of issue of ordinary share capital		-	330
Net cash flows from financing activities		**-**	**330**
Change in cash and cash equivalents		**191**	**228**
Cash and cash equivalents at 1 January		**304**	76
Cash and cash equivalents at 31 December	**11**	**495**	**304**

COMPANY STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2014

	Note	2014 €m	2013 €m
Cash flows from operating activities			
Operating profit / (loss) before taxation		41	(138)
Impairment and depreciation of property, plant and equipment	17	3	4
Amortisation of intangibles	18	4	4
Writeback/(provisions) for impairment of financial assets	15	(26)	222
Pension expense		(5)	(9)
Fair value movement on hedging derivatives		5	2
Fair value movement on hedged items		19	(45)
		41	**40**
Changes in operating assets and liabilities			
Change in loans and receivables to banks		-	199
Change in loans and receivables to customers		(80)	131
Change in other assets		32	100
Change in deposits from Central Bank of Ireland and banks		1,708	(1,062)
Change of debt securities		(435)	(117)
Change in amounts due to customers		(1,444)	(910)
Change in other liabilities		(81)	(134)
Net cash flows from operations before taxation		**(259)**	**(1,753)**
Taxation paid		-	-
Net cash flows from operations		**(259)**	**(1,753)**
Cash flows from investing activities			
Additions of intangible assets	18	(2)	(1)
Investment in subsidiaries	16	-	(75)
Change in available-for-sale financial assets		741	1,936
Net cash flow from investing activities		**739**	**1,860**
Cash flows from financing activities			
Proceeds of issue of ordinary share capital		-	330
Net cash flows from financing activities		**-**	**330**
Change in cash and cash equivalents		**480**	**437**
Cash and cash equivalents at 1 January		4,152	3,715
Cash and cash equivalents at 31 December	**11**	**4,632**	**4,152**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	Ordinary Share Capital	Capital Contribution	Revenue reserves	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Total Shareholders' Equity
	€m	€m	€m	€m	€m	€m
At 1 January 2014	1,654	249	(1,117)	1	(6)	781
Total comprehensive income for the year	-	-	69	42	6	117
At 31 December 2014	**1,654**	**249**	**(1,048)**	**43**	**-**	**898**

For the year ended 31 December 2013						
At 1 January 2013	1,324	249	(885)	11	(10)	689
Total comprehensive income for the year	-	-	(232)	(10)	4	(238)
Issue of ordinary shares	330	-	-	-	-	330
At 31 December 2013	**1,654**	**249**	**(1,117)**	**1**	**(6)**	**781**

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	Ordinary Share Capital	Capital Contribution	Revenue reserves	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Total Shareholders' Equity
	€m	€m	€m	€m	€m	€m
At 1 January 2014	1,654	249	(994)	(271)	(6)	632
Total comprehensive income for the year	-	-	(25)	70	6	51
At 31 December 2014	**1,654**	**249**	**(1,019)**	**(201)**	**-**	**683**

For the year ended 31 December 2013						
At 1 January 2013	1,324	249	(885)	(366)	(10)	312
Total comprehensive income for the year	-	-	(109)	95	4	(10)
Issue of ordinary shares	330	-	-	-	-	330
At 31 December 2013	**1,654**	**249**	**(994)**	**(271)**	**(6)**	**632**

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING BY BUSINESS SEGMENTS AND GEOGRAPHICAL LOCATION

For management and reporting purposes the Group's activities are organised in one reportable segment based on the information provided internally to the chief operating decision maker. The chief operating decision maker is considered to be the Board of Directors. The principal activities of the Group involve the provision of mortgage lending, savings, investments and insurance arrangement services to customers.

For management reporting purposes AIB Group includes EBS across Domestic Core Bank, Financial Services Group and Group segments.

2. INTEREST INCOME AND SIMILAR INCOME

	2014 €m	2013 €m
Interest on loans and receivables to customers	**446**	482
Interest received from AIB	**75**	77
Interest on financial investments available for sale	**11**	40
Other interest income	**2**	21
Interest on loans and receivables to banks	**-**	1
	534	621

Included within various captions under interest income for the year ended 31 December 2014 is a total of €102m (2013: €100m) accrued on impaired financial assets.

3. INTEREST EXPENSE AND SIMILAR CHARGES

	2014 €m	2013 €m
Interest on deposits by banks	**2**	10
Interest on customer accounts	**213**	322
Interest on debt securities in issue	**40**	55
Interest paid to AIB	**36**	29
Other	**-**	33
	291	449

Interest expense includes €23m (2013: €47m) in respect of charges payable under the Credit Institutions (Eligible Liabilities Guarantee) scheme.

4. DIVIDEND INCOME

Dividend income received on NAMA subordinated bonds amounted to €1m at 31 December 2014 (2013: Nil).

5. NET FEES AND COMMISSIONS INCOME

	2014 €m	2013 €m
Fees and commissions receivable	**17**	18
Fees and commissions payable	**(5)**	(4)
	12	14

Commission income relates to fees earned by the Group on insurance and investment advisory services provided to its customers.

6. NET TRADING INCOME

	2014 €m	2013 €m
Debt securities and interest rate contracts	**1**	1
Equity securities and index contracts	**-**	1
	1	2

The total hedging ineffectiveness on cash flow hedges reflected in net trading income amounted to a credit of Nil (2013: €1m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. OTHER OPERATING INCOME

	2014 €m	2013 €m
Net gains on buy back of debt securities in issue	7	-
Profit on disposal of available for sale debt securities	-	33
Foreign exchange gains	-	1
Miscellaneous operating income/(expense)	6	(19)
	13	15

During 2013 a significant part of the EBS portfolio of available-for-sale securities were sold to AIB giving rise to a gain of €33m.

8. TOTAL OPERATING EXPENSES

	2014 €m	2013 €m
Personnel expenses	(5)	25
Amounts payable to AIB under the Managed Service Agreement	40	-
Other Administrative expenses	50	40
Total Administrative expenses	85	65
Impairment and amortisation of intangibles (note 18)	6	5
Impairment and depreciation of property, plant and equipment (note 17)	3	4
Total Operating Expenses	94	74

	2014 €m	2013 €m
Personnel expenses comprise:		
Wages and salaries	-	26
Voluntary Severance	-	4
Social welfare costs and health insurance	-	4
Retirement benefits (note 26)	(5)	(9)
Other personnel expenses	-	-
	(5)	25

There are no full time equivalents employed by EBS Group as at 31 December 2014 (2013: 503). All EBS Staff moved to AIB contracts at the 1 January 2014. To maintain an equivalent service there is a Managed Service Agreement in place between AIB and EBS Group which amounted to €40m for the year.

Full details of directors' remuneration are given in the related party transaction note (note 33).

An analysis of the auditor's fees is set out below:

8.1 AUDITORS' REMUNERATION (EXCLUDING VAT)

	2014 €'000	2013 €'000
Statutory audit	200	200
Other assurance services	-	-
Tax advisory services	-	-
Other non-audit services	42	26
	242	226

The Board and Audit Committee reviews, on an on-going basis, the level of fees and is satisfied that it has not affected the independence of the auditors.

The disclosure of Auditors' remuneration are in accordance with Statutory Instrument 220(1) which mandates fees in particular categories and that fees paid to the EBS Group's Auditor (Deloitte & Touche) for services to the Group only be disclosed in this format. Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements. These fees include assignments where the auditor provides assurance to third parties.

