EBS d.a.c.

Directors' Report and
Annual Financial Statements

For the financial year ended 31 December 2018

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	Diane Lumsden
Registered office	2 Burlington Road Dublin 4
Registered number	500748
Independent auditor	Deloitte Ireland LLP 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 ('EBS Group') for the financial year ended 31 December 2018. A Directors' Responsibility Statement in relation to the financial statements appears on page 59.

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 ('AIB Group'). 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 70 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. EBS Group also distributes mortgages through Haven Mortgages Limited, a wholly owned subsidiary, to independent mortgage intermediaries.

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'). 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.

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

Corporate Governance Statement

The Board of Directors

Governance is exercised through a Board of Directors ('The Board') and a senior management team. The Board is responsible for corporate governance encompassing leadership, direction, strategy and control of EBS and is responsible for financial performance to both 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 2018, there were seven Directors on the Board, three of whom were Independent Non-Executive Directors. The Board also included two Executive Directors, each of whom were directly involved in the operation of EBS, and two other Directors who, while also employees of AIB, were deemed to be Non-Executive Directors by virtue of the roles they fulfilled in areas of AIB unrelated to the operations of EBS.

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

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. The Board receives regular updates on EBS's risk profile together with relevant updates from the Board Audit Committee.

Directors' Report (continued)

Corporate Governance Statement (continued)

Corporate Governance Requirements
EBS Group is subject to the provisions of the CBI's Corporate Governance Requirements for Credit Institutions 2015 ("the 2015 Requirements") (available on www.centralbank.ie), which imposes minimum core standards upon all credit institutions licensed or authorised by the CBI. The 2015 Requirements were published by the CBI during December 2015 and became effective, and a condition on EBS Group's license, on 11 January 2016. Under the 2015 Requirements, EBS Group was designated as a "high impact institution" which resulted in a number of significant incremental obligations. EBS Group sought and received derogations from a number of those incremental obligations arising from the revised categorisation, namely:

- the requirement to have an external evaluation of Board effectiveness carried out every three years under requirement 14.6, on the basis that EBS continues to conduct an internal review of 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's corporate governance practices are designed to ensure compliance with applicable legal and regulatory requirements including Irish company law.

EBS was deemed to be materially compliant with the provisions of the 2015 Requirements throughout 2018.

Audit Committee
In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee ("the 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 has oversight and 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, duly liaising with the AIB Group Board Audit Committee on matters in relation to the Internal and External Auditors as required.

These responsibilities are discharged through its meetings with and receipt of reports from management including Finance, Internal Audit and Risk. During 2018 the committee met on four occasions and amongst other activities the Committee reviewed EBS's annual financial statements and related accounting policies, key judgements and practices; the adoption of new accounting new standards, 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 Internal Audit and Finance 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.

Directors' Report (continued)

Results for the year

The key Income Statement and Statement of Financial Position movements are highlighted below

	2018	2017	
Net interest income	**€279m**	€292m	The decrease in net interest income was mainly due to 2018 reductions in mortgage interest rates offset by lower funding costs.
Administrative expenses	**€186m**	€160m	In 2018, expenses increased by €26m with amounts charged for customer redress and related matters increasing by €42m together with a decrease in amounts payable to AIB of €16m, driven by updated inputs to the return on equity transfer pricing model.
Net credit impairments	**€11m**	(€35m)	Reduction in Expected Credit Loss allowance ("ECL") driven by lower non-performing loans arising from restructures, cures and improvement in general economic environment.
Profit before tax	**€120m**	€111m	The increase in profit before tax is largely driven by ECL writebacks.
New lending	**€995m**	€932m	New residential lending for the EBS Group was €995m in 2018 up 7% from 2017 due to increased competition in the mortgage market.
Loans and advances to customers	**€11,404m**	€11,469m	In 2018 gross mortgage balances fell by €528m, as a result of repayments and restructures being higher than drawdowns. This is offset by a reduction in provision stock of €463m from 2017.
Loans & advances to banks	**€137m**	€340m	€203m lower at 31 December 2018 due to maturing fixed placements with AIB.
Deposits by banks	**€4,833m**	€4,971m	Borrowings from AIB decreased by €138m during 2018 due to the lower funding requirement driven by a reduction in net assets.
Customer accounts	**€5,374m**	€5,675m	Reduction of €301m in balances as higher cost term deposits mature and are repaid.

Introduction of IFRS 9

As of 1 January 2018, IFRS 9 'Financial instruments' came into effect and has been applied in the preparation of EBS Group's financial statements. Comparative figures have not been restated for the impact of IFRS 9 and are presented on an IAS 39 classification and measurement basis. On transition to IFRS 9, EBS Group's reserves increased by €48m. See Note 3 for further information on the impact of transition to IFRS 9.

Business Review

The Irish economy improved generally during 2018 including a decreasing unemployment rate standing at 5.3% at the end of December 2018 against 6.2% in 2017 (Source: Central Statistics Office) and decreasing mortgage arrears. Total market mortgage drawdowns in Ireland were €8.7bn (Source: Banking & Payments Federation of Ireland ('BPFI')) in 2018 compared with €7.3bn in 2017. Throughout 2018 there was increased competition in the mortgage market with new entrants and with competitors offering lower interest rates and incentives to new borrowers.

Construction continued to rebound, with output up by 17% in the first three quarters of 2018. Housing output continued to rise steadily, albeit from low levels. Housing commencements were up by 24% to October 2018. Housing completions as reported by the CSO, rose by 25% to over 18,000 units in 2018, up from 14,400 the previous year. There was a sharp rise in planning permissions in 2018, with the number up by almost 70% in Q3 from 2017 levels.

The CSO Residential Property Price Index showed an increase in prices nationally of 6.5% in the 12 months to December 2018 (12.3% in 2017). This was particularly evident outside Dublin where the 2018 annual increase was 9.6% (December 2017 13.3%). Property prices in Dublin increased in the 12 month period by 3.8% (increase of 11.6% in 2017). The residential property price fall from peak (February 2007) was 21.4% Dublin and 22.0% non-Dublin at 31 December 2018 (2017: 24.4% Dublin and 28.4% 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 and subsequently increased to 3% from January 2019 and extended to December 2019. 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.

EBS Group continues to make progress to complete the Tracker Mortgage Examination programme. EBS determined in 2018 that a further €25.5m provision was required to cover an additional cohort of accounts, of which €24.5m was utilised in 2018 with €1m to be paid in 2019 in respect of outstanding accounts, appeal cases and other costs.

The Tracker Mortgage Examination programme is materially complete with close out activities now underway during 2019 and we are working closely with the Central Bank of Ireland in terms of their investigations. EBS Group is aware that issues can and do continue to emerge from the past and when they do the Company is committed to dealing with them in a transparent and fair way for our customers.

Asset Quality

Loans and advances to customers (before impairment loss allowances) at amortised costs amounted to €11.7bn at 31 December 2018 (2017: €12.3bn)

Non-performing loans decreased from €2.1bn at 31 December 2017 to €1.4bn at 31 December 2018. This reduction was achieved through redemptions and repayments from customers, loan restructuring activity including non-contracted write-offs and asset sales/disposals together with the implementation of a new definition of default policy.

The objective of the loan restructuring process is to assist customers that find themselves in financial difficulties, to deal with them sympathetically and to work with them constructively to explore appropriate solutions. By continuing to work together in this process, EBS and the customer can find a mutually acceptable and alternative way forward. This approach has, and will continue to, materially improve EBS's asset quality and lower its overall risk profile, and strengthen its solvency. EBS 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. EBS 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.

EBS has credit policies and strategies, implementation guidelines and monitoring structures in place to manage its loan portfolios, including restructured loans. EBS regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio. EBS remains focused on reducing non-performing loans and will continue to implement sustainable solutions for customers who engage with the Company, where feasible. EBS continues to review all options in relation to reducing impaired loans including sales and strategic initiatives.

Funding

EBS Group is committed to maintaining an appropriate customer deposit base with the balance of funding being provided by AIB.

Customer Funding

EBS 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. EBS Group continued to have a strong franchise in the retail deposit market and at 31 December 2018 has total customer accounts of €5,374m (2017: €5,675m).

Funding (continued)

Customer Funding (continued)

Customer funding was down by €301m primarily due to maturity of term corporate deposits as EBS exits the corporate market. Retail balances were €5,299m at 31 December 2018 (2017: €5,389m) and represent 99% (2017: 95%) of customer funding.

Deposits by Banks

Funding from AIB decreased by €138m to €4,833m in December 2018 due to lower funding requirement. There was no direct ECB funding in 2018 or 2017.

Share Capital

The issued Share Capital of EBS Group is €1,655m (2017: €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 2018	31 December 2017	**31 December 2018**	31 December 2017
	€ m	€ m	**€ m**	€ m
Shareholders' equity	**1,548**	1,405	**1,548**	1,405
Regulatory adjustments	**(88)**	(72)	**(215)**	(234)
Total Tier 1 capital	**1,460**	1,333	**1,333**	1,171
Tier 2 capital				
Credit provisions	**-**	33	**-**	-
Total Tier 2 capital	**-**	33	**-**	-
Total capital	**1,460**	1,366	**1,333**	1,171
Risk Weighted Assets				
Credit risk	**5,116**	5,231	**5,116**	5,231
Operational risk	**423**	396	**423**	396
Total Risk Weighted Assets	**5,539**	5,627	**5,539**	5,627
Total Tier 1 capital ratio	**26.4%**	23.7%	**24.1%**	20.8%
Total capital ratio	**26.4%**	24.3%	**24.1%**	20.8%

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.

EBS Group is required to maintain a Common Equity Tier 1 ratio of 7% effective from 1 January 2019 (2018: 6.375%). This includes a Pillar 1 requirement of 4.5% and a capital conservation buffer ("CCB") of 2.5% (2017: 1.875%). The minimum requirement for the transitional total capital ratio is 10.5% (2018: 9.875%). In addition the CBI announced in July 2018 its intention to apply a counter cyclical buffer of 1% effective from 5 July 2019. The transitional Total Tier 1 and Total capital ratios at 31 December 2018 were both 26.4% respectively (2017: 23.7% and 24.3% 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 regulatory adjustments reduces the capital ratio by 2.3% at 31 December 2018 (2017: reduction of 3.5%).

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

In 2018 the Company completed a review of the level of capital required and the Board approved the submission of an application to the Company's regulator seeking permission to complete a capital reorganisation, including the repayment of capital to AIB plc. As of the date of this report, the decision of the regulator is pending.

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 EBS Group, 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 58 and included the following:

Credit risk;
Restructure execution risk;
Funding and liquidity risk;
Capital adequacy risk;
Market risk;
Operational risk;
Regulatory compliance risk including conduct risk;
People and culture risk;
Business model risk;
Model risk.

Outlook for 2019
Most forecasters see economic growth in Ireland slowing to around 4.0%-4.5% in 2019, taking into account the UK's departure from the EU, a softening in global growth and a slower pace of job creation as the economy moves towards full employment. However, this would still be a very good growth performance by the Irish economy.

Leading indicators of activity have softened in recent months, but continue to point to good prospects for the economy. Growth should be underpinned by continuing low interest rates, rising employment and incomes, the ongoing rebound in construction activity as well as a more expansive stance to fiscal policy. This should result in a strong rise in new lending activity in 2019. However, this is all predicated on the assumption that a disorderly hard Brexit and a marked slowdown in the world economy are avoided in the coming year.

