EBS d.a.c.

Directors' Report and Annual Financial Statements

For the financial year ended 31 December 2017

Contents

Directors' and Other Information

Directors

Denis O'Callaghan	AIB Group Non-Executive Chairman
Desmond Fitzgerald	Executive Director (Managing Director)
Tom Foley	Independent Non-Executive Director
Gerry Gaffney	Executive Director
Bryan O'Connor	AIB Group Non-Executive Director
Jim O'Hara	Independent Non-Executive Director
Catherine Woods	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 2017. A Directors' Responsibility Statement in relation to the financial statements appears on page 65.

Activities of the Company

EBS d.a.c. ('EBS' or 'the Company'), formerly EBS Limited, a designated activity company, registered and domiciled in Ireland, is a wholly owned subsidiary of Allied Irish Banks p.l.c ('AIB') which is a wholly owned subsidiary of AIB Group plc. Prior to 8 December 2017, EBS was a wholly owned subsidiary of Allied Irish Banks, p.l.c. ("AIB Bank"). Pursuant to a Scheme of Arrangement between AIB Bank and its shareholders, AIB Group plc became the holding company of AIB and its subsidiaries, including EBS. EBS operates as a separately branded subsidiary with its own distribution network.

EBS operates in the Republic of Ireland and has a countrywide network of 71 offices and a direct telephone based distribution division (EBS Direct). EBS'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 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

<u>The Board of Directors</u>

Governance is exercised through a Board of Directors ('The Board') and a senior management team. The Board is responsible for corporate governance encompassing leadership, direction, strategy and control of EBS and is responsible for financial performance to its shareholder and ultimate parent AIB Group plc. 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 ultimate parent company. Throughout 2017, there were three Non-Executive Directors on the Board. The Board comprises of seven Directors, two of which are AIB Group Non-Executive Directors, by virtue of the role fulfilled in areas of AIB unrelated to the operations of EBS, three Independent Non-Executive Directors and two Non-Executive Directors

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 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 4 scheduled meetings during 2017 and no out of course meetings were held. Further detail about Directors' attendance of the meetings can be found in the table on page 9.

Directors' Report (continued)

Corporate Governance Statement (continued)

Audit Committee
In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. 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 2017 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 Bryan O Connor, who replaced Denis O'Callaghan on 28 March 2017.

Corporate Governance Requirements
In December 2015, the Central Bank published a revised Corporate Governance Requirements for Credit Institutions 2015 ("the 2015 Requirements") (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 Framework, the Company sought and received derogations from the Central Bank from a number of the incremental obligations arising from the revised categorisation, such as:

- 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 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 2017, 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.

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.

Directors' Report (continued)

Results for the year

Net interest income	**2017**	**€292m**	The increase in interest income was mainly due to a decrease in customer funding costs in 2017.
	2016	€252m	
Administrative expenses	**2017**	**€160m**	In 2017, expenses increased by €73m with amounts payable to AIB €78m higher following the implementation of revised transfer pricing arrangement for 2017 which resulted in additional allocated charges (further details below).
	2016	€87m	
Profit before tax	**2017**	**€111m**	The reduction in profit before tax is largely driven by the pricing changes with AIB and a provision charge in 2017 compared to a writeback in 2016.
	2016	€211m	
New lending	**2017**	**€930m**	EBS Group's particular focus is on new lending and net interest margin. New residential lending for the EBS Group was €930m in 2017 up from €820m in 2016 due to increased market presence during the financial year.
	2016	€820m	
Earning loans	**2017**	**€10,574m**	Earning balances increased due to new lending and cures exceeding redemption and newly impaired loans.
	2016	€10,335m	
Impaired loans	**2017**	**€1,532m**	Reduction in Impaired balances is driven by sale of non-performing loans and restructures, redemptions and cures exceeding newly impaired loans.
	2016	€1,948m	
Customer accounts	**2017**	**€5,675m**	Reduction in balances as higher cost term deposits are maturing.
	2016	€6,651m	
Loans & receivables to banks	**2017**	**€340m**	€588m lower at 31 December 2017 due to a reduction in restricted between EBS and AIB.
	2016	€928m	
Deposits by banks	**2017**	**€4,971m**	Borrowings from AIB increased by €723m during 2017 due to the reduction in customer accounts and the redemption of Emerald 4 Residential Mortgage Backed Security ("RMBS") partly offset by lower loans and receivables to banks.
	2016	€4,248m	
Total Tier 1 ratio (transitional)	**2017**	**20.8%**	Reduction of €394m in risk weighted assets and Total tier 1 capital increase of €108m in 2017.
	2016	17.2%	

In 2017, following a request from AIB, a review was completed of pricing arrangements between AIB and its' wholly owned subsidiary EBS d.a.c.. Arising from this review a new arms' length pricing agreement covering the totality of the relationship with AIB, was signed and implemented during 2017 replacing the previous arrangements which were "grandfathered" under Irish Revenue rules. The new agreement reflects OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved.

The impact of implementing the new transfer pricing agreement which attributes an arm's length Return on Equity to the Bank of €99m, is an increase in Administrative expenses for 2017 of €78m, being the primary reason for the reduction in profit after tax to €99m (2016: €183m). The additional charge is in respect of credit management, central function costs, risks borne by and assets provided by AIB in facilitating the operations of the Bank.

Directors' Report (continued)

Business Review
The Irish economy improved generally during 2017 including a decreasing unemployment rate standing at 6.2% at the end of December 2017 against 7.2% in 2016 (Source: Central Statistics Office) and decreasing mortgage arrears. Total market mortgage drawdowns in Ireland were €7.3bn (Source: Banking & Payments Federation of Ireland ('BPFI')) in 2017 compared with €5.7bn in 2016. Throughout 2017 there was increased competition in the mortgage market with competitors reducing interest rates for new and existing borrowers and offering incentives to new borrowers.

The CSO Residential Property Price Index showed an increase in prices nationally of 12.3% in the 12 months to December 2017 (8.1% in 2016). This was particularly evident outside Dublin where the 2017 annual increase was 13.3% (December 2016 12.0%). Property prices in Dublin increased in the 12 month period by 11.6% (increase of 5.7% in 2016). The residential property price fall from peak (February 2007) was 24.4% Dublin and 28.4% non-Dublin at 31 December 2017 (2016: 33.0% Dublin and 37.0% 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 drawn down to December 2016. The incentive was extended to September 2017 in January 2017 and further extended to March 2018 in September 2017. EBS's main focus is to support viable owner-occupier customers, including First Time Buyers, Home Movers, Home Improvements and those switching their mortgage to EBS.

Total residential impaired loans fell by 25% during the year and amounted to €1.5bn at 31 December 2017 (2016: €2.0bn) of which €0.1bn (2016: €0.2bn) was individually assessed for impairment and €1.4bn (2016: €1.8bn) was collectively assessed for impairment. At 31 December 2017, the Group's mortgage portfolio before impairments stood at €12.3bn (2016: €12.5bn); Residential €12.1bn and Commercial €0.2bn (2016: Residential €12.3bn and Commercial €0.2bn). The decline in mortgage balances is due to customer repayments, loan restructuring and loan book sale exceeding new lending during the financial year.

In 2015, the Group created a provision of €55m related to the expected outflow for customer redress and compensation 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 (Tracker Mortgage Examination). Over the past two years over 1,500 customers were redressed and compensated, at a cost of €44m and €11m was written back to the income statement. In December 2017, following the completion of an ongoing review no additional accounts were deemed impacted.

The Bank continue to face challenges like the Tracker Mortgage Examination programme. As they arise, the Bank together with AIB commit the required resources to deal with them in an open and fair way for our customers and stakeholders. That is what is expected of us and it is how we will continue to rebuild trust and public confidence. The Tracker Mortgage Examination programme has been a long programme, which started in 2015 and is now defined by the Central Bank of Ireland Framework. This includes a full independent third party review and an appeals process, which takes time to complete. Customers are assured that payments they receive under the redress and compensation scheme will not compromise their right to appeal so we can reasonably expect that activities might flow on from this for some time. We have made very material progress and expect to conclude the main customer elements by Q2 2018. In December 2017, following the completion of an ongoing review no additional accounts were deemed impacted.

The final redress and compensation is subject to independent third party assurance and is also subject to assessment and challenge by the Central Bank, notwithstanding the advanced stage of the examination process.

The Group also created a provision of €44m with regard to 'Other costs' in 2015, of which €38m was related to the tracker mortgage examination. Over the past two years €34m was utilised and an additional €11m charged to the income statement bringing the provision for 'Other costs' to €21m at 31 December 2017.

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

<u>Customer Funding</u>
The Group's strategy is to optimise funding requirements by matching its funding mix to the loan book portfolio, taking into account AIB's funding policy and Basel III developments. The Group continued to have a strong franchise in the retail deposit market and at 31 December 2017 has total customer accounts of €5,675m (2016: €6,651m). Customer funding was down by €976m primarily due to maturity of term deposits and the lower interest rate environment. Retail balances were €5,389m at 31 December 2017 (2016: €5,624m) and represent 95% (2016: 85%) of customer funding.

Directors' Report (continued)

Funding (continued)

Debt Securities in Issue
During 2017 debt securities in issue reduced by €399m to nil as Emerald 4 Residential Mortgage Backed Security ("RMBS") were redeemed and were not replaced with new issues.

Deposits by Banks
Funding from AIB increased by €723m to €4,971m in December 2017 as maturing customer funding was replaced with intercompany funding. There was no direct ECB funding in 2017 or 2016.

Share Capital
The issued Share Capital of EBS Group is €1,655m (2016: €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 Total Tier 1 and Total capital ratios.

	CRD IV Transitional basis		CRD IV Fully loaded basis	
	31 December 2017	31 December 2016	31 December 2016	31 December 2016
	€ m	€ m	€ m	€ m
Shareholders' equity	1,405	1,284	1,405	1,284
Regulatory adjustments	(72)	(43)	(234)	(248)
Total Tier 1 capital	1,333	1,241	1,171	1,036
Tier 2 capital				
Credit provisions	33	42	-	-
Total Tier 2 capital	33	42	-	-
Total capital	1,366	1,283	1,171	1,036
Risk Weighted Assets				
Credit risk	5,231	5,658	5,231	5,658
Operational risk	396	304	396	304
Credit Valuation Adjustment	-	59	-	59
Total Risk Weighted Assets	5,627	6,021	5,627	6,021
Total Tier 1 capital ratio	23.7%	20.6%	20.8%	17.2%
Total capital ratio	24.3%	21.3%	20.8%	17.2%

The Bank is required to maintain a Common Equity Tier 1 ratio of 6.375% effective from 1 January 2018 (2017: 5.75%). This includes a Pillar 1 requirement of 4.5% and a capital conservation buffer ("CCB") of 1.875% (2016: 1.25%). The minimum requirement for the transitional total capital ratio is 9.875% (2017 9.25%). The transitional Total Tier 1 and Total capital ratios at 31 December 2017 were 23.7% and 24.3% respectively (2016: 20.6% and 21.3% respectively). These ratios are significantly in excess of the regulatory 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 3.5%.

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

The Total Tier 1 and Total capital ratios in the table above are calculated by dividing the respective capital figure (Total Tier 1 capital or Total capital) by the total risk weighted assets for each basis.

Directors' Report (continued)

Risk Management

EBS Group adopts the same risk management framework and risk mitigation initiatives as AIB. The risk management framework provides a Group-wide definition of risk and lays down 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 the Bank, 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 Report on pages 11 to 64.

Outlook and priorities for 2018

The past number of years have seen a stronger than expected recovery by the Irish economy and this was again evident in 2017 as the economy performed ahead of expectations with increased employment levels and exports maintaining their strong upward trend. The unemployment rate fell to 6.2% by the end of 2017 and consumer confidence was close to a 15-year high in H2 2017.

There was a further increase in housing completions in Ireland in 2017 and a corresponding growth in mortgage lending of 29%. Housing completions continue to be well below the required demand level but further growth is expected in 2018.

Brexit remains an area of concern but to date there has been little net impact on the Irish economy. The UK economy has been negatively impacted, however, we will continue to monitor this in the context of the Irish economy, the bank and our customers.

Most forecasters see economic growth in Ireland slowing somewhat to around 4% in 2018, with the uncertainty around Brexit, the slowdown in UK economic activity and the rise of the euro, especially against sterling, all seen as headwinds. However, this would still be a very good performance by the Irish economy. Leading indicators of activity remain strong, pointing to continued good economic growth. The favourable external environment will support exports, with domestic spending underpinned by continuing low interest rates and rising employment and incomes, as well as the ongoing rebound in construction activity.

This should result in a further strong rise in new lending activity in 2018.

Going concern

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

EBS Group is dependent on AIB for continued funding and is therefore dependent on the going concern status of the parent.

The financial statements of AIB have been prepared on a going concern basis. In making its assessment, the Directors of AIB have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2018 to 2020 approved by the Board in December 2017, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios.

On the basis of the continued availability of funding from AIB to EBS Group, the Directors of EBS believe that it is appropriate to prepare the financial statements on a going concern basis.

Directors' Report (continued)

Attendance at scheduled Board and Board Committee Meetings

Name	Board		Board Audit Committee	
Directors	**A**	**B**	**A**	**B**
Bernard Byrne (resigned 28/03/2017)	1	1	-	-
Desmond Fitzgerald	4	4	-	-
Tom Foley	4	4	4	4
Gerry Gaffney	4	2	-	-
Denis O'Callaghan	4	4	1	1
Bryan O'Connor (appointed 28/03/2017)	4	4	3	3
Jim O'Hara	4	4	4	4
Catherine Woods	4	4	-	-

Column A indicates the number of scheduled meetings held during 2017 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2017.

Directors and Secretary
The following were Directors of EBS d.a.c. during 2017 – Bernard Byrne, Desmond Fitzgerald, Tom Foley, Gerry Gaffney, Denis O'Callaghan, Bryan O'Connor, Jim O'Hara and Catherine Woods.

On 28 March 2017, Ms. Louise Cleary resigned as Company Secretary and Ms. Cara Teahan was appointed on the same date.

Directors' Remuneration
Details of total remuneration of the Directors in office during 2017 and 2016 are shown in the Remuneration Table in note 10.

Dividend
There was no interim dividend paid to the shareholder during 2017 and the Board is not recommending the payment of a final dividend for 2017 (2016: no dividend paid).

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

Directors' Report (continued)

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 2017.

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. The accounting records of the Company are maintained at the registered office at AIB, Bankcentre, Ballsbridge, Dublin 4.

Events since the year end
There have been no significant events affecting the Company since the reporting date which require amendment to, or disclosure in, the financial statements.

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 Auditor is unaware; and
(b) the Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the 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' 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, were appointed as auditors on 30 July 2013 and have expressed their willingness to continue in office under Section 383(2) of the Companies Act, 2014.

On behalf of the Board,

____________________	________________________
Denis O'Callaghan	Desmond Fitzgerald
Non-Executive Chairman	Managing Director

Date: 27 March 2018

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 across AIB. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the AIB's risk management framework.

2. RISK MANAGEMENT FRAMEWORK
EBS Group relies on this AIB's framework and its supporting policies, processes and governance. 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 AIB's material 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 including conduct risk;
3.8 People and culture risk;
3.9 Business model risk; and
3.10 Model risk;

Note:
(i) Regulatory compliance risk and conduct risk are two separate risk types but are grouped together within disclosure 3.7 as they are both managed in line with the processes, procedures and organisational structures for the management of Regulatory compliance risk.
(ii) Section 4 provides information on Company risk

3.1 CREDIT RISK
The following pages provide details of:
3.1.1 Credit risk overview;
3.1.2 Credit quality;
3.1.3 Residential mortgages:
- Criticised loans for the total loan book split into owner occupier and buy-to-let assets;
- Analysis of the owner occupier and buy-to-let portfolios by arrears and provisions;
- Arrears profile of mortgages which were past due but not impaired;
- Arrears profile of mortgages which were impaired;
- Asset quality of residential mortgages;

3.1.4 Possessions;
3.1.5 Origination profile;
3.1.6 Forbearance:
  - Owner occupier
  - Buy-to-let
  - Total;

3.1.7 Loan to value profile; and
3.1.8 Commercial property.

3.1.1 CREDIT RISK OVERVIEW
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, from the level of individual facilities up to the total portfolio; and
- Monitor credit risk and adherence to agreed controls.

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

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 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 Credit Risk function is to provide direction, oversight and challenge of credit risk-taking. EBS Group has its own Risk Appetite Statement ("RAS") which is fully aligned with the AIB RAS. Credit Risk appetite is set at EBS 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 EBS approved risk appetite. The EBS Group risk appetite for credit risk is reviewed and approved annually.

(a) 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 their obligations;
- Exposure at default ('EAD') – the exposure to a borrower who is unable to repay their 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.