(1) SI220 is titled the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. TAXATION

	2014 €m	2013 €m
Corporate taxation		
Current tax charge on income for year	**1**	-
Deferred taxation		
Origination and reversal of temporary differences	**19**	(33)
Adjustments in respect of prior year	**-**	4
	20	(29)

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

Profit / (loss) before tax at 12.5%	**19**	(34)
Adjustments:		
Adjustments in respect of prior years	**-**	4
Income taxed at higher rates	**1**	1
Effective tax rate 13.5% (2013: 10.7%)	**20**	(29)

Income tax recognised in other comprehensive income

	2014 Before Tax €m	2014 Tax benefit (expense) €m	2014 Net of Tax €m	2013 Before Tax €m	2013 Tax benefit (expense) €m	2013 Net of Tax €m
Net movement in cash flow hedge reserve	**7**	**1**	**6**	5	1	4
Net movement in available-for-sale reserve	**48**	**6**	**42**	(11)	(1)	(10)
Net actuarial gain/(loss) on retirement benefits	**(67)**	**(8)**	**(59)**	13	2	11
	(12)	**(1)**	**(11)**	7	2	5

10. CASH AND BALANCES AT CENTRAL BANKS

	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
Cash in hand	**6**	6	**6**	6
Balances with Central Bank of Ireland other than mandatory reserve deposits	**296**	67	**296**	68
	302	73	**302**	74

11. CASH AND CASH EQUIVALENTS

	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
For the purposes of the cash flow statement the cash and cash equivalents comprise the following:				
Cash and balances with Central Bank of Ireland	**302**	73	**302**	74
Loans and receivables to banks	**30**	30	**193**	230
Loans and receivables to banks (Group Undertakings)	**4,300**	4,049	**-**	-
	4,632	4,152	**495**	304

Cash and cash equivalents include balances with original maturities of less than 3 months and balances with CBI exclude the mandatory reserve deposits. Restricted cash in the Company and the Group is included in note 14.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Irish Government Securities	**236**	214	**236**	214
Euro Bank Securities	**2,086**	2,792	**-**	-
Equity securities - NAMA subordinated bonds	**16**	3	**16**	3
	2,338	3,009	**252**	217

During 2013 the EBS Group sold the majority of its available for sale financial assets to AIB to facilitate the further integration of EBS and AIB Treasury functions. The transfer happened at fair value and all future risks and rewards transferred to AIB.

Debt securities analysed by remaining maturity analysis

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Maturing within three months	**-**	-	**-**	-
Maturing between three months and one year	**415**	836	**-**	-
Maturing between one and five years	**1,219**	1,624	**-**	-
Maturing after 5 years	**688**	546	**236**	214
	2,322	3,006	**236**	214

	Fair value €m	**Unrealised gross gains €m**	**Unrealised gross losses €m**	**Net unrealised gains/(losses) €m**
Group – 31 December 2014				
Irish Government Securities	**236**	**35**	**-**	**35**
Equity securities - NAMA subordinated bonds	**16**	**13**	**-**	**13**
	252	**48**	**-**	**48**
Company – 31 December 2014				
Irish Government Securities	**236**	**35**	**-**	**35**
Euro Bank Securities	**2,086**	**5**	**(284)**	**(279)**
Equity securities - NAMA subordinated bonds	**16**	**13**	**-**	**13**
Total	**2,338**	**53**	**(284)**	**(231)**
Group – 31 December 2013				
Irish Government Securities	214	-	-	-
Equity securities - NAMA subordinated bonds	3	1	-	1
Total	217	1	-	1
Company – 31 December 2013				
Irish Government Securities	214	-	-	-
Euro Bank Securities	2,792	10	(569)	(559)
Equity securities - NAMA subordinated bonds	3	1	-	1
Total	3,009	11	(569)	(558)

13. NAMA SENIOR BONDS

Group and Company	**2014 €m**	2013 €m
At 1 January	**-**	305
Amortisation of discount	**-**	1
Sale of NAMA bonds to AIB	**-**	(279)
Redemption of bonds	**-**	(27)
NAMA senior bonds	**-**	-

EBS received, as consideration for assets transferred to NAMA, a combination of Government guaranteed bonds (‘NAMA senior bonds’), issued by NAMA and guaranteed by the Minister for Finance (amounting to 95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (amounting to 5% of the nominal consideration). The NAMA subordinated bonds are classified as equity instruments within available-for-sale financial assets.

In 2013, EBS sold the remaining holding of the NAMA Senior Bonds which had a fair value of €279m to AIB.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. LOANS AND RECEIVABLES TO BANKS

Analysed by remaining maturity:	**Company 2014 €m**	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Repayable on demand	**4,330**	4,079	**1,147**	1,343
	4,330	4,079	**1,147**	1,343

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

At 31 December 2014, in addition to the mandatory reserve deposits, the Group has €199m (2013: €222m) included in loans and receivables to banks which is not available for its own use. This amount relates to funds held on behalf of EBS Mortgage Finance, Emerald Mortgages No.4 plc, Emerald Mortgages No.5 plc. and Mespil 1 RMBS Limited.

At 31 December 2014 loans restricted between EBS Group and AIB are €934m (2013: €1,091m). At 31 December 2014 loans restricted between EBS and AIB are €928m (2013: €1,068m).

At 31 December 2014 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €3,384m (2013: €2,979m).

15. LOANS AND RECEIVABLES TO CUSTOMERS

Loans and receivables to customers – analysis by sector

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Loans and receivables to customers	**5,603**	5,732	**12,916**	13,377
Loans to subsidiaries and special purpose vehicles	**854**	724	**-**	-
Total loans and receivables to customers before provisions	**6,457**	6,456	**12,916**	13,377
Less provision for loan impairments	**(700)**	(815)	**(1,191)**	(1,352)
Total loans and receivables to customers after provisions	**5,757**	5,641	**11,725**	12,025

Loans and receivables to customers – analysis by maturity

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Repayable on demand	**2,709**	2,609	**3,390**	3,337
Repayable in less than three months	**8**	4	**11**	9
Repayable in more than three months but less than one year	**14**	8	**22**	24
Repayable in more than one but less than five years	**97**	81	**207**	219
Repayable in more than five years	**3,629**	3,754	**9,286**	9,788
Total loans and receivables to customers before provisions	**6,457**	6,456	**12,916**	13,377
Less provision for loan impairments	**(700)**	(815)	**(1,191)**	(1,352)
Total loans and receivables to customers after provisions	**5,757**	5,641	**11,725**	12,025

Included in Group loans and receivables to customers is €6,148m (2013: €6,543m) of loans in the covered bond bank, EBS Mortgage Finance, €1,246m (2013: €1,093m) of loans in Haven Mortgages and €3,184m (2013: €3,457m) of loans held through securitisation vehicles Emerald Mortgages No.4 plc., Emerald Mortgages No.5 plc. and Mespil 1 RMBS Limited. Unencumbered loans available as collateral for repo purposes, as at 31 December 2014, were €318m (2013: €87m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND RECEIVABLES TO CUSTOMERS (CONTINUED)

Provision for loan impairments

Provisions for impairment on loans and receivables to customers	**Company 2014 €m**	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
At 1 January	**815**	582	**1,352**	934
Other [(1)]	**-**	11	**-**	20
Charged against Income Statement – Customers	**(26)**	222	**28**	401
Amounts written off	**(89)**	-	**(189)**	(3)
At 31 December	**700**	815	**1,191**	1,352
Total provisions are split between specific and IBNR as follows:				
Specific	**605**	623	**990**	1,067
IBNR	**95**	192	**201**	285
At 31 December	**700**	815	**1,191**	1,352

[(1)] 2013 includes settlement received from Genworth in respect of mortgage indemnity insurance on a pool of loans which were greater than 6 months in arrears.

Continuing Involvement in Securitised Assets
At 31 December 2014 the Group and EBS had loans secured on residential property subject to non-recourse funding. These loans, which have not been de-recognised, are shown within loans and receivables to customers and the non-recourse funding is shown within debt securities in issue within the Group. In the Company the non recourse funding, in the form of loan notes, is shown in customer accounts.

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.

Emerald Mortgages No.4 plc
The total carrying amount of the original residential property transferred by EBS to Emerald Mortgages No.4 plc ('Emerald 4') as part of the securitisation amounted to €1,500m (2013: €1,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2014 is €773m (2013: €823m). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €575m (2013: €816m). The fair value of the transferred loans and external bonds at 31 December 2014 was €716m (2013: €815m) and €519m (2013: €649m) respectively. The carrying amount of the loan note in EBS issued to Emerald 4 amounts to €778m (2013: €872m) and is also disclosed in note 22. EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €18m (2013: €17m), which is subordinated to the interest of the bond holders.