Ongoing uncertainty following the UK vote to exit the EU, relating to the nature and impact of withdrawal, could impact the markets in which EBS Group operates. This includes pricing, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations. This, in turn, could have an impact on EBS Group's financial performance, balance sheet, capital and dividend capacity.

Other effects may include changes in official interest rate policy in the Eurozone, which can impact EBS Group's revenues.

EBS Group continues to closely monitor the impact on the Irish economy and the Company, and manage that change, and the specific risks and associated challenges.

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

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 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 included financial plans covering the period 2019 to 2021 approved by the Board in December 2018, 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' and Secretary's interests in shares
The Directors and Company Secretary did not hold any interests in EBS shares or debentures at the beginning of the year, during the year or at the year end.

Shares held by the Directors in the ultimate parent company AIB Group plc were below 1% and not disclosable under the Companies Act 2014.

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

Directors' Report (continued)

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2018. Independent Non-Executive Directors do not participate in long term incentive plans.

There were no changes in the Directors' and Secretary's interests between 31 December 2018 and 25 March 2019.

Attendance at scheduled Board and Board Committee Meetings

Name	Board (Scheduled)		Board (Out of Course)		Board Audit Committee (Scheduled & Out of Course)	
Directors	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Desmond Fitzgerald	4	4	1	1	-	-
Tom Foley	4	4	1	1	4	4
Gerry Gaffney	4	4	1	-	-	-
Denis O'Callaghan	4	4	1	1	-	-
Bryan O'Connor	4	4	1	1	4	4
Jim O'Hara	4	2	1	1	4	2
Catherine Woods	4	4	1	-	-	-

The Board held five meetings during 2018.

Directors and Secretary
The following were Directors of EBS during 2018 –Desmond Fitzgerald, Tom Foley, Gerry Gaffney, Denis O'Callaghan, Bryan O'Connor, Jim O'Hara and Catherine Woods.

The Company Secretaries during 2018 were Ms. Cara Teahan and Ms. Diane Lumsden (appointed 6 December 2018).

Directors' Remuneration
Details of total remuneration of the Directors in office during 2018 and 2017 are shown in the Remuneration Table in note 40.

Dividend
There was no interim dividend paid to the shareholder during 2018 and the Board is not recommending the payment of a final dividend for 2018 (2017: no dividend paid).

Capital
Information on the structure of EBS Group's share capital, including the rights and obligations attaching to each class of shares, is set out in note 34 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

Disclosure Notice under Section 33AK of the Central Bank Act 1942
EBS Group did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2018.

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.

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
EBS Group has not established any branches outside the State.

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 AIB, Bankcentre, Ballsbridge, Dublin 4.

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 Ireland LLP, 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
Non-Executive Chairman

Desmond Fitzgerald
Managing Director

Date: 25 March 2019

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 Funding and liquidity 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

Credit risk is the risk that EBS Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet their contractual obligations.

Credit risk can be categorised into the following three sub-risks;
i. Counterparty risk: The risk of losses arising as a result of the counterparty not meeting its contractual obligations in full and on time;
ii. Credit default risk: The current or prospective risk to capital arising from the obligors' failure to meet the terms of any contract with EBS Group;
iii. Concentration risk: The risk of excessive credit concentration including to an individual, counterparty, group of connected counterparties, a type of collateral or a type of credit facility.

Credit risk exposure derives from standard on-balance sheet product. However, credit risk also arises from other products and activities including, but not limited to: "off-balance sheet" guarantees and commitments; the trading portfolio (e.g. bonds and derivatives), investment securities, asset backed securities and partial failure of a trade in a settlement or payment system. The most significant credit risks assumed by the EBS Group arise from mortgage lending activities to customers in Ireland.

Credit risk management and key principles

The principles and activities which govern the management of credit risk within EBS Group are as follows. These principles apply across EBS Group in the management of credit risk.

- *Formulating and implementing a comprehensive credit risk strategy*
  Formulate and implement a comprehensive credit risk strategy that is viable through various economic cycles, supported by a robust suite of credit policies that support EBS Group's approved RAS and generate appropriate returns on capital within acceptable levels of credit quality.
- *Establishing appropriate governance structures*
  Establish a governance authority to provide independent oversight and assurance to the Board with regards to credit risk management activities and the quality of the credit portfolio.
- *Developing and reinforcing a strong risk focused culture*
  Develop and continuously reinforce a strong, risk focused culture across the credit risk management functions through the credit cycle, which supports EBS Group's goals and enables business growth, provides constructive challenge and avoids risks that cannot be adequately measured.
- *Undertaking credit assessments within a sound and well defined credit granting process*
  Operate within a sound and well defined credit granting process, within which risks for new and existing lending exposures are identified, assessed, measured, managed and reported in line with risk appetite and the credit risk policy.
- *Establishing and enforcing effective monitoring and controls*
  Establish and enforce an efficient internal review and reporting system to manage effectively EBS Group's credit risk across various portfolios including, establishing and enforcing internal controls and assurance practices to ensure that exceptions to policies, deviations to credit standards, procedures and limits are monitored and reported in a timely manner for review and action.
- *Maintaining sound methodology to identify deteriorating credit quality*
  Ensure sound methodology exists to proactively assess risk and to identify deteriorating credit quality to minimise losses and maximise recoveries in work out scenarios.
- *Using high quality management information for effective risk measures*
  Utilise quality management information and risk data to ensure an effective credit risk measurement process when reporting on the holistic risk profile of EBS Group including any changes in risk profile and emerging or horizon risks.
- *Mitigating credit risk arising from new or amended products*
  Mitigate potential credit risk arising from new or amended products or activities.

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.

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

3.1 Credit risk

Credit approval overview
EBS Group operates credit approval criteria which:
– Includes a clear indication of EBS Group's target market(s), in line with its appetite statements;
– Requires a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
– Enforces compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken by risk professionals operating within a defined delegated authority framework. At an AIB Group level the Board is the ultimate credit approval authority and grants authority to various credit committees and individuals to approve limits. Credit limits are approved in accordance with AIB's written risk policies and guidelines. All exposures above certain levels require approval by the AIB Group Credit Committee ("GCC") and/or Board. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the relevant credit authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

Internal credit ratings*
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 risk rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital. All relevant exposures are assigned to a rating system and within that to an internal risk grade. A grade is assigned on the basis of rating criteria within each rating model from which estimates of PD are derived.

Internal 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. Heightened credit management and special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/defaulted loans which are defined below.

EBS Group implemented IFRS 9 at 1 January 2018. The IFRS 9 PD modelling approach uses a combination of rating grades and scores obtained from these credit risk models along with key factors such as age of an account, the current/recent arrears status or the current/recent forbearance status and macro-economic factors to obtain the relevant IFRS 9 12 month and Lifetime PDs (i.e. point in time). EBS Group has set out its methodologies and judgements exercised in determining its expected credit loss ("ECL") under IFRS 9 on pages 20 to 26.

Using internal models, EBS Group designed and implemented a credit grading masterscale that gives it the ability to categorise and contrast credit risk across different portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from risk models with EBS Group's new definition of default ("DoD") policy. Credit grades are driven by model appropriated PDs in order to provide the Group with a mechanism for ranking and comparing credit risk associated with a range of customers. The masterscale categorises loans into a broad range of grades which can be summarised into the following categories: strong/satisfactory grades, criticised grades and non-performing loans.

Strong/satisfactory
Accounts are considered strong/satisfactory if they have no current or recent credit distress and the probability of default is typically less than 6.95%, they are not in arrears and there are no indications that they are unlikely to repay.

Strong (typically with PD less than 0.99%): Strong credit with no weakness evident.
Satisfactory (typically with PD greater than 0.98% and less than 6.95%): Satisfactory credit with no weakness evident.

Criticised
Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following:

Criticised watch: The credit is exhibiting weakness in terms of credit quality and may need additional management attention; the credit may or may not be in arrears.
Criticised recovery: Includes forborne cases that are classified as performing including those which have transitioned from default forborne, but still require additional management attention to monitor for re-default and continuing improvement in terms of credit quality.

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

3.1 Credit risk

Non-performing/default
On 1 January 2018, EBS Group introduced a new definition of default aligned with the EBA 'Guidelines on the application of the definition of default' under Article 178 of Capital Requirements Regulation and ECB Banking Supervision Guidance to Banks on Non-performing loans. EBS Group has aligned the definitions of 'non-performing loans', 'classification of default' and IFRS 9 Stage 3 'credit impaired', with the exception of those loans which have been derecognised and newly originated in Stage 1 or POCI (Purchased or Originated Credit Impaired).

Loans are identified as non-performing or defaulted by a number of characteristics. The key criteria resulting in a classification of non-performing are:
- Where EBS Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.
- The credit obligor is 90 days or more past due on any material credit obligation. Date count starts where any amount of principal, interest or fee has not been paid by a credit obligor on the due date.

AIB's definition of financial distress, forbearance, non-performing exposures and unlikeliness to pay are included in AIB's Definition of Default policy.

Non-performing loans that have received a concession from EBS Group on terms or conditions will remain in the non-performing probationary period for a minimum of 12 months, and are subject to meeting defined probation criteria before moving to a performing classification.

Non-performing loans are analysed in more detail on page 37, and are further analysed below as follows:
Unlikely to pay – Where EBS Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or the number of days past due.
Greater than 90 days past due – Credit obligor that is past due by 90 days or more on any material obligation.
Collateral disposals – Post restructure cases requiring asset disposal as part of the restructure agreement. These loans will remain as non-performing until the asset is sold and the loan cleared.
Non-performing loans probation – Loans that have, as a result of financial distress, received a concession from EBS Group on terms or conditions, and that are currently operating in line with the post restructure arrangements, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.

The new masterscale categories outlined above are materially different to the grade categories EBS Group used in previous years and in 2017 comparatives on page 29 and are therefore not directly comparable. The previous years' definitions of grade categories are set out below:

Satisfactory: *Loans that are neither watch, vulnerable or impaired are considered satisfactory. These loans are further analysed into:*
Good upper: *Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.*
Good lower: *Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.*
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.*
Impaired: *A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of estimated 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.*

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

3.1 Credit Risk

Credit risk principles and policy*

EBS Group implements and operates policies to govern the identification, assessment, approval, monitoring, and reporting of credit risk. EBS Group Credit Risk Framework and Credit Risk Policy are overarching Board approved documents which set out, at a high level, the principles of how EBS Group identifies, assesses, approves, monitors, and reports credit risk to ensure robust credit risk management is in place. These documents contain the minimum standards and principles that are applied across EBS Group to provide a common, robust and consistent approach to the management of credit risk.

AIB Credit Risk Policy adopted by the Company is supported by a suite of credit policies, standards and guidelines which define in greater detail the minimum standards and credit risk metrics to be applied for specific products, business lines, and market segments.

Credit Risk, as an independent risk management function, monitors key credit risk metrics and trends, including policy exceptions and breaches, reviews the overall quality of the loan book; challenges variances to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows EBS Group, if required, to take early and proactive mitigating actions for any potential areas of concern.

In circumstances where a policy breach occurs, it must be reported to Senior Management and Credit Risk to assess the nature of the breach and any required remedial action to mitigate the likelihood of re-occurrence.