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, the 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, or loans that are in a post impairment/restructuring phase; and

Impaired: A loan is impaired if there is objective evidence of impairment as a result of one or more event(s) 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.

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(a) Measurement of credit risk (continued)
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.

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.

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.

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 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.

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

The table below 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	2017 Total €m	Amortised Cost €m	Fair Value €m	2016 Total €m
Cash and balances at central banks	80	-	80	84	-	84
Derivative financial instruments	-	3	3	-	18	18
Available-for-sale financial assets	-	21	21	-	20	20
Loans and receivables to banks	340	-	340	928	-	928
Loans and receivables to customers	11,469	-	11,469	11,538	-	11,538
Included elsewhere:						
Accrued interest	6	-	6	11	-	11
Other assets*	44	-	44	49	-	49
	11,939	24	11,963	12,610	38	12,648
Off-balance sheet loan commitments	264	-	264	388	-	388
Maximum exposure to credit risk	12,203	24	12,227	12,998	38	13,036

**** Other assets includes all remaining assets with the exception of deferred taxation.***

(b) Risk Management and Mitigation

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 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.

In assessing the value of collateral for impaired mortgage loans, the EBS Group has used a house price fall from peak of 32% Dublin and 37% non-Dublin as a base. This reflects a collateral value buffer against the current CSO residential property price index which at 31 December 2017 showed a 24.4% and a 28.4% fall from peak for Dublin and non-Dublin respectively.

EBS Group's buffer to the latest available CSO index remained unchanged at 10% throughout 2017.

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

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(b) Risk Management and Mitigation (continued)
The following table shows the fair value of collateral held for loans and receivables to customers at 31 December 2017 and 2016.

Group Collateral Held: Loans and receivables to customers*

2017	Owner-Occupier and Buy-to-Let €m	Commercial mortgages €m	Total €m
Neither past due nor impaired	10,143	55	10,198
Impaired loans	1,356	65	1,421
Past due but not impaired	342	18	360
Total loans	**11,841**	**138**	**11,979**

2016	Owner-Occupier and Buy-to-Let €m	Commercial mortgages €m	Total €m
Neither past due nor impaired	9,729	76	9,805
Impaired loans	1,600	87	1,687
Past due but not impaired	339	10	349
Total loans	11,668	173	11,841

Residential Mortgage Lending with Fair Value Collateral*

Loan-to-value ('LTV') (index linked information)

2017 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%	2,604	72	147	2,823
50% - 70%	3,165	99	200	3,464
71% - 80%	1,633	47	126	1,806
81% - 90%	1,131	43	137	1,311
91% - 100%	766	28	150	944
	9,299	289	760	10,348
Partially collateralised				
Collateral value relating to loans over 100% LTV	844	53	596	1,493
Total collateral value	10,143	342	1,356	11,841
Gross residential mortgages	10,226	348	1,532	12,106
Statement of financial position specific provisions			(631)	(631)
Statement of financial position IBNR provisions				(112)
Net residential mortgages				11,363

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 and the improved economic conditions in the period.

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

Residential Mortgage Lending with Fair Value Collateral* (continued)

Loan-to-value ('LTV') (index linked information)

				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

[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.

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 2017. The CSO Residential Property Price Index for October 2017 reported that national residential property prices were 24% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 12% for the twelve months to October 2017.

(c) 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.

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

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

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

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(d) Risk identification and assessment*(continued)
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.

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

(e) 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.

EBS uses a range of initiatives to support customers. It 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 customers, and the objective of supporting customers to remain in a family home whenever possible. EBS 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 Bank and the borrower.

Mortgage portfolio
EBS Group introduced a Mortgage Arrears Resolution Process ("MARP") for dealing with mortgage customers in difficulty or likely to be in difficulty. The core objectives of this process is 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. It includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Under the definition of forbearance, which complies with the definition of Forbearance prescribed by the European Banking Authority ("EBA"), loans subject to forbearance measures remain in forbearance stock for a period of two years from the date forbearance is granted regardless of the forbearance type. Therefore, cases that receive a short-term forbearance measure, such as interest only, and return to a full principal and interest repayment schedule at the end of the interest only period, will remain in the stock of forbearance for at least two years.

The four step process is summarised as follows:

- Communications – We are here to listen, support and provide advice
- Financial information – To allow us to understand the customer finances
- Assessment – Using the financial information to assess the customer's situation
- Resolution – We work with the customer to find a resolution

The core objective of the process is to determine sustainable solutions that where possible, help to keep customers in their home. This includes the following longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

Forms an integral part of the audited financial statements.

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(e) Forbearance strategies* (continued)

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.

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 AIB's approach to mortgage forbearance which EBS has adopted.

(f) Provisioning for impairment

The accounting policy of impairment of financial assets is outlined in note 1 to the financial statements.

EBS Group 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 AIB'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. Loans are tested for impairment on receipt of a forbearance request 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.

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(f) Provisioning for impairment (continued)
The following are triggers to prompt/guide Case Managers regarding the requirement to assess for impairment.

Mortgage portfolio triggers
– A request for a forbearance measure from the borrower
– Deterioration in the debt service capacity;
– A material decrease in rents received on a buy-to-let property; and
– A material decrease in property value

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.
– A request for a forbearance measure from the borrower

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 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 the borrower 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, Owner-Occupier residential mortgages 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.

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(f) Provisioning for impairment (continued)

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.

For individually insignificant mortgages, specific impairment provisions are calculated using an individually insignificant and IBNR mortgage provisioning model. The methodology is based on the calculation of three possible resolution outcomes for each loan: cure; advanced forbearance with loss; and property disposal (forced and voluntary), with different loss rates associated with each. The model parameters are regularly reviewed and updated to reflect current data on loss history and portfolio composition. The model parameters were refined during the financial year based on updated market and transactional data.

Key model parameters at 31 December 2017 for owner occupier mortgages are as follows: cure (19%) and disposal/forbearance (81%) (2016: cure 14% and disposal/forbearance 86%).

The corresponding buy-to-let model parameters are as follows: cure (11%); disposal/forbearance (89%) (2016: cure 7% and disposal/forbearance 93%).

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.

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: likelihood of property disposal, haircut; costs and time to dispose (voluntary and forced); house price fall from peak and loss rate on advanced forbearance.

The model parameters are reviewed at AIB's Credit Committee on a quarterly basis. The main parameter changes for the year to 31 December 2017 were improvements in the CSO index and the property market fall from peak, an increase in observed cure rates and increases in disposal haircuts and recovery periods. Whilst each parameter is reviewed on an individual basis, the interconnectedness of the parameters within the model is taken into account. Each loan is assigned probability weighted resolution outcomes which determines the loss amounts.

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 group, those loans are removed from the Group 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)

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(f) Provisioning for impairment (continued)

IBNR for mortgages portfolio*
The portfolio IBNR is calculated using the collective mortgage model as described previously. The IBNR is calculated as PD multiplied by LGD multiplied by Exposure (adjusted for the Emergence Period) with the PD and LGD derived from statistical models. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio:

Group 2017

	Owner-Occupier			Buy-to-Let		
Grade	Exposure €m	Average PD %	Average LGD %	Exposure €m	Average PD %	Average LGD %
Good upper[1]	8,457	0.5	18.9	47	2.1	21.5
Good lower[2]	1,181	2.9	22.1	85	6.8	44.4
Watch	671	15.3	21.9	34	19.5	48.7
Vulnerable	89	55.3	22.6	10	39.2	42.2

[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 table 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	248	10.9	24.1	10	70.7	24.8
Forborne – Non impaired	1,617	7.3	21.9	18	32.0	28.4

Group 2016

	Owner-Occupier			Buy-to-Let		
Grade	Exposure €m	Average PD %	Average LGD %	Exposure €m	Average PD %	Average LGD %
Good upper	7,666	0.6	14.5	43	2.1	15.1
Good lower	1,551	2.6	18.5	101	7.3	45.2
Watch	814	15.6	17.8	44	16.6	52.7
Vulnerable	105	56.5	20.2	11	33.5	43.0

Included in the above table are the following sub portfolios which carry a higher level of IBNR:

Cured	477	13.2	20.1	34	16.4	47.4
Forborne – Non impaired	1,572	8.5	17.9	19	36.3	23.6

The parameters for Cured and Forborne non-impaired, are as follows:
Average PD and LGD are based on the PDs and LGDs, weighted by the EAD 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 provisions.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

Forms an integral part of the audited financial statements.

3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(f) Provisioning for impairment (continued)

Emergence period*
The emergence period is key to determining the level of IBNR provisions. Emergence periods are determined by:
- assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan requiring a provision; and
- 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 and 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 2017, there was no change made to the emergence period for the mortgage portfolio (12 months), however the emergence period in the non-mortgage portfolio was increased from 8 months to 12 months in the year reflecting the impact of economic uncertainty on the restructured portfolios.

Approval process*
AIB 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 AIB's Group Credit Committee and AIB Board (where applicable). Segment impairments and provisions are ultimately reviewed by AIB's 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 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.

Reversal 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 which are subject to estimation uncertainty.

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 reporting 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.

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3.1.1 CREDIT RISK OVERVIEW (CONTINUED)

(f) Provisioning for impairment (continued)

Impact of changes to key assumptions and estimates on the impairment provisions* (continued)
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 vintage, 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 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 32% Dublin and 37% 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) (2016: 40% and 44% respectively).

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 0.7% (blended rate of owner-occupier/buy-to-let) or c. €4.8m December 2016 equivalent: reduction of 0.4% or c. €6m.

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 2017 is estimated to result in movements in provisions of c. €7m (€6m specific provision and €1m IBNR) December 2016 equivalent: €9m (€8m specific provision and €1m IBNR).

A 1% move in the haircut for a Dublin sale would result in a change of €2.14m in provisions, (€1.90m II and €0.24m IBNR) December 2016 equivalent: €2.43m (€2.18m II and €0.24m IBNR). A 1% move in the haircut for a sale outside Dublin would result in a change of €4.96m in provisions, (€4.54m II and €0.42m IBNR) December 2016 equivalent: €5.47m (€5.01m II and €0.45m IBNR).

An increase in the assumed repossession rate of 1% for collective mortgage provisions would result in an increase in provisions of 0.6% (blended rate of owner-occupier/buy-to-let) or c. €4m December 2016 equivalent: increase of 0.7% or c. €6m.

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. €5m December 2016 equivalent: €4m.

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3.1.2 CREDIT RISK – 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, related provisions and deferred acquisition costs.

Group*			2017
	Owner-Occupier	Non Owner-Occupier	Total
Gross loans and receivables to customers	€m	€m	€m
Residential mortgages	11,833	-	11,833
Buy-to-let	-	273	273
Commercial property	-	150	150
Total	11,833	423	12,256

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

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 2017 were €930m, up from €820m in 2016.

			2017
Group Impairment Provisions*	Owner-Occupier	Non Owner-Occupier	Total
	€m	€m	€m
Statement of financial position provisions	688	99	787
Statement of financial position provisions as a % of loans and receivables	5.8%	23.6%	6.4%
Specific provision as a % of impaired loans	40.6%	54.5%	42.0%
Impairment charge/(credit) as a % of total loans	0.4%	(1.7%)	0.3%

			2016
Group Impairment Provisions*	Owner-Occupier	Non Owner-Occupier	Total
	€m	€m	€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 (credit) as a % of total loans	(0.2%)	(2.4%)	(0.3%)

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

(i) The higher concentration of loans in the legal process, which take longer to resolve and typically require higher provision cover;
(ii) 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; and
(iii) Extended time to disposal parameters which reflect the execution risks in the resolution of mortgage loans in the legal process.

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

Risk Management Report (continued)

3.1.2 CREDIT RISK – CREDIT QUALITY (CONTINUED)

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

			2017*
	Owner-Occupier €m	Non Owner-Occupier €m	Total €m
Satisfactory	**9,638**	**149**	**9,787**
Watch	671	87	758
Vulnerable	89	20	109
Impaired	1,435	167	1,602
Criticised	**2,195**	**274**	**2,469**
Gross mortgages	**11,833**	**423**	**12,256**
Criticised loans as % of total mortgages	18.5	64.8	20.1
Impaired loans as % of total mortgages	12.1	39.5	13.1

			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

EBS's criticised loans and receivables to customers amounted to €2.47bn or 20.1% of total customer loans. Criticised loans have decreased by €623m since 31 December 2016. The main drivers of the decrease in criticised loans have been the improved economic conditions in the period, coupled with increased levels of cures following successful restructuring arrangements and the sale of a portfolio of distressed buy-to-let mortgages. The decrease was evident throughout both the early arrears (less than 90 days past due) and late arrears (greater than 90 days past due).

Total impaired loans*	2017		2016	
	€m	%	€m	%
Impaired loans – Owner-occupier	**1,435**	**11.7**	1,752	14.0
Impaired loans – Non Owner-occupier	**166**	**1.4**	295	2.4
Total	**1,601**	**13.1**	2,047	16.4

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).

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3.1.2 CREDIT RISK – CREDIT QUALITY (CONTINUED)

Group*	Owner-Occupier €m	Non Owner-Occupier €m	Total €m	2017 %
Neither past due nor impaired	10,060	227	10,287	83.9
Past due but not impaired	338	30	368	3.0
Impaired – no provision	-	8	8	0.1
Impaired – provision held	1,435	158	1,593	13.0
Gross loans and receivables	11,833	423	12,256	100.0
Provision for loan impairments	(688)	(99)	(787)	
Total loans and receivables after provisions	11,145	324	11,469	

Group*	Owner-Occupier €m	Non Owner-Occupier €m	Total €m	2016 %
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 loan impairments	(750)	(184)	(934)	
Total loans and receivables after provisions	11,138	400	11,538	

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.

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3.1.3 CREDIT RISK – RESIDENTIAL MORTGAGES

The following table analyses the owner-occupier and buy-to-let residential mortgage portfolios by arrears and provisions:

			2017*
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Total gross mortgages	11,833	273	12,106
In arrears >30 days past due and/or impaired	1,505	101	1,606
In arrears >90 days past due and/or impaired	1,435	100	1,535
Of which impaired	1,435	97	1,532
Statement of financial position specific provisions	582	49	631
Statement of financial position IBNR provisions	106	6	112

			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

Total impaired residential mortgages amounted to €1,532m at 31 December 2017 (2016: €1,948m) of which €115m (2016: €176m) was individually assessed for impairment and €1,417m (2016: €1,772m) was collectively assessed for impairment.

Mortgages amounted to €12.1bn at 31 December 2017. This compares to €12.3bn at 31 December 2016. The split of the residential mortgage book was owner occupier €11.8bn (31 December 2016: €11.9bn) and buy-to-let €0.3bn (2016: €0.4bn).

The income statement impairment charge for 2017 was €36m or 0.3% of average mortgages, comprising a €9m specific charge and a €27m IBNR charge (2016: €31m release or negative 0.3% of average mortgages, comprising a €14m specific release and a €17m IBNR release). Statement of financial position provisions of €743m were held at 31 December 2017, split €631m specific and €112m IBNR (2016: €871m, split €786m specific and €85m IBNR).

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

Risk Management Report (continued)

3.1.3 CREDIT RISK – RESIDENTIAL MORTGAGES (CONTINUED)

Provision cover percentage*

	Owner-Occupier %	Buy-to-Let %	Total %
2017			
Specific provisions as a % of impaired loans cover	**40.6**	**50.5**	**41.2**

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

Income statement[1] *

	Owner-Occupier €m	Buy-to-Let €m	Total €m
2017			
Income statement specific provisions	**12**	**(3)**	**9**
Income statement IBNR provisions	**30**	**(3)**	**27**
Total impairment provisions	**42**	**(6)**	**36**

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

[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 reflecting:

(i) The higher concentration of loans in the legal process, which take longer to resolve and typically require higher provision cover;
(ii) 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; and
(iii) Extended time to disposal parameters which reflect the execution risks in the resolution of mortgage loans in the legal process.

The IBNR charge in 2017 of €27m compares to a release of €17m in 2016 mainly due to changes in the mortgage model and time to disposal parameter.

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3.1.3 CREDIT RISK – RESIDENTIAL MORTGAGES (CONTINUED)

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 2017 and 31 December 2016:

			2017
Loan-to-value (LTV) ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	**2,754**	**69**	**2,823**
50% - 70%	**3,410**	**54**	**3,464**
71% - 80%	**1,784**	**23**	**1,807**
81% - 90%	**1,287**	**22**	**1,309**
91% - 100%	**884**	**61**	**945**
101% - 120%	**1,149**	**19**	**1,168**
121% - 150%	**355**	**7**	**362**
Greater than 150%	**159**	**5**	**164**
Unsecured (Zero Collateral)	**51**	**13**	**64**
Total	**11,833**	**273**	**12,106**
Weighted average indexed LTV [1]			
Stock of residential mortgages at year end	**70%**	**73%**	**70%**
New residential mortgages during the year	**69%**	**-**	**69%**
Impaired mortgages	**101%**	**76%**	**100%**

			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 year	70%	-	70%
Impaired mortgages	110%	87%	108%

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

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

Risk Management Report (continued)

3.1.3 CREDIT RISK – RESIDENTIAL MORTGAGES (CONTINUED)

Actual and average LTV across mortgage portfolios*
14.5% of the owner-occupier and 16.1% of the buy-to-let mortgages were in negative equity at 31 December 2017. In terms of the total portfolio, 14.5% (2016: 25.3%) was in negative equity at 31 December 2017 (including unsecured loans).