Emerald Mortgages No.5
The total carrying amount of the original residential property transferred by EBS to Emerald Mortgages No.5 ('Emerald 5') as part of the securitisation amounted to €2,500m (2013: €2,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2014 is €1,533 (2013: €1,708m). The fair value of these loans at 31 December 2014 was €1,353m (2013: €1,648m). Bonds were issued by Emerald 5 to EBS but these are not shown on the Group or Company statement of financial position as these bonds are eliminated on consolidation under IAS 39 ('Financial Instruments: Recognition and Measurement') in EBS and under IFRS10 'Consolidated Financial Statements'.

Mespil 1 RMBS Limited
The total carrying amount of the original residential property transferred by EBS and Haven Mortgages Limited to Mespil 1 RMBS Limited ('Mespil') as part of the securitisation amounted to €1,000m (EBS €290m; Haven Mortgages Limited €710m).

The amount of transferred secured loans that the Group continues to recognise as at 31 December 2014 is €878m (2013: €926m) in relation to the transfers from EBS and Haven Mortgages Limited. The fair value of these of these loans at 31 December 2014 was €736m (2013: €868m).

Bonds issued by Mespil to EBS are not shown on the Group or Company statement of financial position as these bonds are eliminated on consolidation under IAS 39 ('Financial Instruments: Recognition and Measurement') in EBS and under IFRS10 'Consolidated Financial Statements'.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €11m (2013: €11m), which is subordinated to the interest of the bond holders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. SHARES IN GROUP UNDERTAKINGS

Company	**2014** **€m**	2013 €m
At 1 January	**612**	537
Investment in subsidiary	**-**	75
At 31 December	**612**	612

Principal subsidiary undertakings:
All subsidiaries are 100% wholly owned unless otherwise stated.

- EBS holds 1 €1 ordinary share (100%) in Haven Mortgages Limited, incorporated in the Republic of Ireland. The company trades as a mortgage lender. The registered address of the company is 2 Burlington Road, Dublin 4.

- EBS holds 551,540,000 (2013: 551,540,000) €1 ordinary shares (100%) in EBS Mortgage Finance incorporated in the Republic of Ireland on 30 October 2008 and regulated as a designated credit institution. EBS Mortgage Finance does not sell mortgage loans directly to the public. Instead it has an origination agreement with EBS whereby EBS continues to sell mortgage loans directly to the public and subsequently sells these loans to EBS Mortgage Finance for an appropriate consideration. The registered address of the company is 2 Burlington Road, Dublin 4.

On 20 December 2013, EBS Mortgage Finance issued 75,000,000 €1 ordinary shares at par.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of EBS Mortgage Finance. All shares rank equally with regard to EBS Mortgage Finances' residual assets.

EBS assessed its investments in Group undertakings for impairment at 31 December 2014 in accordance with IAS 36 - Impairment of Assets. The carrying value is compared to the recoverable amount, which is the higher of value in use or fair value less costs to sell. The value in use being EBS' share of the future cash flows expected to be generated exceeds the carrying value for each investment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. PROPERTY, PLANT AND EQUIPMENT

Group	**Free-hold €m**	**Long Leasehold €m**	**Short Leasehold €m**	**Equipment €m**	**Total €m**
Cost					
At 1 January 2014	**27**	**10**	**14**	**10**	**61**
Additions	**-**	**-**	**2**	**-**	**2**
Reclassification to assets held for sale	**-**	**(2)**	**-**	**-**	**(2)**
Amounts written off	**-**	**-**	**(1)**	**-**	**(1)**
Disposals	**-**	**(1)**	**-**	**-**	**(1)**
At 31 December 2014	**27**	**7**	**15**	**10**	**59**
Depreciation and impairment					
At 1 January 2014	**6**	**4**	**12**	**7**	**29**
Charge for year	**1**	**-**	**1**	**1**	**3**
Amounts written off	**-**	**-**	**(1)**	**-**	**(1)**
Reclassification to assets held for sale	**-**	**-**	**-**	**-**	**-**
At 31 December 2014	**7**	**4**	**12**	**8**	**31**
Net book value at 31 December 2014	**20**	**3**	**3**	**2**	**28**

Land and buildings to the value of €25m (2013: €32m) are occupied by the Group for its own activities.

Group	Free-hold €m	Long Leasehold €m	Short Leasehold €m	Equipment €m	Total €m
Cost					
At 1 January 2013	29	10	19	23	81
Disposals	(1)	-	(5)	(13)	(19)
Impairment	(1)	-	-	-	(1)
At 31 December 2013	27	10	14	10	61
Depreciation and impairment					
At 1 January 2013	7	4	16	18	45
Charge for year	1	-	1	1	3
Disposals	(1)	-	(5)	(12)	(18)
Impairment charge	(1)	-	-	-	(1)
At 31 December 2013	6	4	12	7	29
Net book value at 31 December 2013	21	6	2	3	32

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Free-hold €m	Long Leasehold €m	Short Leasehold €m	Equipment €m	Total €m
Cost					
At 1 January 2014	**27**	**10**	**14**	**10**	**61**
Additions	**-**	**-**	**2**	**-**	**2**
Reclassification to assets held for sale	**-**	**(2)**	**-**	**-**	**(2)**
Amounts written off	**-**	**-**	**(1)**	**-**	**(1)**
Disposals	**-**	**(1)**	**-**	**-**	**(1)**
At 31 December 2014	**27**	**7**	**15**	**10**	**59**
Depreciation and impairment					
At 1 January 2014	**8**	**4**	**12**	**6**	**30**
Charge for year	**1**		**1**	**1**	**3**
Amounts written off	**-**	**-**	**(1)**	**-**	**(1)**
Reclassification to assets held for sale	**-**	**(1)**	**-**	**-**	**(1)**
At 31 December 2014	**9**	**3**	**12**	**7**	**31**
Net book value at 31 December 2014	**18**	**4**	**3**	**3**	**28**

Company	Free-hold €m	Long Leasehold €m	Short Leasehold €m	Equipment €m	Total €m
Cost					
At 1 January 2013	29	10	19	23	81
Disposals	(1)	-	(5)	(13)	(19)
Impairments	(1)	-	-	-	(1)
At 31 December 2013	27	10	14	10	61
Depreciation and impairment					
At 1 January 2013	7	4	16	18	45
Charge for year	1	-	1	1	3
Disposals	(1)	-	(5)	(13)	(19)
Impairment charge	1	-	-	-	1
At 31 December 2013	8	4	12	6	30
Net book value at 31 December 2013	19	6	2	4	31

18. INTANGIBLE ASSETS

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Computer software (and development costs)				
Cost				
At 1 January	**33**	72	**40**	78
Additions - internally generated	**2**	1	**2**	1
Amounts written off	**-**	(40)	**-**	(40)
Reclassification	**-**	-	**-**	1
At 31 December	**35**	33	**42**	40
Amortisation				
At 1 January	**21**	57	**26**	61
Impairment for year	**-**	-	**2**	-
Charge for year	**4**	4	**4**	5
Amounts written off	**-**	(40)	**-**	(40)
At 31 December	**25**	21	**32**	26
Carrying value at 31 December	**10**	12	**10**	14

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. DEFERRED TAXATION

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
At 1 January	**318**	311	**279**	252
Current year tax (profit) / losses	**(6)**	18	**(19)**	29
Other adjustments	**-**	-	**9**	-
Deferred tax through equity	**(11)**	(11)	**1**	(2)
At 31 December	**301**	318	**270**	279
The amounts provided in relation to deferred taxation are as follows:				
Retirement benefits	**12**	5	**12**	5
Amortised income	**-**	-	**(9)**	16
Available-for-sale financial assets	**29**	47	**(6)**	-
Unutilised tax losses	**260**	265	**273**	291
Other	**-**	1	**-**	-
Assets used in business	**-**	-	**-**	(8)
Other deferred tax liabilities	**-**	-	**-**	(25)
	301	318	**270**	279

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in critical accounting policies.

At 31 December 2014 deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €270m (2013: €279m).
The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits.

EBS returned to profitability in 2014 and believes that it will generate profits in the foreseeable future. In the absence of any expiry date for tax losses in Ireland, EBS therefore believes that it is more likely than not that there will be future profits against which to use the tax losses.
EBS has carried out an exercise to determine the likely number of years required to utilise the deferred tax, which indicates the deferred tax asset will be fully utilised within the next 13 years.