Maximum exposure to credit risk*

Maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk is their carrying amount, and for financial guarantees and similar contracts granted, it is the maximum amount EBS Group would have to pay if the guarantees were called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

The following table sets out the maximum exposure to credit risk that arises within EBS Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2018 and 2017:

	Amortised Cost(1)	**Fair Value(2)**	**2018 Total**	Amortised Cost	Fair Value	2017 Total
	€m	**€m**	**€m**	€m	€m	€m
Cash and balances at central banks	**48**	**-**	**48**	80	-	80
Derivative financial instruments	**-**	**1**	**1**	-	3	3
Investment securities	**-**	**21**	**21**	-	21	21
Loans and advances to banks	**137**	**-**	**137**	340	-	340
Loans and advances to customers	**11,404**	**-**	**11,404**	11,469	-	11,469
Included elsewhere:						
Accrued interest	**2**	**-**	**2**	6	-	6
Other assets (3)	**51**	**-**	**51**	44	-	44
	11,642	**22**	**11,664**	11,939	24	11,963
Off-balance sheet loan commitments (4)	**287**	**-**	**287**	264	-	264
Maximum exposure to credit risk	**11,929**	**22**	**11,951**	12,203	24	12,227

(1) All amortised cost items are loans and advances and investment securities which are in a 'held-to-collect' business model.
(2) All items measured at fair value except investment securities at FVOCI and cash flow hedging derivatives are classified as 'fair value through profit or loss'
(3) Other assets includes all remaining assets with the exception of deferred taxation.
(4) A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility.

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

3.1 Credit risk

Credit risk monitoring*

EBS Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios in order to manage credit risk effectively. It is EBS Group's practice to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk, at a portfolio level, is monitored and reported regularly to Senior Management and the Board Risk Committee. Credit managers pro-actively manage EBS Group's credit risk exposures at a transaction and relationship level. Monitoring is done through credit exposure and excess management, regular review of accounts, being up to date with any developments in customer business, obtaining updated financial information and monitoring of covenant compliance. This is reported on a quarterly basis to Senior Management and includes information and detailed commentary on loan book growth, quality of the loan book and expected credit losses including individual large non-performing exposures.

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in EBS Group's loan book. A report on any exceptions to credit policy is presented and reviewed on a regularly basis. EBS Group allocates significant resources to ensure on-going monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly. Once an account has been placed on a watch list, or early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected.

Criticised borrowers are subject to an 'unlikely to pay' test at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile.

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. EBS Group employs a dedicated approach to loan workout and to monitoring and proactively managing non-performing loans. Specialised teams focus on managing the majority of criticised loans. Specialist recovery functions deal with customers in default, collection or insolvency. Their mandate is to maximise return on non-performing debt and to support customers in difficulty. Whilst the basic principles for managing weaknesses in are broadly similar, the solutions reflect the differing nature of the assets.

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of 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 Group uses a range of initiatives to support customers. EBS Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principle is providing support to enable customers remain in the family home, whenever possible. EBS Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

Mortgage portfolio

Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"), EBS Group introduced a four-step process called the Mortgage Arrears Resolution Process, or MARP. This process aims to engage with, support and find resolution for mortgage customers (for their primary residence only) who are in arrears, or are at risk of going into arrears.

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; and
- Resolution – We work with the customer to find a resolution.

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

3.1 Credit risk

Mortgage portfolio (continued)

Low fixed interest rate sustainable solution – This solution aims 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 repayments on their mortgage based on the 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 the full capital and agreed 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, where applicable;

Negative equity trade down – This solution allows a customer to sell his/her 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 selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt write-off, where applicable; and

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.

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

The restructuring process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The process broadly moves from an initial customer disclosure stage, through to engagement and analysis, through to an initial proposal from EBS Group, followed by credit approval, documentation and drawdown. The commercial aspects of this process require that customer affordability is viewed holistically, to include all available sources of finance for debt repayment, including unencumbered assets.

The debt solutions provided allow the customer to enter into a performance based arrangement, typically over a five year period, which will be characterised by the disposal of non-core assets, contribution of unencumbered assets, and contribution towards residual debt from available cash flow. This process may result in debt write-off, where applicable.

A request for forbearance is a trigger event for EBS Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. This may result in the downgrading of the credit grade assigned and an increase in the expected credit loss. Loans to which forbearance has been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

See accounting policy 'Impairment of financial assets' in note 1 to the financial statements.

The effectiveness of the forbearance measures over the lifetime of the arrangements are subject to on-going management and review. 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 EBS Group and the borrower.

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

3.1 Credit risk

Credit risk mitigants*
The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan. However, EBS Group uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and advances to customers are described below under the section on Collateral. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

Occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

EBS Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit rating. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units in each segment are required to have an approved bank or country limit prior to granting any credit facility, or approving any obligation or commitment which has the potential to create interbank or country exposure.

Collateral
Credit risk mitigation may include a requirement to obtain collateral as set out in EBS Group's lending policies. Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. EBS Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are:
– Charges over business assets such as premises, inventory and accounts receivables;
– Mortgages over residential and commercial real estate; and
– Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

Collateral is not usually held against loans and advances to banks, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement.

Methodologies for valuing collateral
As property loans comprise all EBS Group's loans and advances portfolio, some key principles have been applied in respect of property collateral held by EBS Group.

In accordance with AIB policy and guidelines on Property Collateral Valuation, EBS Group uses a number of methods to assist in reaching appropriate valuations for property collateral held. These include:
– Use of independent professional external valuations; and
– Use of internally developed methodologies, including residual valuations.

Use of independent professional external valuations represent circumstances where external firms are engaged to provide formal written valuations in respect of the property. Up to date external independent professional valuations are sought in accordance with AIB's Property Valuation Policy and Guidelines. Available market indices for relevant assets, e.g. residential property are also used in valuation assessments, where appropriate.

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

3.1 Credit risk

Credit risk mitigants* (continued)

Methodologies for valuing collateral (continued)
When assessing the value of residential properties, recent transactional analysis of comparable sales in an area combined with the Central Statistics Office (”CSO”) Residential Property Price index in the Republic of Ireland may be used.

Property collateral is reviewed on a regular basis in accordance with the Property Valuation policy and Guidelines. Applying one or a combination of the above methodologies, in line with AIB’s Valuation Policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency and availability of such up-to-date valuations remain a key factor within ECLs determination. Additionally, all relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. buy-to-let, residential and also its location. The valuation arrived at is therefore, a function of the nature of the asset, e.g. unserviced land in a rural area will most likely suffer a greater reduction in value if purchased at the height of a property boom than a fully let investment property with strong lessees.

When assessing the level of ECL allowance required for property loans, apart from the value to be realised from the collateral, other cash flows, such as recourse to other assets or sponsor support, are also considered, where available. The other key driver is the time it takes to receive the funds from the realisation of collateral. While this depends on the type of collateral and the stage of its development, the period of time to realisation is typically one to five years but sometimes this time period is exceeded. These estimates are periodically reassessed on a case by case basis.

The value of collateral is assessed at origination of the loan and throughout the credit life cycle (including annual reviews where required). When undertaking an ECL assessment for individually assessed cases that have been deemed unlikely to pay, the present value of future cash flows, including the value of collateral held, and the likely time taken to realise any security is estimated. An ECL allowance is raised for the difference between this present value and the carrying value of the loan.

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.

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

3.1 Credit risk

Credit risk mitigants* (continued)

Loans and advances to customers – residential mortgages
The following table shows the estimated fair value of collateral held for EBS Group's residential mortgage portfolio at 31 December 2018. Comparative data for 2017 has been prepared under IAS 39.

	2018								2017
	Measured at amortised cost								
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Fully collateralised(1)									
Loan-to-value ratio:									
Less than 50%	**3,010**	**223**	**198**	**19**	**3,450**	2,604	72	147	2,823
50% - 70%	**3,265**	**307**	**227**	**50**	**3,849**	3,165	99	200	3,464
71% - 80%	**1,366**	**136**	**124**	**29**	**1,655**	1,633	47	126	1,806
81% - 90%	**966**	**98**	**118**	**24**	**1,206**	1,131	43	137	1,311
91% -100%	**548**	**87**	**117**	**20**	**772**	766	28	150	944
	9,155	**851**	**784**	**142**	**10,932**	9,299	289	760	10,348
Partially collateralised									
Collateral value relating to loans over 100% loan-to-value	**211**	**63**	**297**	**13**	**584**	844	53	596	1,493
Total collateral value	**9,366**	**914**	**1,081**	**155**	**11,516**	10,143	342	1,356	11,841
Gross residential mortgages	**9,383**	**920**	**1,152**	**169**	**11,624**	10,226	348	1,532	12,106
ECL allowance	**(4)**	**(25)**	**(261)**	**(20)**	**(310)**				
Statement of financial position: specific provisions								(631)	(631)
Statement of financial position: IBNR provisions									(112)
Net residential mortgages	**9,379**	**895**	**891**	**149**	**11,314**			901	11,363

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

For residential mortgages, EBS Group 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. The value at 31 December 2018 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index.

ECL governance
AIB Group has put in place a framework, incorporating the governance and delegation structures commensurate with a material risk, to ensure credit risk is appropriately managed throughout EBS Group.

The key governance points in the ECL approval process during 2018 were:
- Model Risk Committee
- Assets and Liabilities Committee
- Business level ECL Committees
- Group Credit Committee, and
- Executive Risk Committee / Leadership Team / Board Audit Committee

For ECL governance, EBS Group management employs its expert judgement on the adequacy of ECL's. The judgements are supported by detailed information on the portfolios of credit risk exposures, and by the outputs of the measurement and classification approaches described above, coupled with internal and external data provided on both short term and long-term economic outlook. Business segments and Company management are required to ensure that there are appropriate levels of cover for all of its credit portfolios and must take account of both accounting and regulatory compliance when assessing the expected levels of loss.

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

3.1 Credit risk

Credit risk mitigants* (continued)

ECL governance (continued)
Assessment of the credit quality of each business segment is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then scrutinised and approved at individual business unit level (ECL Committee) prior to onward submission to the AIB Group Credit Committee. The AIB Group Credit Committee reviews and challenges ECL levels prior to recommendation to the AIB Executive Risk Committee / Executive Committee and AIB Board Audit Committee.

In addition EBS Group's senior management reviews and challenges the ECL levels prior to recommendation to the EBS Audit Committee.

Derivatives
Derivative financial instruments are recognised in the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2018 amounted to €1m (2017: € 3m) and those with a negative fair value are reported as liabilities which at 31 December 2018 amounted to €16m (2017: € 11m).

Loans and advances to banks
Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. However, there were repurchase agreements outstanding at 31 December 2018 of €2.3bn (2017: €2.5bn).

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

3.1 Credit risk

Measurement, methodologies and judgements*
Introduction
EBS Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") for both transition to IFRS 9 at 1 January 2018 and for the year to 31 December 2018.

IFRS 9 introduces the expected credit loss impairment model that will require a more timely recognition of expected credit losses ("ECL") across the Group. IFRS 9 replaces the concept of recognising credit losses only when there is objective evidence that a loss has been incurred. The impairment requirements under IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. The standard does not prescribe specific approaches used to estimate the ECL, but stresses that the approach must reflect the following:
– An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
– Underlying models should be point in time – recognising economic conditions;
– The ECL must reflect the time value of money;
– A lifetime ECL is calculated for financial assets in Stage 2 and 3; and
– Models used in the ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The standard defines credit loss as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate ("EIR") or an approximation thereof (see 'Measurement' section below).

ECLs are defined in IFRS 9 as the weighted average of credit losses across multiple macroeconomic scenarios, the probability of each scenario occurring as weights and are an estimate of credit losses over the life of a financial instrument.

A key principle of the ECL model is to reflect any relative deterioration or improvement in the credit quality of financial instruments occurring (e.g. change in the risk of a default). The ECL amount recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition together with the usual credit risk parameters.

