EBS d.a.c.

DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

CONTENTS

DIRECTORS AND OTHER INFORMATION

DIRECTORS

Desmond Fitzgerald	Executive Director (Managing Director)
Gerry Gaffney	Executive Director
Bryan O' Connor	Group Non-Executive Director
Denis O'Callaghan	Group Non-Executive Director
Catherine Woods	Independent Non-Executive Director
Tom Foley	Independent Non-Executive Director
Jim O'Hara	Independent Non-Executive Director

SECRETARY	Cara Teahan
REGISTERED OFFICE	The EBS Building 2 Burlington Road Dublin 4
REGISTERED NUMBER	500748
INDEPENDENT AUDITOR	Deloitte Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2
BANKER	Allied Irish Banks, p.l.c. 7/12 Dame Street Dublin 2

DIRECTORS' REPORT

The Directors of EBS d.a.c. present their Directors' report and annual financial statements of EBS d.a.c. and its' subsidiaries (the 'Group') for the financial year ended 31 December 2016. A Statement of Directors' Responsibilities in relation to the financial statements appears on page 60.

ACTIVITIES OF THE COMPANY

EBS d.a.c. ('EBS' or 'the Company'), formerly EBS Limited, a designated activity company, 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 separately branded subsidiary with its own distribution network. EBS Limited converted to a designated activity company (d.a.c.) on 12 September 2016 as required under the Companies Act, 2014.

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's 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 holds 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 authorised by the European Central Bank ('ECB') since the introduction on 4 November 2014 of the Single Supervisory Mechanism ('SSM'). The SSM replaces the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB and its subsidiaries. EBS continues to be supervised by the Central Bank of Ireland ('CBI') for non-prudential matters, including, consumer protection and the combat of money laundering.

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. 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 all of EBS's activities are outsourced to AIB under a Master Service Agreement ("MSA"), this includes servicing of mortgage loans, customer funding and provision of treasury services as well as a range of support services.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors

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's 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 2016, there were three Non-Executive Directors on the Board. The Board also included two Executive Directors and three other Directors, one of whom resigned during the year, who, were also employees of the parent, AIB p.l.c., and were deemed to be Group 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. EBS benefits as a subsidiary of AIB from the wider AIB Group governance and operating structure, including in relation to oversight of audit and risk related activities. AIB provides services to EBS through a formal master services agreement, updates in respect of the performance against which are provided to the Board regularly. In the event that material failings or weaknesses in the systems of risk management or internal control are identified, an explanation of the issue and an assessment of its impact is presented with a proposed remediation plan to the Board. Agreed remediation plans are tracked to conclusion, with status updates provided to the Board. Given the work of the Board and representations made by the Management Team during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the risk management and internal control framework have been taken, or are currently being undertaken. In addition, the Board has considered the identification of failings that originated in prior years that require customer redress. Taking this and all other information into consideration as outlined above, the Board is satisfied that there has been an effective system of control in place throughout the year.

The Board receives regular updates on EBS's risk profile together with relevant updates from the Board Audit Committee. The Board held 5 scheduled meetings during 2016 and no out of course meetings were held. Further detail about Directors' attendance of the meetings can be found in the table on page 7.

Board Committees

In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on page 4.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (continued)

Board Committees (continued)
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 the EBS Group accounting policies, financial and narrative reports, and disclosure practices;
- the effectiveness of the EBS Group internal control, risk management, and accounting and financial reporting systems;
- the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- the independence and performance of the Internal and External Auditors.

These responsibilities are discharged through its meetings with and receipt of reports from the Auditor and management including Finance, Internal Audit and Risk. During 2016 the committee met on 4 occasions and amongst other activities the Committee reviewed EBS's annual financial statements and related accounting policies, key judgements and practices; reports on compliance; the effectiveness of internal controls; and the findings, conclusions and recommendations of the External Auditors 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 External Auditors. The members of the Audit Committee during the year were Tom Foley (Chairman), Jim O'Hara and Denis O'Callaghan.

Corporate Governance Requirements
During December 2015, the Central Bank published a revised Corporate Governance Requirements for Credit Institutions 2015 ("the 2015 Requirements") (which are available on www.centralbank.ie), which became effective for all credit institutions on 11 January 2016. Under the 2015 Requirements, EBS is designated as a "high impact institution", in accordance with its categorisation under the Central Bank's Probability Risk Impact System. Recognising its position within the AIB Group Framework, the Company sought and received derogations from the Central Bank from a number of the incremental obligations arising from the revised categorisation, including in relation to:

- the requirement to have an external evaluation carried out every three years under requirement 14.6, on the basis that EBS continues to conduct an internal review its own performance and that of its individual directors annually; that this exercise is led by the Chairman and supported by the Company Secretary;
- the requirement for the Board of EBS to meet at least six times per year under requirement 16.1, on the basis that the Board will continue to meet at least four times per calendar year and at least once quarterly.

In addition, as permitted under the 2015 Requirements, the Company has established a Board Audit Committee but continues to rely on AIB Risk, Remuneration and Nomination and Corporate Governance Committee Board Committees.

EBS has reported to the Central Bank that, with effect from 23 March 2016 when Ms. Catherine Woods stood down from the position of Chairman of the Board, the Company was non-compliant with requirement 8.1, which requires a Chairman to be appointed to the Board of every credit institution. However, on 28 March 2016, Mr. Denis O'Callaghan was appointed Chairman of the Board, thereafter ensuring compliance with the 2015 requirements.

EBS's corporate governance practices are designed to ensure compliance with applicable legal and regulatory requirements including Irish company law and the Listing Rules applicable to debt listings 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.

BUSINESS REVIEW

The Irish economy improved generally during 2016 including a decreasing unemployment rate standing at 7.2% at the end of December 2016 against 8.8% in 2015 (Source: Central Statistics Office) and decreasing mortgage arrears. Total market mortgage drawdowns in Ireland were €5.7bn (Source: Banking & Payments Federation of Ireland ('BPFI')) in 2016 compared with €4.9bn in 2015. Throughout 2016 there was increased competition in the mortgage market with competitors reducing interest rates for new and existing borrowers and offering incentives to new borrowers.

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW (continued)
The CSO Residential Property Price Index showed an increase in prices nationally of 8.1% in the 12 months to December 2016 (6.6% in 2015). This was particularly evident outside Dublin where the 2016 annual increase was 12.0% (December 2015 10.2%). Property prices in Dublin increased in the 12 month period by 5.7% (increase of 2.6% in 2015). The residential property price fall from peak (February 2007) was 33% Dublin and 37% non-Dublin at 31 December 2016 (2015: 35% Dublin and 36% non-Dublin).

EBS continues to provide highly competitive home loans in the Irish market, offering a range of fixed and variable rates and channel options including Branch and Broker. In July 2016 EBS introduced a 2% back in cash incentive for all new loans drawndown to December 2016. The incentive was extended to September 2017 in January 2017. EBS's main focus is to support viable owner-occupier and buy-to-let residential customers, including First Time Buyers, Home Movers, Home Improvements and those switching their mortgage to EBS.

Total residential impaired loans fell by 20% during the year and amounted to €2.0bn at 31 December 2016 (2015: €2.5bn) of which €0.2bn (2015: €0.4bn) was individually assessed for impairment and €1.8bn (2015: €2.1bn) was collectively assessed for impairment. At 31 December 2016, the Group's mortgage portfolio before impairments stood at €12.5bn (2015: €12.6bn); Residential €12.3bn and Commercial €0.2bn (2015: Residential €12.4bn and Commercial €0.2bn). The decline in mortgage balances is due to customer repayments exceeding new lending during the financial 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 2016, there were forbearance solutions in place on circa 17k accounts with loan balances of €2.2bn (2015: circa 18k accounts and €2.2bn in balances). The stock of loans subject to forbearance measures decreased by €75 million in 2016 driven by a €86 million adjustment due to the adoption of a definition of forbearance as prescribed by the European Banking Authority.

Under the previous definition used, and which was prescribed by the Central Bank of Ireland, loans subject to temporary forbearance measures (e.g. interest only, payment moratoriums) remained in the forbearance stock only for the period of their temporary arrangement, whilst loans subject to permanent forbearance measures (e.g. term extension, arrears capitalisations) remained in the forbearance stock for a period of five years.

Under the EBA definition, all loans subject to forbearance measures remain in the forbearance stock for a period of 2 years from the date the forborne loan was considered "performing". This has led to a reduction in the forbearance stock as older permanent forbearance which have successfully exited probationary periods have not been fully offset by increases in the temporary forbearance measures still in their probationary period.

RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
EBS Group generated a profit before taxation for 2016 of €211m, compared to €223m in 2015. Decreased profitability is due to lower writeback of provisions for impaired loans credited to the income statement, lower net interest income and lower other operating income, which is partially offset by lower administration expenses. Profit after tax of €183m was added to Shareholders Equity in 2016 compared to €194m in 2015.

EBS Group's particular focus is on new lending and net interest margin. New residential lending for the EBS Group was €820m in 2016 up from €603m in 2015 due to increased market presence during the financial year.

Net Interest Income/ Margin
Net interest income for the financial year is €252m compared to €254m in 2015, down €2m or 0.8%. The net interest margin (including charges under the ELG scheme) is 1.97% compared to 1.90% for 2015. The net increase of 7 basis points (bps) is due mainly to a decrease in retail funding costs in 2016. Interest income on loans and receivables to customers is €355m (2015: €385m). The decrease of €30m is mainly due to a decrease in the loan book and lower average customer rates in 2016, following a number of rate reductions in 2015. Interest expense on customer accounts is €118m (2015: €157m). 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.

Other Income
Other income for the financial year is €17m compared to €58m in 2015. The decrease is mainly due to a gain on buyback of debt securities of €41m in 2015 compared to €1m in 2016.

Operating Expenses
Total operating expenses are €92m in 2016, decrease of €86m compared to 2015 €178m. This is driven by decreased administrative expenses in 2016 which are €87m compared to €172m in 2015. In 2015 Group had provided €93m for customer redress and other matters relating to a request from the CBI to the banking industry, including EBS, to conduct a broad examination of tracker mortgage related issues. No further provision was required in 2016.

DIRECTORS' REPORT (CONTINUED)

RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

Provision for Loan Impairments
There was an overall provision writeback for 2016 of €34m compared to €89m in 2015. Specific provision reduced from €929m at 31 Dec 2015 to €846m at 31 Dec 2016 arising from a reduction in the level of newly impaired loans, an improvement in economic conditions and the impact of arrears management activities. The Incurred But Not Reported ("IBNR") stock levels have been reduced in 2016 by €17m to €88m (2015: €105m) due to an updated Group private dwelling model implemented for provisioning.

Total provisions held at December 2016 amount to €934m (2015: €1,034m). This total provision balance represents 7.5% of total loans and advances to customers (2015: 8.2%). Reduction of total provisions is driven by the writeback of €34m and €66m of write-offs.

FUNDING

EBS Group is funded through a combination of customer funding and wholesale funding including loans from its parent AIB p.l.c. The Group is committed to maintaining an appropriate customer deposit base with the balance of funding being from AIB p.l.c. going forward.

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 2016 has total customer accounts of €6,651m (2015: €7,114m). Customer funding is down by €463m primarily due to the lower interest rate environment.

Retail balances were €5,624m at 31 December 2016 (2015: €5,801m) and represent 85% (2015: 83%) of customer funding.

Wholesale Funding
During 2016 debt securities in issue reduced by €106m to €399m as maturing securities were not replaced with new issues. Funding from AIB p.l.c. increased by €308m to €4,248m in December 2016. There was no direct ECB funding in 2016 or 2015.

SHARE CAPITAL

The issued Share Capital of EBS Group is €1,655m (2015: €1,655m), comprised of ordinary shares of €1 each.

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 2016 and 31 December 2015.

	CRD IV Transitional basis	
	31 December 2016	31 December 2015
	€m	€m
Common equity Tier 1 capital	**1,246**	1,087
Total Tier 2 capital	**42**	52
Total capital	**1,288**	1,139
Risk Weighted Assets	**6,021**	6,381
Common equity tier 1 ratio	**20.7%**	17.0%
Total capital ratio	**21.4%**	17.9%

At all times during 2016, capital held exceeded the regulatory capital requirements.

The Capital Requirements Directive IV ("CRD IV"), which came into force on 1 January 2014, comprises a Capital Requirements Directive and a Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. 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 4.1%.

DIRECTORS' REPORT (CONTINUED)

CAPITAL (continued)

Outlook

The capital position of EBS Group is stable due to continued profitability and the ongoing commitment of support from AIB Group. EBS is sufficiently capitalised to meet its regulatory requirements.

RISK MANAGEMENT

The risk management framework provides a bank-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 Risk Management, including the principal risks and uncertainties facing EBS d.a.c.as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005) is set out in the Risk management section on pages 10 to 59.

GOING CONCERN

The Directors of the Group have prepared the financial statements on a going concern basis.

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 parent.

The financial statements of Allied Irish Banks, p.l.c. have been prepared on a going concern basis. In making its assessment, the Directors of AIB Group have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors of AIB Group have also considered the outlook for the Eurozone and UK economies, and the factors and uncertainties impacting their performance including the possible fallout from Brexit.

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.

DIRECTORS' AND SECRETARYS' INTERESTS IN SHARES

The Directors and Company Secretary did not hold any interests in EBS shares or debentures the beginning of the year, during the year or at the year end.

Shares held by the Directors in parent company Allied Irish Banks, p.l.c. ("AIB") were below 1% and not disclosable under the Companies Act 2014.

Share options

Share options were not granted or exercised during the year. Independent Non-Executive Directors do not participate in share option plans.

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 2016. Independent Non-Executive Directors do not participate in long term incentive plans.

There were no changes in the Directors' and Secretary's interests between 31 December 2016 and 28 March 2017.

Attendance at scheduled Board and Board Committee Meetings

Name	Board		Board Audit Committee	
Directors	A	B	A	B
Desmond Fitzgerald	5	5	-	-
Gerry Gaffney	5	5	-	-
Bernard Byrne	5	5	-	-
Fidelma Clarke	4	4	-	-
Denis O'Callaghan	5	5	4	4
Catherine Woods	5	4	-	-
Tom Foley	5	5	4	4
Jim O'Hara	5	4	4	3

Column A indicates the number of scheduled meetings held during 2016 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2016.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND SECRETARY

The following were Directors of EBS d.a.c. during 2016 – Desmond Fitzgerald, Gerry Gaffney, Bernard Byrne, Denis O'Callaghan, Catherine Woods, Tom Foley and Jim O'Hara.

On 23 March 2016, Ms. Catherine Woods stepped down as Chairman of the Board.
On 16 September 2016, Ms. Fidelma Clarke resigned as a Director of the Board.
On 28 March 2017 Mr. Denis O'Callaghan was appointed Chairman of the Board and Mr. Bryan O'Connor was appointed a Director. Mr. Bernard Byrne resigned on the same date, 28 March 2017.

The Company Secretary during 2016 was Ms. Louise Cleary and Ms. Cara Teahan was appointed Acting Company Secretary on 13 July 2016. On 28 March 2017, Ms. Cleary resigned as Company Secretary and Ms. Teahan was appointed on the same date.

DIRECTORS REMUNERATION

Details of total remuneration of the Directors in office during 2016 and 2015 are shown in the Remuneration Table on page 123.

DIVIDEND

There was no interim dividend paid to the shareholder during 2016 and the Board is not recommending the payment of a final dividend for 2016.

CAPITAL

Information on the structure of the Bank's share capital, including the rights and obligations attaching to each class of shares, is set out in note 31 of these financial statements.

ACCOUNTING POLICIES

The principal accounting policies, together with the basis of preparation of the financial statements, are set out in note 1 of these financial statements

POLITICAL DONATIONS

The Directors have satisfied themselves that there were no political contributions during the year that require disclosure under the Electoral Act 1997.

BRANCHES OUTSIDE THE STATE

The Bank has not established any branches outside the State.

DISCLOSURE NOTICE UNDER SECTION 33AK OF THE CENTRAL BANK ACT 1942

The Bank did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2016.

ADEQUATE ACCOUNTING RECORDS

The Directors believe that they have complied with the requirements of Section 281 to 285 of the Companies Act, 2014 with regard to adequate accounting records by allocating personnel with appropriate expertise and by providing adequate resources to the financial function under the Master Services Agreement for the provision of various services including accounting and other financial services to EBS by AIB p.l.c.. The accounting records of the Company are maintained at the registered office of its parent at AIB, Bankcentre, Ballsbridge, Dublin 4.

EVENTS SINCE THE YEAR END

On 15 December 2016, Emerald 4 announced to the Irish Stock Exchange that it had received notice from its sponsoring entity (EBS d.a.c.) of its intention to refinance loan notes on 15 March 2017 which Emerald 4 held. Emerald 4 issued a Bond redemption notice on 23 January 2017 and the bond redemption amounts were published on 8 March 2017. The bonds were fully redeemed on 15 March 2017.

STATEMENT OF RELEVANT AUDIT INFORMATION

Each of the Persons who is a Director at the date of approval of this Report confirms that:
(a) so far as the Director is aware, there is no relevant audit information of which the Bank's Auditor is unaware; and
(b) the Director has taken all steps that he or she ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Bank's Auditor is aware of that information.
This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS COMPLIANCE STATEMENT

As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)).

The directors confirm that:

(a) a compliance policy statement (as defined in section 225(3)(a)) has been drawn up setting out the Company's policies, which, in the Directors' opinion, are appropriate to ensure compliance with the Company's relevant obligations;

(b) appropriate arrangements or structures that are, in the directors' opinion, appropriate to the company and designed to secure material compliance with the relevant obligations have been put in place; and

(c) a review of those arrangements and structures has been conducted in the financial year to which this report relates.

INDEPENDENT AUDITOR

Deloitte, Chartered Accountants and Statutory Audit Firm, have expressed their willingness to continue in office under Section 383(2) of the Companies Act, 2014.

On behalf of the Board,

Catherine Woods

Catherine Woods
Non-Executive Director

Desmond Fitzgerald
Managing Director

Date: 28 March 2017

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 50 to 58 of AIB Group's Annual Financial Report 2016.

2. RISK MANAGEMENT FRAMEWORK
EBS Group relies on this AIB Group framework and its supporting policies, processes and governance. AIB Group's risk governance and management framework is described on pages 59 to 61 of the AIB Group's Annual Financial Report 2016. For more information on the operation of the Board of EBS Group and its Audit Committee see page 3 to 4 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 Credit risk;
3.2 Restructure execution risk;
3.3 Liquidity and funding risk;
3.4 Capital adequacy risk;
3.5 Market risk;
3.6 Operational risk;
3.7 Regulatory compliance risk and conduct risk;
3.8 Culture risk;
3.9 Business risk; and
3.10 Model risk;

3.1 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. EBS Group has its own Risk Appetite Statement ("RAS") setting out its credit risk appetite and framework. Credit Risk appetite is set at AIB Group Board level and is described, reported and monitored through a suite of metrics. These are 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.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

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 €m**	**Fair Value €m**	**2016 Total €m**	Amortised Cost €m	Fair Value €m	2015 Total €m
Cash and Balances with central banks	**84**	**-**	**84**	12	-	12
Derivative financial instruments	**-**	**18**	**18**	-	60	60
Available-for-sale financial assets	**-**	**20**	**20**	-	18	18
Loans and receivables to banks	**928**	**-**	**928**	1,094	-	1,094
Loans and receivables to customers	**11,538**	**-**	**11,538**	11,562	-	11,562
Included elsewhere:						
Accrued interest	**11**	**-**	**11**	10	-	10
Other assets	**49**	**-**	**49**	46	-	46
	12,610	**38**	**12,648**	12,724	78	12,802
Off balance sheet loan commitments	**388**	**-**	**388**	269	-	269
Maximum exposure to credit risk	**12,998**	**38**	**13,036**	12,993	78	13,071

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 40% Dublin and 44% non-Dublin as a base. This reflects a collateral value buffer against the current CSO residential property price index which at 31 December 2016 showed a 33% and a 37% fall from peak for Dublin and Non-Dublin respectively.

In 2016, the CSO moved to an enhanced estimation methodology for compiling movements in property prices. EBS's buffer to the latest available CSO index remained unchanged at 10% throughout 2016.

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 2016 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.

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, EBS 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 current borrowers.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Measurement of credit risk (continued)

Models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. For the purposes of calculating credit risk, each probability of default model segments counterparties into a number of rating grades, each representing a defined range of default probabilities. Exposures migrate between rating grades if the assessment of the counterparty probability of default changes. These individual rating models continue to be refined and recalibrated based on experience. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment is largely automated through the use of statistically-based scoring models.

Mortgage applications are assessed centrally with particular reference to affordability, assisted by scoring models. However, for larger cases with connected exposures, some mortgage applications are assessed by the Relevant Credit Authority. 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.

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 EBS, 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.

Provisioning for impairment
The accounting policies of loans and receivables to customers are outlined in note 1 to the financial statements.

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 typically loans are automatically impaired when the account reaches 90 days past due.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Provisioning for impairment (continued)

Mortgage portfolio triggers
– Deterioration in the debt service capacity;
– A material decrease in rents received on a buy-to-let property;
– Borrowers that are 90 days past due; and
– On receipt of a forbearance request.

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; and
– 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 €1,000,000 by customer connection. The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.

Individually significant ("IS") loans and receivables*
All loans that are considered individually significant are assessed on a case-by-case basis throughout the financial 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.

Within EBS, principal dwelling home ("PDH") loans greater than €1,000,000 are assessed and provided for through an automated process as opposed to individual assessments. The process takes into consideration collateral values and any costs in obtaining and selling associated collateral.

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 €1,000,000 and are assessed on a collective basis.

The individually insignificant mortgage specific provisions are calculated using an individually insignificant and IBNR 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 financial year based on an additional one year data set.

Key model parameters at 31 December 2016 for owner occupier mortgages are as follows: cure (14%) and disposal / forbearance (86%) (2015: cure 6% and disposal / forbearance 94%).

The corresponding buy-to-let model parameters are as follows: cure (7%); disposal / forbearance (93%) (2015: cure 3.5% and repossession/advanced forbearance 96.5%).