The weighted average indexed loan-to-value for the total residential mortgage book was 70% at 31 December 2017 compared to 80% at 31 December 2016, with the reduction driven primarily by the increase in property prices in 2017, coupled with amortisation of the loan book and restructuring activity.

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 2017 and 2016.

			2017
Loan-to-value (LTV) ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	2,561	44	2,605
50% - 70%	3,133	32	3,165
71% - 80%	1,620	14	1,634
81% - 90%	1,116	14	1,130
91% - 100%	717	49	766
101% - 120%	838	9	847
121% - 150%	64	3	67
Greater than 150%	8	-	8
Unsecured (Zero Collateral)	3	1	4
Total	**10,060**	**166**	**10,226**

			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

Residential mortgage loans neither past due nor impaired, 90.9% (2016: 81.5%) of the owner-occupier and 91.6% (2016: 84.2%) of the buy-to-let mortgages were in positive equity at 31 December 2017. In terms of the total portfolio, 9.1% (2016: 18.5%) was in negative equity at 31 December 2017.

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Risk Management Report (continued)

3.1.3 CREDIT RISK – 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 2017 and 2016.

			2017
Loan-to-value (LTV) ratio:	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Less than 50%	124	24	148
50% - 70%	181	19	200
71% - 80%	118	9	127
81% - 90%	130	7	137
91% - 100%	140	11	151
101% -120%	263	9	272
121% - 150%	281	4	285
Greater than 150%	151	5	156
Unsecured (Zero Collateral)	47	12	59
Total	**1,435**	**100**	**1,535**

			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

48.2% of the owner-occupier and 69.0% of the buy-to-let mortgages were in positive equity at 31 December 2017 (2016: 38.0% of owner occupier and 56.3% of buy-to-let mortgages were in positive equity). In terms of the total portfolio (including unsecured loans), 50.3% was in negative equity at 31 December 2017 (2016: 60.2%).

Group Asset Quality – Mortgages*

			2017
	Owner-Occupier €m	**Buy-to-Let €m**	**Total €m**
Satisfactory	**9,638**	**132**	**9,770**
Watch	**671**	**34**	**705**
Vulnerable	**89**	**10**	**99**
Impaired	**1,435**	**97**	**1,532**
Criticised	**2,195**	**141**	**2,336**
Gross mortgages	**11,833**	**273**	**12,106**
	%	**%**	**%**
Criticised loans as % of total mortgages	**19**	**52**	**19**
Impaired loans as % of total mortgages	**12**	**36**	**13**

Forms an integral part of the audited financial statements.

3.1.3 CREDIT RISK – RESIDENTIAL MORTGAGES (CONTINUED)

Group Asset Quality – Mortgages* (continued)

			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

Impaired loans decreased from 16%, of the total mortgage book, in December 2016, to 13% in December 2017. 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 2017 and 31 December 2016:

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

				2017
Group	**Owner-Occupier €m**	**Buy-to-Let €m**	**Total €m**	**%**
1–30 days	**269**	**16**	**285**	**77.5**
31–60 days	**50**	**2**	**52**	**14.1**
61–90 days	**19**	**1**	**20**	**5.4**
91–180 days	**-**	**1**	**1**	**0.3**
181–365 days	**-**	**2**	**2**	**0.5**
>365 days	**-**	**8**	**8**	**2.2**
Total	**338**	**30**	**368**	**100.0**

				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	100.0

Loans past due but not impaired at 31 December 2017 increased by 1% when compared to 31 December 2016, driven by the increase in the 1-30 days past due in the period due to a slight increase in early arrears.

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.3 CREDIT RISK – RESIDENTIAL MORTGAGES (CONTINUED)

Arrears profile of mortgages which were impaired*
The following table profiles the residential mortgage portfolio that was impaired at 31 December 2017 and 31 December 2016:

			2017
	Owner – Occupier €m	**Buy-to-Let €m**	**Total €m**
Not past due	**204**	**13**	**217**
1 - 30 days	**60**	**4**	**64**
31 - 60 days	**30**	**1**	**31**
61 - 90 days	**31**	**2**	**33**
91 - 180 days	**74**	**4**	**78**
181 - 365 days	**91**	**4**	**95**
Over 365 days	**945**	**69**	**1,014**
Total impaired	**1,435**	**97**	**1,532**

			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

Impaired loans decreased by €416m as restructuring and write offs exceeded newly impaired loans. New to impaired were lower in 2017 compared to 2016 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2017, €217m or 14.2% was not past due (2016: €330m or 16.9%) of which €195m (2016: €283m) were subject to forbearance measures.

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Risk Management Report (continued)

3.1.4 CREDIT RISK - 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.

2017	Number of Disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Loss on sale	Average LTV at sale Price
		€m	€m	€m	€m	%
Owner-occupier	157	41	25	3	19	166
Buy-to-let	4	1	1	-	-	183
Total residential	161	42	26	3	19	166

2016	Number of Disposals	Balance outstanding at repossession	Gross sales proceeds	Costs to sell	Loss on sale	Average LTV at sale Price
		€m	€m	€m	€m	%
Owner-occupier	142	36	17	2	21	215
Buy-to-let	6	2	1	-	1	236
Total residential	148	38	18	2	22	216

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 161 residential properties resulted in a loss on disposal of €19m at 31 December 2017 (before specific impairment provisions) (2016: 148 disposals, €22m 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 2017:	465	5	470
Of which at 31 December 2016:	548	21	569

The stock of residential properties in possession decreased by 99 properties in 2017. This decrease relates to the disposal of 161 properties (31 December 2016: 148 properties) which were offset by the addition of 79 properties (31 December 2016: 203 properties). In addition, a further 17 properties were removed from the stock in 2017 as part of the sale of a portfolio of distressed mortgages.

3.1.5 CREDIT RISK - RESIDENTIAL MORTGAGES BY YEAR OF ORIGINATION*

The following table profiles the residential mortgage book and impaired residential mortgage book at 31 December 2017 and 2016 by year of origination.

2017	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance €m	Number	Balance €m
1996 and before	1,696	58	215	10
1997	658	23	85	4
1998	1,426	35	97	5
1999	1,832	58	140	9
2000	2,159	96	182	14
2001	2,477	151	228	22
2002	3,536	260	334	35
2003	4,515	368	516	61
2004	6,107	626	710	94
2005	9,093	1,020	1,103	176
2006	12,047	1,624	1,723	307
2007	11,745	1,687	2,041	362
2008	11,498	1,683	1,695	292
2009	6,709	875	579	92
2010	5,724	779	273	42
2011	582	73	17	3
2012	105	10	2	-
2013	595	77	4	1
2014	2,440	398	11	2
2015	3,318	553	8	1
2016	4,166	776	5	-
2017	4,485	876	1	-
Total	96,913	12,106	9,969	1,532

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

Forms an integral part of the audited financial statements.

3.1.5 CREDIT RISK - RESIDENTIAL MORTGAGES BY YEAR OF ORIGINATION* (CONTINUED)

The majority (€6.9bn or 57%) of the €12.1bn residential mortgage portfolio was originated between 2005 and 2009, of which, 18% (€1.2bn) was impaired at 31 December 2017. 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. 14% of the residential mortgage portfolio was originated before 2005 of which 15% was impaired at 31 December 2017, while the remaining 29% of the portfolio was originated since 2010 or after, of which 1% was impaired at 31 December 2017.

3.1.6 CREDIT RISK –RESIDENTIAL MORTGAGE FORBEARANCE

Forbearance stock – summary

			2017
	Owner – Occupier €m	**Buy-to-Let €m**	**Total €m**
Neither past due nor impaired	813	17	830
Past due but not impaired	178	5	183
Impaired	653	52	705
Total	**1,644**	**74**	**1,718**

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

Residential mortgages – subject to forbearance **2017**

	Owner Occupier Number	Owner Occupier Balance €m	Buy-to-Let Number	Buy-to-Let Balance €m	Total Number	Total Balance €m
At 1 January	16,234	2,063	386	112	16,620	2,175
Additions	987	123	29	5	1,016	128
Expired arrangements	(3,669)	(446)	(59)	(11)	(3,728)	(457)
Payments	-	(106)	-	(5)	-	(111)
Interest	-	57	-	2	-	59
Closed accounts[1]	(525)	(33)	(59)	(21)	(584)	(54)
Advanced Forbearance Arrangements - Valuation Adjustments	-	(5)	-	(7)	-	(12)
Write-offs [2]	(64)	(10)	(1)	-	(65)	(10)
Transfer from buy-to-let to owner-occupier	7	1	(7)	(1)	-	-
Closing stock 31 December 2017	12,970	1,644	289	74	13,259	1,718

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.6 CREDIT RISK –RESIDENTIAL MORTGAGE FORBEARANCE (CONTINUED)

Residential mortgages – subject to forbearance (continued)

						2016
	Owner Occupier Number	Owner Occupier Balance €m	Buy-to-Let Number	Buy-to-Let Balance €m	Total Number	Total Balance €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	-	-	-
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

[(1)] Accounts closed during the year due primarily to customer repayments and redemptions
[(2)] The number of accounts only represents accounts closed in the period primarily as a result of the write-off, while the monetary values also include partial write-offs of accounts which remain open.

Residential mortgages subject to forbearance measures decreased by €456m in 2017 (2016: decrease of €75m). This decrease is mainly driven by €446m of mortgages exiting forbearance in the year, having met the forbearance terms. This has been driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Risk Management Report (continued)

3.1.6 CREDIT RISK –RESIDENTIAL MORTGAGE FORBEARANCE (CONTINUED)

Owner Occupier Forbearance Stock*

2017

			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance €m	Number	Balance €m	Number	Balance €m
Interest only (I.O.)	2,822	402	1,782	271	1,040	131
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	816	118	127	20	689	98
Arrears capitalisation	6,896	863	2,384	292	4,512	571
Term extension	290	19	123	8	167	11
Split mortgage	1,195	173	348	52	847	121
Sale for loss	249	6	145	4	104	2
Positive Equity Solution	697	62	69	6	628	56
Other	5	1	3	-	2	1
Total	**12,970**	**1,644**	**4,981**	**653**	**7,989**	**991**

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

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

3.1.6 CREDIT RISK – RESIDENTIAL MORTGAGE FORBEARANCE (CONTINUED)

Buy-to-let Forbearance Stock*

2017

			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.)	76	29	54	21	22	8
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	1	-	-	-	1	-
Arrears capitalisation	110	23	48	14	62	9
Term extension	34	15	28	14	6	1
Split mortgage	2	-	-	-	2	-
Sale for loss	60	6	49	6	11	-
Positive Equity Solution	2	-	-	-	2	-
Other	4	1	-	-	4	1
Total	**289**	**74**	**179**	**55**	**110**	**19**

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

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

Risk Management Report (continued)

3.1.6 CREDIT RISK –RESIDENTIAL MORTGAGE FORBEARANCE (CONTINUED)

Residential Mortgage Forbearance Stock*

2017

	Number	Total Balance €m	Loans >90 days in arrears and/or impaired Number	Loans >90 days in arrears and/or impaired Balance €m	Loans neither >90 days in arrears nor impaired Number	Loans neither >90 days in arrears nor impaired Balance €m
Interest only (I.O.)	2,898	431	1,836	292	1,062	139
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low Fixed Interest Rate	817	118	127	20	690	98
Arrears capitalisation	7,006	886	2,432	306	4,574	580
Term extension	324	34	151	22	173	12
Split mortgage	1,197	173	348	52	849	121
Sale for loss	309	12	194	10	115	2
Positive Equity Solution	699	62	69	6	630	56
Other	9	2	3	-	6	2
Total	**13,259**	**1,718**	**5,160**	**708**	**8,099**	**1,010**

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

Interest income on impaired loans amounted to €32m in 2017. At 31 December 2017, the net carrying value of impaired loans amounted to €929m (€1,602m Impaired Balance - €673m Closing Provision) which included forborne impaired mortgages of €480m (€736m Forborne Impaired Balance - €256m Forborne Closing Provision).

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.6 CREDIT RISK –RESIDENTIAL MORTGAGE 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 2017 and 31 December 2016:

			2017
Loan-to-value ratio:	Owner – Occupier €m	Buy-to-Let €m	Total €m
Less than 50%	264	22	286
50% - 70%	378	18	396
71% - 80%	205	6	211
81% - 90%	198	9	207
91% - 100%	177	7	184
101% -120%	277	5	282
121% - 150%	118	-	118
Greater than 150%	18	-	18
Unsecured (Zero Collateral)	9	7	16
Total forbearance	**1,644**	**74**	**1,718**

			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

			2017
Forbearance stock - past due but not impaired*	Owner – Occupier €m	Buy-to-Let €m	Total €m
1 - 30 days	131	2	133
31 - 60 days	33	1	34
61 - 90 days	14	-	14
91 - 180 days	-	-	-
181 - 365 days	-	-	-
Over 365 days	-	2	2
Total past due but not impaired	**178**	**5**	**183**

			2016
	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

Forms an integral part of the audited financial statements.

3.1.6 CREDIT RISK –RESIDENTIAL MORTGAGE FORBEARANCE (CONTINUED)

The following table profiles the residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2017 and 31 December 2016:

			2017
Forbearance stock – impaired*	**Owner – Occupier €m**	**Buy-to-Let €m**	**Total €m**
Not past due	**185**	**10**	**195**
1 - 30 days	**54**	**3**	**57**
31 - 60 days	**25**	**1**	**26**
61 - 90 days	**26**	**1**	**27**
91 - 180 days	**57**	**4**	**61**
181 - 365 days	**72**	**2**	**74**
Over 365 days	**234**	**31**	**265**
Total impaired	**653**	**52**	**705**

			2016
	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

The proportion of forbearance that is impaired increased from 40% at 31 December 2016 to 41% at 31 December 2017. The proportion of forborne impaired loans that were not past due decreased from 32% at 31 December 2016 to 28% at 31 December 2017.

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 2017 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.

Forms an integral part of the audited financial statements.

3.1.6 CREDIT RISK – RESIDENTIAL MORTGAGE 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 2017 and 2016.

Loan-to-value ratio:			2017
90 days past due or impaired	Owner-Occupier €m	Buy-to-Let €m	Total €m
Fully Collateralised			
Less than 50%	124	24	148
50% - 70%	181	19	200
71% - 80%	118	9	127
81% - 90%	130	7	137
91% - 100%	140	11	151
Partially Collateralised			
Book Value	695	18	713
Value of Collateral	581	15	596
Unsecured (Zero Collateral)	47	12	59
Total	1,274	85	1,359

			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

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

Risk Management Report (continued)

3.1.7 COMMERCIAL PROPERTY*

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

	2017	2016
	€m	€m
Total Commercial Property	150	189
In arrears >30 days past due and/or Impaired	79	106
In arrears >90 days past due and/or Impaired	77	104
of which impaired	70	99
Statement of financial position specific provisions	42	60
Statement of financial position IBNR provisions	2	3

Provision cover percentage

	2017	2016
	%	%
Specific provisions as a % of impaired loans cover	60.0	60.6

Income statement[2]

	2017	2016
	€m	€m
Specific provisions	-	(3)
IBNR provisions	(1)	-
Total impairment provisions	(1)	(3)

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

Asset quality

	2017	2016
	€m	€m
Satisfactory	17	19
Watch	54	65
Vulnerable	9	6
Impaired	70	99
Criticised	133	170
Gross commercial property	150	189

	2017	2016
	%	%
Criticised loans as % of total loans	89	90
Impaired loans as % of total loans	47	52

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.1.7 COMMERCIAL PROPERTY*(CONTINUED)

2017

			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.)	44	16	31	13	13	3
Reduced payment (> I.O)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Arrears capitalisation	43	16	20	7	23	9
Term extension	43	15	27	11	16	4
Fundamental restructures	137	18	36	3	101	15
Other	33	3	30	2	3	1
Total	300	68	144	36	156	32

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

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

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

The following table analyses gross loans to customers by interest rate sensitivity. Approximately 14.6% 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
2017	**1,791**	**10,465**	**12,256**
2016	1,351	11,121	12,472

3.1.9 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 2017 were nil (2016: Nil).