20. OTHER ASSETS

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Items in transit - debit	**-**	(2)	**3**	-
Sundry debtors	**15**	30	**2**	9
	15	28	**5**	9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. DEPOSITS BY CENTRAL BANK AND BANKS

Analysis by Counterparty	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
ECB repurchase agreements	-	975	-	975
Due to other banks	-	54	-	-
Due to Group undertaking	20	-	-	-
Due to AIB	1,006	-	1,006	-
Repurchase agreements with AIB	2,376	665	2,376	665
	3,402	1,694	3,382	1,640

Contractual maturity analysis

Analysis by maturity	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
Repayable on Demand	23	15	3	-
3 months or less	3,379	1,040	3,379	1,040
5 years or less but over 1 year	-	600	-	600
Over 5 years	-	39	-	-
	3,402	1,694	3,382	1,640

Pledged collateral

	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
Asset backed securities (own issue)	2,476	1,071	2,476	1,071
	2,476	1,071	2,476	1,071

Pledged collateral can be collateral pledged to the ECB, Central Bank of Ireland (CBI) or to market counterparties. ECB pledged collateral is comprised of financial assets that are pledged to the ECB as part of sale & repurchase (repo) agreements. The pledging of collateral on behalf of EBS is facilitated through AIB.

These financial assets are ECB eligible assets in the form of asset backed securities (own issue Emerald Mortgages No.5 and Mespil) and covered bonds issued by EBS Mortgage Finance. CBI pledged collateral is comprised of retail homeloan assets in the form of a Mortgage Backed Promissory Note (MBPN) that is pledged to the CBI as part of sale & repurchase (repo) agreements. Market counterparty 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 government bonds and debt securities issued by monetary financial institutions. All of these repos are covered by repo master agreements and are subject to daily repo margin processes.

The Group had €0.6bn (2013: €0.3bn) of unencumbered contingent collateral available at 31 December 2014 comprising residential mortgage assets of €0.4bn (2013: €0.1bn) and debt securities of €0.2bn (2013: €0.2bn).

22. CUSTOMER ACCOUNTS

Customer accounts – analysis by sector

	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
Retail	6,246	6,483	6,246	6,484
Corporate	1,651	2,813	1,651	2,813
Securitisation	732	777	-	-
	8,629	10,073	7,897	9,297

The securitisation balances in the Company relate to loan notes issued to Emerald No.4 plc, secured on residential property, which are eliminated on consolidation.

Customer accounts – Contractual maturity analysis

	Company 2014 €m	Company 2013 €m	Group 2014 €m	Group 2013 €m
Repayable on demand	2,320	2,183	1,588	1,406
Repayable in less than three months but not on demand	1,210	2,074	1,210	2,074
Repayable in more than three months but less than one year	2,762	3,959	2,762	3,960
Repayable in more than one year but less than five years	2,337	1,857	2,337	1,857
	8,629	10,073	7,897	9,297

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. DEBT SECURITIES IN ISSUE

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Bonds and medium term notes	**721**	1,153	**1,296**	2,001
	721	1,153	**1,296**	2,001
Maturity Profile – Debt Securities in Issue:				
Repayable in 3 months or less	**641**	64	**641**	64
Repayable in no more than 1 year but over 3 months	**25**	25	**25**	75
Repayable in more than 1 years but not more than 5 years	**55**	1,064	**55**	1,064
Repayable in more than 5 years	**-**	-	**575**	798
	721	1,153	**1,296**	2,001

All Debt Securities are issued from Republic of Ireland and denominated in Euro.

During the years ended 31 December 2014 and 31 December 2013 no new debt securities were issued by the Group.

24. OTHER LIABILITIES

	Company 2014 €m	Company 2013 €m	**Group 2014 €m**	Group 2013 €m
Funding liabilities fair value hedge	**4**	23	**4**	23
Items in transit	**23**	30	**23**	30
Other liabilities	**17**	37	**11**	16
	44	90	**38**	69

25. PROVISIONS FOR LIABILITIES AND COMMITMENTS

Group and Company	**2014 €m**	2013 €m
Provisions		
At 1 January	**7**	13
Amounts charged to income statement	**2**	7
Amounts written back to income statement	**-**	(4)
Provisions utilised	**(1)**	(9)
	8	7

Provisions recognised include amounts in respect of onerous leases, customer repayments in respect of PPI and legal claims. The total expected to be settled within one year amounts to €5m (2013: €7m) for the Group and company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. RETIREMENT BENEFITS LIABILITY

The Company provides three funded defined benefit pension schemes, as well as one defined contribution scheme. These schemes were closed to future accrual and future contributions from 31 December 2013, and future pension provision for current employees is to be provided through the AIB Defined Contribution Scheme.

Defined benefit schemes
Of the three defined benefit schemes, the two of most significance are the EBS Defined Benefit Pension Plan (the main Staff Plan) and the EBS Pension Plan for Senior Management (the Senior Managers Plan).

Following the changes to the schemes at 31 December 2013, retirement benefits for active employees at that date are calculated by reference to service and Final Pensionable Salary at 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. During 2014, the Company made Section 50 changes to all of the Plans to remove guaranteed pension increases, and do not intend to provide funding for any increases for the next five years. Additionally, in the Senior Managers Plan there was an additional change to benefits (requiring a Section 50 direction from the Pensions Authority) whereby no member will have the option to retire before age 60 without an actuarial reduction applying to their pension. These changes gave rise to a negative past service cost of €7.2m during 2014 – the Company has recognised this in the income statement and the gain is reflected in the benefit obligation at 31 December 2014. As part of the changes, the Company has given a commitment that the three defined benefit schemes will not be wound up before 30th June 2015 without the agreement of the Trustees.

Regulatory framework
In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Funding Standard (‘FS’) to have a funding plan in place and approved by the Pensions Authority. The objective of an FS funding plan is to set out the necessary corrective action to restore the funding of the scheme over a reasonable time period and enable the scheme to meet the MFS standard at a future date.

A funding plan is required in respect of all 3 defined benefit schemes. In 2014, funding proposals were submitted and approved by the Pensions Authority. The aim of these funding proposals is to meet the funding standard by 30 June 2019.

Responsibilities for governance
The Trustees of each Company pension scheme are ultimately responsible for the governance of the schemes.

Risks
Pension risk is the risk that the funding position of the Company’s defined benefit schemes would deteriorate to such an extent that the Company would be required to make additional contributions to cover its pension obligations towards current and former employees. Furthermore, for EBS, IAS pension deficits are now a deduction from capital under CRD IV which came into force on 1 January 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. RETIREMENT BENEFITS LIABILITY (CONTINUED)

While the Company has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to financial market fluctuations and changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk. Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements. Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions. The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the dynamic diversification of the investment portfolios across geographies and asset classes.

Maturity profile of the defined benefit obligation
The following table shows the maturity profile of the defined benefit obligation and the weighted average duration of the defined benefit obligation

	€m
Expected total benefit payments as at 31 December 2014 for the following years:	
Year 1	**3**
Year 2	**3**
Year 3	**3**
Year 4	**3**
Year 5	**3**
Next 5 years	**18**
Weighted average duration of the defined benefit obligation (in years):	**24**

Asset liability matching strategies
The 6-year funding plan submitted to the Pensions Authority has allowed for a process of de-risking the investment strategy to reduce market risk – under Pensions Authority guidelines there is a requirement for the investment strategy to take account of the liabilities by completion of the funding plan. The amounts recognised in the statement of financial position are determined as follows:

	2014 €m	2013 €m
Present value of pension obligations	**(255)**	(179)
Fair value of plan assets	**158**	142
Liability in the statement of financial position	**(97)**	(37)
Movement in the present value of pension obligations:		
At 1 January	**(179)**	(197)
Current service costs	**-**	(3)
Interest cost	**(7)**	(8)
Participants' contributions	**-**	(2)
Changes in demographic assumptions	**-**	5
Changes in financial assumptions	**(76)**	(1)
Benefits paid from plan	**4**	8
Effect of experience adjustments	**(4)**	8
Past service (cost)/credit from Section 50 orders	**7**	-
Past service (cost)/credit due to ceasing future accrual	**-**	13
Past service (cost)/credit due to voluntary severance programme	**-**	2
At 31 December	**(255)**	(179)
Movement in the fair value of plan assets:		
At 1 January	**142**	135
Expected return on plan assets	**6**	5
Employer contributions	**3**	3
Participants' contributions	**-**	2
Administrative Expenses	**(1)**	-
Return on scheme assets excluding interest income	**12**	1
Benefits paid from plan	**(4)**	(4)
At 31 December	**158**	142

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. RETIREMENT BENEFITS LIABILITY (CONTINUED)

	2014 €m	2013 €m
The amounts recognised in the income statement are as follows:		
Defined Benefit Schemes		
Current service costs	**-**	(3)
Interest cost	**(7)**	(8)
Past service (cost)/credit from Section 50 orders	**7**	-
Past service (cost)/credit due to voluntary severance programme	**-**	2
Past service (cost)/credit due to ceasing future accrual	**-**	13
Administrative Expense	**(1)**	-
Future expected return on plan assets	**6**	5
Total credit (included in staff costs)	**5**	9

Pension Plan Assets as at 31 December
The following tables set out an analysis of the scheme assets at 31 December 2014 and 2013.