Measurement bases
Under IFRS 9, there are two measurement bases:

1. 12-month ECL (Stage 1), which applies to all financial instruments from initial recognition as long as there has been no significant increase in credit risk;
2. Lifetime ECL (Stages 2 and 3 and POCI), which applies when a significant increase in credit risk has been identified on an account (Stage 2), an account has been identified as being credit-impaired (Stage 3) or when an account meets the Purchased or Originated Credit Impaired (POCI) criteria.

Staging
Under IFRS 9, financial assets are allocated to stages dependent on credit quality relative to when assets were originated.

Credit risk at origination
Credit risk at origination ("CRAO") is a key input into the staging allocation process. The origination date of an account is determined by the date on which EBS Group became irrevocably committed to the contractual obligation and the account was first graded on an appropriate model.

For undrawn credit facilities, EBS Group uses the date of origination as the date when it becomes party to the irrevocably contractual arrangements or irrevocable commitment.

EBS Group uses best available information for facilities which originated prior to a credit risk rating model or scorecard being in place. For accounts that originated prior to 1 January 2018, a neutral view of the macroeconomic outlook at the time is used, i.e. where macroeconomic variables are used in the Lifetime PD models, long-run averages are used instead of historical forecasts.

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

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Stage 1 characteristics
Obligations are classified Stage 1 at origination, unless purchased or originated credit impaired ("POCI"), with a 12 month ECL being recognised. These obligations remain in Stage 1 unless there has been a significant increase in credit risk.

Accounts can also return to Stage 1 if they no longer meet either the Stage 2 or Stage 3 criteria, subject to satisfaction of the appropriate problem periods, in line with regulatory requirements.

Stage 2 characteristics
Obligations where there has been a 'significant increase in credit risk' ("SICR") since initial recognition but do not have objective evidence of credit impairment are classified as Stage 2. For these assets, lifetime ECLs are recognised.

EBS Group assesses at each reporting date whether a significant increase has occurred on its financial assets since their initial recognition. This assessment is performed on individual assets rather than at a portfolio level. If the increase is considered significant, the obligation will be allocated to Stage 2 and a lifetime expected credit loss will apply to the obligation. If the change is not considered significant, a 12 month expected credit loss will continue to apply and the obligation will remain in Stage 1.

EBS Group's SICR assessment is determined based on:
Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. EBS Group compares each obligation's annualised average probability weighted residual lifetime probability of default ("LTPD") at origination (see the CRAO section) to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, EBS Group moves the financial asset into Stage 2. Increases in LTPD may be due to credit deterioration of the individual asset or due to macroeconomic factors. EBS Group has determined that an account has met the quantitative measure if the average residual LTPD at the reporting date is more than double the average residual LTPD at origination. This is subject to the difference between the LTPDs being at least 50bps.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on EBS Group's credit management of and the individual characteristics of the financial asset. This is not model driven and seeks to capture any change in credit quality that may not be already captured by the quantitative criteria. The qualitative assessment reflects pro-active credit management and includes direct client contact, monitoring of client accounts on an individual or portfolio level, knowledge of client behaviour, and cognisance of industry and economic trends.
The criteria for this trigger include, for example:
– A downgrade of the borrower's/facility's credit grade reflecting the increased credit management focus on these accounts; and
– Forbearance has been provided and the account is within the probationary period.

Backstop indicators: EBS Group has adopted the rebuttable assumptions within IFRS 9 that credit obligations greater than 30 days past due represent a significant increase in credit risk.

Where SICR criteria is no longer a trigger and the obligor is not credit-impaired, the account can exit Stage 2.

Stage 3 characteristics
Defaulted obligations (with the exception of newly originated loans which are in Stage 1 or POCI) are classified as credit impaired and allocated to Stage 3. Where default criteria is no longer met, the obligor exits Stage 3 subject to probation period in line with regulatory requirements.

Two key criteria resulting in a classification of default are:
- Where EBS Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.
- The credit obligor is 90 days or more past due on any material credit obligation (count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).

The trigger for default is based on a calculation of the sum of all past due amounts related to the credit obligation for a customer. EBS Group's definition of financial distress, forbearance, nonperforming exposures and unlikeliness to pay are included in AIB's Definition of Default policy.

Loans can re-default if any of the default triggers apply or where probation requirements are not adhered to.

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

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Purchased or originated credit impaired
POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. EBS Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted EIR. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCIs remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCIs is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

Measurement
The measurement of ECL is estimated through one of the following approaches:
i. Standard approach: This approach is used for the majority of exposures where each ECL input parameter (Probability of Default - PD, Loss Given Default - LGD, Exposure at Default - EAD, and Prepayments - PP) is developed in line with standard modelling methodology which is set out in AIB's IFRS 9 ECL Model Framework and has been approved by the Model Methodology Committee. All Models have been approved through AIB's Model Governance Framework.

ii. Simplified approach: For immaterial portfolios the Company has followed a simplified approach. This approach consists of applying portfolio level ECL averages, drawn from similar portfolios, where it is not possible to estimate individual parameters. These generally relate to portfolios where specific IFRS 9 models have not been developed due to immateriality, low volumes or where there are no underlying grading models. As granular PDs are not available for these portfolios, a non-standard approach to staging is required with more reliance on the qualitative criteria (along with the 30 days past due back-stop).

iii. Management judgement: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes or where there is a significant degree of uncertainty, management judgement may be applied.

The size of the adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management judgement. The methodology to incorporate the adjustment should consider the degree of overcollateralization (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this.

Effective interest rate: The ECL must incorporate the time value of money discounted to the reporting date using the effective interest rate ("EIR") determined at initial recognition or an approximation thereof.
– EBS Group uses an approximation approach based on the account level interest rate when calculating ECL which is applied to both drawn and undrawn commitments.
– This approach is subject to an annual assessment that all proxies remain appropriate and do not result in a material misstatement of the ECL.
– EBS Group has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs under IFRS 9. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

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

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Policy elections and simplifications

Low credit risk exemption
As allowed by IFRS 9, EBS Group utilises the practical expedient for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits EBS Group to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. EBS Group allocates such assets to Stage 1.

Under IFRS 9 the credit risk on a financial instrument is considered low if:
– the financial instrument has a low risk of default;
– the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
– adverse changes in economic business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

This low credit risk exemption is applied to particular assets within the investment debt securities portfolio and for loans and advances to banks. Specifically, assets which have an internal grade equivalent to an external investment grade (BBB-) or higher.

If an asset does not meet the above criteria for the low credit risk exemption, further assessment is required to determine stage allocation. If such assets are on a watch list, they are categorised as Stage 2, otherwise, they are allocated to Stage 1.

Credit risk models
Probability of default
Probability of default ("PD") is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades/scores obtained from credit risk models, as outlined on page 14, along with key factors such as the age of an account, the current/recent arrears status or the current/recent forbearance status and macro- economic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default
Loss given default ("LGD") is a current assessment of the amount that will not be recovered in the event of default, taking account of future conditions. It can be thought of as the difference between the amount owed to EBS Group (i.e. the exposure) and the net present value of future cash flows less any costs expected to be incurred in the recovery process. If an account returns to performing from default (absent any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security. The value of underlying collateral is estimated at the forecasted time of disposal (taking into account forecasted market price growth/falls and haircuts on market values that are expected at the date of sale) in order to calculate the future recovery amount. Estimated costs of disposal are taken into account in this calculation.

Exposure at default
Exposure at default ("EAD") is defined as the exposure amount that will be owed by a customer at the time of default. This will comprise changes in the exposure amount between the reporting date and the date that the customer defaults. This may be due to repayments, interest and fees charged and additional drawdowns by the customer.

Prepayments
For term loans, prepayment occurs where a customer fully prepays an account prior to the end of its contractual term. For revolving credit products, 'prepayment' is defined as the cessation of use and withdrawal of the facility provided that the account was not in default prior to closure.

Prepayment is used in the lifetime ECL calculation for Stage 2 loans to account for the proportion of the facilities/customers that prepay each year.

Determining the period over which to measure ECL
The expected maturity is used for assets in Stage 2, where the ECL must be estimated over the remaining life of the facility. The expected maturity approach is:

- Term credit products: the contractual maturity date, with exposure and survival probability adjusted to reflect behaviour i.e. amortisation and pre-payment;

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

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

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 ECL will be written off. Expert judgement determines the point at which, there is no reasonable expectation of recovery, e.g. inception of formal insolvency proceedings or receivership/other formal recovery action. This is considered on a case-by-case basis.

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness).

The Company recognises cash received from the customer in excess of the carrying value of the loan after a non-contracted write-off as 'recoveries of amounts previously written off' in the income statement.

Macro-economic scenarios and weightings
The macro-economic scenarios used by EBS Group for IFRS 9 purposes is subject to EBS Group's existing governance process covering the development and approval of macro-economic scenarios for planning and stress testing i.e. through the AIB Stress Test Working Group and AIB Asset and Liability Committee (ALCo). As outlined above, the parameter models include macro-economic factors as drivers of the risk. Therefore, different ECLs are produced under different macro-economic scenarios. These ECL outcomes are then weighted by the assessed likelihood of the different scenarios.

Macro-economic scenarios:
EBS Group's approach is to use its base, downside and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with the Companys expectations of potential outcomes at a point in time. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both an upside and a downside case (currently a 'no deal' Brexit which includes a relatively severe impact for the key UK/Republic of Ireland ("ROI") economies). The AIB Economic Research Unit provide base, downside and upside forecasts over 5 years for planning/IFRS 9. The base case is benchmarked against the outlook available from official sources (e.g. Department of Finance, ESRI, IMF, etc.). Upside and downside scenarios are provided representing sensitivities around the base. For IFRS 9 purposes, longer-term projections are sourced from a reputable external provider with the internal base/upside and downside scenarios converging on a linear basis towards the external forecasts from years 5 to 8. External long-term forecasts represent long-term base line forecasts for the parameter/economy in question. The forecasted scenarios are approved on a quarterly basis at AIB ALCo. The scenarios are described below and reflect the views of AIB Group and EBS Group at the reporting date.

Base case: As at the reporting date, this reflects an 'orderly' Brexit outcome. This reflects deceleration in Irish house price inflation reflecting rising supply and the impact of the central bank's macro-prudential rules on mortgage lending. Under this scenario, the Euro-Sterling exchange rate is assumed to gradually rebase to 0.80 by the end of 2020 as a softer Brexit outcome emerges. Growth in the Eurozone is expected to ease back in 2019 and continuing to trend gradually lower thereafter. These developments (in addition to tighter monetary conditions, the absorption of remaining spare capacity in the economy and some slowing due to 'orderly' Brexit effects) are reflected in a slight moderation in Irish growth over the horizon.

Downside: Under this scenario, the EU and UK fail to conclude a Withdrawal Agreement as they are unable to reach agreement on future customs and trade arrangements. The UK leaves the EU Customs Union and Single Market in March 2019 in a disorderly Brexit and has to fall back on WTO rules. Irish GDP contracts significantly in this period. The hard Brexit has a severe impact on the Irish economy with exports to the UK subject to customs checks, tariffs, increased administration and regulatory costs and transport delays. The scenario also includes a further decline in sterling.

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Upside: With continued low interest rates globally, due to subdued inflation and improved productivity from a pickup in investment, growth in advanced economies could strengthen. Emerging markets could also benefit if the improvement in commodity prices and trade continues. A long transition period may be agreed as part of a Brexit withdrawal agreement whereby the UK retains full access to EU markets until a final trade deal is negotiated. Ireland, as a small open economy, benefits due to better than expected export performance. This will 'spill-over' to the domestic side of the economy helped by expansionary fiscal policy. There is a strong pick-up in house building helped, in part, by government initiatives. As a result, Irish growth is higher over the 2019-21 planning horizon relative to Base. House price inflation decelerates at a slower pace than in the base case in this environment.