3.1.10 LARGE EXPOSURES

At 31 December 2017, the EBS Group's top 50 exposures amounted to €132m, and accounted for 1.1% (€154m and 1.2% at 31 December 2016) of the on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeded regulatory limits which would require disclosure.

3.1.11 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 or S&P and are sourced from Bloomberg.

	Cash & Balances with Central Bank of Ireland €m	Other AFS Financial Assets €m	Loans & Receivables to Banks €m	Off balance sheet loan commitments €m
Group				
Balances at 31 December 2017	**80**	**21**	**340**	**264**
	%	**%**	**%**	**%**
Aaa		**99**		
Aa3 to Aa1	**100**			
A3 to A1				
Lower than A3			**100**	
Unrated		**1**		**100**
	€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

Forms an integral part of the audited financial statements.

3.1.11 TREASURY ASSETS (CONTINUED)

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.

3.2 RESTRUCTURE EXECUTION RISK

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

AIB Group is exposed to a number of material risks and that have been identified through a Material Risk Assessment process carried out by the Group. One of these material risks is the Restructure Execution Risk and the Group's statement around this risk is outlined below. The EBS aligns itself to the Group's Restructure Execution Risk strategy.

AIB has reduced its impaired loans from €29bn at December 2013 to €6.3bn as at 31 December 2017. A significant element of this reduction was through a customer debt restructuring programme. 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 to explore appropriate solutions. By continuing to work together in this process, AIB and the customer can find a mutually acceptable and alternative way forward. This approach has, and will continue to, materially improve AIB's asset quality and lower its overall risk profile, and strengthen its solvency.

AIB 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. AIB has been proactive in managing its criticised loans through the restructuring process. All restructured loans are managed in line with AIB's overall credit management practices.

AIB has credit policies and strategies, implementation guidelines and monitoring structures in place to manage its loan portfolios, including restructured loans. AIB regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio.

AIB remains focused on reducing impaired loans to a level more in line with normalised European peer levels and will continue to implement sustainable solutions for customers who engage with the Bank, where feasible. AIB continues to review all options in relation to reducing impaired loans including sales and strategic initiatives.

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, AIB holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

The Bank's liquidity risk is managed as part of the overall AIB 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 the Bank is integrated with its parent, AIB.

The means by which these liquidity management activities are performed, and the procedures by which AIB ensures the Bank complies with the AIB Funding and Liquidity Risk Policy are managed through a Master Service Agreement ("MSA").

Risk Management Report (continued)

3.3 LIQUIDITY AND FUNDING RISK (CONTINUED)

AIB 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 the finance department.

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

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 AIB 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

AIB'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.

AIB operates a three lines of defence model for risk management. For Funding and Liquidity Risk the first line comprises of the Finance and Treasury functions. The Group's Finance department, reporting to the CFO, is the owner of AIB's Funding and Liquidity plan which sets out the strategy for funding and liquidity management for AIB and is responsible for providing the necessary information for the management of AIB's liquidity gap and the efficient management of the liquidity buffer by Treasury. 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.

AIB'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 foreign exchange funding gap.

First line management of funding and liquidity risk consists of:
– firstly, through AIB'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 AIB 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 AIB's control architecture for funding and liquidity risk activities, including the annual agreement of funding and liquidity risk limits (subject to the AIB Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of AIB's liquidity risk methodologies.

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

AIB's Internal Liquidity Adequacy Assessment Process ("ILAAP") encompasses all AIB 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 AIB maintains sufficient financial resources of appropriate quality for its funding profile. On an annual basis, the AIB Board attests to AIB's liquidity adequacy via the liquidity adequacy statement as part of the ILAAP.

Risk monitoring and reporting*

The banks funding and liquidity position is reported as part of the overall AIB position to the AIB Asset and Liability Committee ("ALCo"), the AIB Executive Risk Committee ("ERC") and AIB Board Risk Committee ("BRC").

Forms an integral part of the audited financial statement

3.3 LIQUIDITY AND FUNDING RISK (CONTINUED)

Liquidity risk stress testing
Stress testing is a key component of the liquidity risk management framework and ILAAP. The Bank as part of AIB 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 AIB's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of the AIB's liquidity position, within the AIB's pre-defined liquidity risk tolerance levels.

AIB has established the Contingency Funding Plan ("CFP") which is designed to ensure that AIB 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 AIB ALCo, AIB Leadership Team and AIB Board, and to other committees. If AIB 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 formulation of 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

							2017
	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	95	4,876	-	-	-	-	4,971
Derivative financial instruments	1	1	-	3	1	5	11
Debt securities in issue	-	-	-	-	-	-	-
Customer accounts	2,431	888	606	919	367	464	5,675
Total	2,527	5,765	606	922	368	469	10,657
Off-Balance sheet loan commitments	264	-	-	-	-	-	264

							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
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 loan commitments	388	-	-	-	-	-	388

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

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 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 31% at 31 December 2017 (2016: 30%). 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 breaches or may breach regulatory capital ratios and internal targets. The key material risks impacting on the capital adequacy position of EBS or AIB 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 level by an evaluation of the adequacy of AIB'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 AIB'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. Capital adequacy risk for EBS d.a.c. is managed within AIB's ICAAP process.

The key stages in the AIB ICAAP process are as follows:

- a Risk Appetite Statement is reviewed and approved by the AIB Board annually which contains lending and other limits to mitigate against the risk of excessive leverage.
- business strategy is set consistent with risk appetite which underpins the annual financial planning process.
- performance against plan and risk appetite is monitored monthly.
- an annual material risk assessment which identifies all relevant (current and anticipated) risks and those that require capital adequacy assessment;
- financial planning drives the level of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
- scenario analysis and stress testing is applied to capital plans and to all material risks in order to assess the resilience of AIB and inform capital needs as they arise. Stress testing is also applied to assess the viability of management actions in the ICAAP, the Capital Contingency Plan and the Recovery Plan;
- reverse stress tests are undertaken to determine scenarios that could lead to a pre-defined breach of capital ratios;
- the final stage of the ICAAP is the creation of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. This is fully integrated with AIB's financial planning process and ensures that AIB has adequate capital resources in excess of minimum regulatory and internal capital requirements.

AIB monitors its capital adequacy on a monthly basis when, a capital reporting pack is presented to senior executive and Board Committees setting out the evolution of AIB's capital position. The Board reviews and approves the ICAAP on an annual basis and is also responsible for signing a Capital Adequacy Statement attesting that the Board has reviewed and is satisfied with the capital adequacy of AIB.

3.5 MARKET RISK*

Market risk refers to the risk of income and capital losses arising from adverse movements in wholesale market prices.

Market risk in EBS is transferred to and managed by AIB Treasury, subject to Capital & 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.

Risk Management Report (continued)

3.3 MARKET RISK* (CONTINUED)

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 2017

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.

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.

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 2017 (continued)

The net interest rate exposure sensitivity of EBS Group at 31 December 2017 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 at central banks	80	-	-	-	-	-	-	-	-	-	80
Loans and receivables to customers	10,604	106	621	246	417	125	120	17	(787)	-	11,469
Loans and receivables to banks	340	-	-	-	-	-	-	-	-	-	340
Available-for-sale financial assets	-	-	-	-	-	-	-	-	21	-	21
All other assets	-	-	-	-	-	-	-	-	287	-	287
Total Assets	11,024	106	621	246	417	125	120	17	(479)	-	12,197
Liabilities											
Deposits by banks	4,971	-	-	-	-	-	-	-	-	-	4,971
Customer accounts	2,432	656	1,756	323	360	144	4	-	-	-	5,675
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	26	-	26
Other liabilities	-	-	-	-	-	-	-	-	120	-	120
Shareholders' equity	-	-	-	-	-	-	-	-	1,405	-	1,405
Total Liabilities	7,403	656	1,756	323	360	144	4	-	1,551	-	12,197
Total derivatives (interest rate swaps)	1,397	(383)	(1,083)	(102)	56	34	70	11	-	-	-
Interest sensitivity gap	2,224	(167)	(52)	25	1	(53)	46	6	(2,030)	-	-
Cumulative interest sensitivity gap	2,224	2,057	2,005	2,030	2,031	1,978	2,024	2,030	-	-	-

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

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 at central banks	78	-	-	-	-	-	-	-	6	-	84
Loans and receivables to customers	912	-	-	-	-	-	-	-	16	-	928
Loans and receivables to banks	11,228	57	389	291	138	198	127	44	(934)		11,538
Available-for-sale financial assets	-	-	-	-	-	-	-	-	20	-	20
All 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.

3.5 MARKET RISK (CONTINUED)*

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

	2017		2016	
	100 bps parallel shift (increase/decrease)			
		€m		€m
Banking book portfolio				
Average for the period	- / +	3	- / +	7
Maximum for the period	- / +	8	- / +	8
Minimum for the period	- / +	-	- / +	3

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. There were no foreign currency open positions at 31 December 2017 (2016: nil).

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 AIB actively seek to mitigate against.

Risk and Control Assessment (“RCA”) is a core process in the identification and assessment of operational risk across AIB, including the Bank. The process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and is recorded on SHIELD which is AIB’s Governance, Risk & Compliance (GRC) System. SHIELD, was introduced during 2017 and it provides the customer facing business areas, Risk, Compliance and Internal Audit with one consistent view of the Risks, Controls, Actions and Events across AIB.

The Bank undertakes an operational risk self-assessment which focuses on activities specific to the Bank, e.g. the Bank's funding activities and its compliance with the ACS Act. 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 process.

The key people, systems and processes supporting the EBS Group are provided by AIB and this relationship is governed by a Master Service Agreement. AIB’s operational risk framework applies across all areas of AIB including the EBS Group and the AIB Operational Risk function is responsible for overseeing the management of operational risk across AIB.

The primary objective of the operational risk management reporting and control process within AIB is to provide timely and pertinent operational risk information to management so as to enable corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and operational risk event data for AIB.

Business units, including the EBS Group, are required to review and update their assessment of operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, assurance teams which are independent of the business, undertake reviews of the operational controls as part of a combined regulatory/compliance/operational risk programme.

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

3.7 REGULATORY COMPLIANCE RISK INCLUDING CONDUCT RISK*

Regulatory Compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which EBS and AIB 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 2017 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 2017, projects were mobilised within AIB to prepare for the significant regulatory change horizon as outlined in AIB's annual report: Governance and Oversight – Supervision and Regulation.

The level of regulatory change is expected to continue in 2018.

Conduct Risk is defined as the risk that inappropriate actions, or inaction, by AIB cause poor and unfair outcomes for its customers or market instability. A Conduct Risk Framework, aligned with the AIB 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 first 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 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.

3.8 PEOPLE AND CULTURE RISK

People and culture are essential components in realising an organisation's strategic ambitions. An effective culture is built around a general principle of people "doing the right thing" for all stakeholders, including customers, employees and regulators. The majority of business activities of the Bank are outsourced to AIB under a Managed Agreement.

People and culture Risk is the risk to achieving AIB's strategic objectives as a result of an inability to recruit, retain or develop resources, or as a result of behaviours associated with low levels of employee engagement. It also includes the risk that the business, financial condition and prospects of AIB are materially adversely affected as a result of inadvertent or intentional behaviours or actions taken or not taken by employees that are contrary to the overall strategy, culture and values of AIB.

AIB identifies and reviews employee satisfaction & engagement, indicators of culture, through the AIB staff engagement programme, iConnect, which is facilitated by Gallup on an annual basis. In 2017, AIB launched its "Purpose", which is supported and embedded by a clear set of "customer first" values. These values drive and influence activities of all employees, guiding AIB's dealings with customers, each other and all stakeholders.

AIB's Code of Conduct, incorporating the Risk Culture Principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The Code sets out how employees are expected to behave in terms of the business, customer and employee.

AIB has made significant steps in increasing engagement and awareness of the AIB's Risk management activities by embedding the Risk Appetite Statement in Policies and Frameworks of AIB. The Risk Appetite Statement contains clear statements of intent as to AIB's appetite for taking and managing risk, including people & culture risk. It ensures that AIB monitors and reports against key people and culture metrics when tracking people & culture risk and change.

Internal Audit include people and culture risk on their annual plan of activities, the outputs of which are reviewed by the Board.

Forms an integral part of the audited financial statements.

3.9 BUSINESS MODEL RISK

Business model risk is defined as the risk of not achieving the agreed strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment, or due to factors in the economic, political or competitive environment. Business model risk also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

AIB identifies and assesses business model risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. AIB's business and financial planning process supports AIB's strategy. Every year, AIB prepares three- year business plans at AIB level based on macro-economic and market forecasts across a range of scenarios.

AIB's plan is supported by detailed business unit plans, encapsulating the operations and activities of the Bank. Each business unit plan is aligned to AIB's 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.

At a strategic level, AIB manages business model 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 and Bank level. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter.

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

3.10 MODEL RISK

Model Risk is defined as the risk of adverse consequences from risk-based business and strategic decisions founded on incorrect or misused model assumptions, outputs and reports. Model risk is comprised of two elements. These are firstly, operational risk- the risk of losses relating to the development, implementation or improper use of models for decision making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits) and secondly, capital impact which is the risk relating to the underestimation of own funds requirements by models used within AIB for those purposes.

The Board of AIB has ultimate accountability for ensuring that the models used by AIB are fit for purpose and meet all jurisdictional regulatory and accounting standards. AIB is also responsible for ensuring that there are appropriate policies in place relating to capital assessment, measurement and allocation. Operating to the principles outlined in the Model Risk Framework (the Framework) supports AIB's strategic objectives and provides comfort to the AIB Board on the integrity and completeness of the model risk governance.

AIB mitigates model risk by having a framework, policies and standards in place in relation to model development, operation, and validation together with suitable resources. The Framework, which is aligned to AIB Risk Appetite Framework and the Risk Management Framework, describes the key processes undertaken and reports produced in support of the Framework.

Models are built and validated by suitably qualified analytical personnel, informed by relevant business and finance functions. Models are built using the best available data, both internal and external, using international industry standard techniques. All models are validated by an appropriately qualified team, which is independent of the model build process.

The Model Risk Committee acts as a subcommittee of the AIB Asset and Liability Committee and reviews and approves the use, or recommends to a higher governance authority, the use of AIB credit, operational and financial risk models. It also monitors and maintains oversight of the performance of these models.

AIB Internal Audit act as the "third line of defence" providing independent assurance to the Audit Committee and the Board of AIB 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 process.

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

Risk Management Report (continued)

3.10 MODEL RISK (CONTINUED)
During 2017 AIB constructed its suite of expected credit loss models to meet the requirements of IFRS 9 'Financial Instruments'.

As a material risk, the status of model risk is reported on a monthly basis in the Chief Risk Officer report.

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:

			2017			2016
	Amortised Cost	Fair Value	Total	Amortised Cost	Fair Value	Total
	€m	€m	€m	€m	€m	€m
Cash and balances at central banks	80	-	80	84	-	84
Derivative financial instruments	-	23	23	-	36	36
Available-for-sale financial assets	-	2,195	2,195	-	1,941	1,941
Loans and receivables to banks	1,925	-	1,925	3,417	-	3,417
Loans and receivables to customers	6,777	-	6,777	6,378	-	6,378
Included elsewhere:						
Accrued interest	16	-	16	31	-	31
Other assets	663	-	663	738	-	738
	9,461	2,218	11,679	10,648	1,977	12,625
Off balance sheet loan commitments	160	-	160	236	-	236
Maximum exposure to credit risk	9,621	2,218	11,839	10,884	1,977	12,861

The following table shows the fair value of collateral held for loans and receivables to customers at 31 December 2017 and 2016:

Company Collateral Held: Loans and receivables to customers

			2017			2016
	Residential mortgages	Commercial property	Total	Residential mortgages	Commercial property	Total
	€m	€m	€m	€m	€m	€m
Neither past due nor impaired	4,432	55	4,487	4,087	76	4,163
Past due but not impaired	149	18	167	161	10	171
Impaired loans	708	65	773	840	87	927
Total loans	5,289	138	5,427	5,088	173	5,261

Forms an integral part of the audited financial statements.

4. COMPANY RISK INFORMATION (CONTINUED)

IBNR for mortgages portfolio

The portfolio IBNR is calculated using the collective mortgage model as described previously. The IBNR is calculated as PD multiplied by LGD multiplied by Exposure (adjusted for the Emergence Period) with the PD and LGD derived from statistical models. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio:

Company

						2017
	Owner-Occupier			Buy-to-Let		
Grade	**Exposure €m**	**Average PD %**	**Average LGD %**	**Exposure €m**	**Average PD %**	**Average LGD %**
Good upper	3,676	0.5	19.2	28	2.1	21.4
Good lower	467	2.8	22.2	62	5.7	47.6
Watch	301	15.3	22.3	29	13.4	50.5
Vulnerable	44	57.0	23.2	7	22.7	46.0

Included in the above table 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	105	13.5	24.5	8	73.7	23.0
Forborne – Non impaired	688	8.0	22.1	13	29.2	27.4

Company

						2016
	Owner-Occupier			Buy-to-Let		
Grade	**Exposure €m**	**Average PD %**	**Average LGD %**	**Exposure €m**	**Average PD %**	**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

Included in the above table are the following sub portfolios which carry a higher level of IBNR:

Cured	211	14.5	20.4	26	12.2	50.7
Forborne – Non impaired	667	9.2	18.0	13	35.0	23.7

Average PD and LGD are based on the PDs and LGDs weighted by exposure for all owner-occupier and buy-to-let loans included in the collective mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR 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.