	2014 €m	2013 €m
Investment Funds		
Equity	**74**	69
Fixed Interest	**68**	60
Alternatives		
- Quoted	**13**	13
- Unquoted	**-**	-
Cash	**3**	-
Property	**-**	-
Total Investment funds	**158**	142

The principal actuarial assumptions used for calculating the pension obligations were as follows:

	2014	2013
Rate of inflation	**1.75%**	2.0%
Discount rate	**2.2%**	3.9%
Future salary increases	**-**	-
Future pension increases*	**1.75%**	2.0%

*For 2014 future pension increases are assumed to be 0% for five years and 1.75% thereafter

The contributions payable over the period to 30 June 2019 are the amounts required to meet the funding standard by the end of the funding period. 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 are invested in the Company's or Group's own financial instruments.

On this basis the life expectancy for a male pensioner aged 65 at 31 December 2014 was 22.9 years (2013: 22.7 years) and for a female pensioner aged 65 years was 24.2 years (2013: 24.0 years). Based on the assumed mortality improvements in 25 years time the life expectancy for a male pensioner aged 65 years will have increased to 25.7 years (2013: 25.6 years) and for a female pensioner then aged 65 years will have increased to 26.7 years (2013: 26.6 years).

The contribution to be paid by the company in 2015 is estimated to be €1.5m and €1.4m per annum in subsequent years up to 30 June 2019. The death in service premiums are no longer payable from the Defined Benefit Plans following the closure of the plans to future service accrual as at 31 December 2013.

The 2014 funding proposals for each of the Defined Benefit pension plans were designed to allow for the absorption of the pension levy, therefore EBS will not have to cover any further costs in this regard**.**

Sensitivity Analysis
There are inherent uncertainties around the financial assumptions adopted in calculating the actuarial valuation of the pension schemes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. RETIREMENT BENEFITS LIABILITY (CONTINUED)

An increase or decrease in the discount rate of 25 basis points would reduce or increase the scheme liabilities by approximately 6%.

An increase or decrease in the inflation rate of 25 basis points would increase or reduce the scheme liabilities by approximately 6%.

An increase or decrease of one year age offset to the mortality table in use would reduce or increase the scheme liabilities by approximately 3%.

The sensitivity analysis has been prepared using the same methodology and limitations that are used in the calculation of the defined benefit obligation. There are no changes to the methods and assumptions used in preparing the sensitivity analysis from last year to this year.

27. ORDINARY SHARE CAPITAL

Group and Company

	2014 €	2013 €
Authorised:		
2,000,000,000 ordinary shares of €1 each	**2,000,000,000**	2,000,000,000
Issued and fully paid:		
1,655,000,000 ordinary shares of €1 each	**1,655,000,000**	1,655,000,000

On 1 July 2011 EBS converted the special investment shares held by the Minister for Finance to ordinary shares following the conversion of EBS from a building society to a limited company. There were 1,000,000,000 ordinary shares authorised in €1 denominations and 625,000,000 €1 shares acquired by AIB directly from the Minister for Finance. Costs of €1.3m relating to the issuance of the special investment shares were transferred to ordinary share capital. Further information on the demutualisation of EBS and the issuance of special investment shares is set out in the accounting policies section.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of EBS. AIB is the sole holder of the issued share capital.

On 27th July 2012 EBS issued 400,000,000 €1 ordinary shares at par for cash to AIB. These shares rank pari passu with the other ordinary shares issued. The shares were issued to ensure that the Bank continued to exceed its regulatory capital requirements.

On 19th December 2013 EBS issued a further 330,000,000 €1 ordinary shares at par for cash to AIB. These shares rank pari passu with the other ordinary shares issued. The shares were issued to ensure that the Bank continued to exceed its regulatory capital requirements.

Group and Company

	2014 €m	2013 €m
At 1 January	**1,654**	1,324
Issue of ordinary share capital	**-**	330
At 31 December	**1,654**	1,654

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. CAPITAL CONTRIBUTION

Group and Company

	2014 €m	2013 €m
Capital contribution	**249**	249
At 31 December	**249**	249

A Promissory Note in the initial principal amount of €250m was issued by the Minister for Finance to EBS on 17 June 2010 pursuant to the Minister's powers under the Credit Institutions (Financial Support) Act, 2008. The Promissory Note is an unconditional promise in writing on behalf of the Minister for Finance to pay a defined sum of money to EBS on each instalment date as requested by EBS.

On each adjustment date, being, if specified by the Minister, the date on which NAMA serves a completion notice or such other date as the Minister may specify, or if earlier the date of completion of a corporate transaction (i.e. a merger or sale) the Promissory Note may be adjusted to enable EBS meet its target core tier 1 and total capital ratios. In the case of an adjustment, the Promissory Note may be changed by the Minister to provide for that adjustment. The Promissory Note is payable in instalments of 10% of the principal outstanding amount per annum. Interest accrues on the Promissory Note at an agreed coupon rate and may be adjusted by the Minister at any time. No dividends can be paid by EBS during the term of the Promissory Note.

The Promissory Note is recognised as an available-for-sale financial asset in the Statement of Financial Position at its fair value.

The related capital arising on recognition of the Promissory Note is recognised as a capital contribution in shareholders' equity. Under the Promissory Note there is no obligation on EBS to make any repayments, returns or distributions on the capital contribution received.

There was no change to the terms of the Promissory Note on the acquisition of EBS by AIB.

29. LEASING COMMITMENTS

Group and Company

	2014 €m	2013 €m
At 31 December, future minimum payments under non cancellable operating leases relating to land and buildings are as follows:		
Payments to be made in:		
Less than one year	**6**	7
Between one and five years	**13**	17
After five years	**9**	10
	28	34

30. CAPITAL COMMITMENTS

Group and Company

There was nil (2013: Nil) capital expenditure contracted or authorised.

31. DERIVATIVE FINANCIAL INSTRUMENTS

Group

Group operations are exposed to the risk of interest rate fluctuations to the extent that assets and liabilities mature or re-price at different times or in differing amounts. Derivatives allow the Group to modify the re-pricing 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 all assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of Statement of Financial Position 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 and currency swaps. The Group only engages in derivative activity for hedging purposes, although all swaps are considered to be effective hedges in economic terms. Due to the nature of some it is not possible to establish a 'Fair Value' or 'Cash Flow' hedging relationship under IAS 39, such swaps are classified as 'Held at fair value through the Income Statement'.

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 AIB 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. However the Board continues to retain ultimate responsibility for these risks. Membership of the Group Asset and Liability Committee consists of senior management as well as management team members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Group	2014			2013		
	Notional amount €m	Fair values Assets €m	Fair values Liabilities €m	Notional amount €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held at fair value through the income statement						
Interest rate swaps	**1,709**	**30**	**30**	2,013	42	44
Derivatives classified as fair value hedging						
Interest rate swaps	**749**	**26**	**4**	1,181	56	7
Derivatives classified as cashflow hedges						
Interest rate swaps	**6,236**	**30**	**27**	7,424	22	29
Total hedging contracts	**6,985**	**56**	**31**	8,605	78	36
Total derivative financial instruments	**8,694**	**86**	**61**	10,618	120	80

Company	2014			2013		
	Notional amount €m	Fair values Assets €m	Fair values Liabilities €m	Notional amount €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held at fair value through the income statement						
Interest rate swaps	**7,110**	**52**	**25**	7,762	75	40
Derivatives classified as fair value hedging						
Interest rate swaps	**749**	**26**	**4**	1,181	56	7
Derivatives classified as cashflow hedges						
Interest rate swaps	**6,236**	**30**	**27**	7,424	22	29
Total hedging contracts	**6,985**	**56**	**31**	8,605	78	36
Total derivative financial instruments	**14,095**	**108**	**56**	16,367	153	76

The derivative maturity table on the next page analyses the asset fair value amounts by maturity bucket.