The selection of macroeconomic parameters required and their use in models is determined as part of the Model Development and Governance function for IFRS 9 models. The following table details some of the key macroeconomic variables as they impact the Company:

Base Forecast	**2018 (Actual) %**	**2019 %**	**2020 %**	**2021 %**	**2022 %**	**2023 %**
GDP growth	7.0	4.0	3.5	3.2	3.0	3.0
Residential property price growth	10.3	7.5	5.2	5	4.7	4.2
Unemployment rate	5.8	5.2	5.0	4.9	4.8	4.8
Commercial property price growth	2.4	3.9	3.9	3.9	4.0	4

Downside Forecast	**2018 (Actual) %**	**2019 %**	**2020 %**	**2021 %**	**2022 %**	**2023 %**
GDP growth	7.0	2.25	1.0	1.5	2.5	3.5
Residential property price growth	10.3	5.7	1.7	1.5	3.0	4.0
Unemployment rate	5.8	5.8	6.9	7.7	7.7	7.5
Commercial property price growth	2.4	0.4	-2.4	-1.6	2	4.1

Upside Forecast	**2018 (Actual) %**	**2019 %**	**2020 %**	**2021 %**	**2022 %**	**2023 %**
GDP growth	7.0	5.0	5.0	5.0	4.0	3.0
Residential property price growth	10.3	8.3	7.7	7.7	8.0	7.0
Unemployment rate	5.8	4.9	4.6	4.4	4.2	4.2
Commercial property price growth	2.4	6	7.2	7.7	5.7	3.6

Macro-economic scenario weightings

The three scenarios detailed above are used to reflect a representative sample of possible outcomes (i.e. base, downside and upside scenarios). The ECL allowance reflects a weighted average of the ECLs under the 3 scenarios.

The weights for the scenarios are derived based on the expert judgement informed by a quantitative analysis. The quantitative analysis incorporates two approaches: a statistical analysis informed by both historic patterns in the economic data complemented by a more forward-looking approach. These weightings have been reviewed regularly throughout 2018. The weightings have evolved over the year, reflecting both Brexit developments in the UK and uncertain economic conditions internationally. The table below shows the evolution of the weightings throughout 2018.

The scenario weightings are approved on a quarterly basis at AIB Group ALCo.

The weights that have been applied as at the reporting date and approved in January 2019 are:

Scenario	**Weighting**	
	1 January 2018	**31 December 2018**
Base	60%	50%
Downside	20%	35%
Upside	20%	15%

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Sensitivities

EBS Group's estimates of expected credit losses are responsive to varying economic conditions and forward looking information. These estimates are driven by the relationship between historic experienced loss and the combination of macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities are provided, based on the aggregate impact of each scenario before the application of probability weights. In the 100% downside scenario, ECL allowances increase by 14% and in the 100% upside scenario they decline by 14%.

				Loss allowance at 31 December 2018
Loans and advances to customers	**Reported (50% base, 35% Downside, 15% Upside) Total € m**	**100% Base, 0% Downside, 0% Upside Total € m**	**0% Base, 100% Downside, 0% Upside Total € m**	**0% Base, 0% Downside, 100% Upside Total € m**
Residential mortgages	**310**	**301**	**345**	**259**
Property and construction	**14**	**14**	**14**	**14**
Total	**324**	**315**	**359**	**273**
Off-balance sheet loan commitments	**-**	**-**	**-**	**-**
	324	**315**	**359**	**273**

Stage 3 PDH mortgage ECL

EBS Group estimates its ECL allowance based on its historic experience of working out arrangements with customers which predominantly consist of split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions. This is consistent with the Group's strategy to deliver sustainable long-term solutions and to support customers. In particular, the IFRS 9 Mortgage LGD model which was implemented from 1 January 2018 is based on the actual empirical internal data for such resolved and unresolved cases, and represents the Group's expected loss based on those current and expected work-out strategies at the time. However, for a cohort of loans that are deep in arrears and/or in a legal process for a significant period of time, it is recognised that alternative recovery strategies may need to be considered. To reflect the range of possible outcomes for this cohort where alternative recovery strategies are required, management judgement has been applied to increase the ECL outcome on transition at 1 January 2018 and at 31 December 2018. As a result, the ECL allowance of € 310 million for residential mortgages in the Republic of Ireland at 31 December 2018 includes € 137 million for this management judgement.

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

Risk Management Report (continued)

3.1 Credit risk

Credit profile of the loan portfolio
EBS Group's customer loan portfolio comprises mostly of residential mortgages with a small number of commercial mortgages.

The following summarises the key points affecting the credit profile of the loan portfolio at 31 December 2018:

– New residential mortgage lending increased by 7% to €995m in the 12 months to 31 December 2018 (31 December 2017: €932m).
– Non-performing loans decreased from €2,056m at 31 December 2017 to €1,372m at 31 December 2018, the reduction of €684m arises from the implementation of a new definition of default policy, restructuring, write-offs (including non contracted write-offs), repayments and redemptions.
– As at 31 December 2018, 79% of the total loans to customers' portfolio is considered as either strong or satisfactory. The strong/satisfactory portfolio is typically where new business is written, and which would also be impacted by cases upgrading out of criticised due to improved performance.
– There was a total net credit impairment writeback of €11m in the 12 months to 31 December 2018. This comprised a credit impairment writeback of €2m on loans and advances to customers and also recoveries of €9m on loans previously written off. For the 12 months to 31 December 2017, which was under IAS 39, there was a provision charge of €35m.

The credit profiles of the loan portfolio are set out on pages 28 and 29. These have been prepared under IFRS 9. Whilst comparative data for 2017 has also been provided, this has been prepared under IAS 39 and therefore, direct comparability is not possible as a result of the different nature and basis of composition.

A summarised profile of loans and advances to customers is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page below. Details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to the financial statements.

					2018*
Amortised cost	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
Strong	8,054	26	-	2	8,082
Satisfactory	1,057	79	-	-	1,136
Total	**9,111**	**105**	**-**	**2**	**9,218**
Criticised watch	300	410	-	-	710
Criticised recovery	-	423	-	5	428
Total criticised	**300**	**833**	**-**	**5**	**1,138**
Non-performing	12	-	1,198	162	1,372
Gross carrying amount	**9,423**	**938**	**1,198**	**169**	**11,728**
ECL allowance	(4)	(26)	(274)	(20)	(324)
Total carrying amount	**9,419**	**912**	**924**	**149**	**11,404**

The above table outlines the credit profile of EBS Group's customer loans portfolio and the relationship with staging outcomes. The credit profile reflects AIB's internal credit grading systems and risk classification.

Of the total loans to customers of €11.7bn, € 9.2bn are rated as either 'strong' or 'satisfactory'. These represent the best performing assets and as a result are primarily in Stage 1 with the lowest ECL allowance requirement.

The 'criticised' classification includes 'criticised watch' of €0.7bn and 'criticised recovery' of €0.4bn. Factors considered in identifying criticised cases include a PD of greater than 6.95%, the presence of arrears or cases which have been granted forbearance or downgraded from 'strong' or 'satisfactory' grades.

'Criticised watch' of €0.7bn primarily relates to downgrade activity and as such, there is a strong correlation with Stage 2 and an observed increased in credit risk. Some 'criticised watch' exposures are in Stage 1 due to granting of new lending at 'watch' grades or origination events.

Similarly, the 'criticised recovery' of €0.4bn also has a strong correlation with Stage 2 outcomes as it represents those loans which have recovered from non-performing or which have received forbearance and as such are in Stage 2 reflecting that risk profile.

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

3.1 Credit risk

Credit profile of the loan portfolio (continued)
Non-performing loans amounting to €1.4bn are aligned to EBS Group's definition of default and Stage 3 credit impaired with the exception of those originating in Stage 1 or POCI.

The table below sets out the grade of the loan portfolio in 2017

Grade	2017* € m
Satisfactory	**9,787**
Watch	758
Vulnerable	109
Impaired	1,602
Criticised	**2,469**
Gross Loans	**12,256**
Provision for loan impairments	(787)
Net Loans	**11,469**

Restructuring
Restructuring the loans of customers in difficulty continues to be a key focus for EBS Group. Customer treatment strategies have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

The reduction in non-performing loans in recent years was largely achieved through case by case restructuring and working with customers to rightsize sustainable debt based on customer affordability alongside strategic deleveraging initiative where appropriate.

For mortgage customers in difficulty, the core objective 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.

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 ECL allowance) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of the 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 expected credit loss amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as non-performing. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the revised agreement and subsequent satisfactory performance. In the 12 months to 31 December 2018, write-offs totalled €396m.

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

Risk Management Report (continued)

3.1 Credit risk

Loans and advances to customers
The following table analyses the loan portfolio showing the ECL allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018*			2017*		
Gross loans and advances to customers	**Residential mortgages € m**	**Commercial properties € m**	**Total € m**	Residential mortgages € m	Commercial properties € m	Total € m
Total gross carrying amount	**11,624**	**104**	**11,728**	12,106	150	12,256
Analysed as to ECL staging						
Stage 1	**9,383**	**41**	**9,424**			
Stage 2	**920**	**17**	**937**			
Stage 3	**1,152**	**45**	**1,197**			
POCI	**169**	**1**	**170**			
Analysed by arrears/impaired						
In arrears (> 30 days past due)[(1)]				1,606	79	1,685
In arrears (> 90 days past due)[(1)]				1,535	77	1,612
Of which impaired				1,532	70	1,602
Total	**11,624**	**104**	**11,728**			
ECL allowance - statement of financial position	**€ m**	**€ m**	**€ m**			
Stage 1	**(4)**	**-**	**(4)**			
Stage 2	**(25)**	**(1)**	**(26)**			
Stage 3	**(261)**	**(13)**	**(274)**			
POCI	**(20)**	**-**	**(20)**			
Statement of financial position specific provisions				(631)	(42)	(673)
Statement of financial position IBNR provisions				(112)	(2)	(114)
Total ECL allowance	**(310)**	**(14)**	**(324)**	(743)	(44)	(787)
Total loans to customers	**11,314**	**90**	**11,404**	11,363	106	11,469
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	**%**
Stage 1	**-**	**1**	**-**			
Stage 2	**3**	**9**	**3**			
Stage 3	**23**	**29**	**23**			
POCI	**12**	**1**	**12**			
Specific provisions/ impaired loans				41.2	60.0	42.0

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

Income statement credit impairment (writeback)/losses	**Residential mortgages € m**	**Commercial properties € m**	**2018 Total € m**	Residential mortgages € m	Commercial properties € m	2017 Total € m
Net remeasurement of loss allowance	(13)	15	**2**			
Recoveries of amounts written off in previous years	8	1	**9**			
Income statement: specific provisions			**-**	(9)	-	(9)
Income statement: IBNR provisions			**-**	(27)	1	(26)
Net credit impairment (writeback)/losses	(5)	16	**11**	(36)	1	(35)
Net credit impairment (writeback)/losses on average loans	(0.04%)	13.50%	**0.09%**			

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

Risk Management Report (continued)

3.1 Credit risk

ECL allowance – statement of financial position

Under IAS 39, EBS Group had total impairment provisions of €787m at 31 December 2017 of which € 673m were specific provisions and €114m were IBNR. Upon implementation of IFRS 9 at 1 January 2018 and the introduction of the ECL model, EBS Group required an ECL allowance on loans and advances to customers of €730m resulting in a decrease of € 57m to the closing stock of provisions at 31 December 2017.