4. COMPANY RISK INFORMATION (CONTINUED)

Credit quality residential mortgages*

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.

			2017
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Total gross residential mortgages	**5,206**	**212**	**5,418**
In arrears >30 days past due and/or impaired	**751**	**89**	**840**
In arrears >90 days past due and/or impaired	**719**	**88**	**807**
Of which impaired	**719**	**85**	**804**
Statement of financial position specific provisions	**296**	**44**	**340**
Statement of financial position IBNR provisions	**48**	**3**	**51**

			2016
	Owner-Occupier €m	Buy-to-Let €m	Total €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

Provision cover percentage

			2017
	Owner-Occupier	Buy-to-Let	Total
Specific provisions as a % of impaired loans cover	**41.2%**	**51.8%**	**42.3%**

Provision cover percentage

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

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]			2017
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Income statement specific provisions	11	(3)	8
Income statement IBNR provisions	13	1	14
Total impairment provisions	**24**	**(2)**	**22**

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

[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.

			2017
	Owner-Occupier €m	Buy-to-Let €m	Total €m
Satisfactory	4,143	90	4,233
Watch	300	30	330
Vulnerable	44	7	51
Impaired	719	85	804
Criticised	**1,063**	**122**	**1,185**
Gross mortgages	**5,206**	**212**	**5,418**

			2016
	Owner-Occupier €m	Buy-to-Let €m	Total €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

			2017
	%	%	%
Criticised loans as % of total mortgages	20	58	22
Impaired loans as % of total mortgages	14	40	15

			2016
	%	%	%
Criticised loans as % of total mortgages	25	67	28
Impaired loans as % of total mortgages	17	53	19

Forms an integral part of the audited financial statements.

4. COMPANY RISK INFORMATION (CONTINUED)

Credit quality*

Residential Mortgages

Aged analysis of loans and receivables which are past due but not impaired*	Owner – Occupier	Non Owner-Occupier	Total
			2017
	€m	€m	€m
1 - 30 days	112	3	115
31 - 60 days	23	1	24
61 - 90 days	10	-	10
91 - 180 days	-	-	-
181 - 365 days	-	1	1
Over 365 days	-	2	2
Total past due but not impaired	**145**	**7**	**152**

Aged analysis of loans and receivables which are past due but not impaired*	Owner – Occupier	Non Owner-Occupier	Total
			2016
	€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

Forms an integral part of the audited financial statements.

Risk Management Report (continued)

4. COMPANY RISK INFORMATION (CONTINUED)

Asset quality*

EBS's criticised loans and receivables to customers amounted to €1,185m or 22% of total customer loans. Criticised loans have decreased by €297m since 31 December 2016. The main drivers of the decrease in criticised loans have been successful 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).

	2017		2016	
Total impaired loans	**€m**	**%**	€m	%
Impaired loans – Owner-occupier	**719**	**12.9**	873	15.7
Impaired loans – Non Owner-Occupier	**155**	**2.8**	264	4.7
Total	**874**	**15.7**	1,137	20.4

				2017
	Owner-Occupier	**Non Owner-**	**Total**	**%**
	€m	**€m**	**€m**	
Neither past due nor impaired	**4,342**	**181**	**4,523**	**81.2**
Past due but not impaired	**145**	**26**	**171**	**3.1**
Impaired – no provision	**-**	**8**	**8**	**0.1**
Impaired – provision held	**719**	**147**	**866**	**15.6**
Gross loans and receivables	**5,206**	**362**	**5,568**	**100.0**
Provision for loan impairment	**(296)**	**(87)**	**(383)**	
Total loans and receivables after provisions	**4,910**	**275**	**5,185**	

				2016
	Owner-Occupier	Non Owner-	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 loan impairment	(381)	(165)	(546)	
Total loans and receivables after provisions	4,685	334	5,019	

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	Off Balance Sheet Commitments
	€m	€m	€m	€m
Company				
Balances at 31 December 2017	**80**	**2,195**	**1,925**	**160**
	%	**%**	**%**	**%**
Aaa	**-**	**99**	**-**	**-**
Aa3 to Aa1	**100**	**-**	**-**	**-**
A3 to A1	**-**	**-**	**-**	**-**
Lower than A3	**-**	**-**	**100**	**-**
Unrated	**-**	**1**	**-**	**100**

Company	€m	€m	€m	€m
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

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

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.

2017

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	95	4,903	-	-	-	-	4,998
Derivative financial instruments	1	1	-	3	-	26	31
Debt securities in issue	-	-	-	-	-	-	-
Customer accounts	2,073	1,015	-	1,756	831	-	5,675
Total	2,169	5,919	-	1,759	831	26	10,704
Off-balance sheet loan commitments	160	-	-	-	-	-	160

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
Off-balance sheet loan commitments	236	-	-	-	-	-	236

Forms an integral part of the audited financial statements.

Directors' Responsibility Statement

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 Bank 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 Bank 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,

Denis O'Callaghan Non-Executive Chairman	Desmond Fitzgerald Managing Director

Date: 27 March 2018

Independent Auditors' Report to the Members of EBS d.a.c

Report on the audit of the financial statements

Opinion on the financial statements of EBS d.a.c. (the 'Company')

In our opinion the Group and Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2017 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular and with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

The Group and Company financial statements:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Statement of Cash Flows;
- the Consolidated and Company Statement of Changes in Equity; and
- the related notes 1 to 44, including a summary of significant accounting policies as set out in note 1.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "***Auditor's responsibilities for the audit of the financial statements***" section of our report.

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan impairment and restructuring; • Deferred tax asset; and • Defined benefit obligations;
Materiality	We determined materiality for the Group to be €13 million which is 6% of Profit Before Tax excluding amounts payable to Allied Irish Banks, p.l.c.
Scoping	We focused our Group audit scope primarily on the audit work in five legal entities all of which were subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 96% of the Groups' net assets and 89% of the Groups' profit before tax.
Significant changes in our approach	There were no significant changes in our approach which we feel require disclosure.

Independent Auditors' Report to the Members of EBS d.a.c

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan impairment and restructuring	
Key audit matter description	There is a risk that provisions for impairment of loans and receivables of €787m (2016: €934m) do not represent an appropriate estimate of the losses incurred. This includes the risk that the estimate of cashflows on restructuring cases is not appropriately measured. The determination of appropriate provisions requires a significant amount of management judgment over key assumptions and relies on available data. The Group has disclosed in note 1 (ae), as required by IAS 8, estimated information regarding the possible transition effect of the adoption of IFRS 9 from 1 January 2018. Please also refer to page [XX] (Accounting Policy – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates and Note 16 - Loans and receivables to customers.

How the scope of our audit responded to the key audit matter	We undertook an assessment of the provisioning practices to compare them with the requirements of IFRS. We evaluated the design and tested the operating effectiveness of controls over: • impairment identification and calculation; • credit management processes; • new lending; • restructuring transactions; • front line credit monitoring and assessment; • collective and latent impairment models, including source data controls and calculations; and • the work of the credit review function. Our testing of controls included an evaluation of IT system controls, management review controls and governance controls. In examining both sample loan cases and models, we challenged management on the judgments made regarding the application of triggers, status of restructures, collateral valuation and realisation time frames; and examined the credit risk functions analysis of data at a portfolio level. We tested samples of the data used in the models, management adjustments, together with the calculations involved and the output from the models.

How the scope of our audit responded to the key audit matter	Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines derived from benchmark data, external expert reports on borrowers' business plans and enterprise valuations. This allowed us to determine whether appropriate valuation methodologies were employed and assess the objectivity of the external experts used. We evaluated the disclosures made in the financial statements. In particular, we focused on challenging management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of loan impairment provisioning and the sensitivity of the provisions to changes in the underlying assumptions. We have examined the disclosure required under IAS 8 of the estimated transition effect of IFRS 9. Based on the evidence obtained, we found that the data and assumptions used by management in loan impairment provisioning are within a range we consider to be reasonable.
Deferred tax asset	
Key audit matter description	The risk relates to the incorrect recognition or measurement of deferred tax assets. Deferred tax assets of €233m (2016: €242m) are recognised for unutilised tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used. The assessment of the conditions for the recognition of a deferred tax asset is a critical judgment, given the inherent uncertainties associated with projecting profitability over a long time period. Please refer to page [XX] (Accounting Policy – Deferred taxation), Note 2 – Critical accounting judgements and estimates and Note 21 - Deferred taxation.
How the scope of our audit responded to the key audit matter	We have evaluated the design of controls over the preparation of financial plans and budgets. We assessed whether the level of forecasted profits were appropriate by challenging both the growth, profitability and economic assumptions. We reviewed the model used by management to assess the likelihood of future profitability and challenged management's assessment of a range of positive and negative evidence for the projection of long-term future profitability. We compared management's assumptions to industry norms and other economic metrics where possible. We reviewed management's analysis of their consideration of the "more likely than not" test and reviewed the sensitivity analysis disclosed. Based on the evidence obtained, we found that the assumptions used by management in the recognition of deferred tax assets are within a range we consider to be reasonable.
Defined benefit obligations	
Key audit matter description	The risk is that the recognition and measurement of defined benefit obligations of €197m (2016: €213m) is inappropriate. There is a high degree of estimation and judgement in the calculation of retirement benefit liabilities. Material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates. Please refer to page [XX] (Accounting Policy – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 29 Retirement benefits.

How the scope of our audit responded to the key audit matter

We evaluated the design of controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used in the valuation of the Group's defined benefit obligations. We also evaluated the design of the controls for determining the actuarial assumptions and the approval of those assumptions by Management.

We have utilised Deloitte actuarial specialists as part of our team to assist us in evaluating the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates.

Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating retirement benefit liabilities. We benchmarked ecomonic and demographic assumptions against market data and assessed management adjustments to market assumptions for company and scheme specific information. For scheme specific assumptions we considered the scheme rules, historic practice and other information relevant to the selection of the assumption.

We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions.

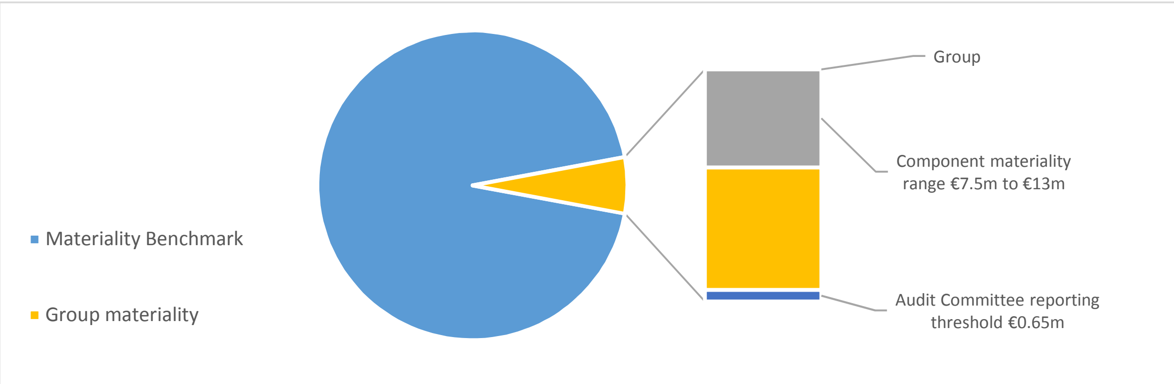
Based on the evidence obtained, we concluded that the data and assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be €13m which is approximately 6% of profit pefore tax excluding amounts payable to Allied Irish Banks, p.l.c. as disclosed in note [x] ('Materiality Benchmark'). We have considered the Materiality Benchmark to be the critical component for determining materiality. We used this measure as the best measure for assessing financial performance and in order to reduce the potential for volatility in materiality year-on year. This is a generally accepted auditing practice. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Group and the reliability of control environment.



We agreed with the Board Audit Committee that we would report to them any audit differences in excess of €0.65 million, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditors' Report to the Members of EBS d.a.c

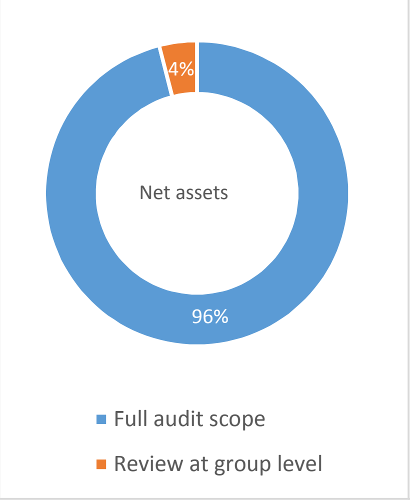
An overview of the scope of our audit

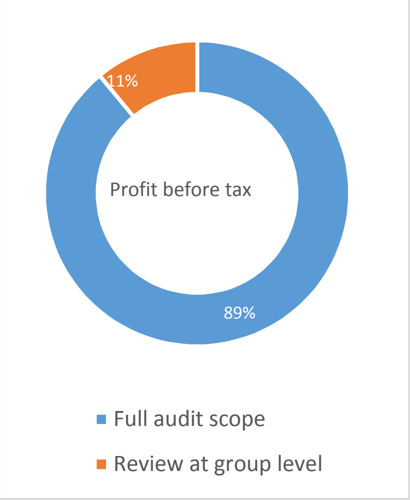
We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit scope primarily on the audit work in five legal entities, two of which are disclosed in note [x] to the consolidated financial statements, all of which were subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 96% of the Groups' net assets and 89% of the Groups' profit before tax. In addition, audits will be performed for statutory purposes for all legal entities.

We also tested the consolidation process and carried out analytical procedures to assess there were no additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

The levels of coverage of key financial aspects of the Group by type of audit procedures as set out below:





Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Financial Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of EBS d.a.c

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the (consolidated) financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

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 auditor's 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.

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- 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 Company were sufficient to permit the financial statements to be readily and properly audited.
- The 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 and the directors' report has been prepared in accordance with the Companies Act 2014.

Independent Auditors’ Report to the Members of EBS d.a.c

Report on other legal and regulatory requirements

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages [ ] that, in our opinion the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 Companies Act 2014 is consistent with the company’s statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with section 1373 of the Companies Act 2014.

Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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.

Other matters which we are required to address

Following the recommendation of the Audit Committee of EBS d.a.c., we were appointed at the Annual General Meeting on 30 June 2013 to audit the financial statements for the financial year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 2013 to 2017.

The non-audit services prohibited by IAASA’s Ethical Standard were not provided and we remained independent of the company in conducting the audit.

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISA (Ireland) 260.

Gerard Fitzpartick
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date:

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated Income Statement

For the financial year ended 31 December 2017

	Note	2017 €m	2016 €m
Interest income and similar income	4	369	381
Interest expense and similar charges	5	(77)	(129)
Net Interest Income		292	252
Dividend income	6	1	1
Net fee and commission income	7	12	12
Net trading gain/(loss)	8	1	(1)
Other operating income	9	4	5
Total Other Income		18	17
Total Operating Income		310	269
Administrative expenses	10	(160)	(87)
Impairment and amortisation of intangible assets	18	(2)	(3)
Impairment and depreciation of property, plant and equipment	19	(2)	(2)
Total Operating Expenses	10	(164)	(92)
Operating profit before provisions		146	177
(Charge)/writeback of provisions for impairment of loans receivables to customers	16	(35)	34
Operating profit before taxation		111	211
Income tax charge	12	(12)	(28)
Profit for the financial year		99	183

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 81 to 139 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2017

	2017 €m	2016 €m
Profit for the financial year	99	183
Comprehensive profit net of taxation		
Items that will not be reclassified to profit and loss:		
Net actuarial movement in retirement benefits	19	5
Total Items that will not be reclassified to profit and loss:	19	5
Items that may be reclassified subsequently to profit and loss:		
Net movement in cash flow hedge reserve, net of tax	2	(7)
Net movement in available-for-sale reserve, net of tax	1	1
Total items that may be reclassified subsequently to profit and loss:	3	(6)
Comprehensive income for the financial year, net of taxation	22	(1)
Total comprehensive income for the financial year	121	182

The notes on pages 81 to 139 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 €m	2016 €m
Assets			
Cash and balances at central banks	13	80	84
Non-current assets held for sale		4	8
Derivative financial instruments	14	3	18
Loans and receivables to banks	15	340	928
Loans and receivables to customers	16	11,469	11,538
Available-for-sale financial assets	17	21	20
Intangible assets	18	10	6
Property, plant and equipment	19	23	24
Other assets	20	2	3
Current taxation		1	5
Deferred taxation	21	233	242
Prepayments and accrued income		11	14
Total assets		12,197	12,890
Liabilities			
Deposits by central bank and banks	23	4,971	4,248
Customer accounts	25	5,675	6,651
Derivative financial instruments	14	11	23
Debt securities in issue	26	-	399
Other liabilities	27	39	40
Accruals and deferred income	28	49	144
Retirement benefit liability	29	26	47
Provisions for liabilities and commitments	30	21	54
Total liabilities		10,792	11,606
Shareholders' equity			
Called up share capital presented as equity	31	1,654	1,654
Capital contribution	32	249	249
Reserves		(498)	(619)
Total shareholders' equity		1,405	1,284
Total liabilities and shareholders' equity		12,197	12,890

The notes on pages 81 to 139 are an integral part of these financial statements.