The cure rate parameter in the individually insignificant model reflects the percentage of loans which were impaired/ defaulted but have exited impairment/ default after a 12 month satisfactory performance and no loss to the Group.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Provisioning for impairment (continued)

Individually insignificant – Mortgage portfolio* (continued)

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: percentage of forced disposals; costs and time to dispose (voluntary and forced); house price 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. The main parameter changes for the year to 31 December 2016 were increases in the probabilities of disposal and cure, changes in the CSO index and in the property market fall from peak, increases in disposal haircuts and recovery periods.

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 occur 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 experienced 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 and restructured loans.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Provisioning for impairment (continued)

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

Group
2016

	Owner-Occupier			Buy-to-let		
Grade	Exposure €m	Average PD %	Average LGD %	Exposure €m	Average PD %	Average LGD %
Good upper[(1)]	**7,665**	**0.6**	**14.5**	**43**	**2.1**	**15.1**
Good lower[(2)]	**1,551**	**2.6**	**18.5**	**101**	**7.3**	**45.2**
Watch	**814**	**15.6**	**17.8**	**43**	**16.6**	**52.7**
Vulnerable	**105**	**56.5**	**20.2**	**11**	**33.5**	**43.0**

[(1)] Good upper: Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.

[(2)] Good lower: Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.

Included in the above are the following sub portfolios which carry a higher level of IBNR. It should be noted that due to the small volumes of Buy-To-Let exposures in these categories the average PDs and LGDs can vary significantly – this is the main driver of the change in these values:

Cured	**477**	**13.2**	**20.1**	**34**	**16.4**	**47.4**
Forborne – Not impaired	**1,572**	**8.5**	**17.9**	**19**	**36.3**	**23.6**

Group
2015

	Owner-Occupier			Buy-to-let		
Grade	Exposure €m	Average PD %	Average LGD %	Exposure €m	Average PD %	Average LGD %
Good upper	5,380	0.6	16.8	15	1.8	9.7
Good lower	3,229	5.1	20.6	161	8.8	42.0
Watch	854	16.2	19.9	87	70.5	54.7
Vulnerable	141	58.0	21.0	17	84.0	54.9
Cured	675	16.9	20.6	8	57.5	19.1
Forborne – Not impaired	1,316	11.3	19.9	16	39.5	20.4

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 individually insignificant and IBNR 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 account level and is not included in the analysis above.

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 2016, there was no change made to the emergence period for the mortgage portfolio (12 months) and non-mortgage portfolio (8 months).

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Provisioning for impairment (continued)

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 a designated Credit Risk representative as outlined in the terms of reference for Credit Committees (approved by ERC), 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 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 including non-contracted 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 revised agreement and subsequent 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. A significant judgemental area is the calculation of individually insignificant and IBNR 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 sensitive to the risk factors, in particular to changes in economic and credit conditions.

Given the relative size of the mortgage portfolio, the key variables include house price fall from peak of 40% Dublin and 44% non-Dublin 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 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 0.4% (blended rate of owner-occupier/buy-to-let) or c. €6m December 2015 equivalent: reduction of 1.3% or c. €10m.

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 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 2016 is estimated to result in movements in provisions of c. €9 million (€8 million specific provision and €1 million IBNR) December 2015 equivalent: €9m (€7 million specific provision and €2 million IBNR).

A 1% move in the haircut for a Dublin sale would result in a change of €2.43 million in provisions, (€2.18m II and €0.24m IBNR) December 2015 equivalent: €2.18m (€1.85m II and €0.33m IBNR).

A 1% move in the haircut for a sale outside Dublin would result in a change of €5.47 million in provisions, (€5.01m II and €0.45m IBNR) December 2015 equivalent: €4.73m (€4.18m II and €0.55m IBNR).

An increase in the assumed repossession rate of 1% for collective mortgage provisions would result in an increase in provisions of 0.7% (blended rate of owner-occupier/buy-to-let) of c. €6 million December 2015 equivalent: increase of 0.6% or c. €4.5m.

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. €4m December 2015 equivalent: €7m.

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 and sovereign. These credit risks are identified and managed in line with the credit management framework of AIB 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/unwilling to fulfil or are precluded from fulfilling their obligations to EBS Group due to economic or political circumstances. These are managed in line with the Country Policy limits which define maximum credit risk appetite for those countries through direct sovereign bond exposure, interbank exposure as well as corporate and equity exposures. Exposures against limits are monitored on an on-going basis and reported in line with processes detailed in the Country Exposure Policy.

Credit risk on derivatives*
The credit risk on derivatives contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when EBS has a claim on the counterparty under the contract. EBS would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by EBS to meet customer needs, to reduce interest rate risk, currency risk, and in some cases credit risk and also for proprietary trading purposes. Risk associated with derivatives are managed from a credit, market and operational perspective. The total credit exposure consists partly of the current replacement cost and partly of the potential future exposure. The potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract. The Group uses a simulation tool to estimate possible changes in the future market values and computes the credit exposure to a high level of statistical significance. Exposure against limits are monitored on an on-going basis.

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.

Credit policy is aligned to the EBS Group's risk appetite and restricts exposure to more vulnerable sectors and exposures are monitored to prevent excess concentration of risk. The AIB Board approved Large Exposures and Approval Authorities Policy sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking into account features such as security, default risk and term.

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.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Risk identification and assessment (continued)*
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, 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.

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which the Group has granted a concession, whether temporarily or permanently are set out below.

Forbearance strategies*
Forbearance occurs when a borrower is granted a temporary or permanent concession or an 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 initiatives 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.

Mortgage portfolio
EBS 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 ("MARP").

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 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 market 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 solution may also include an element of debt write-off.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Negative equity trade down – This solution allows a customer to sell their house and subsequently purchase a new property and transfer the negative equity portion of the original property 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 solution 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 in residential properties. As part of the on-going assessment of collateral, EBS Group uses an AIB Group Property Valuations standard.

EBS 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 EBS 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 EBS Board.

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*

			2016
Loans and receivables to customers	**Owner-Occupier €m**	**Non Owner-Occupier €m**	**Total €m**
Residential mortgages	**11,888**	**-**	**11,888**
Buy-to-let	**-**	**395**	**395**
Commercial property	**-**	**189**	**189**
Total	**11,888**	**584**	**12,472**

Group*

			2015
Loans and receivables to customers	Owner-Occupier €m	Non Owner-Occupier €m	Total €m
Residential mortgages	11,901	-	11,901
Buy-to-let	-	477	477
Commercial property	-	218	218
Total	11,901	695	12,596

The decrease in the portfolio was driven by a reduction in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in 2016 were €820 million, up from €603 million in 2015.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

			2016
Group Impairment Provisions*	**Owner-Occupier €m**	**Non Owner-Occupier €m**	**Total €m**
Statement of financial position provisions	**750**	**184**	**934**
Statement of financial position provisions as a % of loans and receivables	**6.3%**	**31.5%**	**7.5%**
Specific provision as a % of impaired loans	**38.4%**	**58.6%**	**41.3%**
Impairment charge as a % of total loans	**(0.2%)**	**(2.4%)**	**(0.3%)**

			2015
Group Impairment Provisions*	Owner-Occupier €m	Non Owner-Occupier €m	Total €m
Statement of financial position provisions	802	232	1,034
Statement of financial position provisions as a % of loans and receivables	6.7%	33.4%	8.2%
Specific provision as a % of impaired loans	31.7%	54.1%	35.2%
Impairment charge as a % of total loans	(0.6%)	(2.6%)	(0.6%)

The increase in specific provision cover arises from provision top-ups on existing impaired loans, primarily from changes to model parameters and assumptions:

(i) Reflecting the higher concentration of loans in the legal process, which take longer to resolve and typically require higher provision cover and;

(ii) Reflecting revised estimates of outcome probabilities whereby a greater proportion of impaired loans are assigned a higher probability of disposal, which results in a higher provision estimate.

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.

			2016*
	Owner-Occupier €m	**Non Owner-Occupier €m**	**Total €m**
Satisfactory	**9,217**	**163**	**9,380**
Watch	**814**	**109**	**923**
Vulnerable	**105**	**17**	**122**
Impaired	**1,752**	**295**	**2,047**
Criticised	**2,671**	**421**	**3,092**
Gross mortgages	**11,888**	**584**	**12,472**
Criticised loans as % of total mortgages	**22.5**	**72.1**	**24.8**
Impaired loans as % of total mortgages	**14.7**	**50.5**	**16.4**

			2015*
	Owner-Occupier €m	Non Owner-Occupier €m	Total €m
Satisfactory	8,679	177	8,856
Watch	854	87	941
Vulnerable	141	17	158
Impaired	2,227	414	2,641
Criticised	3,222	518	3,740
Gross mortgages	11,901	695	12,596
Criticised loans as % of total mortgages	27.1	74.5	29.7
Impaired loans as % of total mortgages	18.7	59.6	21.0

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

EBS's criticised loans and receivables to customers amounted to €3.09 billion or 24.8% of total customer loans. Criticised loans have decreased by €648m since 31 December 2015. The main drivers of the decrease in criticised loans have been the improved economic conditions in the period, coupled with increased restructuring activity. The decrease was evident throughout both the early arrears (less than 90 days past due) and late arrears (greater than 90 days past due).

The main driver of the decrease in the level of impaired loans is due to the end of the probationary period for loans previously restructured, particularly split mortgages and arrears capitalisations. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Total impaired loans*	**2016**		2015	
	€m	**%**	€m	%
Impaired loans – Owner-occupier	**1,752**	**14.0**	2,227	17.7
Impaired loans – Non Owner-Occupier	**295**	**2.4**	414	3.3
Total	**2,047**	**16.4**	2,641	21.0

Group*				**2016**
	Owner-Occupier €m	**Non Owner-Occupier €m**	**Total €m**	**%**
Neither past due nor impaired	**9,809**	**251**	**10,060**	**80.7**
Past due but not impaired	**327**	**38**	**365**	**2.9**
Impaired – no provision	**-**	**4**	**4**	**0.0**
Impaired – provision held	**1,752**	**291**	**2,043**	**16.4**
Gross loans and receivables	**11,888**	**584**	**12,472**	**100.0**
Provision for impairment	**(750)**	**(184)**	**(934)**	
Total loans and receivables after provisions	**11,138**	**400**	**11,538**	

Group*				2015
	Owner-Occupier €m	Non Owner-Occupier €m	Total €m	%
Neither past due nor impaired	9,321	257	9,578	76.0
Past due but not impaired	353	24	377	3.0
Impaired – no provision	29	14	43	0.3
Impaired – provision held	2,198	400	2,598	20.7
Gross loans and receivables	11,901	695	12,596	100.0
Provision for impairment	(802)	(232)	(1,034)	
Total loans and receivables after provisions	11,099	463	11,562	

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet its obligations to EBS based on objective evidence of loss events ("impairment triggers"), such as a request for a forbearance measure. Loans are deemed impaired where their carrying value is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

Aged analysis of loans and receivables (residential mortgages) which are past due but not impaired*

2016

Group	Owner-Occupier €m	Buy-to-Let €m	Total €m	%
1–30 days	**257**	**11**	**268**	**73.4**
31–60 days	**50**	**1**	**51**	**14.0**
61–90 days	**20**	**17**	**37**	**10.1**
91–180 days	**-**	**2**	**2**	**0.6**
181–365 days	**-**	**1**	**1**	**0.3**
>365 days	**-**	**6**	**6**	**1.6**
Total	**327**	**38**	**365**	**100**

2015

Group	Owner-Occupier €m	Buy-to-Let €m	Total €m	%
1–30 days	276	10	286	75.9
31–60 days	53	1	54	14.3
61–90 days	24	2	26	6.9
91–180 days	-	2	2	0.5
181–365 days	-	2	2	0.5
>365 days	-	7	7	1.9
Total	353	24	377	100.0

Loans past due but not impaired at 31 December 2016 decreased by 3% when compared to 31 December 2015, driven by the improved economic environment and continued increased focus on the management of early arrears.

The following tables profile the total loans and receivables to customers and impairment provisions at 31 December 2016 and 31 December 2015:

2016

Group	Loans & Receivables €m	Impaired Loans & Receivables €m	Impaired % of Loans	Specific €m	IBNR €m	Total Impairment Provision €m	Provision % of Impaired Loans	Provision % of Loans
Residential	**12,283**	**1,948**	**15.9%**	**786**	**85**	**871**	**44.7%**	**7.1%**
Commercial Property	**189**	**99**	**52.1%**	**60**	**3**	**63**	**63.6%**	**33.3%**
Total	**12,472**	**2,047**	**16.4%**	**846**	**88**	**934**	**45.6%**	**7.5%**

2015

Group	Loans & Receivables €m	Impaired Loans & Receivables €m	Impaired % of Loans	Specific €m	IBNR €m	Total Impairment Provision €m	Provision % of Impaired Loans	Provision % of Loans
Residential	12,378	2,510	20.3%	849	102	951	37.9%	7.7%
Commercial Property	218	131	60.1%	80	3	83	63.4%	38.1%
Total	12,596	2,641	21.0%	929	105	1,034	39.2%	8.2%

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages

			2016*
	Owner-Occupier €m	**Buy-to-Let €m**	**Total €m**
Total gross mortgages	**11,888**	**395**	**12,283**
In arrears >30 days past due and/or impaired	**1,822**	**216**	**2,038**
In arrears >90 days past due and/or impaired	**1,752**	**199**	**1,951**
Of which impaired	**1,752**	**196**	**1,948**
Statement of financial position specific provisions	**673**	**113**	**786**
Statement of financial position IBNR provisions	**77**	**8**	**85**

			2015*
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Total gross mortgages	11,901	477	12,378
In arrears >30 days past due and/or impaired	2,304	287	2,591
In arrears >90 days past due and/or impaired	2,227	285	2,512
Of which impaired	2,227	283	2,510
Statement of financial position specific provisions	705	144	849
Statement of financial position IBNR provisions	97	5	102

Total residential impaired loans amounted to €1,948m at 31 December 2016 (2015: €2,510m) of which €176m (2015: €419m) was individually assessed for impairment and €1,772 (2015: €2,091m) was collectively assessed for impairment.

Mortgages amounted to €12.3 billion at 31 December 2016. This compares to €12.4 billion at 31 December 2015. The split of the residential mortgage book was owner occupier €11.9 billion (31 December 2015: €11.9 billion) and buy-to-let €0.4 billion (2015: €0.5 billion).

The income statement impairment charge for 2016 was a release of €31m or negative 0.3% of average mortgages, comprising a €14m specific charge and a €17m IBNR release (2015: €88m or negative 0.7% of average mortgages, comprising a €7m specific release and a €95m IBNR release). Statement of financial position provisions of €871m were held at 31 December 2016, split €786m specific and €85m IBNR (2015: €951m billion, split €849m billion specific and €102m billion IBNR).

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages (continued)

Provision cover percentage*

			2016
	Owner-Occupier %	**Buy-to-Let %**	**Total %**
Specific provisions as a % of impaired loans cover	**38.4**	**57.7**	**40.3**

			2015
	Owner-Occupier %	Buy-to-Let %	Total %
Specific provisions as a % of impaired loans cover	31.7	50.9	33.8

Income statement[(1)] *

			2016
	Owner-Occupier €m	**Buy-to-Let €m**	**Total €m**
Income statement specific provisions	**(0)**	**(14)**	**(14)**
Income statement IBNR provisions	**(19)**	**2**	**(17)**
Total impairment provisions	**(19)**	**(12)**	**(31)**

			2015
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Income statement specific provisions	12	(5)	7
Income statement IBNR provisions	(83)	(12)	(95)
Total impairment provisions	(71)	(17)	(88)

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

The increase in specific provision cover arises from provision top-ups on existing impaired loans, primarily from changes to model parameters and assumptions:

(i) Reflecting the higher concentration of loans in the legal process, which take longer to resolve and typically require higher provision cover and;

(ii) Reflecting revised estimates of outcome probabilities whereby a greater proportion of impaired loans are assigned a higher probability of disposal, which results in a higher provision estimate.

The following table shows the fair value of collateral held for loans and receivables to customers at 31 December 2016 and 2015.

Group Collateral Held: Loans and receivables to customers

			2016
	Owner-Occupier and Buy-to-Let €m	**Commercial mortgages €m**	**Total €m**
Impaired loans	**1,600**	**87**	**1,687**
Past due but not impaired	**339**	**10**	**349**
Non impaired / non past due	**9,729**	**76**	**9,805**
Total loans	**11,668**	**173**	**11,841**

Group Collateral Held: Loans and receivables to customers

			2015
	Owner-Occupier and Buy-to-Let €m	Commercial mortgages €m	Total €m
Impaired loans	2,145	114	2,259
Past due but not impaired	346	15	361
Non impaired / non past due	9,210	70	9,280
Total loans	11,701	199	11,900

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages (continued)

Residential mortgages by year of origination*

The following table profiles the residential mortgage book and impaired residential mortgage book at 31 December 2016 and 2015 by year of origination.

				2016
	Mortgage portfolio		**Impaired mortgage portfolio**	
	Number	**Balance €m**	**Number**	**Balance €m**
1996 and before	**1,997**	**69**	**282**	**12**
1997	**1,398**	**28**	**105**	**4**
1998	**1,621**	**45**	**131**	**7**
1999	**2,058**	**71**	**174**	**14**
2000	**2,351**	**114**	**223**	**18**
2001	**2,667**	**171**	**267**	**25**
2002	**3,921**	**296**	**415**	**43**
2003	**4,867**	**419**	**626**	**75**
2004	**6,526**	**705**	**862**	**128**
2005	**9,713**	**1,137**	**1,371**	**224**
2006	**12,746**	**1,800**	**2,149**	**402**
2007	**12,554**	**1,840**	**2,557**	**457**
2008	**12,055**	**1,808**	**2,088**	**370**
2009	**7,081**	**948**	**728**	**116**
2010	**6,042**	**843**	**313**	**48**
2011	**628**	**79**	**22**	**4**
2012	**117**	**11**	**2**	**-**
2013	**641**	**86**	**2**	**-**
2014	**2,590**	**435**	**5**	**1**
2015	**3,444**	**593**	**3**	**-**
2016	**4,286**	**785**	**-**	**-**
Total	**99,303**	**12,283**	**12,325**	**1,948**

				2015
	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance €m	Number	Balance €m
1996 and before	2,787	84	421	17
1997	1,587	37	154	7
1998	1,773	55	179	10
1999	2,255	86	252	17
2000	2,534	132	307	23
2001	2,955	193	372	34
2002	4,186	332	533	58
2003	5,154	463	835	100
2004	6,884	772	1,080	156
2005	10,203	1,248	1,770	292
2006	13,488	1,940	2,799	524
2007	12,994	1,957	3,207	567
2008	12,488	1,927	2,688	479
2009	7,402	1,011	978	154
2010	6,316	901	435	68
2011	673	85	24	4
2012	123	11	3	-
2013	675	93	2	-
2014	2,671	460	2	-
2015	3,495	591	-	-
Total	100,643	12,378	16,041	2,510

The majority (€7.5bn or 61%) of the €12.3bn residential mortgage portfolio was originated between 2005 and 2009, of which, 21% (€1.6bn) was impaired at 31 December 2016. This cohort was impacted by reduced household income and increased unemployment rates in those years, and where property prices had decreased from a peak in 2007. 16% of the residential mortgage portfolio was originated before 2005 of which 17% was impaired at 31 December 2016, while the remaining 23% of the portfolio was originated since 2010 or after, of which 2% was impaired at 31 December 2016.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential 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 October 2016. The CSO Residential Property Price Index for October 2016 reported that national residential property prices were 31.5% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 8.6% for the twelve months to October 2016.

Actual and average LTV across mortgage portfolios*

The following tables profile the residential mortgage portfolio by the indexed loan-to-value ('LTV') ratios and the weighted average indexed LTV ratios at 31 December 2016 and 31 December 2015:

			2016
Loan-to-value (LTV) ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	**2,064**	**68**	**2,132**
50% - 70%	**2,632**	**69**	**2,701**
71% - 80%	**1,660**	**30**	**1,690**
81% - 90%	**1,472**	**34**	**1,506**
91% - 100%	**1,067**	**78**	**1,145**
101% -120%	**1,534**	**45**	**1,579**
121% - 150%	**1,062**	**28**	**1,090**
Greater than 150%	**282**	**11**	**293**
Unsecured (Zero Collateral)	**115**	**32**	**147**
Total	**11,888**	**395**	**12,283**
Weighted average indexed LTV [(1)]			
Stock of residential mortgages at year end	**79%**	**82%**	**80%**
New residential mortgages during the year	**70%**	**-**	**70%**
Impaired mortgages	**110%**	**87%**	**108%**

			2015
Loan-to-value (LTV) ratio:	Owner – Occupier €m	Buy-to-Let €m	Total €m
Less than 50%	1,905	74	1,979
50% - 70%	2,193	84	2,277
71% - 80%	1,596	32	1,628
81% - 90%	1,550	44	1,594
91% - 100%	1,209	108	1,317
101% -120%	1,664	60	1,724
121% - 150%	1,405	41	1,446
Greater than 150%	296	9	305
Unsecured (Zero Collateral)	83	25	108
Total	11,901	477	12,378
Weighted average indexed LTV [(1)]			
Stock of residential mortgages at year end	83%	84%	83%
New residential mortgages during year	72%	-	72%
Impaired mortgages	107%	86%	104%

[(1)]Weighted average indexed LTV's are the individual indexed LTV calculations weighted by the mortgage balance against each property.

25.2% of the owner-occupier and 29.4% of the buy-to-let mortgages were in negative equity at 31 December 2016. In terms of the total portfolio, 25.3% (2015: 28.9%) was in negative equity at 31 December 2016 (including unsecured loans).

The weighted average indexed loan-to-value for the total residential mortgage book was 80% at 31 December 2016 compared to 83% at 31 December 2015, with the reduction driven primarily by the increase in property prices in 2016, coupled with amortisation of the loan book and restructuring activity.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages (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 2016 and 2015.