The total ECL cover rate has decreased from 6.0% at 1 January 2018 to 2.8% at 31 December 2018, and was primarily driven by non-contracted write-offs in the period.

ECL Allowance- Income statement

There was a net credit impairment writeback of €11m to the income statement in the year to 31 December 2018, as a result of a writeback of €2m and recoveries of €9m on loans previously written off.

Gross loans and ECL movements

Following the implementation of a new definition of default, which aligns to Stage 3 in IFRS 9 and EBA guidelines, the non-performing exposures ("NPE") stock was revised from €2,056m at 31 December 2017 to €1,833m at 1 January 2018 on transition to IFRS 9 with the impact reflected in the opening staging position.

During 2018, the Group continued to develop and enhance its IFRS 9 ECL modelling methodologies and processes. This includes recalibration and enhancement to take account of updated observed outcomes as well as the full embedding of the definition of default. The results of such recalibrations and model enhancements are reported in 'other movements' below. The movement from Stage 2 to Stage 1 is primarily due to model changes noted above as well as adjustments related to SICR sensitivity where no change in credit quality occurred. The €193m movement from Stage 3 is mainly due to the embedding of the definition of default as well as IFRS 9 process improvements.

Loans and advances to customers

Gross contractual amounts of €11.7bn at 31 December 2018 compared to gross contractual amounts of €12.3bn at 31 December 2017. The decrease in the portfolio was primarily due to loan repayments and disposals, partly offset by new lending in the 12 months to 31 December 2018. Total drawdowns in the 12 months to 31 December 2018 were €1.0bn. New residential mortgage lending in the 12 months to 31 December 2018 increased by 7% on the comparable period in 2017 driven by the favourable macro-economic conditions.

Non-performing loans decreased from €2.1bn at 31 December 2017 to €1.4bn at 31 December 2018. This reduction was achieved through redemptions and repayments from customers, loan restructuring activity including non-contracted write-offs and asset sales/disposals together with the implementation of a new definition of default policy.

The following table analyses the gross carrying amount of loans and advances to customers showing significant changes arising during the year:

	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	2018 Total € m
At 1 January	**8,574**	**1,729**	**1,778**	**175**	**12,256**
Transferred from Stage 1 to Stage 2	(407)	407	-	-	-
Transferred from Stage 2 to Stage 1	593	(593)	-	-	-
Transferred to Stage 3	(8)	(113)	121	-	-
Transferred from Stage 3	4	189	(193)	-	-
Other changes in net exposures	(175)	(179)	(117)	-	(471)
Write offs	-	-	(396)	-	(396)
Derecognised due to disposals	-	-	(15)	-	(15)
Interest applied to accounts	267	54	36	-	357
Exchange translation adjustments	-	-	-	-	-
Other movements	575	(557)	(16)	(5)	(3)
At 31 December	**9,423**	**937**	**1,198**	**170**	**11,728**

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3.1 Credit risk

Summary of movements on ECL allowances*

The following table sets out the movements on the ECL allowance on loans and advances to customers at 31 December 2018.

					2018
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Loss allowance at 1 January 2018	**5**	**52**	**661**	**12**	**730**
Net remeasurement of ECL allowance-income statement	**(1)**	**(26)**	**14**	**11**	**(2)**
Other movements with no P/L impact					
Changes in loss allowance due to write offs	**-**	**-**	**(396)**	**-**	**(396)**
Changes in loss allowance due to disposals	**-**	**-**	**(8)**	**-**	**(8)**
Other movements	**-**	**-**	**3**	**(3)**	**-**
Loss allowance at 31 December 2018	**4**	**26**	**274**	**20**	**324**

Total exposures to which an ECL applies decreased during the period by €528m from €12.3bn as at 1 January 2018 to €11.7bn as at 31 December 2018.

Transfers from Stage 1 to Stage 2 of €407m represent the underlying credit activity where a significant increase in credit risk occurred at some point during the year through either the quantitative or qualitative criteria for stage movement. The main driver of the movements to Stage 2 was due to the doubling of PDs, subject to 50bps, mainly in the mortgage portfolio. These movements have materially resulted in exposures starting and ending in different stages due to an observed increase in credit risk, however, given the movements represent the cumulative month by month impact, movements to Stage 2 also include those loans that may have subsequently transferred back to Stage 1 (and included in the € 593m as outlined below) or further deteriorated to Stage 3 by the end of 2018.

Similarly, transfers from Stage 2 to Stage 1 of €593m represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

Transfers from Stage 2 to Stage 3 of €113m represent those loans that defaulted during the year. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation.

Transfers from Stage 3 to Stage 2 of €189m were driven by resolution activity with the customer, through either restructuring or forbearance, who had subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place. Transfers from Stage 3 to Stage 1 of €4m primarily reflect curing events from default and loans which were fundamentally restructured in the period and which met derecognition criteria.

The caption ‘Other changes in net exposures’, which contributed €471m to the reduction in exposures, consists of new lending offset by cash repayments. This includes €995m in new term lending which originates in Stage 1.

Write-offs represent the write down of the gross loan balance by the relevant ECL allowance in accordance with the accounting policy. Write-offs due to restructuring activity are also included in this amount.

Any impact of ‘other movements’ on the ECL allowance is included in the individual stages under ‘net remeasurement of ECL allowance – income statement’.

In summary, the staging movements of the overall portfolio were as follows:

Stage 1 loans increased by €849m during 2018 with an ECL of €4m and resulting cover of 0.04%. The increase was primarily on foot on net new lending and loans curing to Stage 1.

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3.1 Credit risk

Stage 2 loans decreased by €792m during 2018 with an ECL of €26m and resulting cover of 2.8%. This was due to model recalibration and enhancements to the Stage 2 criteria.

Stage 3 exposures decreased by €580m during 2018 with the ECL cover reducing from 37% to 23%. Key drivers were the level of deleveraging activity, portfolio sales and write-off activity of loans with higher ECLs.

Write-offs
The contractual amount outstanding of loans written off during the year that are still subject to enforcement activity amounted to €363m. Write-offs in 2018, as a percentage of gross loans and advances at 1 January 2018 amounted to 3%, these include all write-offs, both full and partial and write-offs not contracted with customers.

Loans and advances to customers – Residential mortgages
Residential mortgages gross contractual amounts of €11.6bn at 31 December 2018 compared to gross contractual amounts of €12.1bn at 31 December 2017. The decrease in the portfolio was primarily due to loan repayments and disposals, partly offset by new lending in the 12 months to 31 December 2018. Total drawdowns in the 12 months to 31 December 2018 were €1.0bn. New lending in the 12 months to 31 December 2018 increased by 7% on the comparable period in 2017 driven by the favourable macro-economic conditions.

Residential mortgage arrears
Total loans in arrears (including non-performing loans) by value decreased by 44% during the 12 months to 31 December 2018, a decrease of 38% in the owner-occupier portfolio and a decrease of 53% in the buy-to-let portfolio.

The number of loans in arrears (based on number of accounts) greater than 90 days was 6.9% at 31 December 2018 and is in line with the industry average of 7%(1). For the owner-occupier portfolio, loans in arrears greater than 90 days at 6.7% were slightly higher than the industry average of 6%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 22% were higher than the industry average of 15%.

Forbearance
Residential mortgages subject to forbearance measures decreased by €296m from 31 December 2017 to €1,422m at 31 December 2018, compared to a decrease of €456m in the 12 months to 31 December 2017. A key feature of the forbearance portfolio is the level of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by EBS Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

(1)Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2018, based on numbers of accounts.

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Risk Management Report (continued)

3.1 Credit risk

The following table analyses the Republic of Ireland residential mortgage portfolio showing the ECL allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

			2018*			2017*
Gross loans and advances to customers	**Owner-Occupier € m**	**Buy-To-Let € m**	**Total € m**	Owner-Occupier € m	Buy-To-Let € m	Total € m
Total gross carrying amount	**11,410**	**214**	**11,624**	11,833	273	12,106
Analysed as to ECL staging						
Stage 1	**9,254**	**129**	**9,383**			
Stage 2	**894**	**26**	**920**			
Stage 3	**1,098**	**54**	**1,152**			
POCI	**164**	**5**	**169**			
Analysed by arrears/impaired						
In arrears (> 30 days past due)(1)				1,505	101	1,606
In arrears (> 90 days past due)(1)				1,435	100	1,535
Of which impaired				1,435	97	1,532
Total	**11,410**	**214**	**11,624**			
ECL allowance - statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Stage 1	**(3)**	**(1)**	**(4)**			
Stage 2	**(23)**	**(2)**	**(25)**			
Stage 3	**(246)**	**(15)**	**(261)**			
POCI	**(18)**	**(2)**	**(20)**			
Statement of financial position specific provisions				(582)	(49)	(631)
Statement of financial position IBNR provisions				(106)	(6)	(112)
Total ECL allowance	**(290)**	**(20)**	**(310)**			
Residential mortgages	**11,120**	**194**	**11,314**			
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	**%**
Stage 1	**-**	**-**	**-**			
Stage 2	**3**	**6**	**3**			
Stage 3	**22**	**27**	**23**			
POCI	**11**	**33**	**12**			
Specific provisions/ impaired loans				40.6	50.5	41.2

(1)The 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.

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3.1 Credit risk

Loans and advances to customers – Residential mortgages

Actual and weighted average indexed loan to value ratios of Republic of Ireland residential mortgages.
The following table profiles the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average loan-to-value ratios at 31 December 2018.

	2018*														
	At amortised cost														
	Stage 1			Stage 2			Stage 3			POCI			Overall Total		
	Owner-Occupier	Buy-To-Let	Total	Owner-Occupier	Buy-To-Let	Total	Owner-Occupier	Buy-To-Let	Total	Owner-Occupier	Buy-To-Let	Total	Owner-Occupier	Buy-To-Let	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Less than 50%	2,976	33	3,009	204	17	221	180	19	199	19	-	19	3,379	69	3,448
50% to 70%	3,236	29	3,265	304	3	307	216	11	227	51	-	51	3,807	43	3,850
71% to 80%	1,356	10	1,366	134	3	137	121	3	124	29	-	29	1,640	16	1,656
81% to 90%	958	8	966	97	1	98	116	2	118	24	-	24	1,195	11	1,206
91% to 100%	509	40	549	86	1	87	109	8	117	20	-	20	724	49	773
101% to 120%	202	7	209	61	1	62	169	4	173	13	-	13	445	12	457
121% to 150%	7	1	8	6	-	6	139	1	140	1	-	1	153	2	155
Greater than 150%	9	1	10	2	-	2	48	6	54	-	-	-	59	7	66
Total with LTVs	9,253	129	9,382	894	26	920	1,098	54	1,152	157	-	157	11,402	209	11,612
Unsecured	1	-	1	-	-	-	-	-	-	7	5	12	8	5	12
Total	9,254	129	9,383	894	26	920	1,098	54	1,152	164	5	169	11,410	214	11,624

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3.1 Credit risk

Loans and advances to customers – Residential mortgages (continued)

Actual and weighted average indexed loan to value ratios of Republic of Ireland residential mortgages (continued)

2017*

	Neither past due nor impaired			Past due and not impaired			>90 days past due and/or impaired		
	Owner-Occupier € m	Buy-To-Let € m	Total € m	Owner-Occupier € m	Buy-To-Let € m	Total € m	Owner-Occupier € m	Buy-To-Let € m	Total € m
Less than 50%	2,561	44	2,605	69	1	70	124	24	148
50% to 70%	3,133	32	3,165	96	3	99	181	19	200
71% to 80%	1,620	14	1,634	46	-	46	118	9	127
81% to 90%	1,116	14	1,130	41	1	42	130	7	137
91% to 100%	717	49	766	27	1	28	140	11	151
101% to 120%	838	9	847	48	1	49	263	9	272
121% to 150%	64	3	67	10	-	10	281	4	285
Greater than 150%	8	-	8	-	-	-	151	5	156
Unsecured	3	1	4	1	-	1	47	12	59
Total	10,060	166	10,226	338	7	345	1,435	100	1,535

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3.1 Credit risk

Non-performing exposures (“NPE”) to customers
The internal credit ratings profile of loans and advances to customers is described on page 13. This sets out the basis on which EBS Group manages its credit portfolio. In addition, EBS Group’s off-balance sheet commitments are set out on page 15.