Denis O'Callaghan
Non-Executive Chairman

Desmond Fitzgerald
Managing Director

Tom Foley
Non-Executive Director

Cara Teahan
Company Secretary

Date: 27 March 2018

Consolidated Statement of Cash Flows

For the Financial year ended 31 December 2017

	Note	2017 €m	2016 €m
Cash flows from operating activities			
Operating profit before taxation		111	211
Amortisation and impairment of intangibles	18	2	3
Impairment and depreciation of property, plant and equipment	19	2	2
Provisions/(writeback) for impairment on loans and receivables	16	35	(34)
Retirement benefits – defined benefit	29	1	2
Fair value movement on hedging derivatives		2	3
Fair value movement on hedged items		2	11
		155	198
Changes in operating assets and liabilities			
Change in loans and receivables to banks		522	144
Change in loans and receivables to customers		29	49
Change in other assets		9	(2)
Change in amounts due to customers		(976)	(463)
Change in other liabilities		(130)	(40)
Net cash flows from operations before taxation		(391)	(114)
Taxation paid		(2)	(35)
Net cash flows from operations		(393)	(149)
Cash flows from investing activities			
Additions to intangible assets	18	(6)	(2)
Additions to property, plant and equipment	19	(1)	-
Change in available-for-sale financial assets		-	(1)
Net cash flows from investing activities		(7)	(3)
Cash flows from financing activities			
Change in debt securities		(393)	(106)
Change in deposits from Central Bank of Ireland and banks		723	308
Net cash flows from financing activities		330	202
Change in cash and cash equivalents		(70)	50
Cash and cash equivalents at 1 January		226	176
Cash and cash equivalents at 31 December	35	156	226

The notes on pages 81 to 139 are an integral part of these financial statements

Consolidated Statement of Changes in Shareholders' Equity

For the financial year ended 31 December 2017

	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 2017	1,654	249	(627)	15	(7)	1,284
Total comprehensive income for the financial year	-	-	118	1	2	121
At 31 December 2017	1,654	249	(509)	16	(5)	1,405

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

Company Statement of Financial Position

As at 31 December 2017

	Note	2017 €m	2016 €m
Assets			
Cash and balances at central banks	13	80	84
Non-current assets held for sale		2	4
Derivative financial instruments	14	23	36
Loans and receivables to banks	15	1,925	3,417
Loans and receivables to customers	16	6,777	6,378
Available-for-sale financial assets	17	2,195	1,941
Intangible assets	18	10	6
Property, plant and equipment	19	23	24
Other assets	20	30	88
Current taxation		1	1
Deferred taxation	21	241	254
Prepayments and accrued income		19	34
Shares in Group undertakings	22	594	612
Total assets		11,920	12,879
Liabilities			
Deposits by central bank and banks	23	4,998	4,266
Customer accounts	25	5,675	7,260
Derivative financial instruments	14	31	39
Other liabilities	27	40	67
Accruals and deferred income	28	48	153
Retirement benefit liability	29	26	47
Provisions for liabilities and commitments	30	20	40
Total liabilities		10,838	11,872
Shareholders' equity			
Called up share capital presented as equity	31	1,654	1,654
Capital contribution	32	249	249
Reserves		(821)	(896)
Total shareholders' equity		1,082	1,007
Total liabilities and shareholders' equity		11,920	12,879

The parent company's profit after tax for the financial year ended 31 December 2017 was €48m.

The notes on pages 81 to 139 are an integral part of these financial statements.

Denis O'Callaghan
Non-Executive Chairman

Desmond Fitzgerald
Managing Director

Tom Foley
Non-Executive Director

Cara Teahan
Company Secretary

Date: 27 March 2018

Company Statement of Cash Flows

For the Financial year ended 31 December 2017

	Note	2017 €m	2016 €m
Cash flows from operating activities			
Operating profit before taxation		58	82
Amortisation of intangibles	18	2	3
Impairment and depreciation of property, plant and equipment	19	2	2
Provisions for impairment of financial assets	17	22	(27)
Pension expense		1	2
Fair value movement on hedging derivatives		4	(34)
Fair value movement on hedged items		2	61
		91	89
Changes in operating assets and liabilities			
Change in loans and receivables to banks		4	18
Change in loans and receivables to customers		(426)	(384)
Change in other assets		75	(68)
Change in amounts due to customers		(1,588)	(526)
Change in other liabilities		(152)	7
Net cash flows from operations before taxation		(1,996)	(864)
Taxation paid		(1)	(1)
Net cash flows from operations		(1,997)	(865)
Cash flows from investing activities			
Additions of intangible assets	18	(6)	(2)
Additions to property, plant and equipment	19	(1)	(1)
Investments in subsidiaries		18	-
Change in available-for-sale financial assets		(248)	924
Net cash flows from investing activities		(237)	921
Cash flows from financing activities			
Change of debt securities		6	(55)
Change in deposits from Central Bank of Ireland and banks		732	315
Net cash flows from financing activities		738	(260)
Change in cash and cash equivalents		(1,496)	316
Cash and cash equivalents at 1 January		3,501	3,185
Cash and cash equivalents at 31 December	35	2,005	3,501

The notes on pages 81 to 139 are an integral part of these financial statements.

Company Statement of Changes in Shareholders' Equity

For the financial year ended 31 December 2017

	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 2017	1,654	249	(828)	(61)	(7)	1,007
Total comprehensive income for the financial year	-	-	66	9	-	75
At 31 December 2017	1,654	249	(762)	(52)	(7)	1,082

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	(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

Notes to the Financial Statements

Notes to the Financial Statements

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. It is registered under the Company number 500748. 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 company 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 2017.

The consolidated financial statements and company 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 2017 was €48m.

1.3 BASIS OF PREPARATION

Functional and presentation currency

The financial statements of the group are presented in euro, which is the functional currency of the 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.

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 2017 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, AIB for continued funding and is therefore dependent on the going concern status of the parent.

The financial statements of AIB for the financial year ended 31 December 2017 have been prepared on a going concern basis as the Directors of AIB are satisfied, having considered the risks and uncertainties impacting AIB, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors of AIB is twelve months from the date of approval of its annual financial statements.

In making its assessment, the Directors of AIB have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2018 to 2020 approved by the Board in December 2017, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios.

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

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

In relation to liquidity and funding, the Directors of AIB 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 believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the its ability to continue as a going concern over the period of assessment.

Conclusion
On the basis of the continued availability of funding from AIB 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 2017, 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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 INTEREST INCOME AND EXPENSE RECOGNITION (CONTINUED)

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.

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 DIVIDEND INCOME

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

1.8 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.

1.9 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.

1.10 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.

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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.10 EMPLOYEE BENEFITS (CONTINUED)

Retirement benefit obligations (continued)
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.

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 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 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.

1.11 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.

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

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

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

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

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

1. ACCOUNTING POLICIES (CONTINUED)

1.12 INCOME TAX, INCLUDING DEFERRED INCOME TAX (CONTINUED)

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.

1.13 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. 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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.13 FINANCIAL ASSETS (CONTINUED)

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.

1.14 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.

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.

1.15 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.

1.16 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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.16 DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.16 DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 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.

1.18 DERIVATIVES AND HEDGE ACCOUNTING

Derivatives such as interest rate 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

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.

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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

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

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

1.19 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.

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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.19 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

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

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

For loans which are impaired, 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 of the Risk Management Report.

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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.19 IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Forbearance (continued)
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.

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.

1.20 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.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.20 COLLATERAL AND NETTING (CONTINUED)

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

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

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

1.21 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.

1.22 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)

1.23 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.

1.24 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.

1.25 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.

EBS

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.25 NON-CREDIT RISK PROVISIONS (CONTINUED)

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.

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

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

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

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 on the following page.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(a) Annual improvements to cycles/other
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 and 2015-2017 cycle. Whilst certain of these have yet to be endorsed by the EU, they are expected to be effective from either 1 January 2018 or 1 January 2019, depending on the amendment.

These amendments are expected to have an insignificant effect on the financial statements.

(b) IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 Interpretation on 'Foreign Currency Transactions and Advance Consideration' which was issued in December 2016 clarifies the requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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

IFRIC 22 is expected to have an insignificant effect on the financial statements.

(c) IFRIC 23 Uncertainty over Income Tax Treatments
IFRIC 23 Interpretation on 'Uncertainty over Income Tax Treatments' which was issued in June 2017 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments that have yet to be accepted by the tax authorities.
The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

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

IFRIC 23 is expected to have an insignificant effect on the financial statements.

(d) 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.

An AIB 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.

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.

It is expected that any impact will be minimal, although not yet quantified.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(e) IFRS 9, Financial Instruments

With effect from 1 January 2018, ***IFRS 9 Financial Instruments*** replaces ***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. The key changes under the standard are:

Classification and measurement

- 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;

  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;

Impairment

- Requires accelerated 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.

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.

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

- Classification and measurement of financial assets will not result in any significant changes for EBS Group.
  In general:
  loans and advances to banks and customers that are currently classified as 'loans and advances' 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 fair value through other comprehensive income;
- debt securities classified as 'held to maturity' under IAS 39 will be measured at amortised cost; and
- all equity securities held at 31 December 2017 will be measured under IFRS 9 at fair value through profit or loss. Under IAS 39, all equity securities were classified as available for sale with fair value movements reported in 'other comprehensive income'.

The business model assessment which was carried out on the portfolio did not result in any change to the current IAS 39 measurement basis at EBS Group level.

In relation to SPPI testing which was carried out on the financial instruments portfolio, a small number of instruments, mainly loans and advances to customers failed 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 and loss. The impact on transition to this new measurement basis is not significant and estimated to be immaterial.

EBS Group has not currently opted to designate any financial assets at fair value through profit or loss as permitted by IFRS 9 when certain conditions are met.

EBS Group's classification of financial liabilities is unchanged. EBS Group measures financial liabilities at amortised cost subsequent to initial recognition. Given that EBS Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

EBS has set up governance structures for the validation of its business models on an on-going basis and for ensuring that financial instruments failing the SPPI test are correctly identified at initial recognition.

Impairment

In preparing for the implementation of IFRS 9 on 1 January 2018, the Programme designed and documented accounting policy changes, set out the principles for the Impairment Framework, identified and remediated data gaps, developed risk modelling options and methodologies for the calculation of the impairment allowance and built expected credit loss ('ECL') models, tested policy proposals and processes which were developed, validated outputs, and set up governance structures and processes for both implementation, transition and 'business as usual ' under the new standard.

The principles addressed in the Impairment Framework are informed by both external and internal sources of information, amongst them, the IFRS 9 standard, Basel Committee pronouncements and AIB Group: Provisions Credit Methodology ('PCM' – April 2016). The principles define various criteria within the ECL cycle, inter alia, stage transfer criteria, significant increase in credit risk, default definition and write-off policy.

The model development process required extensive engagement throughout AIB from the Risk Analytics Model team through to front line business areas.

In calculating the ECL for the loans and advances to customers' portfolio, the impairment models take into consideration common credit risk characteristics such as credit grade, collateral, industry and geographical region. The actual loss experience is adjusted to reflect current conditions and the Group's view of economic conditions over the life of the loans within portfolios. A number of forward looking macro-economic scenarios have been developed to which have been allocated probability weightings. A minimum of three and a maximum of five scenarios will be used for IFRS 9 purposes. These macro-economic scenarios are subject to the Group's existing governance process covering the development and approval of scenarios for planning and stress testing.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(e) IFRS 9, Financial Instruments (continued)

The models are components of the ECL calculation and are relevant to the exposures captured in IFRS 9 stages 1, 2 and 3.

- The PD model estimates the probability of an account defaulting within 12 months from observation or over its residual life where significant increase in credit risk has occurred.
- The LGD model estimates the loss on an exposure if the account were to default within the following 12 months or over the residual contractual maturity.
- The Prepayment model estimates the probability of prepaying over the remaining life of mortgages.
- The Exposure at default model ('EAD') calculates the expected EAD at date of default in the next 12 months or over the life of the loan where significant credit deterioration has occurred.

Models have been developed for:
(i) Personal loans and overdrafts;
(ii) Personal mortgages;
(iii) Small-sized SMEs;
(iv) Commercial real estate;
(v) Medium-sized SMEs and corporates.

For non-retail stage 3 customers, the Group uses a discounted cash flow model as the primary input to calculate ECL. Macro-economic scalars from similar portfolios are applied to the resultant outputs to uplift the base case to reflect a probability weighted loss outcome.

In determining whether credit risk has increased significantly since initial recognition, where contractual payments are more than 30 days past due, Group will presume this to be the case. Likewise, where contractual payments are more than 90 days past due, Group will presume that the financial asset is credit impaired.

Financial assets held within the bank and sovereign portfolios are practically all investment grade. The standard contains an important practical expedient that, if a financial instrument has low credit risk, then an entity is allowed to assume at the reporting date that no significant increase in credit risk has occurred. Accordingly, the AIB UK Group will recognise an impairment allowance based on 12 month ECLs for such low risk instruments.

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. The 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.

Disclosures/other
A significant suite of reporting requirements have been 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 have been aligned so as to assist comparability. In addition, a suite of transitional disclosure templates have been prepared and will be populated and published as relevant during 2018.

Briefings to the business and various stakeholders throughout the Group have taken place and will continue for 2018 and beyond.

Assessment of IFRS 9 impacts for EBS Group
An AIB Group-wide Programme ("the Programme"), led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9. This Programme is currently transitioning to 'business as usual' and the varying aspects of IFRS 9 are operational with effect from 1 January 2018, i.e. the date of initial application.

EBS Group is not restating prior periods (as allowed in IFRS 9, paragraph 7.2.15). However, as required by this paragraph, if prior periods are not restated, EBS Group is recognising any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

Notes to the Financial Statements (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.28 PROSPECTIVE ACCOUNTING CHANGES (CONTINUED)

(e) IFRS 9, Financial Instruments (continued)

Assessment of IFRS 9 impacts for EBS Group (continued)
The business model assessment test was performed as at the date of initial application. This classification applied retrospectively. The Group assessed whether the financial assets met the conditions for recognising a change in the classification/measurement basis at that date.

Impairment losses were measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9.

Based on assessments undertaken to date, the total estimate of the possible impact net of tax on transition is €100m representing an increase in revenue reserves and other comprehensive income, principally due to the impairment requirements.

The Bank will continue to refine this estimate during the transition period as new processes and systems are deployed and embedded.

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.

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

IFRS 16 is expected to have an insignificant effect on the financial statements.

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 note 1.19. The provisions for impairment on loans and receivables at 31 December 2017 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 22 and 23 of the Risk Management 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 22 and 23 of the Risk Management 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 11 to 64.

Notes to the Financial Statements (continued)

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Deferred tax
EBS Group's accounting policy for deferred tax is set out in in accounting policy number 1.12. Details of the Bank's deferred tax assets and liabilities are set out in note 21.

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 those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long-term future profitability because of the period over which recovery extends.

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

- EBS has a strong Irish franchise;
- the absence of any expiry dates for Irish losses;
- turnaround evident in the financial performance over the past four (TBC) years and the continuing growth in the Irish economy since 2014;
- external forecasts for Ireland which indicate continued economic growth through the period of the
- medium–term financial plans;
- the success of the AIB IPO in June 2017, reflecting market confidence in the strategy of the AIB Group and its long term financial prospects;
- introduction of the bank resolution framework under the BRRD and the establishment of AIB Group plc as the new holding company of the Group provides greater confidence in relation to the future viability of EBS d.a.c., (as there are now effective tools in place that should facilitate its recapitalisation in a future crisis; and
- the non-enduring nature of the loan impairments at levels which resulted in the losses in prior years (2009-2013) TBC.