Derivative Maturity Table – at 31 December 2014

Group

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	**29**	**30**	**27**	**86**
Total assets	**29**	**30**	**27**	**86**

Derivative Maturity Table – at 31 December 2013

Group

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	9	111	-	120
Total assets	9	111	-	120

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative Maturity Table – at 31 December 2014

Company

	Less than 1 year €m	**Over 1 year but not more than 5 years €m**	**Over 5 years €m**	**Total €m**
Interest rate contracts	**29**	**51**	**28**	**108**
Total assets	**29**	**51**	**28**	**108**

Derivative Maturity Table – at 31 December 2013

Company

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	9	138	6	153
Total assets	9	138	6	153

32. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company

(i) At 31 December 2014 Group and Company loan approvals not advanced, as calculated under the Basel III definition, amount to €170m (2013: €59m) and €97m (2013: €42m) respectively.

(ii) Legal proceedings

EBS Group in the course of its business is frequently involved in litigation cases. However, it is not, nor has it been involved in, nor are there, so far as the EBS is aware, pending or threatened by or against EBS Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cashflows of EBS Group.

(iii) Contingent liability / contingent asset - NAMA

On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institutions. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

(iv) TARGET 2 – Gross settlement system

EBS migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The Charge over TARGET 2 Account remains in place. The following disclosures relate to the charges arising as a result of the migration to TARGET 2.

On 15 February 2008, a first floating charge was placed in favour of the Central Bank of Ireland over all EBS' right, title, interest and benefit, present and future, in and to:

(a) the balances now or at any time standing to the credit of EBS' account held as a TARGET 2 participant with the Central Bank of Ireland ('the Charged Property')('the Charge over TARGET 2 Account'); and

(b) certain segregated securities ('the Charged Property') listed in an Eligible Securities Schedule kept by EBS for the purpose of participating in TARGET 2 ('the Charge over Eligible Securities').

These floating charges contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank of Ireland, EBS shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof: or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. RELATED PARTY TRANSACTIONS

Group
Details of the principal subsidiary undertakings are shown in Note 16. In accordance with IAS 24 - related party disclosures, transactions or balances between group entities that have been eliminated on consolidation are not reported.

The immediate holding company and controlling party is EBS Limited, with a registered office at 2 Burlington Road, Dublin 4. The ultimate holding entity and controlling party is AIB, with a registered office at Bankcentre, Ballsbridge, Dublin 4. Copies of both EBS Group and AIB Group financial statements are available from the registered office of AIB. The only related party transactions are normal banking transfers to and from EBS.

The Irish Government and Government related entities
The Irish Government has taken a range of measures to stabilise the Irish banking system since the commencement of the financial crisis in 2008. These measures have included the injection of equity and preference share capital into AIB. As a result of these capital injections, the Irish Government, through the National Pension Reserve Fund Commission, now holds 99.8% of the ordinary shares of AIB and €3.5bn in 2009 Preference Shares. In addition, the Minister for Finance holds €1.6bn of contingent capital notes.

As a result of the various measures taken by the Irish Government (specifically the guarantee schemes, the Direction Order, and the capital injections) the Irish Government is a related party to AIB and therefore EBS. Details regarding these measures, as well as others taken in the context of the Irish banking crisis, are set out below.

The Minister for Finance (the 'Minister') and/or the Central Bank of Ireland has considerable rights and powers over the operations of the AIB Group (and other financial institutions) arising from the various stabilisation measures.

These rights and powers include, inter alia:
- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank of Ireland, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemption by AIB Group of its shares;
- The manner in which the AIB Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

(a) Irish Government Guarantee Schemes:
EBS and its subsidiary EBS Mortgage Finance are covered institutions under the Government's Credit Institutions (Finance Support) Scheme 2008 (the 'CIFS Scheme') which guaranteed covered liabilities raised by covered institutions up to 29 September 2010. Covered liabilities that were covered by the CIFS Scheme were those liabilities in respect of retail and corporate deposits (to the extent not covered by existing deposit protection scheme in Ireland or any other jurisdiction), inter-bank deposits and senior unsecured debt excluding any intra group borrowing and any debt due to the ECB of Ireland arising from Euro system monetary operations. Under the terms of the CIFS Scheme the Central Bank of Ireland in consultation with the Minister regulated the commercial conduct of covered institutions strictly in order to achieve the objectives of this scheme.

EBS is a participating institution under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 which guarantees certain eligible liabilities (including deposits) of up to five years in maturity.

The European Commission approved the extension of the ELG issuance period to the 30 June 2012 in December 2011 and again in June 2012 for the period to 31 December 2012 as six months is the maximum period permitted for state aid approval under the European Commission's policy on guarantee schemes in the financial sector.

In December 2012, the European Commission further extended the ELG issuance to the 30 June 2013. On 26 February 2013, the Irish Government announced that the ELG would end at midnight on 28 March 2013. After that date no new liabilities were covered by the Eligible Liabilities Guarantee Scheme. Liabilities incurred since January 2010 and before the scheme's end will continue to be guaranteed until their next maturity, which can last for five years.

The total amount of guaranteed deposits and senior unsecured debt raised by EBS as a covered institution under the Government Guarantee ELG scheme at 31 December 2014 amounted to €1,665m (December 2013: €3,094m).

In 2014, €23m was charged to EBS under the ELG scheme (2013: €47m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. RELATED PARTY TRANSACTIONS (CONTINUED)

The Irish Government and Government related entities (continued)

(b) Promissory Note
On 17 June 2010 a Promissory Note in the initial principal amount of €250m was issued by the Minister for Finance of Ireland to EBS pursuant to the Minister's powers under the Credit Institutions (Financial Support) Act, 2008. Further information on the promissory note is included in note 28. Interest earned on the Promissory Note for the year ending 31 December 2014 amounted to €11m (2013: €12m).

The terms and conditions regarding the Promissory Note and Capital Contribution have remained unchanged.

(c) National Asset Management Agency (NAMA)
The Irish Government set up an asset relief scheme in 2009 under the auspices of the National Asset Management Agency in Ireland. EBS is a participating institution in NAMA.

Senior unsecured floating rate notes and callable perpetual subordinated fixed rate bonds were received as consideration from NAMA for the transfer of loans and advances.
In October 2013 EBS transferred all senior NAMA bonds to AIB and, therefore, did not earn any interest on NAMA bonds in 2014 (2013: €1m).

Dividend income earned on subordinated bonds amounted to €1m in 2014 (2013: nil).

(d) Funding Support
At 31 December 2014 the amount of ECB funding received through the ECB Monetary Policy Operation Sale and Repurchase Agreements was nil (2013: €975m). Other funding supports from the Central Bank of Ireland, which had been in operation at 31 December 2010, were not availed of by EBS from May 2011 onwards.

(e) Central Bank of Ireland and Credit Institutions (Resolution) Act 2011
The Central Bank of Ireland and Credit Institutions (Resolution) Act 2011 (the 'Act') was signed into law on 20 October 2011 and became effective on 28 October 2011.

This legislation provides the Central Bank of Ireland with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Act give the Central Bank of Ireland power to take control of banks, appoint managers to run them and remove directors, staff and consultants and to move their deposits and loans to other banks. It provides for the establishment of a Credit Institution Resolution Fund which would provide a source of funding for the resolution of financial instability or in the event of an imminent serious threat to the financial stability of an authorised credit institution. Authorised credit institutions will be obliged to contribute to the resolution fund.

The Act provides for the establishment of 'Bridge-Banks' for the purposes of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible.