The non-performing exposures (“NPE”) stock was revised from €2,056m at 31 December 2017 to €1,833m at 1 January 2018 reflecting the implementation and harmonisation of a new definition of default policy which aligns to accounting standards and EBA guidelines.

The table below further analyses non-performing loans and advances to customers by asset class at 31 December 2018.

Non-performing loans

Residential Mortgages	2018 Total € m
At amortised cost	
Collateral disposals	**19**
Unlikely to pay (including > 90 days past due)	**1,134**
Non-performing loans probation	**219**
Total non-performing loans and advances to customers	**1,372**
Non-performing loans as % of total loans and advances to customers	**12%**

The non-performing exposures (“NPE”) stock decreased from €1.8bn at 1 January 2018 to €1.4bn at 31 December 2018 being 15% and 12% respectively of total loans and advances to customers.

Continued momentum in 2018 in reducing the stock of non-performing loans resulted in in the quantum of defaulted loans reducing by € 0.4 billion in the 12 months to 31 December 2018 (a decrease of 25%). This reduction was achieved through redemptions and repayments from customers, restructuring activity including non-contracted write-offs and asset sales/disposals.

Total non-performing off-balance sheet commitments
Total non-performing off-balance sheet commitments amounted to nil.

Risk Management Report (continued)

3.1 Credit risk

Properties in possession
EBS Group seeks to avoid repossession through working with customers, but where agreement cannot be reached, it 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 EBS 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.

The number (stock) of properties in possession at 31 December 2018 and 2017 is set out below:

	2018		2017	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-Occupier	**417**	**103**	465	113
Buy-To-Let	**5**	**1**	5	1
Total	**422**	**104**	470	114

The number of residential properties in possession relates to those held as security for residential mortgages only. The stock of residential mortgages in possession decreased by 48 properties in 2018. This relates to the disposal of 35 properties (31 December 2017: 161 properties) which were offset by the addition of 27 properties (31 December 2017: 79 properties). In addition, a further 40 properties were removed from the stock in 2018, mainly due to cases where the receiver has been discharged.

The disposal of 35 residential properties in the Republic of Ireland resulted in a total loss on disposal of €4m in 2018 (before loss allowance) and compares to 31 December 2017 when 161 residential properties were disposed of resulting in a total loss of €19m. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

Republic of Ireland residential mortgages – Repossessions disposed of
The following table analyses the disposals of repossessed properties for the years ended 31 December 2018 and 2017:

	2018					
	Number of disposals	**Balance outstanding at repossession date € m**	**Gross sales proceeds € m**	**Costs to sell € m**	**Loss on sale € m**	**Average LTV at sale price %**
Owner-Occupier	**35**	**9**	**5**	**1**	**4**	**160**
Buy-To-Let	**-**	**-**	**-**	**-**	**-**	**-**
Total residential	**35**	**9**	**5**	**1**	**4**	**160**

	2017					
	Number of disposals	Balance outstanding at repossession € m	Gross sales proceeds € m	Costs to sell € m	Loss on sale[(1)] € m	Average LTV at sale price %
Owner-Occupier	157	41	25	3	19	166
Buy-To-Let	4	1	1	-	-	183
Total residential	161	42	26	3	19	166

Risk Management Report (continued)

3.1 Credit risk

Commercial Property*
The following table analyses the commercial property sector showing the ECL allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018	2017
	Total	Total
Gross loans and advances to customers	**€ m**	€ m
Total gross carrying amount	**104**	150
Analysed as to ECL staging		
Stage 1	**41**	
Stage 2	**17**	
Stage 3	**45**	
POCI	**1**	
Analysed by arrears/impaired		
In arrears (> 30 days past due)(1)		79
In arrears (> 90 days past due)(1)		77
Of which impaired		70
Total	**104**	
ECL allowance - statement of financial position	**€ m**	€ m
Stage 1	**-**	
Stage 2	**(1)**	
Stage 3	**(13)**	
POCI	**-**	
Statement of financial position specific provisions		(42)
Statement of financial position IBNR provisions		(2)
Total ECL allowance	**(14)**	(44)
Commercial property	**90**	106
ECL allowance cover percentage	**%**	**%**
Stage 1	**1**	
Stage 2	**9**	
Stage 3	**29**	
POCI	**-**	
Specific provisions/ impaired loans		60.0

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3.1 Credit risk

Commercial Property* (continued)
A summarised profile of loans and advances to customers is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 28. Details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to the financial statements.

					2018
Amortised cost	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
Strong	-	-	-	-	-
Satisfactory	-	1	-	-	1
Total	**-**	**1**	**-**	**-**	**1**
Criticised watch	29	8	-	-	37
Criticised recovery	-	8	-	-	8
Total criticised	**29**	**16**	**-**	**-**	**45**
Non-performing	12	-	45	1	58
Gross carrying amount	**41**	**17**	**45**	**1**	**104**
ECL allowance	-	(1)	(13)	-	(14)
Total Carrying amount	**41**	**16**	**32**	**1**	**90**

Asset quality

	2017
	€m
Satisfactory	17
Watch	54
Vulnerable	9
Impaired	70
Criticised	133
Gross commercial property	150

	2017
	%
Criticised loans as % of total loans	89
Impaired loans as % of total loans	47

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

Risk Management Report (continued)

3.1 Credit risk

Analysis of Loans and Advances to Customers by Interest Rate Sensitivity*

The following table analyses gross loans to customers by interest rate sensitivity. Approximately 25% 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 advances to customers

	Fixed €m	Variable €m	Total €m
2018	**2,892**	**8,836**	**11,728**
2017	1,791	10,465	12,256

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 2018 were nil (2017: Nil).

Large Exposures

At 31 December 2018, the EBS Group's top 50 exposures amounted to €146m, and accounted for 1.2% (€132m and 1.1% at 31 December 2017) of the on-balance sheet total gross loans and advances to customers. No single customer exposure exceeded regulatory limits which would require disclosure.

Treasury Assets

Treasury assets consist of cash and balances with CBI, derivative financial instruments, investment securities and loans and advances 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	Investment securities €m	Loans & Advances to Banks €m	Off balance sheet loan commitments €m
Group				
Balances at 31 December 2018	**48**	**21**	**137**	**287**
	%	**%**	**%**	**%**
Aaa	**-**	**-**	**-**	**-**
Aa3 to Aa1	**-**	**-**	**-**	**-**
A3 to A1	**100**	**-**	**-**	**-**
Lower than A3	**-**	**-**	**100**	**-**
Unrated	**-**	**100**	**-**	**100**
	€m	€m	€m	€m
Group				
Balances at 31 December 2017	80	21	340	264
	%	%	%	%
Aaa	-	99	-	-
Aa3 to Aa1	-	-	-	-
A3 to A1	100	-	-	-
Lower than A3	-	-	100	-
Unrated	-	1	-	100

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3.1 Credit risk

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 EBS Grouping 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
A restructure execution risk exists whereby EBS's restructuring activity may not be executed in line with Management's expectations. EBS has reduced its non-performing loans from € 2.1bn at December 2017 to € 1.4bn as at 31 December 2018. A significant element of this reduction has been achieved by working with customers in difficulty to deliver sustainable solutions based on a wide range of customer restructuring options. This approach has materially improved the Group's asset quality, and lowered the overall credit risk profile. EBS continues to implement solutions for customers who fully engage.

Criticised and non-performing loans are managed through the restructuring lifecycle in line with the AIB's credit strategies, policies, and implementation guidelines. A wide range of monitoring procedures are in place to manage loan portfolios, including restructured loans. AIB regularly reviews the performance of these loans through dedicated teams who focus on asset sales, covenants and milestones within the restructured portfolio. The reduction of non-performing loans continues to be a key focus for EBS and AIB going forward.

3.3 Funding and liquidity risk*

Funding and liquidity risk
Liquidity risk is the risk that EBS Group 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.

EBS Group's liquidity risk is managed as part of the overall AIB liquidity management. In accordance with the Capital Requirements Regulation ("CRR"), EBS Group has appointed AIB as its liquidity manager to fulfil daily cash flow management, oversee any changes required in liquidity management or reporting and manage EBS Group'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 EBS Group is integrated with its parent, AIB.

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

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3.3 Funding and liquidity 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.

EBS Groups management team monitors these risks and reports to the Board on developments on a regular basis.

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 AIB'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/Executive Committee and has a decision making and risk governance mandate in relation to EBS Group'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 which comprises the Group's Finance Department. AIB'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, reporting to the CFO, 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, is responsible for exercising independent risk oversight over EBS Group'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*
EBS Groups funding and liquidity position is reported as part of the overall AIB position to the AIB Asset and Liability Committee ("ALCo"), the AIB Group Risk Committee ("GRC"), the AIB Board Risk Committee ("BRC"), the AIB Leadership Team/Executive Committee ("ExCo") and the AIB Board.

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3.3 Funding and liquidity risk (continued)

Liquidity risk stress testing
Stress testing is a key component of the liquidity risk management framework and ILAAP. EBS Group as part of AIB is included in the liquidity risk 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/Executive Committee 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 AIB'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 Group.

Group							**2018**
	Repayable on demand	**3 months or less but not repayable on demand**	**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	**5**	**4,828**	**-**	**-**	**-**	**-**	**4,833**
Derivative financial instruments	**-**	**1**	**1**	**1**	**3**	**10**	**16**
Customer accounts	**2,515**	**421**	**568**	**1,072**	**447**	**351**	**5,374**
Total	**2,520**	**5,250**	**569**	**1,073**	**450**	**361**	**10,223**
Off-Balance sheet loan commitments	**287**	**-**	**-**	**-**	**-**	**-**	**287**

Group							2017
	Repayable on demand	3 months or less but not repayable on demand	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
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

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

3.3 Funding and liquidity 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 EBS Group to secure funding, satisfy collateral needs or to be sold.

EBS had an encumbrance ratio of 31% at 31 December 2018 (2017: 31%). 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 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. AIB Group Board reviews and approves the Group ICAAP (incorporating the Company) 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 centrally to Treasury and Capital & Liquidity for management, subject to and oversight by AIB Group ALCo. Treasury proactively manages the market risk on AIB's balance sheet. Market risk is managed against a range of limits approved at AIB Group ALCo, which incorporate forward-looking measures such as VaR limits and stress test limits and financial measures such as embedded value limits. AIB Treasury and Capital Liquidity document an annual Risk Strategy and Appetite Statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with EBS Group's strategic business plan.