			2016
Loan-to-value (LTV) ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	**1,912**	**35**	**1,947**
50% - 70%	**2,392**	**35**	**2,427**
71% - 80%	**1,495**	**14**	**1,509**
81% - 90%	**1,305**	**14**	**1,319**
91% - 100%	**890**	**46**	**936**
101% -120%	**1,169**	**17**	**1,186**
121% - 150%	**628**	**10**	**638**
Greater than 150%	**14**	**-**	**14**
Unsecured (Zero Collateral)	**4**	**-**	**4**
Total	**9,809**	**171**	**9,980**

			2015
Loan-to-value (LTV) ratio:	Owner – Occupier €m	Buy-to-Let €m	Total €m
Less than 50%	1,708	30	1,738
50% - 70%	1,889	29	1,918
71% - 80%	1,388	13	1,401
81% - 90%	1,313	14	1,327
91% - 100%	971	69	1,040
101% -120%	1,207	20	1,227
121% - 150%	829	9	838
Greater than 150%	13	-	13
Unsecured (Zero Collateral)	3	-	3
Total	9,321	184	9,505

Residential mortgage loans neither past due nor impaired, 81.5% (2015: 77.9%) of the owner-occupier and 84.2% (2015: 84.2%) of the buy-to-let mortgages were in positive equity at 31 December 2016. In terms of the total portfolio, 18.5% (2015: 21.9%) was in negative equity at 31 December 2016.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages (continued)

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 2016 and 2015.

			2016
Loan-to-value (LTV) ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	**107**	**29**	**136**
50% - 70%	**170**	**32**	**202**
71% - 80%	**116**	**15**	**131**
81% - 90%	**131**	**19**	**150**
91% - 100%	**141**	**17**	**158**
101% -120%	**314**	**27**	**341**
121% - 150%	**398**	**18**	**416**
Greater than 150%	**267**	**10**	**277**
Unsecured (Zero Collateral)	**108**	**32**	**140**
Total	**1,752**	**199**	**1,951**

			2015
Loan-to-value (LTV) ratio:	Owner – Occupier €m	Buy-to-Let €m	Total €m
Less than 50%	152	42	194
50% - 70%	240	54	294
71% - 80%	158	19	177
81% - 90%	191	29	220
91% - 100%	198	38	236
101% -120%	393	38	431
121% - 150%	532	31	563
Greater than 150%	283	9	292
Unsecured (Zero Collateral)	80	25	105
Total	2,227	285	2,512

38% of the owner-occupier and 56.3% of the buy-to-let mortgages were in positive equity at 31 December 2016 (2015: 42.2% of owner occupier and 63.8% of buy-to-let mortgages were in positive equity). In terms of the total portfolio (including unsecured loans), 60.2% was in negative equity at 31 December 2016 (2015: 55.4%).

Group Asset Quality – Mortgages*

			2016
	Owner-Occupier €m	**Buy-to-Let €m**	**Total €m**
Satisfactory	**9,217**	**144**	**9,361**
Watch	**814**	**44**	**858**
Vulnerable	**105**	**11**	**116**
Impaired	**1,752**	**196**	**1,948**
Criticised	**2,671**	**251**	**2,922**
Gross mortgages	**11,888**	**395**	**12,283**
	%	**%**	**%**
Criticised loans as % of total mortgages	**22**	**64**	**24**
Impaired loans as % of total mortgages	**15**	**50**	**16**

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages (continued)

Group Asset Quality – Mortgages* (continued)

2015	Owner-Occupier €m	Buy-to-Let €m	Total €m
Satisfactory	8,679	151	8,830
Watch	854	36	890
Vulnerable	141	7	148
Impaired	2,227	283	2,510
Criticised	3,222	326	3,548
Gross mortgages	11,901	477	12,378
	%	%	%
Criticised loans as % of total mortgages	27	68	29
Impaired loans as % of total mortgages	19	59	20

Impaired loans decreased from 20%, of the total mortgage book, in December 2015, to 16% in December 2016. This is mainly due to restructuring, write-offs and repayments through customer asset sales.

Arrears profile of mortgages which were past due but not impaired*
The following table profiles the residential mortgage portfolio that was past due but not impaired at 31 December 2016 and 31 December 2015:

2016*	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
1 - 30 days	**257**	**8**	**265**
31 - 60 days	**50**	**1**	**51**
61 - 90 days	**20**	**16**	**36**
91 - 180 days	**-**	**1**	**1**
181 - 365 days	**-**	**-**	**-**
Over 365 days	**-**	**2**	**2**
Total past due but not impaired	**327**	**28**	**355**

2015*	Owner – Occupier €m	Buy-to-Let €m	Total €m
1 - 30 days	276	6	282
31 - 60 days	53	1	54
61 - 90 days	24	1	25
91 - 180 days	-	-	-
181 - 365 days	-	1	1
Over 365 days	-	1	1
Total past due but not impaired	353	10	363

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 CREDIT RISK (CONTINUED)

Residential mortgages (continued)

Arrears profile of mortgages which were impaired*

The following table profiles the residential mortgage portfolio that was impaired at 31 December 2016 and 31 December 2015:

2016	Owner – Occupier €m	Buy-to-Let €m	Total €m
Not past due	**309**	**21**	**330**
1 - 30 days	**81**	**9**	**90**
31 - 60 days	**33**	**1**	**34**
61 - 90 days	**35**	**1**	**36**
91 - 180 days	**101**	**4**	**105**
181 - 365 days	**105**	**14**	**119**
Over 365 days	**1,088**	**146**	**1,234**
Total impaired	**1,752**	**196**	**1,948**

2015	Owner – Occupier €m	Buy-to-Let €m	Total €m
Not past due	535	62	597
1 - 30 days	113	6	119
31 - 60 days	53	8	61
61 - 90 days	41	4	45
91 - 180 days	105	11	116
181 - 365 days	148	29	177
Over 365 days	1,232	163	1,395
Total impaired	2,227	283	2,510

Impaired loans decreased by €562m as restructuring and write offs exceeded newly impaired loans. New to impaired were lower in 2016 compared to 2015 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2016, €330m or 16.9% was not past due (2015: €597m or 23.7%) of which €283m (2015: €472m) were subject to forbearance measures.

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.1 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.

2016

	Number of Disposals	**Balance outstanding at repossession €m**	**Gross sales proceeds €m**	**Costs to sell €m**	**Loss on sale €m**	**Average LTV at sale Price %**
Owner-occupier	**142**	**36**	**17**	**2**	**21**	**215**
Buy-to-let	**6**	**2**	**1**	**-**	**1**	**236**
Total residential	**148**	**38**	**18**	**2**	**22**	**216**

2015

	Number of Disposals	Balance outstanding at repossession €m	Gross sales proceeds €m	Costs to sell €m	Loss on sale €m	Average LTV at sale Price %
Owner-occupier	354	96	40	4	60	239
Buy-to-let	21	5	3	-	3	207
Total residential	375	101	43	4	63	237

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

Losses on the sale of properties in possession are recognised in the Income Statement as part of the specific provision charge. The disposal of 148 residential properties resulted in a loss on disposal of €22 million at 31 December 2016 (before specific impairment provisions) (2015: 375 disposals, €63 million loss on disposal).

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.

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 2016:	**548**	**21**	**569**
Of which at 31 December 2015:	493	21	514

The increase in the stock of properties in 2016 relates to 203 properties repossessed offset by 148 disposals. There continues to be an increase in stock due to continued focus on arrears management.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1.2 COMMERCIAL PROPERTY*

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

	2016	2015
	€m	€m
Total Commercial Property	**189**	218
In arrears >30 days past due and/or Impaired	**106**	141
In arrears >90 days past due and/or Impaired	**104**	139
Of which impaired	**99**	131
Statement of financial position specific provisions	**60**	80
Statement of financial position IBNR provisions	**3**	3

Provision cover percentage

	2016	2015
	%	%
Specific provisions as a % of impaired loans cover	**60.6**	61.1

Income statement[2]

	2016	2015
	€m	€m
Income statement specific provisions	**(3)**	-
Income statement IBNR provisions	**-**	(1)
Total impairment provisions	**(3)**	(1)

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

Asset quality

	2016	2015
	€m	€m
Satisfactory	**19**	25
Watch	**65**	51
Vulnerable	**6**	11
Impaired	**99**	131
Criticised	**170**	193
Gross commercial property	**189**	218

	2016	2015
	%	%
Criticised loans as % of total loans	**90**	89
Impaired loans as % of total loans	**52**	60

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE

Forbearance stock – summary*

			2016
	Owner – Occupier	**Buy-to-let**	**Total**
	€m	**€m**	**€m**
Past due but not impaired	**183**	**7**	**190**
Impaired	**793**	**83**	**876**
Neither past due nor impaired	**1,087**	**21**	**1,108**
Total	**2,063**	**111**	**2,174**

			2015
	Owner - Occupier	Buy-to-let	Total
	€m	€m	€m
Past due but not impaired	184	2	186
Impaired	828	84	912
Neither past due nor impaired	1,132	19	1,151
Total	2,144	105	2,249

Residential mortgages – subject to forbearance* **2016**

	Owner Occupier		**Buy-to-let**		**Total**	
	Number	**Balance**	**Number**	**Balance**	**Number**	**Balance**
		€m		**€m**		**€m**
At 1 January	**17,891**	**2,144**	**378**	**105**	**18,269**	**2,249**
Additions	**2,164**	**289**	**55**	**16**	**2,219**	**305**
Expired arrangements	**(1,516)**	**(173)**	**(70)**	**(24)**	**(1,586)**	**(197)**
Payments	**-**	**(123)**	**-**	**(4)**	**-**	**(127)**
Interest	**-**	**60**	**-**	**1**	**-**	**61**
Closed accounts[1]	**(529)**	**(26)**	**(26)**	**(4)**	**(555)**	**(30)**
Advanced Forbearance Arrangements - Valuation Adjustments	**-**	**3**	**-**	**-**	**-**	**3**
Write-offs [2]	**(8)**	**(2)**	**(8)**	**(2)**	**(16)**	**(4)**
Transfer from owner-occupier to buy-to-let	**(1)**	**-**	**1**	**-**	**-**	**-**
Other Movement	**-**	**-**	**-**	**-**	**-**	**-**
Adoption of EBA forbearance definition	**(1,767)**	**(109)**	**56**	**23**	**(1,711)**	**(86)**
Closing stock 31 December 2016	**16,234**	**2,063**	**386**	**111**	**16,620**	**2,174**

2015

	Owner Occupier		Buy-to-let		Total	
	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m
At 1 January	16,214	1,923	372	117	16,586	2040
Additions	4,119	543	96	22	4,215	565
Expired arrangements	(1,956)	(236)	(76)	(20)	(2,032)	(256)
Payments	-	(99)	-	(13)	-	(112)
Interest	-	57	-	2	-	59
Closed accounts[1]	(471)	(22)	(15)	(2)	(486)	(24)
Advanced Forbearance Arrangements - Valuation Adjustments	-	(6)	-	-	-	(6)
Write-offs [2]	(10)	(15)	(4)	(2)	(14)	(17)
Transfer from owner-occupier to buy-to-let	(5)	(1)	5	1	-	-
Other Movement	-	-	-	-	-	-
Closing stock 31 December 2015	17,891	2,144	378	105	18,269	2,249

[1] Accounts closed during the year due primarily to customer repayments and redemptions
[2] Includes contracted and non-contracted write-offs in 2015.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Residential mortgages – subject to forbearance* (continued)
The stock of loans subject to forbearance measures decreased by €75 million in 2016 driven by a €86 million adjustment due to the adoption of a definition of forbearance as prescribed by the European Banking Authority.

Under the previous definition used, and which was prescribed by the Central Bank of Ireland, loans subject to temporary forbearance measures (e.g. interest only, payment moratoriums) remained in the forbearance stock only for the period of their temporary arrangement, whilst loans subject to permanent forbearance measures (e.g. term extension, arrears capitalisations) remained in the forbearance stock for a period of five years.

Under the EBA definition, all loans subject to forbearance measures remain in the forbearance stock for a period of 2 years from the date the forborne loan was considered "performing". This has led to a reduction in the forbearance stock as older permanent forbearance which have successfully exited probationary periods have not been fully offset by increases in the temporary forbearance measures still in their probationary period.

Owner Occupier Forbearance Stock*

						2016
			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.)	**3,185**	**463**	**1,984**	**307**	**1,201**	**156**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Low Fixed Interest Rate	**914**	**134**	**123**	**20**	**791**	**114**
Arrears capitalisation	**8,534**	**1,047**	**2,957**	**373**	**5,577**	**674**
Term extension	**443**	**33**	**140**	**10**	**303**	**23**
Split mortgage	**2,114**	**305**	**454**	**65**	**1,660**	**240**
Sale for loss	**321**	**17**	**174**	**14**	**147**	**3**
Positive Equity Solution	**714**	**62**	**31**	**3**	**683**	**59**
Other	**9**	**2**	**1**	**-**	**8**	**2**
Total	**16,234**	**2,063**	**5,864**	**792**	**10,370**	**1,271**

						2015
			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.)	1,154	168	598	95	556	73
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	1,012	149	69	12	943	137
Arrears capitalisation	10,586	1,262	4,519	548	6,067	714
Term extension	2,153	181	183	14	1,970	167
Split mortgage	2,093	313	934	143	1,159	170
Sale for loss	278	16	185	14	93	2
Positive Equity Solution	601	52	28	2	573	50
Other	14	3	-	-	14	3
Total	17,891	2,144	6,516	828	11,375	1,316

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Buy-to-let Forbearance Stock*

2016

			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.)	**117**	**41**	**84**	**34**	**33**	**7**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Low Fixed Interest Rate	**1**	**-**	**-**	**-**	**1**	**-**
Arrears capitalisation	**149**	**26**	**61**	**11**	**88**	**15**
Term extension	**49**	**28**	**34**	**24**	**15**	**4**
Split mortgage	**-**	**-**	**-**	**-**	**-**	**-**
Sale for loss	**70**	**16**	**56**	**16**	**14**	**-**
Positive Equity Solution	**-**	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Total	**386**	**111**	**235**	**85**	**151**	**26**

2015

			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.)	64	28	42	23	22	5
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	1	-	-	-	1	-
Arrears capitalisation	178	48	113	39	65	9
Term extension	66	11	13	6	53	5
Split mortgage	-	-	-	-	-	-
Sale for loss	69	18	64	17	5	1
Positive Equity Solution	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	378	105	232	85	146	20

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

Residential Mortgage Forbearance Stock*

2016

	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.)	**3,302**	**504**	**2,068**	**341**	**1,234**	**163**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Low Fixed Interest Rate	**915**	**134**	**123**	**20**	**792**	**114**
Arrears capitalisation	**8,683**	**1,073**	**3,018**	**384**	**5,665**	**689**
Term extension	**492**	**61**	**174**	**34**	**318**	**27**
Split mortgage	**2,114**	**305**	**454**	**65**	**1,660**	**240**
Sale for loss	**391**	**33**	**230**	**30**	**161**	**3**
Positive Equity Solution	**714**	**62**	**31**	**3**	**683**	**59**
Other	**9**	**2**	**1**	**-**	**8**	**2**
Total	**16,620**	**2,174**	**6,099**	**877**	**10,521**	**1,297**

2015

	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.)	1,218	196	640	118	578	78
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	1,013	149	69	12	944	137
Arrears capitalisation	10,764	1,310	4,632	587	6,132	723
Term extension	2,219	192	196	20	2,023	172
Split mortgage	2,093	313	934	143	1,159	170
Sale for loss	347	34	249	31	98	3
Positive Equity Solution	601	52	28	2	573	50
Other	14	3	-	-	14	3
Total	18,269	2,249	6,748	913	11,521	1,336

A key feature of the forbearance portfolio is the increase in interest only and the reduction in the arrears capitalisation. This is due to the adoption of the definition of forbearance as prescribed by the EBA. Under the previous definition, loans subject to temporary forbearance measures (e.g. interest only, payment moratoriums) remained in the forbearance stock only for the period of their temporary arrangement, whilst loans subject to permanent forbearance measures (e.g. term extension, arrears capitalisations) remained in the forbearance stock for a period of five years. Under the EBA definition, loans subject to forbearance measures remain in the forbearance stock for a period of 2 years from the date the forborne loan was considered "performing".

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 CREDIT RISK – ADDITIONAL INFORMATION – FORBEARANCE (CONTINUED)

COMMERCIAL PROPERTY*

2016

			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.)	**51**	**20**	**40**	**18**	**11**	**2**
Reduced payment (> I.O)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Arrears capitalisation	**60**	**23**	**24**	**12**	**36**	**11**
Term extension	**48**	**16**	**32**	**13**	**16**	**3**
Fundamental restructures	**72**	**13**	**1**	**-**	**-**	**-**
Other	**40**	**10**	**33**	**8**	**7**	**2**
Total	**271**	**82**	**130**	**51**	**70**	**18**

2015

			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.)	30	11	17	4	13	7
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Arrears capitalisation	60	27	37	18	23	9
Term extension	18	2	4	1	14	1
Fundamental restructures	-	-	-	-	-	-
Other	50	15	44	14	6	1
Total	158	55	102	37	56	18

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 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 2016 and 31 December 2015:

			2016
Loan-to-value ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	**245**	**22**	**267**
50% - 70%	**385**	**24**	**409**
71% - 80%	**242**	**11**	**253**
81% - 90%	**241**	**7**	**248**
91% - 100%	**212**	**11**	**223**
101% -120%	**368**	**16**	**384**
121% - 150%	**306**	**3**	**309**
Greater than 150%	**43**	**-**	**43**
Unsecured (Zero Collateral)	**21**	**17**	**38**
Total forbearance	**2,063**	**111**	**2,174**

			2015
Loan-to-value ratio:	Owner – Occupier €m	Buy-to-Let €m	Total €m
Less than 50%	279	21	300
50% - 70%	396	23	419
71% - 80%	256	11	267
81% - 90%	269	7	276
91% - 100%	227	11	238
101% -120%	365	11	376
121% - 150%	310	4	314
Greater than 150%	26	-	26
Unsecured (Zero Collateral)	16	17	33
Total forbearance	2,144	105	2,249

			2016
Forbearance stock - past due but not impaired*	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
1 - 30 days	**137**	**4**	**141**
31 - 60 days	**34**	**-**	**34**
61 - 90 days	**12**	**1**	**13**
91 - 180 days	**-**	**-**	**-**
181 - 365 days	**-**	**-**	**-**
Over 365 days	**-**	**2**	**2**
Total past due but not impaired	**183**	**7**	**190**

			2015
	Owner – Occupier €m	Buy-to-Let €m	Total €m
1 - 30 days	141	1	142
31 - 60 days	31	-	31
61 - 90 days	12	-	12
91 - 180 days	-	-	-
181 - 365 days	-	1	1
Over 365 days	-	-	-
Total past due but not impaired	184	2	186

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 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 2016 and 31 December 2015:

			2016
Forbearance stock – impaired*	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Not past due	**272**	**11**	**283**
1 - 30 days	**75**	**8**	**83**
31 - 60 days	**27**	**-**	**27**
61 - 90 days	**29**	**-**	**29**
91 - 180 days	**72**	**3**	**75**
181 - 365 days	**78**	**6**	**84**
Over 365 days	**240**	**55**	**295**
Total impaired	**793**	**83**	**876**

			2015
	Owner – Occupier €m	Buy-to-Let €m	Total €m
Not past due	441	31	472
1 - 30 days	92	3	95
31 - 60 days	39	3	42
61 - 90 days	28	2	30
91 - 180 days	63	2	65
181 - 365 days	58	10	68
Over 365 days	107	33	140
Total impaired	828	84	912

The proportion of forbearance that is impaired decreased from 41% at 31 December 2015 to 40% at 31 December 2016. The proportion of forborne impaired loans that were not past due decreased from 52% at 31 December 2015 to 32% at 31 December 2016, mainly due to the change in stock as a result of the adoption of a definition of forbearance as prescribed by the European Banking Authority.

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 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 December 2016 is based on property values at origination or date of latest valuation and applying the latest CSO Residential Property Price index (Republic of Ireland) and indices to these values to take account of price movements in the interim.

In 2016, the CSO moved to an enhanced estimation methodology of movements in property prices. AIB's buffer to the latest available CSO index remained unchanged at 10% throughout 2016.

				2016
Loan-to-value ratio:	**Neither past due nor impaired €m**	**Past due but not impaired €m**	**Impaired €m**	**Total €m**
Fully collateralised (1)				
Less than 50%	**1,946**	**50**	**136**	**2,132**
50%-70%	**2,427**	**73**	**201**	**2,701**
71%-80%	**1,509**	**50**	**131**	**1,690**
81%-90%	**1,319**	**38**	**149**	**1,506**
91%-100%	**936**	**52**	**157**	**1,145**
	8,137	**263**	**774**	**9,174**
Partially collateralised				
Collateral value relating to loans over 100% LTV	**1,592**	**76**	**826**	**2,494**
Total collateral value	**9,729**	**339**	**1,600**	**11,668**
Gross residential mortgages	**9,980**	**355**	**1,948**	**12,283**
Statement of financial position specific provisions			**(786)**	**(786)**
Statement of financial position IBNR provisions				**(85)**
Net residential mortgages				**11,412**

				2015
Loan-to-value ratio:	Neither past due nor impaired €m	Past due but not impaired €m	Impaired €m	Total €m
Fully collateralised (1)				
Less than 50%	1,738	48	193	1,979
50%-70%	1,919	64	294	2,277
71%-80%	1,401	50	177	1,628
81%-90%	1,327	47	220	1,594
91%-100%	1,040	41	236	1,317
	7,425	250	1,120	8,795
Partially collateralised				
Collateral value relating to loans over 100% LTV	1,785	96	1,025	2,906
Total collateral value	9,210	346	2,145	11,701
Gross residential mortgages	9,505	363	2,510	12,378
Statement of financial position specific provisions			(849)	(849)
Statement of financial position IBNR provisions				(102)
Net residential mortgages			1,661	11,427

(1) The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at each year end.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.1.3 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 2016 and 2015.