The Central Bank of Ireland will also be empowered to make special management orders in relation to an authorised credit institution or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank of Ireland regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

The legislation replaced the provisions of the Credit Institutions (Stabilisation) Act 2010 which ceased to have effect on 31 December 2014.

(f) Government related entities
As a result of the capital received from the Government in 2010 and the participation in the Government guarantee scheme, the Government is recognised as a related party, as defined under the accounting standards.

In the normal course of business the Group has various transactions with the Government, state departments and semi-state bodies and state owned financial institutions including the holding of securities issued by the Government and semi-state bodies of €252m (December 2013: €217m).

During 2009 and 2010 the Government acquired 100% of shares in Anglo Irish Bank Corporation limited ('Anglo'), acquired a controlling interest in Irish Nationwide Building Society, AIB and acquired a significant influence over Bank of Ireland. As the Government also took a controlling interest in EBS Limited, balances between the Group and each of the other aforementioned institutions are considered to be related party transactions. These institutions are members of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ('ELG Scheme').

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. RELATED PARTY TRANSACTIONS (CONTINUED)

The Irish Government and Government related entities (continued)

The following table sets out the aggregate balance between the Group and these financial institutions.

As at 31 December	Available-for-sale financial assets €m	Derivative financial instruments (Assets) €m	Loans and receivables to banks €m	Deposits by banks €m	Derivative financial instruments (Liabilities) €m
2014	**252**	**58**	**1,259**	**3,382**	**32**
2013	224	83	1,190	1,640	41

(g) Subsidiaries and special purpose vehicles

Company
A number of transactions are entered into with subsidiaries and special purpose vehicles in the normal course of business by EBS. Loans to related parties include subsidiaries and securitisation vehicles and deposits from related parties include non-recourse funding from securitisation vehicles. The interest charged to related parties is at normal commercial rates appropriate to the transaction. There is no provision for doubtful debts relating to amounts owed by subsidiaries.

	2014 €m	2013 €m
Loans	**4,027**	3,509
Deposits	**2,388**	2,808
Included in the Income Statement		
Interest income on loans	**5**	5
Interest expense on loans	**113**	114
Other income	**68**	7
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Assets (Fair value)	**22**	33
Liabilities (Fair value)	**22**	33
Net Trading Income	**(2)**	5

(h) Transactions with parent company AIB

A number of transactions were also entered into with the ultimate parent, AIB, in the normal course of business. These include loans, deposits, derivatives and available-for-sale assets.

	2014 €m	2013 €m
Loans	**943**	1,101
Deposits	**3,382**	665
Included in the Income Statement		
Interest income on loans	**75**	73
Interest expense on loans	**(36)**	(29)
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Assets (Fair value)	**58**	83
Liabilities (Fair value)	**32**	41
Net Trading Income	**6**	3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(i) Transactions with key management personnel

At 31 December 2014, deposit and other credit balances held by key management personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, in office during the year amounted to €8k (2013: €7k).

Loans to key management personnel are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with EBS Limited, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to executive directors and senior executive officers are also made in the ordinary course of business, on terms available to other employees in EBS Limited generally, in accordance with established policy, within limits set on a case by case basis.

Details of transactions with key management personnel, and connected parties where indicated, for the years ended 31 December 2014 and 2013 are as follows:

(i) Current Directors
Directors in office during 2014, being Bernard Byrne, Fidelma Clarke, Des Fitzgerald, Tom Foley, Denis O'Callaghan, James O'Hara and Catherine Woods had no facilities with the EBS Limited during 2014.

(ii) Former Directors who were in office during the year
There no changes to the Board during the year.

iii) Senior Executive Officers in office during the year (Aggregate of 3 persons (2013: 3 persons)):

	2014 €'000	**2013 €'000**
Loans	145	155
Total	**145**	**155**
Interest charged during 2014	7	
Maximum debit balance during the year *	155	

* The maximum debit balance figure is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(iv) Aggregate amount outstanding at year-end

	Loans, overdrafts/credit cards	
	2014 €'000	**2013 €'000**
Directors (2014: 0 persons; 2013: 0 persons)	-	-
Senior Executive Officers (2014: 3 persons; 2013: 3 persons)	145	155
	145	**155**

(v) Connected persons
There were no loans to connected persons of Directors in office as at 31 December 2014, as defined in Section 26 of the Companies Act 1990 and in accordance with conditions attached to EBS Limited banking licence.

No impairment charges or provisions have been recognised in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

(j) Compensation of key management personnel:

Total compensation to key management personnel is as follows:

	2014 €m	**2013 €m**
Fees	-	0.1
Salary and other benefits	-	0.3
Pension benefits	-	0.1
	-	**0.5**

From 1 January 2014 compensation of the Executive Director is borne by AIB and allocated to EBS Group under the Managed Service Agreement ('MSA').

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. RELATED PARTY TRANSACTIONS (CONTINUED)

The remuneration of the Independent Non Executive Directors in 2014 is as follows:

	2014 €'000	2013 €'000
Fees	30	87
	30	**87**

At 31 December 2014, the Board of Directors is comprised of Denis O'Callaghan, Bernard Byrne, Catherine Woods, Tom Foley, James O'Hara, Fidelma Clarke and Desmond Fitzgerald.

The remuneration of Group Non Executive Directors (Denis O'Callaghan, Bernard Byrne, and Fidelma Clarke) is borne by AIB.

Long term incentive plans

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2014.

Independent Non-Executive Directors do not participate in long term incentive plans.

Apart from the interests set in the Directors' Report, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2014 and 23 March 2015.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the company has access at that date. The Company's' accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 16.

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate the Company's' financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the company as a going concern at 31 December 2014.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. EBS has estimated the fair value of its loans to customers taken into account market risk and the changes in credit quality to customers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).
Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

All valuations are carried out within the Finance function of AIB Group and valuation methodologies are validated by the independent Risk function within AIB Group.

The methods used for calculation of fair value are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments measured at fair value in the financial statements

Derivative financial instruments
Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Company's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable are estimated.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and receivables to banks
The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and receivables to customers
The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable. In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. The fair value of variable rate mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2014 took account of the Group's expectations on credit losses over the life of the loans.

Deposits by banks
The fair value of deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Financial investments available for sale
The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Debt securities in issue
The estimated fair value of debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2014.

Group 2014	Carrying amount in statement of financial position							Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	-	-	-	-	296	6	302	6	296	-	302
Available-for-sale financial asset											
Irish Government Securities	-	-	-	236	-	-	236	-	236	-	236
Equity – NAMA subordinated	-	-	-	16	-	-	16	-	-	16	16
Derivative financial instruments	30	26	30	-	-	-	86	-	58	28	86
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	1,147	-	1,147	-	-	1,147	1,147
Loans and receivables to customers	-	-	-	-	11,725	-	11,725	-	-	11,188	11,188
Other financial assets	-	-	-	-	-	15	15	-	-	15	15
	30	26	30	252	13,168	21	13,527	6	590	12,394	12,990
Financial liabilities measured at fair value											
Derivative financial instruments	30	4	27	-	-	-	61	-	31	30	61
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	3,382	3,382	-	-	3,382	3,382
Debt securities in issue	-	-	-	-	-	1,296	1,296	1,269	-	-	1,269
Customer accounts	-	-	-	-	-	7,897	7,897	-	-	7,703	7,703
Other financial liabilities	-	-	-	-	-	185	185	-	-	185	185
	30	4	27	-	-	12,760	12,821	1,269	31	11,300	12,600

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2013.