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

- the absolute level of deferred tax assets compared to the Bank's equity;
- 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
- taxation changes (including Bank Levy) and the likelihood of future developments and their impact on profitability and utilisation.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group 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 2018 to 2020. Assuming a sustainable market return on equity (c.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 less than 23 years for the deferred tax asset (€233m) to be utilised. Furthermore, under this scenario, it is expected that 51% of the deferred tax asset will be utilised within 10 years and 89% utilised within 15 years (2016: 52%). In 2016, it was estimated that 83% would be utilised within 20 years.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further x years.

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. EBS 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'.

Notes to the Financial Statements (continued)

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(c) Fair value of financial instruments (continued)

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.

(d) Retirement benefit obligations

EBS's accounting policy for retirement benefit plans is set out in accounting policy number 1.10.

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.

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 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 2017 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, AIB, for continued funding and is therefore dependent on the going concern status of the parent.

The financial statements of AIB for the financial year ended 31 December 2017 have been prepared on a going concern basis as the Directors of AIB are satisfied, having considered the risks and uncertainties impacting AIB, that it has the ability to continue in business for the period of assessment.

In making its assessment, the Directors of AIB have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2018 to 2020 approved by the Board in December 2017, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios.

Notes to the Financial Statements (continued)

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(e) Going concern (continued)
On the basis of the continued availability of funding from AIB 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 1.25 'Non-credit risk provisions'.

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.

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.

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. EBS operates through 71 offices and a direct telephone line in the Republic of Ireland.

4. INTEREST INCOME AND SIMILAR INCOME

	2017 €m	2016 €m
Interest on loans and receivables to customers	357	355
Interest received from AIB	13	27
Other interest income	(1)	(1)
	369	381

Included within various captions under interest income for the financial year ended 31 December 2017 is a total of €32m (2016: €41m) accrued on impaired financial assets.

5. INTEREST EXPENSE AND SIMILAR CHARGES

	2017 €m	2016 €m
Interest on customer accounts	67	118
Interest on debt securities in issue	(1)	-
Interest paid to AIB	11	11
	77	129

Interest expense includes €4m (2016: €11m) 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 2017 (2016: €1m).

Notes to the Financial Statements (continued)

7. NET FEE AND COMMISSION INCOME

	2017 €m	2016 €m
Fees and commissions receivable	18	18
Fees and commissions payable	(6)	(6)
	12	12

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

8. NET TRADING GAIN/(LOSS)

	2017 €m	2016 €m
Interest rate contracts	1	(1)
	1	(1)

The total hedging ineffectiveness on cash flow hedges reflected in net trading income of nil (2016: Nil).

9. OTHER OPERATING INCOME

	2017 €m	2016 €m
Net gains on buy back of debt securities in issue	-	1
Miscellaneous operating income	4	4
	4	5

10. TOTAL OPERATING EXPENSES

	2017 €m	2016 €m
Personnel expenses	1	2
Amounts payable to AIB under the Master Service Agreement	112	33
Other Administrative expenses	47	52
Total Administrative expenses	160	87
Impairment and amortisation of intangibles (note 18)	2	3
Impairment and depreciation of property, plant and equipment (note 19)	2	2
Total Operating Expenses	164	92

	2017 €m	2016 €m
Personnel expenses comprise:		
Wages and salaries	-	-
Voluntary Severance	-	-
Social insurance costs	-	-
Retirement benefits charge/(credit) (note 29)	1	2
Other personnel expenses	-	-
	1	2

In 2017, a review was completed of pricing arrangements between AIB and the Bank. Arising from this review a new pricing agreement was signed and implemented during 2017. The new agreement reflects OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. The impact of implementing the new transfer pricing agreement which attributes an arm's length Return on Equity to the Bank of €99m, is an increase in amounts payable to AIB for 2017 of €79m, being the primary reason for the reduction in profit after tax to €99m (2016: €183m). The additional charge is in respect of credit management, central function costs, risks borne by and assets provided by AIB in facilitating the operations of the Bank.

Notes to the Financial Statements (continued)

10. TOTAL OPERATING EXPENSES (continued)

Other administrative expenses includes a provisions for liabilities and commitments credit of €10m (2016: €15m charge) for Company that relates to provisions for customer redress. For EBS Group provisions for liabilities and commitments that relates to customer redress is a credit of €12m (2016: nil). (***see note 2. critical accounting judgements and estimates: (f) provisions for liabilities and commitments***).

For the financial year ended 31 December 2017 the monthly average number of employees was 1 (2016: 1). As at 31 December 2017, 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. These parallel employments are unremunerated. These employees of AIB Group in the Republic of Ireland have a primary employment relationship with AIB, 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).

11. AUDITORS' REMUNERATION

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

	2017 €'000	2016 €'000
Statutory audit	220	220
Other assurance services	32	32
Tax advisory services	-	-
Other non-audit services	-	-
	252	252

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. The remuneration includes assignments where the Auditor provides assurance to third parties on matters related to EBS Group.

12. TAXATION

	2017 €m	2016 €m
Corporate taxation		
Current tax charge on income for financial year	6	22
Deferred taxation		
Origination and reversal of temporary differences and tax losses	6	6
	12	28

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:

	2017	2016
Profit before tax at 12.5%	14	26
Adjustments:		
Expense not deductible for tax purposes	3	2
Recognition of deferred tax asset previously not recognised	(5)	-
Effective tax rate 10.5% (2016: 13.3%)	12	28

12. TAXATION (CONTINUED)

Income tax recognised in other comprehensive income

	2017 Before Tax €m	2017 Tax benefit (expense) €m	2017 Net of Tax €m	2016 Before Tax €m	2016 Tax benefit (expense) €m	2016 Net of Tax €m
Net movement in cash flow hedge reserve	2	-	2	(8)	(1)	(7)
Net movement in available-for-sale reserve	1	-	1	1	-	1
Net actuarial gain/(loss) on retirement benefits	21	3	18	6	1	5
	24	3	21	(1)	-	(1)

13. CASH AND BALANCES AT CENTRAL BANKS

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Cash in hand	6	6	6	6
Balances with Central Bank of Ireland other than mandatory reserve deposits	74	78	74	78
	80	84	80	84

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

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Group			2017			2016
	Notional	Fair values		Notional	Fair values	
	amount	Assets	Liabilities	amount	Assets	Liabilities
	€m	€m	€m	€m	€m	€m
Derivatives held at fair value through the income statement						
Interest rate swaps	-	-	-	1,401	4	3
Derivatives classified as fair value hedging						
Interest rate swaps	13	-	-	93	1	-
Derivatives classified as cash flow hedges						
Interest rate swaps	3,060	3	11	4,911	13	20
Total hedging contracts	**3,073**	**3**	**11**	5,004	14	20
Total derivative financial instruments	**3,073**	**3**	**11**	6,405	18	23

Company			2017			2016
	Notional	Fair values		Notional	Fair values	
	amount	Assets	Liabilities	amount	Assets	Liabilities
	€m	€m	€m	€m	€m	€m
Derivatives held at fair value through the income statement						
Interest rate swaps	4,834	20	20	6,010	22	19
Derivatives classified as fair value hedging						
Interest rate swaps	13	-	-	93	1	-
Derivatives classified as cashflow hedges						
Interest rate swaps	3,060	3	11	4,911	13	20
Total hedging contracts	**3,073**	**3**	**11**	5,004	14	20
Total derivative financial instruments	**7,907**	**23**	**31**	11,014	36	39

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

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative Maturity Table – at 31 December 2017

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	2	1	-	3
Total assets	2	1	-	3

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 2017

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	2	1	20	23
Total assets	2	1	20	23

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

15. LOANS AND RECEIVABLES TO BANKS

Analysed by remaining maturity:	**Company 2017 €m**	Company 2016 €m	**Group 2017 €m**	Group 2016 €m
Repayable on demand	1,925	3,417	340	928
	1,925	3,417	340	928

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

At 31 December 2017, in addition to the mandatory reserve deposits, the Group has €64m (2016: €139m) 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 2017 loans restricted between EBS Group and AIB are €264m (2016: €782m). At 31 December 2017 loans restricted between EBS and AIB are €251m (2016: €777m). At 31 December 2017 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €1,723m (2016: €2,674m).

Notes to the Financial Statements (continued)

16. LOANS AND RECEIVABLES TO CUSTOMERS

Loans and receivables to customers – analysis by sector

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Loans and receivables to customers	5,567	5,565	12,256	12,472
Loans to subsidiaries and special purpose vehicles	1,646	1,359	-	-
Total loans and receivables to customers before provisions	7,213	6,924	12,256	12,472
Less provision for loan impairments	(436)	(546)	(787)	(934)
Total loans and receivables to customers	6,777	6,378	11,469	11,538

Loans and receivables to customers – analysis by maturity

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Repayable on demand	2,526	2,508	1,606	2,052
Repayable in less than three months	2	2	2	2
Repayable in more than three months but less than one year	12	12	14	15
Repayable in more than one but less than five years	101	93	192	191
Repayable in more than five years	4,572	4,309	10,442	10,212
Total loans and receivables to customers before provisions	7,213	6,924	12,256	12,472
Less provision for loan impairments	(436)	(546)	(787)	(934)
Total loans and receivables to customers	6,777	6,378	11,469	11,538

Included in Group loans and receivables to customers is €4,855m (2016: €5,318m) of loans in the covered bond bank, EBS Mortgage Finance, €1,955m (2016: €1,716m) of loans in Haven Mortgages and €1,921m (2016: €2,733m) of loans held through securitisation vehicles, 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 2017, were nil (2016: €66m).

Provision for loan impairments

Provisions for impairment on loans and receivables to customers	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
At 1 January	546	621	934	1,034
Charge/(Writeback) to the Income Statement	22	(27)	35	(34)
Amounts written off	(132)	(48)	(182)	(66)
At 31 December	436	546	787	934
Total provisions are split between specific and IBNR as follows:				
Specific	383	506	673	846
IBNR	53	40	114	88
At 31 December	436	546	787	934

Notes to the Financial Statements (continued)

16. LOANS AND RECEIVABLES TO CUSTOMERS (CONTINUED)

Continuing Involvement in Securitised Assets
At 31 December 2017, the Group and EBS had loans secured on residential property subject to non-recourse funding. These loans, which have not been de-recognised, are shown within loans and receivables to customers and the non-recourse funding is shown within debt securities in issue within the Group. In the Company, the non-recourse funding, in the form of loan notes, is shown in customer accounts.

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

Emerald Mortgages No.4 Public Limited Company
The total carrying value of the original residential mortgages transferred by EBS to Emerald Mortgages No. 4 Public Limited Company ('Emerald 4') as part of the securitisation amounted to €1,500m. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2017 is Nil (2016: €615m). The carrying amount of the bonds issued by Emerald 4 to third party investors amounted to Nil (2016: €399m).

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. Consequent upon this, Emerald 4 used the redemption proceeds from the EBS loan notes to fully redeem its bonds at par. A liquidator was appointed to Emerald 4 on 18 December 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 (2016: €2,500m). The carrying amount of transferred secured loans that the Group continues to recognise at 31 December 2017 is €1,077m (2016: €1,189m). The fair value of these loans at 31 December 2017 was €979m (2016: €1,138m).

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 2017 is €681m (2016: €734m) in relation to the transfers from EBS and Haven Mortgages Limited. The fair value of these of these loans at 31 December 2017 was €668m (2016: €677m).

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 (2016: €11m), which is subordinated to the interest of the bond holders.

Notes to the Financial Statements (continued)

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Euro Bank Securities	2,174	1,921	-	-
Equity securities - NAMA subordinated bonds	21	20	21	20
	2,195	1,941	21	20

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

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Maturing within three months	-	252	-	-
Maturing between three months and one year	-	-	-	-
Maturing between one and five years	963	475	-	-
Maturing after 5 years	1,211	1,194	-	-
	2,174	1,921	-	-

The following table sets out at 31 December 2017 and 2016, the carrying value (fair value) of available for sale financial assets by major classifications together with the unrealised gains and losses:

	Fair value €m	Unrealised gross gains €m	Unrealised gross losses €m	Net unrealised gains/(losses) €m
Group – 31 December 2017				
Equity securities - NAMA subordinated bonds	21	19	(2)	17
Total	21	19	(2)	17
Company – 31 December 2017				
Euro Bank Securities	2,174	(1)	90	89
Equity securities - NAMA subordinated bonds	21	19	-	19
Total	2,195	18	90	108
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

Notes to the Financial Statements (continued)

18. INTANGIBLE ASSETS

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Computer software (and development costs)				
Cost				
At 1 January	35	33	39	37
Additions - internally generated	6	2	6	2
Disposals	-	-	-	-
Amounts written off	-	-	-	-
At 31 December	41	35	45	39
Amortisation				
At 1 January	29	26	33	30
Impairment for financial year	-	-	-	-
Charge for financial year	2	3	2	3
Disposals	-	-	-	-
At 31 December	31	29	35	33
Carrying value at 31 December	10	6	10	6

19. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Property				
	Freehold €m	Long Leasehold €m	Leasehold under 50 years €m	Equipment €m	Total €m
Cost					
At 1 January 2017	27	8	15	10	60
Additions	-	-	-	1	1
Transfers	-	-	-	-	-
At 31 December 2017	27	8	15	11	61
Depreciation and impairment					
At 1 January 2017	8	4	14	10	36
Charge for financial year	1	-	-	1	2
At 31 December 2017	9	4	14	11	38
Carrying value at 31 December	18	4	1	-	23

Land and buildings to the value of €23m (2016: €24m) were occupied by the Group for its own activities.

Notes to the Financial Statements (continued)

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group and Company

	Property				
	Freehold	Long Leasehold	Leasehold under 50 years	Equipment	Total
	€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
Carrying value at 31 December	19	4	1	-	24

20. OTHER ASSETS

	Company 2017 €m	Company 2016 €m	**Group 2017 €m**	Group 2016 €m
Items in transit - debit	**-**	-	**2**	1
Other receivables	**30**	88	**-**	2
	30	88	**2**	3

21. DEFERRED TAXATION

	Company 2017 €m	Company 2016 €m	**Group 2017 €m**	Group 2016 €m
At 1 January	**254**	291	**242**	248
Current financial year tax profit	**(9)**	(12)	**(6)**	(7)
Other adjustments	**-**	-		-
Deferred tax through equity	**(4)**	(25)	**(3)**	1
At 31 December	**241**	254	**233**	242
The amounts provided in relation to deferred taxation are as follows:				
Retirement benefits	**3**	6	**4**	6
Amortised income	**-**	-	**-**	(3)
Available-for-sale financial assets	**8**	9	**(2)**	(2)
Unutilised tax losses	**230**	239	**231**	241
	241	254	**233**	242

Notes to the Financial Statements (continued)

21. DEFERRED TAXATION (CONTINUED)

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2(b) deferred tax.

At 31 December 2017, deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €233m (2016: €242m) 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 22 years.

22. SHARES IN GROUP UNDERTAKINGS

Company	2017 €m	2016 €m
At 1 January	612	612
Additions	-	-
Disposals	(18)	-
At 31 December	594	612

The following table sets out at 31 December 2017 and 2016, the carrying value of shares in group undertakings.

	2017 €m	2016 €m
EBS Mortgage Finance	552	552
Emerald 4	-	18
Emerald 5	31	31
Mespil	11	11
Total	594	612

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

<u>EBS Mortgage Finance:</u>
EBS holds 551,540,000 (2016: 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.

<u>Haven Mortgages Limited</u>
EBS holds 1 (2016: 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 2017 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 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Due to Group undertaking	30	18	-	-
Due to AIB	2,458	1,886	2,461	1,886
Repurchase agreements with AIB	2,510	2,362	2,510	2,362
	4,998	4,266	4,971	4,248

Contractual maturity analysis

Analysis by maturity	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Repayable on Demand	121	37	94	19
3 months or less	4,877	4,229	4,877	4,229
	4,998	4,266	4,971	4,248

24. PLEDGED COLLATERAL

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Asset backed securities (own issue)	2,790	2,623	2,790	2,623
	2,790	2,623	2,790	2,623

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 home loan 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 €20m (2016: €98m) of unencumbered contingent collateral available at 31 December 2017, comprising residential mortgage assets of nil (2016: €78m) and debt securities of €20m (2016: €20m).

25. CUSTOMER ACCOUNTS

Customer accounts – analysis by sector

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Retail	5,389	5,624	5,389	5,624
Corporate	286	1,027	286	1,027
Securitisation	-	609	-	-
	5,675	7,260	5,675	6,651

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

Customer accounts – Contractual maturity analysis

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Repayable on demand	2,073	2,542	2,073	1,933
Repayable in less than three months but not on demand	1,015	1,205	1,015	1,205
Repayable in more than three months but less than one year	1,756	2,261	1,756	2,261
Repayable in more than one year but less than five years	831	1,252	831	1,252
	5,675	7,260	5,675	6,651

26. DEBT SECURITIES IN ISSUE

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Bonds and medium term notes	-	-	-	399
	-	-	-	399
Maturity Profile – Debt Securities in Issue:				
Repayable in 3 months or less	-	-	-	399
Repayable in no more than 1 year but over 3 months	-	-	-	-
Repayable in more than 1 year but not more than 5 years	-	-	-	-
Repayable in more than 5 years	-	-	-	-
	-	-	-	399

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

During the years ended 31 December 2017 and 31 December 2016, no new debt securities were issued by the Group.