Loan-to-value ratio:			**2016**
90 days past due or impaired	**Owner-Occupier €m**	**Buy-to-Let €m**	**Total €m**
Fully Collateralised			
Less than 50%	**107**	**29**	**136**
50% - 70%	**170**	**32**	**202**
71% - 80%	**116**	**15**	**131**
81% - 90%	**130**	**19**	**149**
91% - 100%	**141**	**17**	**158**
Partially Collateralised			
Book Value	***980***	***55***	***1,035***
Value of Collateral	**780**	**47**	**827**
Unsecured (Zero Collateral)	**108**	**32**	**140**
Total	**1,444**	**159**	**1,603**

Loan-to-value ratio:			2015
90 days past due or impaired	Owner-Occupier €m	Buy-to-Let €m	Total €m
Fully Collateralised			
Less than 50%	152	42	194
50% - 70%	240	54	294
71% - 80%	159	19	178
81% - 90%	191	29	220
91% - 100%	198	38	236
Partially Collateralised			
Book Value	*1,207*	*78*	*1,285*
Value of Collateral	960	65	1,025
Unsecured (Zero Collateral)	80	25	105
Total	1,900	247	2,147

3.1.4 ANALYSIS OF LOANS AND RECEIVABLES TO CUSTOMERS BY INTEREST RATE SENSITIVITY

The following table analyses gross loans to customers by interest rate sensitivity. Approximately 10.8% 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**
2016	**1,351**	**11,121**	**12,472**
2015	1,451	11,145	12,596

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1.5 CROSS-BORDER OUTSTANDINGS

Cross-border outstanding's are based on the country of domicile of the borrower and comprise placing's 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 outstanding's exceeding 1% of total assets in 2016 were Nil (2015: Nil).

3.1.6 LARGE EXPOSURES

At 31 December 2016, the EBS Group's top 50 exposures amounted to €154m, and accounted for 1.2% (€169m and 1.3% at 31 December 2015) of the on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeds regulatory guidelines.

3.1.7 TREASURY ASSETS

Treasury assets consist of cash and balances with CBI, derivative financial instruments, available-for-sale financial assets 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	Other AFS Financial Assets	Loans & Receivables to Banks	Commitments & Contingent Liabilities
	€m	**€m**	**€m**	**€m**
Group				
Balances at 31 December 2016	**84**	**20**	**928**	**388**
	%	**%**	**%**	**%**
Aaa	**-**	**-**	**-**	**-**
Aa3 to Aa1	**100**	**-**	**-**	**-**
A3 to A1	**-**	**-**	**15**	**-**
Lower than A3	**-**	**100**	**85**	**-**
Unrated	**-**	**-**	**-**	**100**
	€m	€m	€m	€m
Group				
Balances at 31 December 2015	12	18	1,094	269
	%	%	%	%
Aaa	100	-	2	-
Aa3 to Aa1	-	-	-	-
A3 to A1	-	-	15	-
Lower than A3	-	100	83	-
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.

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's obligations to the CBI and loan commitments.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.2 RESTRUCTURE EXECUTION RISK

There is a restructure execution risk that the AIB Group's restructuring activity programme for customers in difficulties will not be executed in line with management's expectation.

The AIB Group continues to have a relatively high level of problem or criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. The AIB Group has been proactive in managing its criticised loans through a restructuring process. The objective of this process is to assist customers that find themselves in financial difficulties and to deal with them sympathetically and to work with them constructively and to explore appropriate solutions. By continuing to work together in this process, the AIB Group and the customer can find a mutually acceptable and alternative way forward. These plans, if successfully completed, will materially change the make-up of the AIB Group's operations. It will remove non-performing assets from the bank's balance sheet, improve its asset quality, lower its overall risk profile, and strengthen its solvency.

However, as AIB Group moves forward into the post-restructure phase, the realisation of collateral and the receipt of expected cashflows within the timeframes estimated, presents a level of execution risk. In addition, there is the risk of customers re-defaulting post restructure.

AIB Group has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage and to assist with the restructuring of problem loans. The AIB Group regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio.

3.3 LIQUIDITY AND FUNDING RISK

Liquidity risk

Liquidity risk is the risk that the bank will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

EBS's liquidity risk is managed as part of the overall AIB Group liquidity management. In accordance with the Capital Requirements Regulation ("CRR"), the Bank has appointed AIB as its liquidity manager to fulfil daily cash flow management, oversee any changes required in liquidity management or reporting and manage the Bank's liquidity risk as part of the overall AIB liquidity risk management process. This includes the risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes. Under this centralised approach the management of liquidity and related activities for EBS is integrated with its parent, the AIB Group. The means by which these liquidity management activities are performed, and the procedures by which AIB ensures the Bank complies with the AIB Group Liquidity Policy are managed through a Master Service Agreement ("MSA").

AIB Group conducts both regular and ad-hoc funding and liquidity risk stress testing to assess on an ongoing basis the ability of AIB, including EBS, to withstand various stress scenarios. These activities are conducted in conjunction with AIB Capital & Liquidity.

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

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.3 LIQUIDITY AND FUNDING RISK (CONTINUED)

Risk identification and assessment
Liquidity risk is measured and controlled using a range of metrics and methodologies on a consolidated basis including, Liquidity Stress Testing and ensuring adherence to limits based on the regulatory defined liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The simulated survival period is a key risk metric and is controlled using Board approved limits. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

Risk management and mitigation
The Group's Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and has a decision making and risk governance mandate in relation to the Bank's strategic balance sheet management including the management of funding and liquidity risk. The ALCo is responsible for approving the liquidity risk management control structures, for approving liquidity risk limits, for monitoring adherence to these limits and making decisions on risk positions where necessary and for approving liquidity risk measurement methodologies.

The Group operates a three lines of defence model for risk management. In terms for Funding & Liquidity Risk the first line comprises the Capital and Liquidity and Treasury functions. The Group's Capital and Liquidity unit, reporting to the CFO, is the owner of the Group's Funding and Liquidity plan which sets out the strategy for funding and liquidity management for the Group and is responsible for the management of the Group's liquidity gap and the efficient management of the liquidity buffer. This involves the identification, measurement and reporting of funding and liquidity risk, the valuation of financial assets for collateral and the application of behavioural adjustments to assets and liabilities.

The Group's Treasury department is responsible for the day to day management of liquidity to meet payment obligations, execution of wholesale funding requirements in line with the Funding and Liquidity Plan and the management of the FX funding gap.

First line management of funding and liquidity risk consists of:
-firstly, through the Group's active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on periods up to 1 month. Monitoring ratios also apply to longer periods for long term funding stability;
– secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity; and
– finally, net inflows and outflows are monitored on a daily basis.

The Financial Risk function, reporting to the CRO, provides second line assurance Financial Risk is responsible for exercising independent risk oversight and control over the Bank's funding and liquidity management. Financial Risk provides oversight on the effectiveness of the risk and control environment. It proposes and maintains the Funding and Liquidity Framework and Policy as the basis of the Group's control architecture for funding and liquidity risk activities, including the annual agreement of funding and liquidity risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the Group's liquidity risk methodologies.

Group Internal Audit provides third line assurance on Liquidity and Funding Risk.

The Group's Internal Liquidity Adequacy Assessment Process ("ILAAP") encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. The ILAAP considers evolving regulatory standards and aims to ensure that the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement.

Risk monitoring and reporting*
The EBS funding and liquidity position is reported as part of the overall Group position to the Group Asset and Liability Committee ("ALCo"), the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC").

Liquidity risk stress testing
Stress testing is a key component of the liquidity risk management framework and ILAAP. EBS as part of AIB Group undertakes liquidity stress testing as a key liquidity control. These stress tests include both firm-specific and systemic risk events and a combination of both. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of the Group's liquidity position, within the Group's pre-defined liquidity risk tolerance levels.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.3 LIQUIDITY AND FUNDING RISK (CONTINUED)

Liquidity risk stress testing (continued)
The Group has established the Contingency Funding Plan ("CFP") which is designed to ensure that the Group can manage its business in stressed liquidity conditions and restore its liquidity position should there be a major stress event.

Liquidity stress test results are reported to the ALCo, Leadership Team and Board, and to other committees. If Board approved survival limits are breached, the CFP will be activated. The CFP can also be activated by management decision independently of the stress tests. The CFP is a key element in the Group's Recovery Plan in relation to funding and liquidity.

Financial liabilities by contractual maturity*
This table analyses the gross contractual maturities of financial liabilities including interest payable at the next interest payment date held by the company.

Group

2016

	Up to 1 month	**Over 1 month to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 1 year**	**1 to 2 years**	**Over 2 years**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Deposits by Banks	**19**	**4,229**	**-**	**-**	**-**	**-**	**4,248**
Derivative financial instruments	**1**	**2**	**2**	**2**	**4**	**12**	**23**
Deposits by Central Bank	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities in issue	**-**	**399**	**-**	**-**	**-**	**-**	**399**
Customer accounts	**1,933**	**1,205**	**900**	**1,361**	**713**	**539**	**6,651**
Total	**1,953**	**5,835**	**902**	**1,363**	**717**	**551**	**11,321**
Off-Balance sheet commitments	**388**	**-**	**-**	**-**	**-**	**-**	**388**

2015

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Deposits by Banks	19	3,921	-	-	-	-	3,940
Derivative financial instruments	-	2	-	1	6	44	53
Deposits by Central Bank	-	-	-	-	-	-	-
Debt securities in issue	-	-	-	55	-	450	505
Customer accounts	2,220	709	647	1,535	1,337	666	7,114
Total	2,239	4,632	647	1,591	1,343	1,160	11,612
Off-Balance sheet commitments	269	-	-	-	-	-	269

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

RISK MANAGEMENT REPORT (CONTINUED)

3.3 LIQUIDITY AND FUNDING RISK (CONTINUED)

Encumbrance
The asset encumbrance disclosure for EBS has been produced in line with the 2014 EBA Guidelines complemented by EBA clarifications on the disclosure of encumbered and unencumbered assets. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the bank to secure funding, satisfy collateral needs or to be sold.

EBS had an encumbrance ratio of 30% at 31 December 2016 (2015: 40%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

3.4 CAPITAL ADEQUACY RISK

Capital adequacy risk is defined as the risk that EBS or AIB Group breaches or may breach regulatory capital ratios and internal targets. The key material risks impacting on the capital adequacy position of EBS or AIB Group is credit risk, although it should be noted that all material risks can to some degree impact capital ratios.

Capital Adequacy Risk is mitigated at AIB Group level by an evaluation of the adequacy of the AIB Group's capital under both forecast and stress conditions as part of the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process includes the identification and evaluation of potential capital mitigants. The objectives of the AIB Group's capital management policy are to comply at all times with all applicable regulatory capital requirements (including requirements at EBS level) and to ensure that EBS has sufficient capital to cover current and potential future risks to its business.

Further details of AIB Group's capital position and the management thereof can be found in the capital management section of the Business review in the 2016 AIB Group Annual Financial Report.

3.5 MARKET RISK*

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Bank.

Market risk in EBS is transferred to and managed by AIB Treasury, subject to Capital and Liquidity review and oversight by AIB ALCo. Treasury proactively manages the market risk on AIB Group's balance sheet, Market risk is managed against a range of limits approved at ALCo, which incorporate forward-looking measures such as VaR limits and stress test limits and financial measures such as 'stop-loss' and embedded value limits. Treasury documents an annual Risk Strategy and Appetite Statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with the Group's strategic business plan.

Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Bank as a result of adverse movements in interest rates being applied to positions held in the banking book. Changes in interest rates impact the underlying value of the Bank's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Bank's net interest income through interest-sensitive income and expense effects. Interest rate risk in the banking book is EBS's primary source of market risk. EBS does not engage in proprietary trading i.e. does not trade on its own account.

Interest rate exposure and sensitivity gap analysis 2016
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.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.5 MARKET RISK (CONTINUED)*

Interest rate exposure and sensitivity gap analysis 2016 (continued)

The net interest rate exposure sensitivity of EBS Group at 31 December 2016 analysed by the earlier of the repricing and the contractual maturity date is illustrated in the following table:

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Non-interest bearing	Trading	Total
Assets	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances with Central Bank of Ireland	78	-	-	-	-	-	-	-	6	-	84
Loans and receivables to customers	912	-	-	-	-	-	-	-	16	-	928
Loans and receivables to bank	11,228	57	389	291	138	198	127	44	(934)		11,538
Available-for-sale financial assets	-	-	-	-	-	-	-	-	20	-	20
Other assets	-	-	-	-	-	-	-	-	316	4	320
Total Assets	12,218	57	389	291	138	198	127	44	(576)	4	12,890
Liabilities											
Deposits by banks	4,248	-	-	-	-	-	-	-	-	-	4,248
Customer accounts	2,386	752	2,261	713	213	321	5	-	-	-	6,651
Debt issued	399	-	-	-	-	-	-	-	-	-	399
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	47	-	47
Other liabilities	-	-	-	-	-	-	-	-	257	4	261
Shareholders' equity	-	-	-	-	-	-	-	-	1,284	-	1,284
Total Liabilities	7,033	752	2,261	713	213	321	5	-	1,588	4	12,890
Total derivatives (interest rate swaps)	2,581	(516)	(1,757)	(274)	(132)	(69)	133	34	-	-	-
Interest sensitivity gap	2,604	(179)	(115)	(148)	57	(54)	(11)	10	(2,164)	-	-
Cumulative interest sensitivity gap	2,604	2,425	2,310	2,162	2,219	2,165	2,154	2,164	-	-	-

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.5 MARKET RISK (CONTINUED)*

Interest rate exposure and sensitivity gap analysis 2015 (continued)

The net interest rate exposure sensitivity of EBS Group at 31 December 2015 analysed by the earlier of the repricing and the contractual maturity date is illustrated in the following table:

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Non-interest bearing	Trading	Total
Assets	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Cash and balances with Central Bank of Ireland	6	-	-	-	-	-	-	-	6	-	12
Loans and receivables to customers	11,102	114	364	345	284	70	204	113	(1,034)	-	11,562
Loans and receivables to bank	1,076	-	-	-	-	-	-	-	18	-	1,094
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	18	-	18
Other assets	-	-	-	-	-	-	-	-	329	35	364
Total Assets	12,184	114	364	345	284	70	204	113	(663)	35	13,050
Liabilities											
Deposits by banks	3,940	-	-	-	-	-	-	-	-	-	3,940
Customer accounts	2,219	710	2,182	1,337	435	221	10	-	-	-	7,114
Debt issued	450	55	-	-	-	-	-	-	-	-	505
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	55	-	55
Other liabilities	-	-	-	-	-	-	-	-	298	36	334
Shareholders' equity	-	-	-	-	-	-	-	-	1,102	-	1,102
Total Liabilities	6,609	765	2,182	1,337	435	221	10	-	1,455	36	13,050
Total derivatives (interest rate swaps)	2,810	(286)	(1,781)	(813)	(69)	(152)	206	85	-	-	-
Interest sensitivity gap	2,765	(365)	(37)	(179)	(82)	1	(12)	28	(2,118)	(1)	-
Cumulative interest sensitivity gap	2,765	2,400	2,363	2,184	2,102	2,103	2,091	2,119	1	-	-

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

RISK MANAGEMENT REPORT (CONTINUED)

3.5 MARKET RISK (CONTINUED)*

Interest rate exposure and sensitivity gap analysis 2016 (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.

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

		2016		2015
	100 bps parallel shift (increase / decrease)			
		€m		€m
Banking book portfolio				
Average for the period	**- / +**	**7**	- / +	4
Maximum for the period	**- / +**	**8**	- / +	7
Minimum for the period	**- / +**	**3**	- / +	1

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 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 14 of the financial statements.

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 foreign currency open positions are managed centrally by AIB Treasury.

Group and Company

	2016	2015
	€m	€m
Net of Assets and Liabilities (including derivatives) denominated in currency other than Euro:		
Sterling	**-**	3
Total	**-**	3

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.6 OPERATIONAL RISK*

Operational risk is the risk arising from inadequate or failed internal processes, people and systems or from external events. This includes legal risk the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk covers a broad canvas of individual risk types which include products, projects, people and property, continuity and resilience, information and security and outsourcing and 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 AIB Group and this relationship is governed by a master service agreement. The AIB Group's 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.

3.7 REGULATORY COMPLIANCE RISK AND CONDUCT RISK*

Regulatory Compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which EBS may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

The level of regulatory risk remained high in 2016 as the regulatory landscape for the banking sector continued to evolve with a continuing focus on supporting the stability of the banking system and ensuring the provision of customer focused financial services. EBS is committed to proactively identifying regulatory and compliance obligations arising in its operating markets in Ireland, and ensuring the timely implementation of regulatory change. Throughout 2016, projects were mobilised within AIB Group to prepare for the significant regulatory change horizon as outlined in AIB Group's annual report: Governance and Oversight – Supervision and Regulation.

The level of regulatory change is expected to continue in 2017.

Conduct Risk is defined as the risk that inappropriate actions, or inaction, by AIB Group cause poor and unfair outcomes for its customers or market instability. A mature Conduct Risk Framework, aligned with the Group Strategy, is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level. This includes the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

EBS Group's regulatory compliance risk is managed as part of the overall AIB Group Regulatory Compliance Framework. This includes risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes. Conduct Risk is managed in line with the processes, procedures and organisational structures for the management of Regulatory Compliance risk within AIB Group.

3.8 CULTURE RISK

Culture Risk is the risk that intentional or unintentional behaviours or actions taken by employees which are not conductive with the overall strategy, culture and values of AIB Group will adversely impact business performance or prospects. The majority of business activities of EBS are outsourced to AIB p.l.c. under an Outsourcing and Agency Agreement.

Mitigating Actions

Culture is an essential component in realising an organisations strategic ambitions. An effective culture is built around a general principle of "doing the right thing" for all stakeholders, including customers, staff and regulators.

AIB seeks to foster a consistent culture, in the way decision making occurs and how AIB communicate this from the top and throughout the AIB Group. In this way AIB has embedded a set of customer centric Brand Values. These values drive and influence activities of all staff, guiding our dealings with customers, each other and all stakeholders. AIB's Brand Values are embedded within the AIB Group's framework, from the way AIB recruit, promote, reward and manage our people.

A strong Culture demonstrates a consistent approach to compliance in both the letter and spirit of the law. AIB's Risk Culture Principles and Code of Conduct places great emphasis on the integrity of staff and accountability for both inaction and actions taken. These frameworks describe for staff the standards AIB apply that translate into how AIB behave.

How AIB lives up to the values determines what behaviours are acceptable in AIB and this means aligning remunerations and reward models around these values. In 2016 AIB launched the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions that contribute to delivering the Groups strategic ambitions. Aspire allows all staff to create goals that are clear on "What" they will achieve and that "How" they behave will be important to deliver these goals. This means that AIB stands out from its peers in embracing the right behaviours and outcomes with equal weighting, in achieving our strategic ambition.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.8 CULTURE RISK (CONTINUED)

AIB has made significant steps in increasing engagement and awareness of AIB's Risk management activities throughout the AIB Group by embedding the Risk Appetite Statement in policies and frameworks of the AIB Group. The Risk Appetite Statement contains clear statements of intent as to AIB's attitude to taking and managing risk, including culture risk. It ensures AIB monitor and report against certain culture metrics in measuring culture risk and tracking cultural change.

AIB closely monitors the evolving culture at an AIB Group level through our staff engagement programme, iConnect. Engagement scores have consistently increased since its inception 2013. As a result, initiatives continue to be undertaken at team level to improve the way AIB do things and from which AIB continuously identify opportunities to evolve the culture at AIB Group level as a competitive advantage.

AIB's iLearn training portal, provides all staff with dedicated and bespoke curriculum that allow teams and individuals to invest in themselves and therefore the organisation. AIB's Speak Up Policy and process also provides staff with a protected channel for raising concerns which is at the heart fostering an open and receptive cultural environment.

3.9 BUSINESS RISK

Business risk is defined as the risk that external and internal factors impact on the AIB Group's performance and the achievement of its strategic objectives. External factors include the macro-economic, geo-political and competitive environment. Internal factors include plan delivery, cost management and execution/change management.

Competition risk, which is a component of business risk, is the risk that the actions of competitors or new entrants to the market impair the AIB Group's competitive position, threaten the viability of its business model or even its ability to survive.

Risk Identification and Assessment

AIB identifies and assesses business risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of AIB's strategic objectives aligned to the AIB Group's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long-term strategy of the AIB Group.

The AIB Group reviews its assumptions on its external operating environment and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets. In normal circumstances, this is annually.

The AIB Group's business and financial planning process supports the AIB Group's strategy. Every year, the AIB Group prepares three- year business plans at an AIB Group level based on macro-economic and market forecasts across a range of scenarios. The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across P&L, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The AIB Group plan is supported by detailed business unit plans, encapsulating the operations and activities of EBS. Each business unit plan is aligned to the AIB Group strategy and risk appetite. The business plan typically describes the market in which the segment operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

Risk Management & Mitigation

At a strategic level, EBS manages business risk within its risk appetite framework, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through periodic monitoring of variances to plan at both AIB Group and EBS level. Where performance against Plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter. During the year, periodic forecast updates for the full year financial outcome may also be produced. The frequency of forecast updates during each year will be determined based on prevailing business conditions.

Risk Monitoring and Reporting

Performance against plan and risk profile against risk appetite is monitored at EBS level by the Bank's executive management and Board on a quarterly basis. At an overall AIB Group level, performance against Plan and risk profile against risk appetite is monitored as part of the CRO Report which is discussed at Leadership Team and Board on a monthly basis

3.10 MODEL RISK

Model Risk is the risk of potential adverse consequences from decisions based on incorrect or misused model outputs and reports. The responsibilities and accountabilities in relation to the governance of model risk is outlined in the AIB Group's Model Risk Framework.

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

RISK MANAGEMENT REPORT (CONTINUED)

3.10 MODEL RISK (continued)

The AIB Group mitigates model risk by having policies and standards in place in relation to model development, operation and validation. In addition, AIB Group Internal Audit provide independent assurance on the adequacy, effectiveness and sustainability of the governance, risk management and control framework supporting model risk through their periodic review of the Model Risk Management processes.