Group 2013	Carrying amount in statement of financial position							Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances at central banks[1]	-	-	-	-	68	6	74	6	68	-	74
Available-for-sale financial asset											
Irish Government Securities	-	-	-	214	-	-	214	-	214	-	214
Equity – NAMA subordinated	-	-	-	3	-	-	3	-	-	3	3
Derivative financial instruments	42	56	22	-	-	-	120	-	83	37	120
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	1,343	-	1,343	1,343	-	-	1,343
Loans and receivables to customers[2]	-	-	-	-	12,025	-	12,025	-	-	11,410	11,410
Other financial assets	-	-	-	-	-	24	24	-	-	24	24
	42	56	22	217	13,436	30	13,803	1,349	365	11,474	13,188
Financial liabilities measured at fair value											
Derivative financial instruments	44	7	29	-	-	-	80	-	41	39	80
Financial liabilities not measured at fair value											
Deposits by banks [1]	-	-	-	-	-	1,640	1,640	-	975	665	1,640
Debt securities in issue	-	-	-	-	-	2,001	2,001	1,909	-	-	1,909
Customer accounts	-	-	-	-	-	9,297	9,297	-	-	8,918	8,918
Other financial liabilities	-	-	-	-	-	268	268	-	-	268	268
	44	7	29	-	-	13,206	13,286	1,909	1,016	9,890	12,815

(1) A reclassification between levels has taken place to be in line with AIB Group treatment.
(2) A revaluation has taken place to be in line with AIB Group treatment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2014.

Company 2014	Carrying amount in statement of financial position							Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Cash and balances at central banks	-	-	-	-	296	6	302	6	296	-	302
Available-for-sale financial asset											
Euro Bank Securities	-	-	-	2,086	-	-	2,086	-	2,086	-	2,086
Irish Government Securities	-	-	-	236	-	-	236	-	236	-	236
Equity – NAMA subordinated	-	-	-	16	-	-	16	-	-	16	16
Derivative financial instruments	52	26	30	-	-	-	108	-	80	28	108
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	4,330	-	4,330	-	-	4,330	4,330
Loans and receivables to customers	-	-	-	-	5,757	-	5,757	-	-	5,569	5,569
Other financial assets	-	-	-	-	-	44	44	-	-	44	44
	52	26	30	2,338	10,383	50	12,879	6	2,698	9,987	12,691
Financial liabilities measured at fair value											
Derivative financial instruments	25	4	27	-	-	-	56	-	54	2	56
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	3,402	3,402	-	-	3,402	3,402
Debt securities in issue	-	-	-	-	-	721	721	722	-	-	722
Customer accounts	-	-	-	-	-	8,629	8,629	-	-	8,435	8,435
Other financial liabilities	-	-	-	-	-	183	183	-	-	183	183
	25	4	27	-	-	12,935	12,991	722	54	12,022	12,798

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2013.

Company 2013	Carrying amount in statement of financial position							Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Cash and balances at central banks [1]	-	-	-	-	67	6	73	67	6	-	73
Available-for-sale financial asset											
Securities and investments	-	-	-	2,792	-	-	2,792	2,792	-	-	2,792
Irish Government Securities	-	-	-	214	-	-	214	-	214	-	214
Equity – NAMA subordinated	-	-	-	3	-	-	3	-	-	3	3
Derivative financial instruments	75	56	22	-	-	-	153	-	116	37	153
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	4,079	-	4,079	4,079	-	-	4,079
Loans and receivables to customers [2]	-	-	-	-	5,641	-	5,641	-	-	5,351	5,351
Other financial assets	-	-	-	-	-	64	64	-	-	64	64
	75	56	22	3,009	9,787	70	13,019	6,938	336	5,455	12,729
Financial liabilities measured at fair value											
Derivative financial instruments [1]	40	7	29	-	-	-	76	-	74	2	76
Financial liabilities not measured at fair value											
Deposits by banks [1]	-	-	-	-	-	1,694	1,694	-	975	719	1,694
Debt securities in issue	-	-	-	-	-	1,153	1,153	1,179	-	-	1,179
Customer accounts	-	-	-	-	-	10,073	10,073	-	-	9,694	9,694
Other financial liabilities	-	-	-	-	-	298	298	-	-	298	298
	40	7	29	-	-	13,218	13,294	1,179	1,049	10,713	12,941

(1) A reclassification between levels has taken place to be in line with AIB Group treatment.
(2) A revaluation has taken place to be in line with AIB Group treatment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of balances in Level 3 of the fair value hierarchy
The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for 2014 and 2013:

31 December 2014

Group	Financial assets			Financial liabilities	
	Derivatives	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m
At 1 January 2014	**37**	**3**	**40**	**39**	**39**
Transfers into Level 3	**-**	**-**	**-**	**-**	**-**
Income statement	**(9)**	**-**	**(9)**	**(9)**	**(9)**
Other comprehensive income	**-**	**13**	**13**	**-**	**-**
At 31 December 2014	**28**	**16**	**44**	**30**	**30**

31 December 2013

Group	Financial assets			Financial liabilities	
	Derivatives	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m
At 1 January 2013	-	2	2	-	-
Transfers into Level 3	37	-	37	39	39
Other comprehensive income	-	1	1	-	-
At 31 December 2013	37	3	40	39	39

External derivatives held, were transferred into level 3 at 31 December 2013, due to the significant unobservable inputs into the valuation techniques. As these were transferred across at the year end, there was no income statement impact for the year.

31 December 2014

Company	Financial assets			Financial liabilities	
	Derivatives	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m
At 1 January 2014	**37**	**3**	**40**	**2**	**2**
Transfers into Level 3	**-**	**-**	**-**	**-**	**-**
Income statement	**(9)**	**-**	**(9)**	**-**	**-**
Other comprehensive income	**-**	**13**	**13**	**-**	**-**
At 31 December 2014	**28**	**16**	**44**	**2**	**2**

31 December 2013

Company	Financial assets			Financial liabilities	
	Derivatives	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m
At 1 January 2013	-	2	2	-	-
Transfers into Level 3	37	-	37	2	2
Other comprehensive income	-	1	1	-	-
At 31 December 2013	37	3	40	2	2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. CAPITAL MANAGEMENT

Capital regulation
The European Union ("EU") adopted legislative package, known as CRD IV, came into force on 1 January 2014, with some of the new provisions being phased-in from 2014. CRD IV consists of the Capital Requirements Regulation ("CRR") which is directly applicable across firms in the EU, and the new Capital Requirements Directive ("CRD"), which must be implemented by member states of the European Economic Area through national law.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. These new regulations include enhanced requirements for quality and quantity of capital. It also harmonises the deduction from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes.

A new system of financial supervision, the Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries has been established. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-euro EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM. The aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

The ECB has advised EBS Limited that it must at all times satisfy the own funds requirements that apply pursuant to Article 92 of the CRR. This equates to a Common Equity Tier 1 (CET1) ratio of 4.5%, a tier 1 capital ratio of 6% and a total capital ratio of 8%.

Capital resources and regulatory capital ratios
The table below shows EBS Group's capital resources as at 31 December 2014 and 31 December 2013.

31 December 2013 €m		CRD IV transitional basis 31 December 2014 €m	CRD IV transitional basis 1 January 2014 €m
	Core/Common equity tier 1 capital		
786	Gross common equity tier 1	**897**	**782**
	Regulatory adjustments		
(14)	Goodwill and intangibles	**(10)**	**(14)**
-	Available for sale securities	**(43)**	**-**
17	Pension	**65**	**14**
3		**12**	**-**
789	**Core/Common equity tier 1 capital**	**909**	**782**
	Tier 2 capital		
99	Credit provisions	**66**	**80**
99	**Total Tier 2 capital**	**66**	**80**
888	**Total capital**	**975**	**862**
9.5%	Common tier 1/common equity tier 1 ratio	**13.0%**	**9.8%**
10.7%	Total capital ratio	**13.9%**	**10.7%**

The capital figures reflect the audited 2014 year end profit for EBS group.

36. REGULATORY COMPLIANCE

During 2014, EBS Limited and its regulated subsidiaries complied with their externally imposed capital ratios.

37. OTHER INFORMATION

In accordance with section 40(1) of the Asset Covered Securities Act 2001 (as amended), EBS, as parent entity to the designated mortgage credit institution EBS Mortgage Finance, is reporting the following information as at 31 December 2014:

(i) The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2014 is €1,850m (2013: €2,800m) of which Nil (2013: €50m) was held by third parties and €1,850m (2013: €2,750m) by the Company.

(ii) The total amounts of principal outstanding in respect of the mortgage credit assets and substitution assets comprised in the cover assets pool relating to the mortgaged covered securities as at 31 December 2014 in issue is €4,686m (2013: €5,283m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. EVENTS SINCE THE REPORTING DATE

There were no significant non-adjusting events that have taken place since 31 December 2014.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 23 March 2015.