27. OTHER LIABILITIES

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Funding liabilities fair value hedge	-	1	-	1
Items in transit	28	33	29	33
VAT payable	-	-	1	1
Other liabilities	12	33	9	5
	40	67	39	40

28. ACCRUALS AND DEFERRED INCOME

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
Accruals and deferred income	48	153	49	144
	48	153	49	144

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.

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 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'.

Notes to the Financial Statements (continued)

29. RETIREMENT BENEFITS (CONTINUED)

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 2017 is 22 years. (2016: 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)

	2017				2016			
	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	Asset ceiling/ minimum funding(1)	Net Defined benefit (liability) asset
	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January	(212)	173	(7)	(47)	(213)	161	-	(52)
Included in profit or loss								
Interest cost (income)	(4)	3	-	(1)	(6)	4	-	(2)
	(4)	3	-	(1)	(6)	4	-	(2)
Included in other comprehensive income								
Remeasurements loss (gain):								
Actuarial loss (gain) arising from:								
- Experience Adjustments	7	-	-	7	2	-	-	2
- Changes in demographic assumptions	1	-	-	1	-	-	-	-
- Changes in financial assumptions (see note)	7	-	-	7	-	-	-	-
Return on scheme assets excluding interest income	-	5	-	5	-	11	-	11
Asset ceiling/minimum funding adjustments	-	-	-	-	-	-	(7)	(7)
	15	5	-	20	2	11	(7)	6
Other								
Contributions by employer	-	1	-	1	-	1	-	1
Benefits paid	4	(4)	-	-	4	(4)	-	-
	4	(3)	-	1	4	(3)	-	1
At 31 December	(197)	178	(7)	(26)	(213)	173	(7)	(47)
Recognised on the statement of financial position as:								
Retirement benefit assets				-				-
Retirement benefit liabilities				(26)				(47)
Net pension deficit				(26)				(47)

(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.

29. RETIREMENT BENEFITS (CONTINUED)

	2017 €m	2016 €m
The amounts recognised in the income statement are as follows:		
Defined Benefit Schemes		
Current service costs		-
Interest cost	(4)	(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	-	-
Interest income on plan assets	3	4
Total (cost)/credit (included in staff costs)	(1)	(2)

Pension Plan Assets

The following tables set out an analysis of the scheme assets at 31 December 2017 and at 31 December 2016:

	2017 €m	2016 €m
Investment Funds		
Equity	69	70
Fixed Interest	85	79
Alternatives		
- Quoted	24	24
- Unquoted	-	-
Cash	-	-
Property	-	-
Total Investment funds	178	173

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

	2017	2016
Rate of inflation	1.35%	1.25%
Discount rate	2.10%	1.90%
Future salary increases	-	-
Future pension increases*	-	-

The assumptions made for 2017 and 2016 are both in line with the assumptions made in the AIB 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 2017 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 2017 was 23.1 years (2016: 23.0 years) and for a female pensioner aged 65 years was 25.0 years (2016: 25.0 years). Based on the assumed mortality improvements in 25 years' time the life expectancy for a male pensioner aged 65 years will increase to 25.4 years (2016: 25.8 years) and for a female pensioner aged 65 years will increase to 27.3 years (2016: 27.9 years).

The contribution to be paid by the Company in 2018 is estimated to be €1.4m, with €1.3m payable in 2019. The contributions are due by 30 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.

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 5.6%. An increase or decrease in the inflation rate of 25 basis points would reduce or increase the scheme liabilities by 2.2%. The addition of a one year age offset to the mortality table in use would increase the scheme liabilities by 2.4%.

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

	Company	Company	**Group**	Group
Group	**2017**	2016	**2017**	2016
	€ m	€ m	**€ m**	€ m
At 1 January	**40**	64	**54**	99
Amounts charged to income statement	**13**	22	**13**	22
Amounts written back to income statement	**(9)**	(1)	**(19)**	(16)
Provisions utilised	**(24)**	(45)	**(27)**	(51)
At 31 December[1]	**20**	40	**21**	54

[1] The total provisions expected to be settled within one year amounts to €15m (2016: €49m) for the Group and €13m (2016: €35m) for the Company.

Provisions for customer redress and other costs
In 2015, the Group created a provision of €55m related to the expected outflow for customer redress and compensation 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 (Tracker Mortgage Examination). Over the past two years over 1,500 customers were redressed and compensated, at a cost of €44m and €11m was written back to the income statement. In December 2017, following the completion of an ongoing review no additional accounts were deemed impacted.

The final redress and compensation is subject to independent third party assurance and is also subject to assessment and challenge by the Central Bank, notwithstanding the advanced stage of the examination process.

The Group also created a provision of €44m with regard to 'Other costs' in 2015, of which €38m was related to the tracker mortgage examination. Over the past two years €34m was utilised and an additional €11m charged to the income statement bringing the provision for 'Other costs' to €21m at 31 December 2017.

31. SHARE CAPITAL

Group and Company

	2017 **€m**	2016 €m
Authorised: 2,000,000,000 ordinary shares of €1 each	**2,000**	2,000
Issued and fully paid: 1,655,000,000 ordinary shares of €1 each	**1,655**	1,655

-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.

Notes to the Financial Statements (continued)

31. SHARE CAPITAL (continued)

Group and Company

	2017 €m	2016 €m
At 1 January (net of costs)	**1,654**	1,654
Issue of ordinary share capital	**-**	-
At 31 December	**1,654**	1,654

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

32. CAPITAL CONTRIBUTION

Group and Company

	2017 €m	2016 €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

	2017 €m	2016 €m
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	**22**	23
After five years	**22**	27
	50	56

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.

34. CAPITAL COMMITMENTS

Group and Company
There was Nil (2016: Nil) capital expenditure contracted or authorised.

35. CASH AND CASH EQUIVALENTS

	Company 2017 €m	Company 2016 €m	Group 2017 €m	Group 2016 €m
For the purposes of the cash flow statement the cash and cash equivalents comprise the following:				
Cash and balances at Central Banks	**80**	84	**80**	84
Loans and receivables to banks	**7**	11	**263**	142
Loans and receivables to banks (Group Undertakings)	**1,918**	3,406	**-**	-
	2,005	3,501	**343**	226

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 15.

36. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company

(i) At 31 December 2017 Group and Company loan approvals not advanced, as calculated under the Basel III definition, amount to €227m (2016: €254m) and €137m (2016: €148m) 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.

Group and Company

(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.

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 Group plc, with a registered office at Bankcentre, Ballsbridge, Dublin 4. Copies of both EBS Group and AIB Group plc 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 AIB's relationship with the Irish Government
EBS considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over AIB.

Ordinary Shares
At 31 December 2017, the State held 71.12% of the ordinary shares of AIB Group plc (31 December 2016: 100% of the capital stock of AIB). Further information on the initial public offering from June 2017 is available in note 52 of the 2017 AIB Annual Report.

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.

In January 2010, AIB and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. This scheme expired on 28 March 2013 for all new liabilities. The total liabilities guaranteed under the ELG Scheme at 31 December 2017 amounted to €29m (31 December 2016: €742m). 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 institution's guarantee under the ELG Scheme.

- 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 €21m (December 2016: €20m).

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
2017	**21**	**3**	**343**	**4,971**	**11**
2016	20	15	873	4,248	20

Notes to the Financial Statements (continued)

37. RELATED PARTY TRANSACTIONS

(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.

	2017 €m	2016 €m
Loans and receivables to banks	3,035	3,816
Deposits by central banks and banks	1,274	2,005
Included in the Income Statement		
Interest income on loans	3	5
Interest expense on loans	48	71
Other income	54	100
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Assets (Fair value)	20	19
Liabilities (Fair value)	20	18
Net Trading Income	2	3

(c) Transactions with parent company AIB

A number of transactions were also entered into with the parent company AIB, in the normal course of business. These include loans, deposits, derivatives and available-for-sale assets.

	2017 €m	2016 €m
Loans and receivables to banks	270	792
Deposits by central banks and banks	4,971	4,248
Included in the Income Statement		
Interest income on loans	13	27
Interest expense on loans	(11)	(11)
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Assets (Fair value)	3	15
Liabilities (Fair value)	11	20
Net Trading Income	1	(1)

Notes to the Financial Statements (continued)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 Related Party Disclosures. Under IAS 24, Key Management Personnel are defined as comprising Executive and Non-Executive Directors. As at 31 December 2017 EBS has x KMP (2016: x KMP).

(i) Compensation of Key Management Personnel ("KMP")
Compensation of Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, in office during the year is paid by AIB and allocated to EBS under the Master Services Agreement. See note 10: Operating expenses.

(ii) Transactions with Key Management Personnel ("KMP")
Loans to KMP and their close family members 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 made on terms available to other employees in EBS generally, in accordance with established policy, within limits set on a case by case basis.

The aggregate amounts outstanding, in respect of all loans, quasi loans and credit transactions between EBS and the KMP, as defined above, together with members of their close families and entities influenced by them are shown in the following table:

Loans outstanding	2017 € 000	2016 € 000
At 1 January	120	140
Loans issued during the year	-	-
Loan repayments during the year/change of KMP/other	470	(20)
At 31 December	590	120

The balances outlined above include loans, quasi loans and credit transactions held by the connected persons of Key Management Personnel identified as such during the reporting period. In instances where the Key Management Personnel were identified post 1 January, no balance has been reported as at 1 January.

(e) Companies Act 2014 disclosures

(i) Loans to Directors
The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Act disclosures, Director means the Board of Directors and any past Directors who are Directors during the relevant period. There were 8 Directors in office during the year, 1 of whom availed of credit facilities (2016: 1). The Director who availed of credit facilities had balances outstanding at 31 December 2017 (2016: 1).

Details of transactions with Directors for the year ended 31 December 2017 are as follows:

	Balance at 31 December 2016 €'000	Amounts advanced during 2017 €'000	Amounts repaid during 2017 €'000	Balance at 31 December 2017 €'000
Gerry Gaffney				
Loans	74	-	8	66
Interest charged during 2017	4			3
Maximum debit balance during 2017**	82			74

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.

Bernard Byrne, Desmond Fitzgerald, Bryan O'Connor, Tom Foley, Denis O'Callaghan, Jim O'Hara and Catherine Woods had no facilities with EBS d.a.c. during 2017.

Notes to the Financial Statements (continued)

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Companies Act 2014 disclosures (continued)

(ii) Connected persons

The aggregate of loans to connected persons of Directors in office at 31 December 2017, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 2 persons; 2016: 3 persons):

	Balance at 31 December 2016 € 000	**Balance at 31 December 2017** **€ 000**
Loan	513	**148**
Overdraft/Credit Card	-	**-**
Total	513	**148**
Interest Charged during 2017*	12	**2**
Maximum debit balance during 2017**	555	**154**

No impairment charges or provisions have been recognised during the year 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.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).
**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(iii) Aggregate balance of loans and guarantees held by Directors and their connected persons

The aggregate balance of loans and guarantees held by Directors and their connected persons as at 31 December 2017 represents less than x% of the net assets of the Group (2016: x%).

(iv) Directors remuneration

The remuneration of the Independent Non-Executive Directors in office during 2017 is as follows:

	2017 **€'000**	2016 €'000
Fees	**30**	30
	30	30

At 31 December 2017, the Board of Directors is comprised of Denis O'Callaghan, Bryan O'Connor, Catherine Woods, Tom Foley, Gerry Gaffney, Jim O'Hara and Desmond Fitzgerald.

The remuneration of AIB Group Non-Executive Directors (Denis O'Callaghan and Bryan O'Connor) and the Executive Director (Gerry Gaffney) is borne by AIB.

No additional remuneration has been made to any individuals employed directly by AIB, 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 (2016: nil) to persons connected with a director in accordance with Section 306(1) of the Companies Act 2014

Notes to the Financial Statements (continued)

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 note 1.16.

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 inputs.

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.

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 Group and Company as a going concern at 31 December 2017.

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.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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. 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. An adjustment is made for credit risk which at 31 December 2017 took account of the Group's expectations on credit losses over the life of the loans.

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/credit risk in the portfolio.

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.

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 2017.

Group 2017	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	-	-	-	-	74	6	80	6	74	-	80
Available-for-sale financial asset											
Equity – NAMA subordinated	-	-	-	21	-	-	21	-	-	21	21
Derivative financial instruments	-	-	3	-	-	-	3	-	3	-	3
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	340	-	340	-	-	340	340
Loans and receivables to customers	-	-	-	-	11,469	-	11,469	-	-	11,181	11,181
Other financial assets	-	-	-	-	-	7	7	-	-	7	7
	-	-	3	21	11,883	13	11,920	6	77	11,549	11,632
Financial liabilities measured at fair value											
Derivative financial instruments	-	-	11	-	-	-	11	-	11	-	11
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	4,971	4,971	-	-	4,971	4,971
Debt securities in issue	-	-	-	-	-	-	-	-	-	-	-
Customer accounts	-	-	-	-	-	5,675	5,675	-	-	5,651	5,651
Other financial liabilities	-	-	-	-	-	45	45	-	-	45	45
	-	-	-	-	-	10,691	10,702	-	11	10,667	10,678

There has been no transfers between level 1, 2 and 3 of the fair value hierarchy for the financial year ended 31 December 2017.

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	-	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 2017.

Company 2017	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	-	-	-	-	74	6	80	6	74	-	80
Available-for-sale financial asset											
Euro Bank Securities	-	-	-	2,914	-	-	2,914	-	2,914	-	2,914
Equity – NAMA subordinated	-	-	-	21	-	-	21	-	-	21	21
Derivative financial instruments	20	-	3	-	-	-	23	-	23	-	23
Financial assets not measured at fair value											
Loans and receivables to banks	-	-	-	-	1,925	-	1,925	-	-	1,925	1,925
Loans and receivables to customers	-	-	-	-	6,777	-	6,777	-	-	5,121	5,121
Other financial assets	-	-	-	-	-	16	16	-	-	16	16
	20	-	3	2,935	8,776	22	11,756	6	3,011	7,083	10,100
Financial liabilities measured at fair value											
Derivative financial instruments	20	-	11	-	-	-	31	-	31	-	31
Financial liabilities not measured at fair value											
Deposits by banks	-	-	-	-	-	4,998	4,998	-	-	4,998	4,998
Customer accounts	-	-	-	-	-	5,675	5,675	-	-	5,651	5,651
Other financial liabilities	-	-	-	-	-	45	45	-	-	45	45
	20	-	11	-	-	10,718	10,749	-	31	10,694	10,725

There has been no transfers between level 1, 2 and 3 of the fair value hierarchy for the financial year ended 31 December 2017.

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											
Securities and investments	-	-	-	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

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 2017 and 2016:

					31 December 2017
			Financial assets		Financial liabilities
Group	**Derivatives**	**Equity securities**	**Total**	**Derivatives**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January 2017	**3**	**20**	**23**	**3**	**3**
Income statement	**(3)**	**1**	**(2)**	**(3)**	**(3)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
At 31 December 2017	**-**	**21**	**21**	**-**	**-**

					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 2017
			Financial assets		Financial liabilities
Company	**Derivatives**	**Equity securities**	**Total**	**Derivatives**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January 2017	**3**	**20**	**23**	**-**	**-**
Transfers out of Level 3	**(3)**	**-**	**(3)**	**-**	**-**
Income statement	**-**	**1**	**1**	**-**	**-**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
At 31 December 2017	**-**	**21**	**21**	**-**	**-**

					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	-	-

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 7 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.

40. REGULATORY COMPLIANCE

During 2017, 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 2017:

(i) The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2017 was €2.0bn (2016: €1.5bn) of which Nil (2016: Nil) was held by third parties and €2.0bn (2016: €1.5bn) 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 2017 in issue is €3.8bn (2016: €3.9bn).

42. NON ADJUSTING EVENTS AFTER THE REPORTING PERIOD

No significant non-adjusting events have taken place since 31 December 2017.

43. PARENT COMPANY

EBS d.a.c. is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ("AIB"). The ultimate parent company of the Bank and AIB is AIB Group plc. Pursuant to a Scheme of Arrangement between AIB and its shareholders, AIB Group plc became the holding company of AIB and its subsidiaries, The Ultimate Parent Group is the largest group, of which EBS d.a.c. is a member, for which consolidated accounts are prepared. The financial statements of AIB p.l.c. and of the ultimate parent company are available from Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at www.aibgroup.com.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 27 March 2018.