4. 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:

			2016			2015
	Amortised Cost	**Fair Value**	**Total**	Amortised Cost	Fair Value	Total
	€m	**€m**	**€m**	€m	€m	€m
Cash and Balances with central banks	**84**	**-**	**84**	12	-	12
Derivative financial instruments	**-**	**36**	**36**	-	80	80
Available-for-sale financial assets	**-**	**1,941**	**1,941**	-	2,681	2,681
Loans and receivables to banks	**3,417**	**-**	**3,417**	3,173	-	3,173
Loans and receivables to customers	**6,378**	**-**	**6,378**	5,976	-	5,976
Included elsewhere:						
Accrued interest	**31**	**-**	**31**	26	-	26
Other assets	**738**	**-**	**738**	677	-	677
	10,648	**1,977**	**12,625**	9,864	2,761	12,625
Loan commitments	**236**	**-**	**236**	171	-	171
Maximum exposure to credit risk	**10,884**	**1,977**	**12,861**	10,035	2,761	12,796

The following table shows the fair value of collateral held for loans and receivables to customers at 31 December 2016 and 2015:

Company Collateral Held: Loans and receivables to customers

			2016			2015
	Residential mortgages	**Commercial mortgages**	**Total**	Residential mortgages	Commercial mortgages	Total
	€m	**€m**	**€m**	€m	€m	€m
Impaired loans	**840**	**87**	**927**	1,134	114	1,248
Past due but not impaired	**161**	**10**	**171**	151	15	166
Non impaired/non-past due	**4,087**	**76**	**4,163**	3,728	70	3,798
Total loans	**5,088**	**173**	**5,261**	5,013	199	5,212

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

4. 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

2016

Grade	Owner-occupier Exposure €m	Owner-occupier Average PD %	Owner-occupier Average LGD %	Buy-to-let Exposure €m	Buy-to-let Average PD %	Buy-to-let Average LGD %
Good upper	3,199	0.5	14.6	26	2.1	14.6
Good lower	593	2.6	18.2	75	7.4	49.7
Watch	351	16.0	17.9	36	10.6	55.2
Vulnerable	50	57.3	20.3	7	21.9	52.1

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	211	14.5	20.4	26	12.2	50.7
Forborne – Not impaired	667	9.2	18.0	13	35.0	23.7

Company

2015

Grade	Owner-occupier Exposure €m	Owner-occupier Average PD %	Owner-occupier Average LGD %	Buy-to-let Exposure €m	Buy-to-let Average PD %	Buy-to-let Average LGD %
Good upper	2,290	0.6	17.2	10	1.8	10.3
Good lower	1,127	9.9	20.4	122	10.7	47.6
Watch	358	16.2	20.2	81	72.9	57.1
Vulnerable	62	58.4	20.8	17	83.7	56.4
Cured	301	17.7	20.7	5	56.5	19.0
Forborne – Not impaired	550	11.6	20.0	12	32.1	22.0

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.

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

4. COMPANY RISK INFORMATION (CONTINUED)

Credit quality (excluding commercial)*
The following table includes loans and receivables to customers' gross of impairment provisions split on an owner-occupier / buy-to-let basis. The numbers presented are inclusive of unearned income and related provisions and deferred acquisition costs.

			2016
	Owner-Occupier	**Buy-to-Let**	**Total**
	€m	**€m**	**€m**
Total gross residential mortgages	**5,066**	**310**	**5,376**
In arrears >30 days past due and/or impaired	**905**	**184**	**1,089**
In arrears >90 days past due and/or impaired	**874**	**168**	**1,042**
Of which impaired	**873**	**165**	**1,038**
Statement of financial position specific provisions	**348**	**98**	**446**
Statement of financial position IBNR provisions	**33**	**4**	**37**

			2015
	Owner-Occupier	Buy-to-Let	Total
	€m	€m	€m
Total gross residential mortgages	4,931	381	5,312
In arrears >30 days past due and/or impaired	1,127	242	1,369
In arrears >90 days past due and/or impaired	1,094	240	1,334
Of which impaired	1,095	238	1,333
Statement of financial position specific provisions	360	125	485
Statement of financial position IBNR provisions	50	3	53

Provision cover percentage

			2016
	Owner-Occupier	**Buy-to-Let**	**Total**
Specific provisions as a % of impaired loans cover	**39.9%**	**59.4%**	**43.0%**

Provision cover percentage

			2015
	Owner-Occupier	Buy-to-Let	Total
Specific provisions as a % of impaired loans cover	32.9%	52.5%	36.4%

Owner Occupier/ Buy-to-let Specific Provision cover rates increased primarily due to parameter changes in the Mortgage Provisioning model.

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

RISK MANAGEMENT REPORT (CONTINUED)

4. COMPANY RISK INFORMATION (CONTINUED)

Credit quality*

Income statement[(1)]			**2016**
	Owner-Occupier	**Buy-to-Let**	**Total**
	€m	**€m**	**€m**
Income statement specific provisions	**2**	**(11)**	**(9)**
Income statement IBNR provisions	**(16)**	**1**	**(15)**
Total impairment provisions	**(14)**	**(10)**	**(24)**

			2015
	Owner-Occupier	Buy-to-Let	Total
	€m	€m	€m
Income statement specific provisions	1	(6)	(5)
Income statement IBNR provisions	(35)	(3)	(38)
Total impairment provisions	(34)	(9)	(43)

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

Asset quality*

Residential 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.

			2016
	Owner-Occupier	**Buy-to-Let**	**Total**
	€m	**€m**	**€m**
Satisfactory	**3,792**	**102**	**3,894**
Watch	**351**	**36**	**387**
Vulnerable	**50**	**7**	**57**
Impaired	**873**	**165**	**1,038**
Criticised	**1,274**	**208**	**1,482**
Gross mortgages	**5,066**	**310**	**5,376**

			2015
	Owner-Occupier	Buy-to-Let	Total
	€m	€m	€m
Satisfactory	3,417	108	3,525
Watch	357	29	386
Vulnerable	62	6	68
Impaired	1,095	238	1,333
Criticised	1,514	273	1,787
Gross mortgages	4,931	381	5,312

	%	%	%
Criticised loans as % of total mortgages	**25**	**67**	**28**
Impaired loans as % of total mortgages	**17**	**53**	**19**

	%	%	%
Criticised loans as % of total mortgages	31	72	34
Impaired loans as % of total mortgages	22	62	25

RISK MANAGEMENT REPORT (CONTINUED)

4. COMPANY RISK INFORMATION (CONTINUED)

Asset quality*

Residential mortgages
EBS's criticised loans and receivables to customers amounted to €1,482m or 28% of total customer loans. Criticised loans have decreased by €305m since 31 December 2015. The main drivers of the decrease in criticised loans have been increased restructuring activity and improved economic conditions.

The main driver of the decrease in the level of impaired loans is due to the end of the probationary period for loans previously restructured, particularly split mortgages and arrears capitalisations. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Company	2016		2015	
Total impaired loans	**€m**	**%**	€m	%
Impaired loans – Owner-occupier	**873**	**15.7**	1,095	19.7
Impaired loans – Buy-to-let	**264**	**4.7**	369	6.7
Total	**1,137**	**20.4**	1,464	26.4

Past due but not impaired				**2016**
	Owner-Occupier	**Buy-to-Let**	**Total**	**%**
	€m	**€m**	**€m**	
Neither past due nor impaired	**4,049**	**201**	**4,250**	**76.4**
Past due but not impaired	**144**	**34**	**178**	**3.2**
Impaired – no provision	**-**	**4**	**4**	**0.1**
Impaired – provision held	**873**	**260**	**1,133**	**20.3**
Gross loans and receivables	**5,066**	**499**	**5,565**	**100.0**
Provision for impairment	**(381)**	**(165)**	**(546)**	
Total loans and receivables after provisions	**4,685**	**334**	**5,019**	

Past due but not impaired				2015
	Owner-Occupier	Buy-to-Let	Total	%
	€m	€m	€m	
Neither past due nor impaired	3,687	207	3,894	70.4
Past due but not impaired	149	23	172	3.1
Impaired – no provision	10	14	24	0.4
Impaired – provision held	1,085	355	1,440	26.1
Gross loans and receivables	4,931	599	5,530	100.0
Provision for impairment	(410)	(211)	(621)	
Total loans and receivables after provisions	4,521	388	4,909	

Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

4. COMPANY RISK INFORMATION (CONTINUED)

Asset quality*

Residential Mortgages

Aged analysis of loans and receivables which are past due but not impaired*	**2016** Owner – Occupier	Buy-to-Let	Total
	€m	**€m**	**€m**
1 - 30 days	**112**	**6**	**118**
31 - 60 days	**21**	**-**	**21**
61 - 90 days	**11**	**16**	**27**
91 - 180 days	**-**	**-**	**-**
181 - 365 days	**-**	**-**	**-**
Over 365 days	**-**	**2**	**2**
Total past due but not impaired	**144**	**24**	**168**

Aged analysis of loans and receivables which are past due but not impaired*	2015 Owner – Occupier	Buy-to-Let	Total
	€m	€m	€m
1 - 30 days	117	4	121
31 - 60 days	23	1	24
61 - 90 days	9	1	10
91 - 180 days	-	-	-
181 - 365 days	-	1	1
Over 365 days	-	1	1
Total past due but not impaired	149	8	157

Total Mortgages

2016*

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	**5,376**	**1,038**	**19.3%**	**446**	**37**	**483**	**46.5%**	**9.0%**
Commercial Property	**189**	**99**	**52.4%**	**60**	**3**	**63**	**63.6%**	**33.3%**
Total	**5,565**	**1,137**	**20.4%**	**506**	**40**	**546**	**48.0%**	**9.8%**

2015*

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	5,312	1,333	25.1%	485	53	538	40.4%	10.1%
Commercial Property	218	131	60.1%	80	3	83	63.4%	38.1%
Total	5,530	1,464	26.5%	565	56	621	42.5%	11.2%

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

RISK MANAGEMENT REPORT (CONTINUED)

4. COMPANY RISK INFORMATION (CONTINUED)

4.1 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	Other AFS Financial Assets	Loans & Receivables to Banks	Commitments & Contingent Liabilities
	€m	€m	€m	€m
Company				
Balances at 31 December 2016	**84**	**1,941**	**3,417**	**236**
	%	%	%	%
Aaa	**-**	**24**	**-**	**-**
Aa3 to Aa1	**100**	**73**	**-**	**-**
A3 to A1	**-**	**-**	**-**	**-**
Lower than A3	**-**	**2**	**100**	**-**
Unrated	**-**	**1**	**-**	**100**
Company	€m	€m	€m	€m
Balances at 31 December 2015	12	2,681	3,173	171
	%	%	%	%
Aaa	100	-	1	-
Aa3 to Aa1	-	39	-	-
A3 to A1	-	50	-	-
Lower than A3	-	11	99	-
Unrated	-	-	-	100

RISK MANAGEMENT REPORT (CONTINUED)

4. COMPANY RISK INFORMATION (CONTINUED)

4.2 EXPOSURE TO LIQUIDITY RISK*

The following table analyses financial liabilities by contractual residual maturity.

2016

Company	Up to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Deposits by Banks	37	4,229	-	-	-	-	4,266
Derivative financial instruments	1	2	2	2	4	28	39
Debt securities in issue	-	-	-	-	-	-	-
Customer accounts	2,542	1,205	900	1,361	713	539	7,260
Total	**2,580**	**5,436**	**902**	**1,363**	**717**	**567**	**11,565**
Commitments	236	-	-	-	-	-	236

2015

Company	Up to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Deposits by Banks	30	3,921	-	-	-	-	3,951
Derivative financial instruments	-	2	-	1	6	31	40
Debt securities in issue	-	-	-	55	-	-	55
Customer accounts	2,891	710	647	1,535	1,337	666	7,786
Total	2,921	4,633	647	1,591	1,343	697	11,832
Commitments	171	-	-	-	-	-	171

Forms an integral part of the audited financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and annual financial statements in accordance with applicable Irish law and regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company as at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Group and Company financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board,

Catherine Woods

Catherine Woods
Non-Executive Director

Desmond Fitzgerald
Managing Director

Date: 28 March 2017

Deloitte.

Deloitte
Chartered Accountants &
Statutory Audit Firm

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EBS d.a.c

We have audited the financial statements of EBS d.a.c for the financial year ended 31 December 2016 which comprise the Group Financial Statements: Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Shareholders' Equity, and, the Parent Company Financial Statements: the Company Statement of Financial Position, the Company Cash Flow Statement and the Company Statement of Changes in Shareholders' Equity, and the related notes 1 to 43. The relevant financial reporting framework that has been applied in the preparation of the group and the parent company financial statements is the Companies Act 2014 and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("relevant financial reporting framework").

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. 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 and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 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 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 and parent company financial statements give a true and fair view of the assets, liabilities and financial position of the group and parent company as at 31 December 2016 and of the profit of the group for the year then ended; and
- the group and parent company financial statements have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the parent company were sufficient to permit the financial statements to be readily and properly audited.
- The parent company statement of financial position is in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Continued on next page/

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EBS d.a.c

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Gerard Fitzpatrick
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Dublin

Date: 30/3/2017

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2016

	Note	2016 €m	2015 €m
Interest income and similar income	4	**381**	427
Interest expense and similar charges	5	**(129)**	(173)
Net Interest Income		**252**	254
Dividend income	6	**1**	1
Net fee and commission income	7	**12**	15
Net trading loss	8	**(1)**	-
Other operating income	9	**5**	42
Total Other Income		**17**	58
Total Operating Income		**269**	312
Administrative expenses	10	**(87)**	(172)
Impairment and amortisation of intangible assets	18	**(3)**	(3)
Impairment and depreciation of property, plant and equipment	19	**(2)**	(3)
Total Operating Expenses	10	**(92)**	(178)
Operating profit before provisions		**177**	134
Writeback of provisions for impairment of loans and receivables to customers	16	**34**	89
Operating profit before taxation		**211**	223
Income tax charge	12	**(28)**	(29)
Profit for the financial year		**183**	194

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

The operating profit arises from continuing operations.

The notes on pages 71 to 130 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

	2016	2015
	€m	€m
Profit for the financial year	**183**	194
Comprehensive profit net of taxation		
Items that will not be reclassified to profit and loss:		
Net actuarial movement in retirement benefits	**5**	39
Total Items that will not be reclassified to profit and loss:	**5**	39
Items that may be reclassified subsequently to profit and loss:		
Net movement in cash flow hedge reserve, net of tax.	**(7)**	-
Net movement in available-for-sale reserve, net of tax	**1**	(29)
Total items that may be reclassified subsequently to profit and loss:	**(6)**	(29)
Comprehensive income for the financial year, net of taxation	**(1)**	10
Total comprehensive income for the financial year	**182**	204

The notes on pages 71 to 130 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	**2016 €m**	2015 €m
Assets			
Cash and balances at central banks	13	**84**	12
Non-current assets held for sale		**8**	4
Derivative financial instruments	14	**18**	60
Loans and receivables to banks	15	**928**	1,094
Loans and receivables to customers	16	**11,538**	11,562
Available-for-sale financial assets	17	**20**	18
Intangible assets	18	**6**	7
Property, plant and equipment	19	**24**	26
Other assets	20	**3**	2
Current taxation		**5**	-
Deferred taxation	21	**242**	248
Prepayments and accrued income		**14**	14
Retirement benefit asset	29	**-**	3
Total assets		**12,890**	13,050
Liabilities			
Deposits by central bank and banks	23	**4,248**	3,940
Customer accounts	25	**6,651**	7,114
Derivative financial instruments	14	**23**	53
Debt securities in issue	26	**399**	505
Current taxation		**-**	7
Other liabilities	27	**40**	31
Accruals and deferred income	28	**144**	144
Retirement benefit liability	29	**47**	55
Provisions for liabilities and commitments	30	**54**	99
Total liabilities		**11,606**	11,948
Shareholders' equity			
Called up share capital presented as equity	31	**1,654**	1,654
Capital contribution	32	**249**	249
Reserves		**(619)**	(801)
Total shareholders' equity		**1,284**	1,102
Total liabilities and shareholders' equity		**12,890**	13,050

The notes on pages 71 to 130 are an integral part of these financial statements.

Catherine Woods
Catherine Woods
Non-Executive Director

Desmond Fitzgerald
Managing Director

Tom Foley
Chairman of the Audit Committee

Cara Teahan
Company Secretary

Date: 28 March 2017

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Financial year ended 31 December 2016

	Note	2016 €m	2015 €m
Cash flows from operating activities			
Operating profit before taxation		**211**	223
Impairment and depreciation of property, plant and equipment	19	**2**	3
Amortisation and impairment of intangibles	18	**3**	3
Provisions/ (writeback) for impairment on loans and receivables	16	**(34)**	(89)
Retirement benefits – defined benefit		**2**	2
Fair value movement on hedging derivatives		**3**	-
Fair value movement on hedged items		**11**	14
		198	156
Changes in operating assets and liabilities			
Change in loans and receivables to banks		**144**	24
Change in loans and receivables to customers		**49**	248
Change in other assets		**(2)**	2
Change in amounts due to customers		**(463)**	(783)
Change in other liabilities		**(40)**	57
Net cash flows from operations before taxation		**(114)**	(296)
Taxation paid		**(35)**	(2)
Net cash flows from operations		**(149)**	(298)
Cash flows from investing activities			
Additions to property, plant and equipment	19		(1)
Additions to intangible assets	18	**(2)**	-
Change in available-for-sale financial assets		**(1)**	205
Net cash flows from investing activities		**(3)**	204
Cash flows from financing activities			
Change in debt securities		**(106)**	(783)
Change in deposits from Central Bank of Ireland and banks		**308**	558
Net cash flows from financing activities		**202**	(225)
Change in cash and cash equivalents		**50**	(319)
Cash and cash equivalents at 1 January		**176**	495
Cash and cash equivalents at 31 December	35	**226**	176

The notes on pages 71 to 130 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the financial year ended 31 December 2016

	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 2016	**1,654**	**249**	**(815)**	**14**	**-**	**1,102**
Total comprehensive income for the financial year	**-**	**-**	**188**	**1**	**(7)**	**182**
At 31 December 2016	**1,654**	**249**	**(627)**	**15**	**(7)**	**1,284**

For the financial year ended 31 December 2015

	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 2015	1,654	249	(1,048)	43	-	898
Total comprehensive income for the financial year	-	-	233	(29)	-	204
At 31 December 2015	1,654	249	(815)	14	-	1,102

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 €m	2015 €m
Assets			
Cash and balances at central banks	13	**84**	12
Derivative financial instruments	14	**36**	80
Loans and receivables to banks	15	**3,417**	3,173
Loans and receivables to customers	16	**6,378**	5,976
Available-for-sale financial assets	17	**1,941**	2,681
Intangible assets	18	**6**	7
Property, plant and equipment	19	**24**	25
Other assets	20	**88**	23
Current taxation		**1**	1
Deferred taxation	21	**254**	291
Prepayments and accrued income		**34**	30
Property held for sale		**4**	2
Shares in Group undertakings	22	**612**	612
Retirement benefit asset	29	**-**	3
Total assets		**12,879**	12,916
Liabilities			
Deposits by central bank and banks	23	**4,266**	3,951
Customer accounts	25	**7,260**	7,786
Derivative financial instruments	14	**39**	40
Debt securities in issue	26	**-**	55
Other liabilities	27	**67**	57
Accruals and deferred income	28	**153**	153
Retirement benefit liability	29	**47**	55
Provisions for liabilities and commitments	30	**40**	64
Total liabilities		**11,872**	12,161
Shareholders' equity			
Called up share capital presented as equity	31	**1,654**	1,654
Capital contribution	32	**249**	249
Reserves		**(896)**	(1,148)
Total shareholders' equity		**1,007**	755
Total liabilities and shareholders' equity		**12,879**	12,916

The notes on pages 71 to 130 are an integral part of these financial statements.

Catherine Woods
Non-Executive Director

Desmond Fitzgerald
Managing Director

Tom Foley
Chairman of the Audit Committee

Cara Teahan
Company Secretary

Date: 28 March 2017

COMPANY STATEMENT OF CASH FLOWS

For the Financial year ended 31 December 2016

	Note	2016 €m	2015 €m
Cash flows from operating activities			
Operating profit / (loss) before taxation		**82**	90
Impairment and depreciation of property, plant and equipment	19	**2**	3
Amortisation of intangibles	18	**3**	3
Provisions for impairment of financial assets	17	**(27)**	(44)
Pension expense		**2**	2
Fair value movement on hedging derivatives		**(34)**	6
Fair value movement on hedged items		**61**	2
		89	62
Changes in operating assets and liabilities			
Change in loans and receivables to banks		**18**	1
Change in loans and receivables to customers		**(384)**	(179)
Change in other assets		**(68)**	(26)
Change in amounts due to customers		**(526)**	(843)
Change in other liabilities		**7**	35
Net cash flows from operations before taxation		**(864)**	(950)
Taxation paid		**(1)**	(2)
Net cash flows from operations		**(865)**	(952)
Cash flows from investing activities			
Additions to property, plant and equipment	19	**(1)**	-
Additions of intangible assets	18	**(2)**	-
Change in available-for-sale financial assets		**924**	(386)
Net cash flows from investing activities		**921**	(386)
Cash flows from financing activities			
Change of debt securities		**(55)**	(658)
Change in deposits from Central Bank of Ireland and banks		**315**	549
Net cash flows from financing activities		**260**	(109)
Change in cash and cash equivalents		**316**	(1,447)
Cash and cash equivalents at 1 January		**3,185**	4,632
Cash and cash equivalents at 31 December	35	**3,501**	3,185

The notes on pages 71 to 130 are an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the financial year ended 31 December 2016

	Ordinary Share Capital €m	Capital Contribution €m	Revenue reserves €m	Available-for-Sale Reserve €m	Cash Flow Hedge Reserve €m	Total Shareholders' Equity €m
At 1 January 2016	**1,654**	**249**	**(903)**	**(245)**	**-**	**755**
Total comprehensive income for the financial year	**-**	**-**	**75**	**184**	**(7)**	**252**
At 31 December 2016	**1,654**	**249**	**(828)**	**(61)**	**(7)**	**1,007**

For the financial year ended 31 December 2015

	Ordinary Share Capital €m	Capital Contribution €m	Revenue reserves €m	Available-for-Sale Reserve €m	Cash Flow Hedge Reserve €m	Total Shareholders' Equity €m
At 1 January 2015	1,654	249	(1,019)	(201)	-	683
Total comprehensive income for the financial year	-	-	116	(44)	-	72
At 31 December 2015	1,654	249	(903)	(245)	-	755

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES INDEX

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES

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

1.1 REPORTING ENTITY

EBS d.a.c. 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 d.a.c. 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. EBS Group is and has been primarily involved in retail banking.

1.2 STATEMENT OF COMPLIANCE

The consolidated financial statements and parent 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 2016.

The consolidated financial statements and parent financial statements also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and the Asset Covered Securities Acts 2001 and 2007.

The accounting policies have been consistently applied by EBS Group entities and are consistent with the previous year, unless otherwise described.

In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting; and from filing them with the Registrar of Companies. The parent company's profit after tax for the financial year ended 31 December 2016 is €70million.

1.3 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 these Annual Financial Statements. The relevant information on those pages is identified by an asterisk 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 note 2 of the financial statements "critical accounting judgements and estimates".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.3 BASIS OF PREPARATION (CONTINUED)

Going concern

The financial statements for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting EBS Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

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 parent.

The financial statements of Allied Irish Banks, p.l.c. for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors of AIB Group is twelve months from the date of approval of its annual financial statements.

In making its assessment, the Directors of AIB Group have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors of AIB Group have also considered the outlook for the Eurozone and UK economies, and the factors and uncertainties impacting their performance including the possible fallout from Brexit.

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

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

In relation to liquidity and funding, the Directors of AIB Group 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 Group during the period of assessment.

On the basis of the above, the Directors of AIB Group 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 Groups ability to continue as a going concern over the period of assessment.

Conclusion

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 its ability to continue as a going concern over the period of assessment

Adoption of new accounting standards

During the year to 31 December 2016, EBS Group adopted amendments to standards and interpretations which had an insignificant impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.4 BASIS OF CONSOLIDATION

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the EBS Group. EBS 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 EBS Group's financial statements from the date on which control commences until the date that control ceases.

EBS 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, EBS 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.

EBS 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 EBS Group for the purposes of consolidation.

1.5 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.

1.6 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, EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 INTEREST INCOME AND EXPENSE RECOGNITION (CONTINUED)

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.

1.7 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.

1.8 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.

1.9 DIVIDEND INCOME

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

1.10 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.

1.11 EMPLOYEE BENEFITS

Retirement benefit obligations

The Company has operated three funded defined benefit pension schemes, as well as one defined contribution scheme. All defined benefit schemes were closed to future accrual with effect from 31 December 2013. In 2014, all EBS employees transferred to AIB p.l.c.

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. 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. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. 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.

Remeasurements 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.

EBS Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.11 EMPLOYEE BENEFITS (CONTINUED)

Retirement benefit obligations

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 Company has aligned itself to the position taken by AIB plc in terms of funding of discretionary increases to pensions in payment. The AIB Board has determined in 2017 that the funding of the discretionary increases to pensions in payment is a decision to be made by the Board each year. In previous years, the assumption for increases in pensions in payment was determined based on long term inflation rate when arriving at the present value of the defined obligation.

Continuing the alignment to the position on increases to pensions in payment maintained by AIB Group plc for 2017 the Company has decided that there are no increases for pensions in payment for 2017.

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 EBS 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.

1.12 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 decision is made that a leasehold property will cease 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. Before the provision is established, EBS 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 EBS 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 EBS Group with little realistic alternative but to settle the obligation and EBS Group has created a valid expectation in other parties that it will discharge the obligation.

1.13 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.13 INCOME TAX, INCLUDING DEFERRED INCOME TAX (CONTINUED)

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 EBS 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.

1.14 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.

1.15 IMPAIRMENT OF FINANCIAL ASSETS

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

Impairment

EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.15 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Impairment (continued)
Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of EBS 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 EBS 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
EBS 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 EBS 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 EBS Group and historical loss experience for assets with credit risk characteristics similar to those in EBS 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.15 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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, EBS Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. EBS Group will then offer this repossessed collateral for sale. However, if EBS 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 EBS 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.

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

Loans renegotiated and forbearance
From time to time, EBS 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 3.1 of the risk management section. A request for a forbearance solution acts as a trigger for an impairment test.

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 EBS 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 EBS 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 EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.15 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Non-forbearance renegotiation
Occasionally, EBS 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.

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.

1.16 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. EBS 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 EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.16 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. EBS 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, EBS 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.

EBS 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.

1.17 FINANCIAL ASSETS

EBS 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 EBS Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.17 FINANCIAL ASSETS (CONTINUED)

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 EBS 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.

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 EBS 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. See note 1.16 for detailed disclosure of the valuation techniques used.

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 parent 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.

1.18 FINANCIAL LIABILITIES

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.18 FINANCIAL LIABILITIES (CONTINUED)

EBS 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 the income statement. See note 1.16 for detailed disclosure of the valuation techniques used.

1.19 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.

EBS 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

EBS Group reviews its depreciation rates, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that EBS 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, EBS 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.

1.20 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 EBS 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 7 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.21 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 only.

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', EBS 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')

When a financial instrument is designated as a hedging instrument in a qualifying hedge, EBS 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. EBS 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.

EBS 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, EBS 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.21 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

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 reclassified 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.

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.

See note 1.16 for detailed disclosure of the valuation techniques used.

1.22 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 off 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.

1.23 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.23 COLLATERAL AND NETTING (CONTINUED)

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.

1.24 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.

1.25 LEASES
Lessor
Assets leased to the third parties 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.

Assets leased to the third parties 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.

1.26 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.

Share capital
Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, deferred 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 reserve
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.26 SHAREHOLDERS' EQUITY (CONTINUED)

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.

1.27 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 a maturity of less than three months from date of acquisition.

1.28 PROSPECTIVE ACCOUNTING CHANGES
The following new 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 new standards and amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below.

(a) IFRS 15 Revenue from Contracts with Customers

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 quantitative 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.

A Group-wide project has been rolled out where the various types of revenue streams have been identified and analysed. However, due to the nature of these revenue streams, no significant change to the Group's financial statements has been highlighted as a result of the analysis. Accordingly, it is expected that any impact will be minimal, although not yet quantified.

On transition, while EBS Group will apply this standard retrospectively, it will exercise certain practical expedients as allowed by the standard. Prior periods will not be restated and the opening balance of retained earnings will be adjusted for any prior period impacts. Additionally, for contracts completed before the earliest period presented, EBS will not be restating the opening balance of retained earnings.

Effective date: Annual periods beginning on or after 1 January 2018.

(b) Amendments to IAS 7 – *Statement of Cash Flows*

The amendments to IAS 7 *Statement of Cash Flows*, which were issued in January 2016, require that the following changes in liabilities arising from financing activities be disclosed to the extent necessary:
– Changes from financing cash flows;
– Changes arising from obtaining or losing control of subsidiaries or other businesses;
– The effect of changes in foreign exchange rates; and
– Other changes.

It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the definition.

These amendments are not expected to have a significant impact on EBS Group.

The amendments are subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(c) Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments in *Recognition of Deferred Tax Assets for Unrealised Losses,* which were issued in January 2016, clarify the following aspects:
– Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
– The carrying amount of an asset does not limit the estimation of probable future taxable profits;
– Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and
– An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

These amendments are not expected to have a significant impact on EBS Group.

The amendments are subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2017.

(d) Annual improvements to IFRSs 2014–2016 cycle/other

<u>Nature of Change</u>
The IASB has published a number of minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2014-2016 cycle. Whilst these have not yet been endorsed by the EU, they are expected to be effective from 1 January 2018 apart from the amendment to IFRS 12 'Disclosure of Interests in Other Entities' which is effective from 1 January 2017. These amendments are expected to have an insignificant effect on the financial statements.

(e) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* was issued in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes a revised classification and measurement model, a forward looking 'expected credit loss' impairment methodology and modifies the approach to hedge accounting. Unless early adopted, the standard is effective for accounting periods beginning 1 January 2018. The key changes under the standard are:

<u>*Classification and measurement*</u>
– Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income and fair value through profit and loss;
– A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI");
– If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
– Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision;
– There is no separation of an embedded derivative where the instrument is a financial asset;
– Equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(e) IFRS 9 Financial Instruments (continued)

Impairment
– Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required;
– The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit loss;
– The assessment of credit risk, and the estimation of expected credit loss, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss should take into account the time value of money. As a result, the recognition and measurement of impairment is more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss and the population of financial assets to which lifetime expected credit loss applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Financial liabilities
– The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income;

Hedge accounting
– The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Assessment of IFRS 9 Impacts
A Group-wide Programme, led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9.

The governance structure includes a Steering Committee mandated to oversee implementation in accordance with the standard, a Technical Approval Group to approve key accounting policy change decisions and a Process and Data Group to approve operating model specifications.

Detailed planning was completed during 2015 and the design phase commenced thereafter. The Programme is structured with various work streams responsible for designing and implementing the end state process and reporting model, technical accounting interpretations, building and validating IFRS 9 provision models and assessing data and systems requirements.

Classification and measurement
Classification and measurement of financial assets is not expected to result in any significant changes for the Group.
In general:
– loans and receivables to banks and customers that are currently classified as 'loans and receivables' under IAS 39 will be measured at amortised cost under IFRS 9;
– debt securities classified as available for sale under IAS 39 will be measured at FVOCI;
– debt securities classified as held to maturity under IAS 39 will be measured at amortised cost;
– all equity securities will continue to be measured at fair value, however, for individual securities, it has yet to be decided if the fair value movements will be presented in profit or loss or in other comprehensive income.

The business model assessment which has been carried out on the portfolio at 31 December 2015 is not expected to change the current measurement basis at the Group level.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(e) IFRS 9 Financial Instruments (continued)

Classification and measurement *(continued)*
In relation to SPPI testing which is being carried out on the financial instruments portfolio, it is expected that a small number of instruments, mainly loans and receivables to customers, will fail the SPPI test. Accordingly, such instruments will be measured at fair value through profit or loss in accordance with IFRS 9. Fair value movements on these instruments will be shown in profit or loss. The impact on transition to this new measurement basis is not expected to be significant.

The classification of financial liabilities is largely unchanged under IFRS 9. Given that the Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

Impairment
To date the Programme has focused on designing and documenting accounting policy changes, identifying and remediating data gaps, developing risk modelling options and methodologies for the calculation of the impairment allowance. The Programme's focus is now on building impairment models, validating outputs, testing policy proposals and processes which are being developed, and setting up processes for 'business as usual ' under the new standard.

The impairment models will impact on IT, risk management and financial reporting systems. Significant progress has been made in ensuring business readiness for all such systems.

Due to the complexity of decisions required around several aspects of the impairment requirements of IFRS 9, and the interdependencies of variables within the models and the dynamic nature of some of those variables, it is considered premature at this stage to quantify the impacts of impairment under IFRS 9 with any degree of accuracy. However, it is expected that this information will be available in the 2017Annual Financial Report.

Hedge accounting
IFRS 9 includes an accounting policy choice which allows entities remain with IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. AIB Group will exercise this policy choice and continue to account under IAS 39. However, it will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

Initial application/disclosures/other
The Group will apply the various provisions of IFRS 9 with effect from 1 January 2018, however, prior periods will not be restated. Any difference between the previous carrying amount under IAS 39 and the carrying amount at the date of initial application of IFRS 9 on 1 January 2018, will be recognised in opening retained earnings (or other component of equity as appropriate) at 1 January 2018.

A significant suite of reporting requirements are being developed for statutory, regulatory and management reporting in line with the requirements of IFRS 9 and the various regulatory bodies. In so far as possible, definitions of data items within reports are being aligned so as to assist comparability.

Furthermore, briefings to the business and various stakeholders throughout the Group have taken place and will continue throughout 2017 on the impacts of IFRS 9 and its consequences for the Group.

Effective date: Annual periods beginning on or after 1 January 2018.

(f) IFRS 16 Leases

IFRS 16 *Leases*, which was issued in January 2016, replaces IAS 17 *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

These amendments will impact EBS Group as it has leased as lessee a number of properties which are currently classified as operating leases. EBS is currently assessing the impact of IFRS 16, however, it is not yet practicable to quantify its effects.

This standard is subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. 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 accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed:

(a) Loan impairment
The EBS Group accounting policy for impairment of financial assets is set out in accounting policy number 1.15. The provisions for impairment on loans and receivables at 31 December 2016 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.

Specific provisions
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 16 and 17 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 16 and 17 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 Report on pages 10 to 59.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. 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; and
- external forecasts for Ireland which indicate continued economic recovery through the period of the medium-term financial plan. This is evident in a levelling off of bad debts growth, reductions in unemployment and increased spending.

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 was profitable in 2016. 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 (8.5%) 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 19 years for the deferred tax asset to be utilised. Furthermore, under this scenario, it is expected that 22% of the deferred tax asset will be utilised within 5 years with 49% 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 would increase by a further 2 years. EBS's 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

EBS Group's accounting policy for provisions for fair value of financial instruments is set out in accounting policy number 1.16 'Determination of fair value of financial instruments' in Note 1.

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 consequential impact on shareholders' equity and, in the case of derivatives and contingent capital instruments, the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(d) Retirement benefit obligations
EBS's accounting policy for retirement benefit plans is set out in accounting policy number 1.11.

The Company has operated three funded defined benefit pension schemes, as well as one defined contribution scheme. All defined benefit schemes were closed to future accrual with effect from 1 December 2013. In 2014, all EBS employees transferred to AIB p.l.c.

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 the Directors have chosen a number of financial assumptions within an acceptable range which include price inflation, increases to pensions in payment, and the longevity of scheme members. The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used.

While increases to pensions in payment are specifically subject to the consent of the Company, the Company has aligned itself to the position taken by AIB p.l.c. in terms of increases to pensions in payment. The AIB Board has determined in 2017 that the funding of the discretionary increases to pensions in payment is a decision to be made by the Board each year. This process, taking account of all relevant interests and factors had been implemented by the AIB Board. These interests and factors include all advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Bank's financial circumstances and ability to pay; the views of the Trustees: the Bank's commercial interests and any competing obligations to the State. AIB completed this process for 2017 and after carefully considering all the relevant interests and factors decided that funding of discretionary increases to pensions in payment was not appropriate for 2017.

Continuing the alignment to the position on increases to pensions in payment maintained by AIB for 2017 the Company has decided that there are no increases for pensions in payment for 2017.

The assumptions adopted for EBS defined benefit pension schemes are set out in note 29 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

(e) Going concern
The financial statements for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting 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 parent.

The financial statements of Allied Irish Banks, p.l.c. for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting AIB Group, that it has the ability to continue in business for the period of assessment.

In making its assessment, the Directors of AIB Group have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors of AIB Group have also considered the outlook for the Eurozone and UK economies, and the factors and uncertainties impacting their performance including the possible fallout from Brexit.

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 its ability to continue as a going concern over the period of assessment

(f) Provisions for liabilities and commitments
EBS Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number 1.12 'Non-credit risk provisions' in Note 1.

EBS Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the EBS's liabilities and commitments are shown in note 30 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(f) Provisions for liabilities and commitments (continued)
The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and thereby, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. This process will, of its nature, require significant management judgement and will require revisions to earlier judgements and estimates as matters progress towards resolution. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns.

At 31 December 2015, EBS Group provided €93 million for redress to customers. This provision related to the expected outflow for compensation/refunds of interest to customers in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect. The provision covered various compensations and costs arising from this issue.

Considerable progress was made throughout 2016 in identifying impacted customers and in calculating and making redress. However, this process is on-going and work is expected to extend into the second six months of 2017. To date €45 million of the provision has been utilised covering both redress and costs leaving a residual provision of €48 million at 31 December 2016.

Validation of the examination process is being undertaken by the Group. However, the resultant final redress is subject to independent third party assurance and also subject to assessment and challenge by the CBI.

Given the uncertainty attaching to certain of the assumptions and judgements underpinning the above provisions, it is possible that the eventual outcome may differ from the current estimates with a resultant charge/credit to the income statement in future periods.

3. 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 within the AIB Ireland segment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INTEREST INCOME AND SIMILAR INCOME

	2016 €m	2015 €m
Interest on loans and receivables to customers	**355**	385
Interest received from AIB	**27**	35
Interest on financial investments available for sale	**-**	6
Other interest income	**(1)**	1
	381	427

Included within various captions under interest income for the financial year ended 31 December 2016 is a total of €41m (2015: €73m) accrued on impaired financial assets.

5. INTEREST EXPENSE AND SIMILAR CHARGES

	2016 €m	2015 €m
Interest on customer accounts	**118**	157
Interest on debt securities in issue	**-**	6
Interest paid to AIB	**11**	10
	129	173

Interest expense includes €11m (2015: €13m) in respect of charges payable under the Credit Institutions (Eligible Liabilities Guarantee) scheme.

6. DIVIDEND INCOME

Dividend income received on NAMA subordinated bonds amounted to €1m at 31 December 2016 (2015: €1m).

7. NET FEE AND COMMISSION INCOME

	2016 €m	2015 €m
Fees and commissions receivable	**18**	20
Fees and commissions payable	**(6)**	(5)
	12	15

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

8. NET TRADING LOSS

	2016 €m	2015 €m
Interest rate contracts	**(1)**	-
	(1)	-

The total hedging ineffectiveness on cash flow hedges reflected in net trading income of Nil (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. OTHER OPERATING INCOME

	2016 €m	2015 €m
Net gains on buy back of debt securities in issue	1	8
Profit on disposal of available for sale debt securities [1]	-	33
Miscellaneous operating income	4	1
	5	42

[1] The EBS Promissory Note which had been held in the available for sale portfolio (AFS) was redeemed in December 2015 at its carrying value and cancelled as part of the AIB Group's Capital restructuring exercise. Fair value movements amounting to €33 million held in the 'Available for sale securities reserves' account in equity were reclassified to the consolidated Income Statement on its redemption and reported within 'Other operating income'.

10. TOTAL OPERATING EXPENSES

	2016 €m	2015 €m
Personnel expenses	2	2
Amounts payable to AIB under the Master Service Agreement	33	35
Other Administrative expenses	52	135
Total Administrative expenses	87	172
Impairment and amortisation of intangibles (note 18)	3	3
Impairment and depreciation of property, plant and equipment (note 19)	2	3
Total Operating Expenses	92	178

	2016 €m	2015 €m
Personnel expenses comprise:		
Wages and salaries	-	-
Voluntary Severance	-	-
Social insurance costs	-	-
Retirement benefits charge/(credit) (note 29)	2	2
Other personnel expenses	-	-
	2	2

Other administrative expenses includes provisions for liabilities and commitments of €15m (2015: €58m) for Company that relates to provisions for customer redress. For EBS Group provisions for liabilities and commitments that relates to customer redress is nil (2015: €93m). (*see note 2. critical accounting judgements and estimates: (f) provisions for liabilities and commitments*)

For the financial year ended 31 December 2016 the average number of employees was 1 (2015: 1). As at 31 December 2016, the Bank had 1 employee.

In addition a small number of AIB Group employees maintain a parallel employment relationship with EBS Group, in order to facilitate delivery of outsourced service activities under the Outsourcing and Agency agreement with AIB p.l.c. These parallel employments are unremunerated. These employees of AIB Group in the Republic of Ireland have a primary employment relationship with AIB p.l.c., which maintains day-to-day control over them and remains responsible for the payment of their remuneration as well as accounting for tax and other payroll deductions.

Full details of Directors' remuneration are given in the related party transaction note (note 37).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. AUDITORS' REMUNERATION

An analysis of the Auditors' remuneration (included in total operating expenses above) is set out below:

	2016 €'000	2015 €'000
Statutory audit	**220**	209
Other assurance services	**32**	32
Tax advisory services	**-**	-
Other non-audit services	**14**	-
	266	241

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

The disclosure of Auditors remuneration are in accordance with section 322 of the Companies Act 2014 which mandates remuneration in particular categories and that remuneration paid to the EBS Group's Auditor (Deloitte) for services to the Group only be disclosed in this format. Other assurance services include remuneration for additional assurance issued by the firm outside of the audit of the statutory financial statements. These remuneration include assignments where the Auditor provides assurance to third parties on matters related to EBS Group.

12. TAXATION

	2016 €m	2015 €m
Corporate taxation		
Current tax charge on income for financial year	**22**	9
Deferred taxation		
Origination and reversal of temporary differences and tax losses	**6**	20
	28	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%	**26**	28
Adjustments:		
Expense not deductible for tax purposes	**2**	2
Recognition of deferred tax asset previously not recognised	**-**	(1)
Effective tax rate 13.3% (2015: 13%)	**28**	29

Income tax recognised in other comprehensive income

	2016 Before Tax €m	**2016 Tax benefit (expense) €m**	**2016 Net of Tax €m**	2015 Before Tax €m	2015 Tax benefit (expense) €m	2015 Net of Tax €m
Net movement in cash flow hedge reserve	**(8)**	**(1)**	**(7)**	-	-	-
Net movement in available-for-sale reserve	**1**	**-**	**1**	(33)	(4)	(29)
Net actuarial gain/(loss) on retirement benefits	**6**	**1**	**5**	45	6	39
	(1)	**-**	**(1)**	12	2	10

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CASH AND BALANCES AT CENTRAL BANKS

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Cash in hand	**6**	6	**6**	6
Balances with Central Bank of Ireland other than mandatory reserve deposits	**78**	6	**78**	6
	84	12	**84**	12

14. 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)

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Group	2016			2015		
	Notional amount	Fair values Assets	Fair values Liabilities	Notional amount	Fair values Assets	Fair values Liabilities
	€m	€m	€m	€m	€m	€m
Derivatives held at fair value through the income statement						
Interest rate swaps	**1,401**	**4**	**3**	1,537	35	36
Derivatives classified as fair value hedging						
Interest rate swaps	**93**	**1**	**-**	98	2	-
Derivatives classified as cash flow hedges						
Interest rate swaps	**4,911**	**13**	**20**	5,215	23	17
Total hedging contracts	**5,004**	**14**	**20**	5,313	25	17
Total derivative financial instruments	**6,405**	**18**	**23**	6,850	60	53

Company	2016			2015		
	Notional amount	Fair values Assets	Fair values Liabilities	Notional amount	Fair values Assets	Fair values Liabilities
	€m	€m	€m	€m	€m	€m
Derivatives held at fair value through the income statement						
Interest rate swaps	**6,010**	**22**	**19**	6,500	55	23
Derivatives classified as fair value hedging						
Interest rate swaps	**93**	**1**	**-**	98	2	-
Derivatives classified as cashflow hedges						
Interest rate swaps	**4,911**	**13**	**20**	5,215	23	17
Total hedging contracts	**5,004**	**14**	**20**	5,313	25	17
Total derivative financial instruments	**11,014**	**36**	**39**	11,813	80	40

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative Maturity Table – at 31 December 2016

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	11	7	-	18
Total assets	**11**	**7**	**-**	**18**

Derivative Maturity Table – at 31 December 2015

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	3	24	33	60
Total assets	3	24	33	60

Derivative Maturity Table – at 31 December 2016

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	11	11	13	36
Total assets	**11**	**11**	**13**	**36**

Derivative Maturity Table – at 31 December 2015

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	3	24	53	80
Total assets	3	24	53	80

15. LOANS AND RECEIVABLES TO BANKS

Analysed by remaining maturity:	**Company 2016 €m**	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Repayable on demand	**3,417**	3,173	**928**	1,094
	3,417	3,173	**928**	1,094

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

At 31 December 2016, in addition to the mandatory reserve deposits, the Group has €139m (2015: €178m) 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 d.a.c. and Mespil 1 RMBS d.a.c.

At 31 December 2016 loans restricted between EBS Group and AIB are €782m (2015: €910m). At 31 December 2016 loans restricted between EBS and AIB are €777m (2015: €905m). At 31 December 2016 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €2,674m (2015: €2,270m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. LOANS AND RECEIVABLES TO CUSTOMERS

Loans and receivables to customers – analysis by sector

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Loans and receivables to customers	**5,565**	5,530	**12,472**	12,596
Loans to subsidiaries and special purpose vehicles	**1,359**	1,067	**-**	-
Total loans and receivables to customers before provisions	**6,924**	6,597	**12,472**	12,596
Less provision for loan impairments	**(546)**	(621)	**(934)**	(1,034)
Total loans and receivables to customers after provisions	**6,378**	5,976	**11,538**	11,562

Loans and receivables to customers – analysis by maturity

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Repayable on demand	**2,508**	2,532	**2,052**	2,641
Repayable in less than three months	**2**	9	**2**	6
Repayable in more than three months but less than one year	**12**	10	**15**	19
Repayable in more than one but less than five years	**93**	105	**191**	213
Repayable in more than five years	**4,309**	3,941	**10,212**	9,717
Total loans and receivables to customers before provisions	**6,924**	6,597	**12,472**	12,596
Less provision for loan impairments	**(546)**	(621)	**(934)**	(1,034)
Total loans and receivables to customers after provisions	**6,378**	5,976	**11,538**	11,562

Included in Group loans and receivables to customers is €5,318m (2015: €5,729m) of loans in the covered bond bank, EBS Mortgage Finance, €1,716m (2015: €1,448m) of loans in Haven Mortgages and €2,733m (2015: €2,962m) of loans held through securitisation vehicles Emerald Mortgages No.4 p.l.c., Emerald Mortgages No.5 d.a.c. and Mespil 1 RMBS d.a.c. Unencumbered loans available as collateral for repurchase agreements, as at 31 December 2016, were €66m (2015: €65m).

Provision for loan impairments

Provisions for impairment on loans and receivables to customers	**Company 2016 €m**	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
At 1 January	**621**	700	**1,034**	1,191
Writeback against Income Statement – Customers	**(27)**	(44)	**(34)**	(89)
Amounts written off	**(48)**	(35)	**(66)**	(68)
At 31 December	546	621	934	1,034
Total provisions are split between specific and IBNR as follows:				
Specific	**506**	565	**846**	929
IBNR	**40**	56	**88**	105
At 31 December	546	621	934	1,034

Continuing Involvement in Securitised Assets

At 31 December 2016, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. LOANS AND RECEIVABLES TO CUSTOMERS (CONTINUED)

Emerald Mortgages No.4 Public Limited Company
The total carrying amount of the original residential property loans transferred by EBS to Emerald Mortgages No.4 plc ('Emerald 4') as part of the securitisation amounted to €1,500m (2015: €1,500m). The carrying amount of transferred secured loans that the Group continues to recognise at 31 December 2016 is €615m (2015: €677m).

The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €399m (2015: €446m). The fair value of the transferred loans and external bonds at 31 December 2016 was €600m (2015: €658m) and €380m (2015: €415m) respectively. The carrying amount of the loan note in EBS issued to Emerald 4 amounts to €609m (2015: €672m) and is also disclosed in note 25.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €18m (2015: €18m), which is subordinated to the interest of the bond holders.

On 15 December 2016, Emerald 4 announced to the Irish Stock Exchange that it had received notice from its sponsoring entity (EBS d.a.c.) of its intention to refinance loan notes on 15 March 2017 which Emerald 4 held. Emerald 4 issued a Bond redemption notice on 23 January 2017 and the bond redemption amounts were published on 8 March 2017. The bonds were fully redeemed on 15 March 2017.

Emerald Mortgages No.5 d.a.c.
The total carrying amount of the original residential property loans transferred by EBS to Emerald Mortgages No.5 d.a.c. ('Emerald 5') as part of the securitisation amounted to €2,500m (2015: €2,500m). The carrying amount of transferred secured loans that the Group continues to recognise at 31 December 2016 is €1,189m (2015: €1,304m). The fair value of these loans at 31 December 2016 was €1,138m (2015: €1,243m).

Bonds were issued by Emerald 5 to EBS but these are not shown on the Group statement of financial position as these bonds are eliminated on consolidation.

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

The total carrying amount of transferred secured loans that the Group continues to recognise as at 31 December 2016 is €734m (2015: €780m) in relation to the transfers from EBS and Haven Mortgages Limited. The fair value of these of these loans at 31 December 2016 was €677m (2015: €712m).

Bonds issued by Mespil to EBS are not shown on the Group statement of financial position as these bonds are eliminated on consolidation.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €11m (2015: €11m), which is subordinated to the interest of the bond holders.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Euro Bank Securities	**1,921**	2,663	**-**	-
Equity securities - NAMA subordinated bonds	**20**	18	**20**	18
	1,941	2,681	**20**	18

Debt securities analysed by remaining maturity analysis (excluding equity securities)

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Maturing within three months	**252**	-	**-**	-
Maturing between three months and one year	**-**	970	**-**	-
Maturing between one and five years	**475**	273	**-**	-
Maturing after 5 years	**1,194**	1,420	**-**	-
	1,921	2,663	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The following table sets out at 31 December 2016 and 2015, the carrying value (fair value) of available for sale financial assets by major classifications together with the unrealised gains and losses:

	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/(losses)
	€m	€m	€m	€m
Group – 31 December 2016				
Equity securities - NAMA subordinated bonds	**20**	**18**	**-**	**18**
Total	**20**	**18**	**-**	**18**
Company – 31 December 2016				
Euro Bank Securities	**1,921**	**(10)**	**97**	**87**
Equity securities - NAMA subordinated bonds	**20**	**18**	**-**	**18**
Total	**1,941**	**8**	**97**	**105**
Group – 31 December 2015				
Equity securities - NAMA subordinated bonds	18	-	-	18
Total	18	-	-	18
Company – 31 December 2015				
Euro Bank Securities	2,663	7	(302)	(295)
Equity securities - NAMA subordinated bonds	18	16	-	16
Total	2,681	23	(302)	(279)

18. INTANGIBLE ASSETS

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Computer software (and development costs)				
Cost				
At 1 January	**33**	35	**37**	42
Additions - internally generated	**2**	-	**2**	-
Disposals	**-**	-	**-**	(5)
Amounts written off	**-**	(2)	**-**	-
At 31 December	**35**	33	**39**	37
Amortisation				
At 1 January	**26**	25	**30**	32
Impairment for financial year	**-**	-	**-**	-
Charge for financial year	**3**	3	**3**	3
Disposals	**-**	(2)	**-**	(5)
At 31 December	**29**	26	**33**	30
Carrying value at 31 December	**6**	7	**6**	7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. PROPERTY, PLANT AND EQUIPMENT

Group						
		Property				
	Freehold	**Long Leasehold**	**Leasehold under 50 years**	**Assets under construction**	**Equipment**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Cost						
At 1 January 2016	**27**	**8**	**15**	**-**	**10**	**60**
Additions	**-**	**-**	**-**	**-**	**-**	**-**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2016	**27**	**8**	**15**	**-**	**10**	**60**
Depreciation and impairment						
At 1 January 2016	**8**	**4**	**13**	**-**	**9**	**34**
Charge for financial year	**-**	**-**	**1**	**-**	**1**	**2**
At 31 December 2016	**8**	**4**	**14**	**-**	**10**	**36**
Net book value at 31 December 2016	**19**	**4**	**1**	**-**	**-**	**24**

Land and buildings to the value of €24m (2015: €23m) are occupied by the Group for its own activities.

Group						
		Property				
	Freehold	Long Leasehold	Leasehold under 50 years	Assets under construction	Equipment	Total
	€m	€m	€m	€m	€m	€m
Cost						
At 1 January 2015	27	7	14	1	10	59
Additions	-	1	-	-	-	1
Transfers	-	-	1	(1)	-	-
At 31 December 2015	27	8	15	-	10	60
Depreciation and impairment						
At 1 January 2015	7	4	12	-	8	31
Charge for financial year	1	-	1	-	1	3
At 31 December 2015	8	4	13	-	9	34
Net book value at 31 December 2015	19	4	2	-	1	26

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Property					
	Freehold	**Long Leasehold**	**Leasehold under 50 years**	**Assets under construction**	**Equipment**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Cost						
At 1 January 2016	**27**	**7**	**15**	**-**	**10**	**59**
Additions	**-**	**-**	**-**	**-**	**1**	**1**
At 31 December 2016	**27**	**7**	**15**	**-**	**11**	**60**
Depreciation and impairment						
At 1 January 2016	**8**	**4**	**13**	**-**	**9**	**34**
Charge for financial year	**-**	**-**	**1**	**-**	**1**	**2**
At 31 December 2016	**8**	**4**	**14**	**-**	**10**	**36**
Net book value at 31 December 2016	**19**	**3**	**1**	**-**	**1**	**24**

Company

	Property					
	Freehold	Long Leasehold	Leasehold under 50 years	Assets under construction	Equipment	Total
	€m	€m	€m	€m	€m	€m
Cost						
At 1 January 2015	27	7	15	-	10	59
Additions	-	-	-	-	-	-
At 31 December 2015	27	7	15	-	10	59
Depreciation and impairment						
At 1 January 2015	7	4	12	-	8	31
Charge for the financial year	1	-	1	-	1	3
At 31 December 2015	8	4	13	-	9	34
Net book value at 31 December 2015	19	3	2	-	1	25

20. OTHER ASSETS

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Items in transit - debit	**-**	-	**1**	1
Other receivables	**88**	23	**2**	1
	88	23	**3**	2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. DEFERRED TAXATION

	Company 2016 €m	Company 2015 €m	Group 2016 €m	Group 2015 €m
At 1 January	**291**	301	**248**	270
Current financial year tax profit	**(12)**	(12)	**(7)**	(20)
Other adjustments	**-**	-	**-**	-
Deferred tax through equity	**(25)**	2	**1**	(2)
At 31 December	**254**	291	**242**	248
The amounts provided in relation to deferred taxation are as follows:				
Retirement benefits	**6**	7	**6**	7
Amortised income	**-**	-	**(3)**	(7)
Available-for-sale financial assets	**9**	34	**(2)**	(2)
Unutilised tax losses	**239**	250	**241**	250
	254	291	**242**	248

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2. Critical accounting judgements and estimates: (b) deferred tax.

At 31 December 2016, deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €242m (2015: €248m) for Group.

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 the Directors believe that it will continue to 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 19 years.

22. SHARES IN GROUP UNDERTAKINGS

Company	2016 €m	2015 €m
At 1 January	**612**	612
Investment in subsidiary	**-**	-
At 31 December	**612**	612

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

EBS Mortgage Finance:
EBS holds 551,540,000 (2015: 551,540,000) €1 ordinary shares (100%) in EBS Mortgage Finance which was incorporated in the Republic of Ireland on 30 October 2008 and is 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.

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 general meetings of EBS Mortgage Finance. All shares rank equally with regard to EBS Mortgage Finances' residual assets.

Haven Mortgages Limited
EBS holds 1 (2015: 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 assessed its investments in Group undertakings for impairment at 31 December 2016 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's share of the future cash flows expected to be generated which exceeds the carrying value for each investment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. DEPOSITS BY CENTRAL BANK AND BANKS

Analysis by Counterparty	Company 2016 €m	Company 2015 €m	Group 2016 €m	Group 2015 €m
Due to Group undertaking	18	11	-	-
Due to AIB	1,886	693	1,886	693
Repurchase agreements with AIB	2,362	3,247	2,362	3,247
	4,266	3,951	4,248	3,940

Contractual maturity analysis

Analysis by maturity	Company 2016 €m	Company 2015 €m	Group 2016 €m	Group 2015 €m
Repayable on Demand	37	30	19	19
3 months or less	4,229	3,921	4,229	3,921
	4,266	3,951	4,248	3,940

24. PLEDGED COLLATERAL

	Company 2016 €m	Company 2015 €m	Group 2016 €m	Group 2015 €m
Asset backed securities (own issue)	2,623	3,486	2,623	3,486
	2,623	3,486	2,623	3,486

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 with other credit institutions as market counterparts. These financial assets are in the form of 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 €98m (2015: €132m) of unencumbered contingent collateral available at 31 December 2016, comprising residential mortgage assets of €78m (2015: €78m) and debt securities of €20m (2015: €54m).

25. CUSTOMER ACCOUNTS

Customer accounts – analysis by sector

	Company 2016 €m	Company 2015 €m	Group 2016 €m	Group 2015 €m
Retail	5,624	5,801	5,624	5,801
Corporate	1,027	1,313	1,027	1,313
Securitisation	609	672	-	-
	7,260	7,786	6,651	7,114

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. CUSTOMER ACCOUNTS (CONTINUED)

Customer accounts – Contractual maturity analysis

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Repayable on demand	**2,542**	2,411	**1,933**	1,739
Repayable in less than three months but not on demand	**1,205**	1,191	**1,205**	1,191
Repayable in more than three months but less than one year	**2,261**	2,181	**2,261**	2,181
Repayable in more than one year but less than five years	**1,252**	2,003	**1,252**	2,003
	7,260	7,786	**6,651**	7,114

26. DEBT SECURITIES IN ISSUE

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Bonds and medium term notes	**-**	55	**399**	505
	-	55	**399**	505
Maturity Profile – Debt Securities in Issue:				
Repayable in 3 months or less	**-**	-	**399**	-
Repayable in no more than 1 year but over 3 months	**-**	55	**-**	55
Repayable in more than 1 years but not more than 5 years	**-**	-	**-**	-
Repayable in more than 5 years	**-**	-	**-**	450
	-	55	**399**	505

All debt securities are issued from Republic of Ireland and denominated in euro.

During the years ended 31 December 2016 and 31 December 2015, no new debt securities were issued by the Group.

27. OTHER LIABILITIES

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Funding liabilities fair value hedge	**1**	1	**1**	1
Items in transit	**33**	21	**33**	21
VAT payable	**-**	-	**1**	1
Other liabilities	**33**	35	**5**	8
	67	57	**40**	31

28. ACCRUALS AND DEFERRED INCOME

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €m
Accruals and deferred income	**153**	153	**144**	144
	153	153	**144**	144

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. RETIREMENT BENEFITS

The Company has operated three funded defined benefit pension schemes, as well as one defined contribution scheme. All defined benefit schemes were closed to future accrual with effect from 31 December 2013. In 2014, all EBS employees transferred to AIB p.l.c.

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.

Increases to pensions in payment are specifically subject to the consent of the Company. The Company has aligned itself to the position taken by AIB p.l.c. in terms of increases to pensions in payment. The AIB Board has determined in 2017 that the funding of the discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors had been implemented by the AIB Board. These interests and factors include all advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Bank's financial circumstances and ability to pay; the views of the Trustees: the Bank's commercial interests and any competing obligations to the State. AIB completed this process for 2017 and after carefully considering all the relevant interests and factors decided that funding of discretionary increases to pensions in payment was not appropriate for 2017. In accordance with the process as outlined, the AIB Board will make its next decision on the funding of discretionary increases to pensions in payment for the Group's main Irish schemes for 2018 in early 2018.

Continuing the alignment to the position on increases to pensions in payment maintained by AIB for 2017 the Company has decided that there are no increases for pensions in payment for 2017.

The actuarial assumption for discretionary increases in pensions in payment has changed in line with the process outlined above from the long term inflation assumption. This is reported as a remeasurement gain as part of changes to financial assumptions and included in 'Other comprehensive income'.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails to meet the Minimum Funding Standard ('MFS') to have a funding plan in place and be approved by the Pensions Authority. The objective of an MFS 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, together with the additional risk reserve requirements, at a future date.

A funding plan was required in respect of all 3 defined benefit schemes. In 2014, funding proposals were submitted and approved by the Pensions Authority. These funding proposals continue to operate so that the MFS is met 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.

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 or experience. 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 weighted average duration of the defined benefit obligation at 31 December 2016 is 24 years. (2015: 24 years)

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 of the Group and Company are determined as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. RETIREMENT BENEFITS (CONTINUED)

	2016				2015		
	Defined Benefit Obligation	**Fair Value of scheme assets**	**Asset ceiling/ minimum funding(1)**	**Net Defined benefit (liability) asset**	Defined Benefit Obligation	Fair Value of scheme assets	Net Defined benefit (liability) asset
	€m	**€m**	**€m**	**€m**	€m	€m	€m
At 1 January	**(213)**	**161**	**-**	**(52)**	(255)	158	(97)
Included in profit or loss							
Past service cost	**-**	**-**	**-**	**-**	-	-	-
Interest cost (income)	**(6)**	**4**	**-**	**(2)**	(6)	4	(2)
Administration costs	**-**	**-**	**-**	**-**	-	-	-
	(6)	**4**	**-**	**(2)**	(6)	4	(2)
Included in other comprehensive income							
Remeasurements loss (gain):							
Actuarial loss (gain) arising from:							
- Experience Adjustments	**2**	**-**	**-**	**2**	3	-	3
- Changes in demographic assumptions	**-**	**-**	**-**	**-**	(1)	-	(1)
- Changes in financial assumptions (see note)	**-**	**-**	**-**	**-**	42	-	42
Return on scheme assets excluding interest income	**-**	**11**	**-**	**11**	-	1	1
Asset ceiling/minimum funding adjustments	**-**	**-**	**(7)**	**(7)**	-	-	-
	2	**11**	**(7)**	**6**	44	1	45
Other							
Contributions by employer	**-**	**1**	**-**	**1**	-	2	2
Benefits paid	**4**	**(4)**	**-**	**-**	4	(4)	-
	4	**(3)**	**-**	**1**	4	(2)	2
At 31 December	**(213)**	**173**	**(7)**	**(47)**	(213)	161	(52)
Recognised on the statement of financial position as:							
Retirement benefit assets				**-**			3
Retirement benefit liabilities				**(47)**			(55)
Net pension deficit				**(47)**			(52)

Includes impact of change in a) discount rates of €59 million (i.e. a loss) and b) pensions in payment assumption €59 million (i.e. a gain).

(1) In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. RETIREMENT BENEFITS (CONTINUED)

	2016 €m	2015 €m
The amounts recognised in the income statement are as follows:		
Defined Benefit Schemes		
Current service costs		-
Interest cost	**(6)**	(6)
Past service (cost)/credit from Section 50 orders	**-**	-
Past service (cost)/credit due to voluntary severance programme	**-**	-
Past service (cost)/credit due to ceasing future accrual	**-**	-
Administrative Expense	**-**	-
Future expected return on plan assets	**4**	4
Total (cost)/ credit (included in staff costs)	**(2)**	(2)

Pension Plan Assets
The following tables set out an analysis of the scheme assets at 31 December 2016 and at 31 December 2015:

	2016 €m	2015 €m
Investment Funds		
Equity	**70**	68
Fixed Interest	**79**	79
Alternatives		
- Quoted	**24**	14
- Unquoted	**-**	-
Cash	**-**	-
Property	**-**	-
Total Investment funds	**173**	161

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

	2016	2015
Rate of inflation	**1.25%**	1.50%
Discount rate	**1.90%**	2.70%
Future salary increases	**-**	-
Future pension increases*	**-**	1.50%

*For 2016 future pension increases are assumed to be 0% (for 2015 the assumption was 0% for five years and 1.5% thereafter).

The assumptions made for 2016 and 2015 are both in line with the assumptions made in the AIB Group plc defined benefit scheme.

The contributions payable over the period up to 30 June 2019 are the amounts required under the funding plans approved by the Pensions Authority. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection.

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

The main post retirement mortality assumptions used at 31 December 2016 were based on the scheme actuaries best practice mortality assumptions for the pension scheme member profile.

On this basis, the life expectancy for a male pensioner aged 65 at 31 December 2016 was 23.0 years (2015: 22.9 years) and for a female pensioner aged 65 years was 25.0 years (2015: 24.9 years). Based on the assumed mortality improvements in 25 years' time the life expectancy for a male pensioner aged 65 years will increase to 25.8 years (2015: 25.7 years) and for a female pensioner aged 65 years will increase to 27.9 years (2015: 27.8 years).

The contribution to be paid by the Company in 2017 is estimated to be €1.4m, with €1.4m payable in 2018 and €1.3m payable in 2019. The contributions are due by 29 June each year. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. RETIREMENT BENEFITS (CONTINUED)

Sensitivity Analysis
There are inherent uncertainties around the financial assumptions adopted in calculating the actuarial valuation due to the long term nature of the liabilities being valued.

An increase or decrease in the discount rate of 25 basis points would reduce or increase the scheme liabilities by 5.9%.

An increase or decrease in the inflation rate of 25 basis points would reduce or increase the scheme liabilities by 2.3%.

The addition of a one year age offset to the mortality table in use would increase the scheme liabilities by 2.9%.

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.

30. PROVISIONS FOR LIABILITIES AND COMMITMENTS

Group	Customer Redress € m	Other € m	2016 € m
At 1 January 2016	93	6	99
Transfer in/ (out)	-	-	-
Amounts charged to income statement	1	6	7
Amounts written back to income statement	(1)	-	(1)
Provisions utilised	(45)	(6)	(51)
At 31 December 2016[1]	48	6	54

	Customer Redress € m	Other € m	2015 € m
At 1 January 2015	-	8	8
Amounts charged to income statement	93	1	94
Amounts written back to income statement	-	(1)	(1)
Provisions utilised	-	(2)	(2)
At 31 December 2015[1]	93	6	99

Company	Customer Redress € m	Other € m	2016 € m
At 1 January 2016	58	6	64
Transfer in/ (out)	15	-	15
Amounts charged to income statement	1	6	7
Amounts written back to income statement	(1)	-	(1)
Provisions utilised	(39)	(6)	(45)
At 31 December 2016[1]	34	6	40

	Customer Redress € m	Other € m	2015 € m
At 1 January 2015	-	8	8
Amounts charged to income statement	58	1	59
Amounts written back to income statement	-	(1)	(1)
Provisions utilised	-	(2)	(2)
At 31 December 2015[1]	58	6	64

[1] The total provisions expected to be settled within one year amounts to €49m (2015: €98m) for the Group and €35m (2015: €63m) for the Company.

Provisions for customer redress
In December 2015, the Central Bank of Ireland ('CBI') requested the Irish banking industry, including EBS Group, to conduct a broad examination of tracker mortgage related issues, comprising of a review of mortgage loan books (including both PDH and Buy-to-let properties and loans that have been redeemed and/or sold), to assess compliance with both contractual and regulatory requirements. In situations where customer detriment is identified from this examination, EBS is required to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. PROVISIONS FOR LIABILITIES AND COMMITMENTS (continued)

Provisions for customer redress (continued)
At 31 December 2015, EBS Group provided €93m for customer redress. This provision related to the expected outflow for compensation/refunds of interest to customers in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect. The provision covered various compensations and costs arising from this issue.

Considerable progress was made throughout 2016 in identifying impacted customers and in calculating and making redress. To date €45 million of the provision has been utilised covering both redress and related costs leaving a residual provision of €48 million at 31 December 2016.

Given that the grounds on which the provisions have been estimated could prejudice the position of EBS Group, further information as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed.

31. SHARE CAPITAL

Group and Company

	2016 **€**	2015 €
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

Costs of €1.3m relating to the issuance of the special investment shares were transferred to ordinary share capital.

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.

Group and Company

	2016 **€m**	2015 €m
At 1 January (net of costs)	**1,654**	1,654
Issue of ordinary share capital	**-**	-
At 31 December	**1,654**	1,654

32. CAPITAL CONTRIBUTION

Group and Company

	2016 **€m**	2015 €m
Capital contribution	**249**	249
At 31 December	**249**	249

The capital contribution represents the capital provided by the Minister for Finance on behalf of the Irish State on 17 June 2010 in the form of a Promissory Note (nominal value of €250m), net of issue costs. The Promissory Note which was held as an available for sale financial asset by EBS was redeemed on 17 December 2015 at its carrying value of € 225m and subsequently cancelled.

33. LEASING COMMITMENTS

Group and Company

	2016 **€m**	2015 €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**	6
Between one and five years	**23**	7
After five years	**27**	5
	56	18

The bank decided not to exercise the break clause in relation to leasehold premises. It was previously assumed the break clause would be exercised in 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. CAPITAL COMMITMENTS

Group and Company

There was Nil (2015: Nil) capital expenditure contracted or authorised.

35. CASH AND CASH EQUIVALENTS

	Company 2016 €m	Company 2015 €m	**Group 2016 €m**	Group 2015 €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	**84**	12	**84**	12
Loans and receivables to banks	**11**	29	**142**	164
Loans and receivables to banks (Group Undertakings)	**3,406**	3,144	**-**	-
	3,501	3,185	**226**	176

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 16.

36. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company

(i) At 31 December 2016 Group and Company loan approvals not advanced, as calculated under the Basel III definition, amount to €254m (2015: €153m) and €148m (2015: €93m) 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's right, title, interest and benefit, present and future, in and to:

(i) the balances then or at any time standing to the credit of Payment Module accounts held by EBS with a Eurosystem Central Bank ('Charge over Payment Module Accounts'); and
(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by EBS to the Central Bank of Ireland ('Charge over Eligible Securities').

In each case, a 'Charged Property' for the purpose of securing all present and future liabilities of EBS in respect of EBS's participation in TARGET 2, arising from the floating charges and the Terms and Conditions for participation in TARGET2 – Ireland (specified from time to time by the Central Bank of Ireland), including, without limitation, liabilities to the Central Bank of Ireland, the European Central Bank, or any national central bank of a Member State that has adopted the euro.
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)

36. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company

(iv) TARGET 2 – Gross settlement system (continued)

The Central Bank of Ireland amended its collateral management system in May 2014, moving from an earmarking system to a pooling one for certain collateral accepted for Eurosystem credit operations. As part of this transition, EBS and the Central Bank of Ireland entered into a Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets dated 7 April 2014 ('Framework Agreement'). The Framework Agreement provided for the release of the Charge over Eligible Securities with effect from 26 May 2014.

A deed of charge was made on 7 April 2014 between EBS and the Central Bank in connection with the Framework Agreement ('Framework Agreement Deed of Charge'). The Framework Agreement Deed of Charge created a first fixed charge in favour of the Central Bank over EBS's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of EBS at that time in and to, or in connection with, a collateral account (the "Collateral Account") and eligible assets which stand to the credit of the Collateral account and a first floating charge in favour of the Central Bank over EBS's right, title, interest and benefit, present and future in and to other eligible assets of EBS.

The Charge over Payment Module Accounts remains in place. It has been extended to also provide for a first floating charge in favour of the Central Bank over the participants right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of a dedicated cash account (as defined in the Terms and Conditions for Participation in TARGET 2 – Ireland). EBS does not currently hold a dedicated cash account in relation to its participation in TARGET 2 – Ireland.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS

Group
Details of the principal subsidiary undertakings are shown in Note 22. 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 d.a.c., 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.

(a) Summary of the AIB Group relationship with the Irish Government
The Irish Government, as a result of both its investment in AIB's 2009 Preference shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the various ordinary/CNV share issues to the NPRFC(1) during 2010 and 2011, AIB is under the control of the Irish Government.

(1) Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is administered and managed by the NTMA.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate. Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

Rights and powers of the Irish Government and the Central Bank of Ireland
The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, 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, 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 of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by AIB Group of its shares;
- The manner in which AIB Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of Allied Irish Banks, p.l.c., having regard to capital ratios, market share and the Group's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/ business loan arrears are set out in the Risk section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:
- Guarantee schemes;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
    - (i) Direction Order;
    - (ii) Transfer Order;
    - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

In addition, the European Commission, in approving AIB's restructuring plan on 7 May 2014, found that restructuring aid granted by Ireland to AIB is in line with EU state aid rules.

- Guarantee schemes
The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of €100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Summary of the AIB Group relationship with the Irish Government (continued)

In January 2010, Allied Irish Banks, p.l.c., and certain of its subsidiaries, including EBS, became participating institutions for the purposes of the ELG Scheme (Eligible Liabilities Guarantee). This scheme expired on 28 March 2013 for all new liabilities. The total liabilities guaranteed under the ELG scheme by EBS at 31 December 2016 amounted to €742m (2015: €859m). Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Participating institutions are also required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institutions guarantee under the ELG Scheme.

In 2016, €11m was charged to EBS under the ELG scheme (2015: €13m).

- Funding support
At 31 December 2016 the amount of ECB funding received through the ECB Monetary Policy Operation Sale and Repurchase Agreements was Nil (2015: Nil). 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.

- PCAR/PLAR
On 31 March 2011, the Central Bank of Ireland published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of €85 billion in financial support for the sovereign was agreed in principle. Up to €35 billion of this support was earmarked for the banking system, €10 billion of which was for immediate recapitalisation of the banks with the remaining €25 billion to be provided on a contingency basis. Arising from the 2011 PCAR and PLAR assessments, AIB, including EBS, was required to raise €14.8 billion in total capital (including €1.6 billion in contingent capital), all of which was subsequently raised.

- Credit Institutions (Stabilisation) Act 2010
The Credit Institutions (Stabilisation) Act 2010, which was enacted in December 2010, ceased to have effect on 31 December 2014. During the period when the Act was effective, the Minister invoked certain of his powers under the Act in relation to AIB as follows:

- A Direction Order in December 2010;
- A Transfer Order in February 2011;
- A Subordinated Liabilities Order in April 2011; and
- Acquisition of EBS d.a.c. ('EBS').

On 31 March 2011, the Minister proposed the combination of AIB and EBS (formerly EBS Building Society) to form one of the two Pillar banks. On 26 May 2011, AIB entered into an agreement with EBS, the Minister and the NTMA to acquire EBS for a consideration of € 1 (one euro). The acquisition was effective from 1 July 2011.

- Central Bank and Credit Institutions (Resolution) Act 2011
The Central Bank and Credit Institutions (Resolution) Act 2011 provided the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that were failing or likely to fail and that would be effective in protecting the Exchequer and the stability of the financial system and the economy. However, in early 2016, the Single Resolution Mechanism ("SRM") became principally involved in determining the Group's resolution strategy.

- Relationship framework
In order to comply with the contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a relationship framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. Under the relationship framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board of AIB and its management team. However, the Board is required to obtain the prior written consent of the Minister, or to consult with the Minister, in respect of certain material matters, such as material disposals.

- Approval of AIB Restructuring Plan
On 7 May 2014, the European Commission approved, under state aid rules, AIB's Restructuring Plan. In arriving at its final decision, the European Commission acknowledged the significant number of restructuring measures already implemented by AIB, comprising business divestments, asset deleveraging, liability management exercises and significant cost reduction actions. The Commission concluded that the Restructuring Plan sets out the path to restoring long term viability. The plan covers the period from 2014 to 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Summary of the AIB Group relationship with the Irish Government (continued)

- Restructuring Plan commitments
AIB has committed to a range of measures relating to customers in difficulty: cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. All of the commitments are aligned to AIB's operational plans and are supportive of AIB's return to viability.

- 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.

On 20 November 2015, the EBS Promissory Note Termination Agreement was entered into between the Minister for Finance, the NTMA, EBS and AIB which provided for the redemption and subsequent cancellation of the EBS Promissory Note. The promissory note which was held as an available for sale security was redeemed at its carrying value on 17 December 2015. Fair value movements amounting to € 33 million held in the 'Available for sale securities reserves' account in equity were reclassified to the consolidated Income Statement on its redemption and reported within 'Other operating income'.

Interest earned on the Promissory Note for the year ending 31 December 2016 amounted to Nil (2015: €10m). Further information on the promissory note is included in note 32.

- 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.

Dividend income earned on subordinated bonds amounted to €1m in 2016 (2015: €1m).

- Balances held with the Irish Government and 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 €20m (December 2015: €18m).

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 d.a.c., 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').

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
2016	**20**	**15**	**873**	**4,248**	**20**
2015	18	27	944	3,940	17

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Summary of the AIB Group relationship with the Irish Government (continued)

(b) 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.

	2016 €m	2015 €m
Loans and receivables to banks	3,816	3,125
Deposits by central banks and banks	2,005	2,188
Included in the Income Statement		
Interest income on loans	5	5
Interest expense on loans	71	85
Other income	100	39
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Assets (Fair value)	19	20
Liabilities (Fair value)	18	20
Net Trading Income	3	1

(c) 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.

	2016 €m	2015 €m
Loans and receivables to banks	792	919
Deposits by central banks and banks	4,248	3,940
Included in the Income Statement		
Interest income on loans	27	35
Interest expense on loans	(11)	(10)
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Assets (Fair value)	15	27
Liabilities (Fair value)	20	17
Net Trading Income	(1)	(1)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with key management personnel

At 31 December 2016, 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 €0.05m (2015: €0.05m).

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 d.a.c., 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 d.a.c. generally, and in accordance with established policy, within limits set on a case by case basis. The aggregate balance of loans and guarantees held by Key Management Personnel, at the beginning and end of the financial year, were less than 0.02% of the net assets of the Company.

Details of transactions with Key Management Personnel and connected parties where indicated, for the years ended 31 December 2016 and 2015 are as follows:

(i) Current Directors:

Gerry Gaffney				**2016**
	Balance at 31 December 2015 €'000	**Amounts advanced during 2016**	**Amounts repaid during 2016**	**Balance at 31 December 2016 €'000**
Loans	82	-	8	**74**
Interest charged during 2016				**4**
Maximum debit balance during the year				**82**

Bernard Byrne, Fidelma Clarke, Desmond Fitzgerald, Tom Foley, Denis O'Callaghan, Jim O'Hara and Catherine Woods had no facilities with EBS d.a.c. during 2016.

(ii) Former Directors who were in office during the year:

The Director who resigned during the year had no facilities with EBS d.a.c.

(iii) Senior Executive Officers in office during the year (Aggregate of 1 persons (2015: 1 persons)):

	2015 €'000	**2016 €'000**
Loans	53	**51**
Total	53	**51**
Interest charged during 2016		**2**
Maximum debit balance during the year *		**53**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with key management personnel (continued)

(iv) Aggregate amount outstanding at year-end

Loans, overdrafts/credit cards

	2015 €'000	**2016 €'000**
Directors (2016: 1 persons; 2015: 1 persons)	82	**74**
Senior Executive Officers (2016: 1 persons; 2015: 1 persons)	53	**51**
	135	**125**

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2016, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 3 persons; 2015: 3 persons):

	Balance at 31 December 2015 €'000	**Balance at 31 December 2016 €'000**
Loans	555(1)	**513**
Overdraft/Credit card	-	**-**
Total		**513**
Interest charged during 2016		**12**
Maximum debit balance during 2016**		**555**

(1) Previously reported as Nil.

** The maximum debit balance figure is calculated by aggregating the maximum debit balance drawn on each facility during the year.

No impairment charges or provisions have been recognised in respect of any of the above loans or facilities and all interest that has fallen due on all of these loans or facilities has been paid.

As at 31 December 2016, no Directors or Senior Executive Officers held guarantees with EBS Group.

(e) Compensation of key management personnel

Total compensation to key management personnel is as follows:

	2016 €'000	2015 €'000
Post-employment benefits	**-**	-
Short-term compensation (1)	**326**	354
Termination benefits	**-**	-
	326	354

(1) Managing Director: comprises salary and a non-pensionable cash allowance in lieu of company car and other contractual benefits including, where relevant, payment in lieu of notice.

The remuneration of the Managing Director is borne by EBS.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Compensation of key management personnel (continued)

The remuneration of the Independent Non-Executive Directors in office during 2016 is as follows:

	2016 **€'000**	2015 €'000
Fees	**30**	30
	30	30

At 31 December 2016, the Board of Directors is comprised of Denis O'Callaghan, Bernard Byrne, Catherine Woods, Tom Foley, Gerry Gaffney, Jim O'Hara and Desmond Fitzgerald.

The remuneration of EBS Group Non-Executive Directors (Denis O'Callaghan, Bernard Byrne and Fidelma Clarke) and the Executive Director (Gerry Gaffney) is borne by AIB Plc.

No additional remuneration has been made to any individuals employed directly by AIB plc, for roles discharged as directors of EBS d.a.c. The Non-Executive Directors fees are non-pensionable.

The Directors do not participate in share option plans, therefore there were no gains on exercise of share options during the financial year in accordance with Section 305(1) of the Companies Act 2014.

There were no amounts paid (2015: nil) to persons connected with a director in accordance with Section 306(1) of the Companies Act 2014.

38. 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 1.16.

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 2016.

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 Risk function within AIB Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The methods used for calculation of fair value are as follows:

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 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.

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 2016 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.

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.

Other financial assets and other financial liabilities
This caption includes accrued interest receivable and payable and other receivables and payables. The carrying amount is considered representative of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. 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 2016.

Group 2016	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	-	-	-	-	78	6	84	6	78	-	84
Available-for-sale financial asset											
Equity – NAMA subordinated	-	-	-	20	-	-	20	-	-	20	20
Derivative financial instruments	4	1	13	-	-	-	18	-	15	3	18
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	928	-	928	-	-	928	928
Loans and receivables to customers	-	-	-	-	11,538	-	11,538	-	-	11,093	11,093
Other financial assets	-	-	-	-	-	11	11	-	-	11	11
	4	1	13	20	12,544	17	12,599	6	93	12,055	12,154
Financial liabilities measured at fair value											
Derivative financial instruments	3	-	20	-	-	-	23	-	20	3	23
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	4,248	4,248	-	-	4,248	4,248
Debt securities in issue	-	-	-	-	-	399	399	-	379	-	379
Customer accounts	-	-	-	-	-	6,651	6,651	-	-	6,577	6,577
Other financial liabilities	-	-	-	-	-	137	137	-	-	137	137
	3	-	20	-	-	11,435	11,458	54	399	10,965	11,364

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. 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 2015.

Group 2015	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	-	-	-	-	6	6	12	6	6	-	12
Available-for-sale financial asset											
Equity – NAMA subordinated	-	-	-	18	-	-	18	-	-	18	18
Derivative financial instruments	35	2	23	-	-	-	60	-	27	33	60
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	1,094	-	1,094	-	-	1,094	1,094
Loans and receivables to customers	-	-	-	-	11,562	-	11,562	-	-	11,083	11,083
Other financial assets						10	10			10	10
	35	2	23	18	12,662	16	12,756	6	33	12,238	12,277
Financial liabilities measured at fair value											
Derivative financial instruments	36	-	17	-	-	-	53	-	17	36	53
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	3,940	3,940	-	-	3,940	3,940
Debt securities in issue	-	-	-	-	-	505	505	54	422	-	476
Customer accounts	-	-	-	-	-	7,114	7,114	-	-	6,971	6,971
Other financial liabilities	-	-	-	-	-	135	135	-	-	135	135
	36	-	17	-	-	11,694	11,747	54	439	11,082	11,575

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. 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 2016.

Company 2016	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	-	-	-	-	78	6	84	6	78	-	84
Available-for-sale financial asset											
Euro Bank Securities	-	-	-	1,921	-	-	1,921	-	1,921	-	1,921
Equity – NAMA subordinated	-	-	-	20	-	-	20	-	-	20	20
Derivative financial instruments	22	1	13	-	-	-	36	-	33	3	36
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	3,417	-	3,417	-	-	3,417	3,417
Loans and receivables to customers	-	-	-	-	6,378	-	6,378	-	-	6,088	6,088
Other financial assets	-	-	-	-	-	30	30	-	-	30	30
	22	1	13	1,941	9,873	36	11,886	6	2,032	9,558	11,596
Financial liabilities measured at fair value											
Derivative financial instruments	19	-	20	-	-	-	39	-	39	-	39
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	4,266	4,266	-	-	4,266	4,266
Debt securities in issue	-	-	-	-	-	-	-	-	-	-	-
Customer accounts	-	-	-	-	-	7,260	7,260	-	-	7,186	7,186
Other financial liabilities	-	-	-	-	-	136	136	-	-	136	136
	19	-	20	-	-	11,662	11,701	-	39	11,588	11,627

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)-

38. 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 2015.

Company 2015	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	-	-	-	-	6	6	12	6	6	-	12
Available-for-sale financial asset											
Securities and investments	-	-	-	2,663	-	-	2,663	-	2,663	-	2,663
Equity – NAMA subordinated	-	-	-	18	-	-	18	-	-	18	18
Derivative financial instruments	55	2	23	-	-	-	80	-	47	33	80
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	3,173	-	3,173	-	-	3,173	3,173
Loans and receivables to customers	-	-	-	-	5,976	-	5,976	-	-	5,815	5,815
Other financial assets	-	-	-	-	-	26	26	-	-	26	26
	55	2	23	2,681	9,155	32	11,948	6	2,716	9,065	11,787
Financial liabilities measured at fair value											
Derivative financial instruments	23	-	17	-	-	-	40	-	38	2	40
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	3,951	3,951	-	-	3,951	3,951
Debt securities in issue	-	-	-	-	-	55	55	55	-	-	55
Customer accounts	-	-	-	-	-	7,786	7,786	-	-	7,643	7,643
Other financial liabilities	-	-	-	-	-	145	145	-	-	145	145
	23	-	17	-	-	11,937	11,977	55	38	11,741	11,834

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. 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 2016 and 2015:

				31 December 2016	
		Financial assets		**Financial liabilities**	
Group	**Derivatives**	**Equity securities**	**Total**	**Derivatives**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January 2016	**33**	**18**	**51**	**36**	**36**
Income statement	**(30)**	**-**	**(30)**	**(33)**	**(33)**
Other comprehensive income	**-**	**2**	**2**	**-**	**-**
At 31 December 2016	**3**	**20**	**23**	**3**	**3**

				31 December 2015	
		Financial assets		Financial liabilities	
Group	Derivatives	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m
At 1 January 2015	28	16	44	31	31
Income statement	5	2	7	5	5
Other comprehensive income	-	-	-	-	-
At 31 December 2015	33	18	51	36	36

				31 December 2016	
		Financial assets		**Financial liabilities**	
Company	**Derivatives**	**Equity securities**	**Total**	**Derivatives**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January 2016	**33**	**18**	**51**	**2**	**2**
Income statement	**(30)**	**-**	**(30)**	**(2)**	**(2)**
Other comprehensive income	**-**	**2**	**2**	**-**	**-**
At 31 December 2016	**3**	**20**	**23**	**-**	**-**

				31 December 2015	
		Financial assets		Financial liabilities	
Company	Derivatives	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m
At 1 January 2015	28	16	44	2	2
Income statement	5	2	7	-	-
Other comprehensive income	-	-	-	-	-
At 31 December 2015	33	18	51	2	2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39. CAPITAL MANAGEMENT

Capital regulation
CRD IV consists of the Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD"), and is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework.

CRD IV measures include:
– a single set of harmonised prudential rules which enhanced requirements for quality and quantity of capital; and
– CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Some of the provisions of CRD IV were introduced on a phased basis from 2014, these typically followed 20% in 2014, 40% in 2015 etc. until 2018. The main exception to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015.

AIB commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 6 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV.

The Single Supervisory Mechanism ("SSM"), comprising the European Central Bank ("ECB") and the national competent authorities of EU countries was established in 2014. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU.

The CET1 transitional ratio is significantly in excess of the SSM's minimum CET1 regulatory requirement (see page 6).

40. REGULATORY COMPLIANCE

During 2016, EBS d.a.c. and its regulated subsidiaries complied with their externally imposed capital ratios.

41. 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 2016:

(i) The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2016 was €1,500m (2015: €2,400m) of which Nil (2015: Nil) was held by third parties and €1,500m (2015: €2,400m) 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 2016 in issue is €3,862m (2015: €4,243m).

42. NON ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 15 December 2016, Emerald 4 announced to the Irish Stock Exchange that it had received notice from its sponsoring entity (EBS d.a.c.) of its intention to refinance loan notes on 15 March 2017 which Emerald 4 held. Emerald 4 issued a Bond redemption notice on 23 January 2017 and the bond redemption amounts were published on 8th March 2017. The bonds were fully redeemed on 15 March 2017.

No other significant non-adjusting events have taken place since 31 December 2016.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 28 March 2017.