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Risk Management Report (continued)

3.5 Market risk* (continued)
Interest rate risk in EBS Grouping book (“IRRBB”) is the current or prospective risk to both the earnings and capital of EBS Group as a result of adverse movements in interest rates being applied to positions held in EBS Grouping book. Changes in interest rates impact the underlying value of EBS Group’s assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact EBS Group’s net interest income through interest-sensitive income and expense effects. Interest rate risk in EBS Grouping 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 2018
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.

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Risk Management Report (continued)

3.5 Market risk* (continued)

Interest rate exposure and sensitivity gap analysis 2018

The net interest rate exposure sensitivity of EBS Group at 31 December 2018 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	48	-	-	-	-	-	-	-	-	-	48
Loans and advances to banks	137	-	-	-	-	-	-	-	-	-	137
Loans and advances to customers	9,114	69	445	570	733	100	697	-	(324)	-	11,404
Investment securities	-	-	-	-	-	-	-	-	21	-	21
All other assets	-	-	-	-	-	-	-	-	283	-	283
Total Assets	**9,299**	**69**	**445**	**570**	**733**	**100**	**697**	**-**	**(20)**	**-**	**11,893**
Liabilities											
Deposits by banks	4,833	-	-	-	-	-	-	-	-	-	4,833
Customer accounts	2,515	421	1,640	447	136	210	5	-	-	-	5,374
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	29	-	29
Other liabilities	-	-	-	-	-	-	-	-	109	-	109
Shareholders' equity	-	-	-	-	-	-	-	-	1,548	-	1,548
Total Liabilities	**7,348**	**421**	**1,640**	**447**	**136**	**210**	**5**	**-**	**1,686**	**-**	**11,893**
Total derivatives (interest rate swaps)	**(12)**	**(269)**	**(1,117)**	**261**	**564**	**17**	**555**	**1**	**-**	**-**	**-**
Interest sensitivity gap	**1,963**	**(83)**	**(78)**	**(138)**	**33**	**(127)**	**137**	**(1)**	**(1,706)**	**-**	**-**
Cumulative interest sensitivity gap	**1,963**	**1,880**	**1,802**	**1,664**	**1,697**	**1,570**	**1,707**	**1,706**	**-**	**-**	**-**

*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

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 advances to banks	340	-	-	-	-	-	-	-	-	-	340
Loans and advances to customers	10,604	106	621	246	417	125	120	17	(787)	-	11,469
Investment securities	-	-	-	-	-	-	-	-	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	-	-	-

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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:

	2018		2017	
	100 bps parallel shift (increase/decrease)			
		€m		€m
Banking book portfolio				
Average for the period	**- / +**	**2**	- / +	3
Maximum for the period	**- / +**	**5**	- / +	8
Minimum for the period	**- / +**	**-**	- / +	-

The above table shows the present value effect that would be realised in the Statement of Comprehensive Income on an accruals basis on EBS Grouping 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 18 of the financial statements.

Foreign exchange risk*

EBS take the euro as their functional 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 2018 (2017: 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 is a broad canvas of individual risk types which includes Information Technology, Cyber, Change, Continuity Management, Outsourcing & Cloud, Products, People & Property Protection and Legal risks.

Risk and Control Assessment ("RCA") is a core process in the identification and assessment of operational risk across AIB, including EBS Group. 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 provides the customer facing business areas, Risk, Compliance and Internal Audit with one consistent view of the Risks, Controls, Actions and Events across AIB.

EBS Group undertakes an operational risk self-assessment which focuses on activities specific to EBS Group, e.g. EBS Group'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. A key focus of operational risk management in the bank is the oversight of outsourced service activities, in particular activities relating to the requirements of the ACS Act, as well as the end-to-end mortgage origination and servicing processes.

The primary objective of the operational risk management reporting within AIB is to provide a timely and pertinent update of the Operational Risk Profile, in order to assist senior management in discharging their responsibility for the oversight of risk. A secondary objective is to provide management with an overview of the Operational Risk profile, in order to support the effective management of risks.

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.*

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 Group 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 2018 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 Group 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 2018, projects were mobilised within AIB Group to prepare for the significant regulatory change horizon as outlined in AIB's annual report: Governance and Oversight – Supervision and Regulation.

Although 2019 will see a move to regulators and supervisors assessing how recent key regulatory requirements have been implemented, the level of regulatory change is expected to remain at high levels in 2019 and beyond.

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. An AIB Group Conduct Risk Framework, aligned with the AIB Strategy, is embedded in the organisation and provides oversight of conduct risks at Executive Committee 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 Group.

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 EBS Group are outsourced to AIB under a Master Services 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.

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

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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 EBS Group. 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. The EBS Group Financial Plans are reviewed and approved by the EBS Group Board.

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 Company 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 Company level by EBS Group'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/Executive Committee and Board on a monthly basis. Risk profile against risk appetite measures, some of which reference performance against plan, is monitored by the CRO and reported on a monthly basis to the Executive Risk Committee and Board. EBS Group separately monitor the Risk profile against risk appetite measures for EBS Group and reported on a monthly basis to the Subsidiary Board and to the Group Risk Function.

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.

The Board of EBS has ultimate accountability for ensuring that the models used by EBS are fit for purpose and meet all jurisdictional regulatory and accounting standards. The AIB Risk Management Framework sets out the key risk management principles for across AIB, and operating to these principles supports AIB's strategic objectives and provides assurance to the AIB Board on the integrity and completeness of model risk governance.

AIB mitigates model risk by having a model risk management framework ("the Framework"), model risk policies and supporting standards in place in relation to model development, operation, and validation together with suitable resources.

All models are recorded in the model inventory, tiered for materiality, and are managed and governed according to the requirements for the appropriate tier as set out in the Group Model Risk Management Policy. Models must comply with all relevant regulatory and accounting standards such as the Capital Requirements Regulation ("CRR"), Capital Requirements Directive ("CRD IV") and European Market Infrastructure Regulation ("EMIR").

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.

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:

			2018			2017
	Amortised Cost	**Fair Value**	**Total**	Amortised Cost	Fair Value	Total
	€m	**€m**	**€m**	€m	€m	€m
Cash and balances at central banks	**48**	**-**	**48**	80	-	80
Derivative financial instruments	**-**	**24**	**24**	-	23	23
Investment securities	**-**	**2,614**	**2,614**	-	2,195	2,195
Loans and advances to banks	**731**	**-**	**731**	1,925	-	1,925
Loans and advances to customers	**7,129**	**-**	**7,129**	6,777	-	6,777
Included elsewhere:						
Accrued interest	**12**	**-**	**12**	16	-	16
Other assets	**671**	**-**	**671**	663	-	663
	8,591	**2,638**	**11,229**	9,461	2,218	11,679
Off balance sheet loan commitments	**190**	**-**	**190**	160	-	160
Maximum exposure to credit risk	**8,781**	**2,638**	**11,419**	9,621	2,218	11,839

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

4. Company risk information (continued)

A summarised profile of loans and advances to customers is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 28. Details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to the financial statements.

					2018
Amortised cost	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
Strong	3,586	12	-	1	3,599
Satisfactory	516	29	-	-	545
Total	4,102	41	-	1	4,144
Criticised watch	169	209	-	-	378
Criticised recovery	-	189	-	3	192
Total criticised	169	398	-	3	570
Non-performing	12	-	613	82	707
Gross carrying amount	4,283	439	613	86	5,421
ECL allowance	(2)	(13)	(145)	(11)	(171)
Total Carrying amount	4,281	426	468	75	5,250

The table below sets out the grade of the loan portfolio in 2017

Grade	2017 € m
Satisfactory	**4,250**
Watch	383
Vulnerable	60
Impaired	874
Criticised	**1,317**
Gross Loans	**5,567**
Provision for loan impairments	(436)
Net Loans	**5,131**

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.

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4. Company risk information (continued)

Loans and advances to customers
The following table analyses loans and receivables to customers showing the ECL allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018*			2017		
Gross loans and advances to customers	**Residential mortgages € m**	**Commercial Property € m**	**Total € m**	Residential mortgages € m	Commercial property € m	Total € m
Total gross carrying amount	**5,317**	**104**	**5,421**	5,417	150	5,567
Analysed as to ECL staging						
Stage 1	**4,242**	**41**	**4,283**			
Stage 2	**422**	**17**	**439**			
Stage 3	**568**	**45**	**613**			
POCI	**85**	**1**	**86**			
Analysed by arrears/impaired						
In arrears (> 30 days past due)[(1)]				751	89	840
In arrears (> 90 days past due)[(1)]				719	88	807
Of which impaired				719	85	804
Total	**5,317**	**104**	**5,421**			
ECL allowance - statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Stage 1	**(2)**	**-**	**(2)**			
Stage 2	**(11)**	**(2)**	**(13)**			
Stage 3	**(132)**	**(13)**	**(145)**			
POCI	**(11)**	**-**	**(11)**			
Statement of financial position specific provisions				(340)	(43)	(383)
Statement of financial position IBNR provisions				(51)	(2)	(53)
Total ECL allowance	**(156)**	**(15)**	**(171)**			
Residential mortgages	**5,161**	**89**	**5,250**	**5,026**	**105**	**5,131**
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	**%**
Stage 1	**-**	**1**	**-**			
Stage 2	**3**	**9**	**3**			
Stage 3	**23**	**29**	**24**			
POCI	**13**	**-**	**12**			
Specific provisions/ impaired loans				41.2	51.8	42.3

Income statement credit impairment (writeback)/losses	**2018 € m**	2017 € m
Net remeasurement of loss allowance	**(13)**	
Recoveries of amounts written off in previous years	**(5)**	
Income statement: specific provisions		8
Income statement: IBNR provisions		14
Net credit impairment (writeback)/losses	**(18)**	22
Net credit impairment (writeback)/losses on average loans	**(0.25%)**	0.31%

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4. Company risk information (continued)

Loans and advances to customers (continued)

Summary of movements on ECL allowances*
The following table sets out the movements on the ECL allowance on loans and advances to customers at 31 December 2018.

	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January 2018	3,722	750	976	90	5,538
Transferred from Stage 1 to Stage 2	(190)	190	-	-	-
Transferred from Stage 2 to Stage 1	253	(253)	-	-	-
Transferred to Stage 3	(1)	(54)	55	-	-
Transferred from Stage 3	1	89	(90)	-	-
Other changes in net exposures	77	(84)	(66)	-	(73)
Write-offs	-	-	(244)	-	(244)
Derecognised due to disposals	-	-	(15)	-	(15)
Interest applied to accounts	122	24	19	-	165
Other movements	299	(223)	(22)	(4)	50
Gross carrying amount as at 31 December 2018	4,283	439	613	86	5,421

					2018
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Loss allowance at 1 January 2018	2	26	400	7	435
Net remeasurement of ECL allowance-income statement	-	(13)	(6)	6	(13)
Other movements with no P/L impact					
Changes in loss allowance due to write offs	-	-	(244)	-	(244)
Changes in loss allowance due to disposals	-	-	(7)	-	(7)
Other movements	-	-	2	(2)	-
Loss allowance at 31 December 2018	2	13	145	11	171

Stage transfers are a key component of ECL allowance movements with the net remeasurement cost of moving to a higher stage (i.e. Stage 1 to Stage 2 to Stage 3) being the primary driver of a higher income statement charge (and vice versa).

Transfers from Stage 1 to Stage 2 of €190m represent the underlying credit activity where a significant increase in credit risk occurred at some point during the year through either the quantitative or qualitative criteria for stage movement. The main driver of the movements to Stage 2 was due to the doubling of PDs, subject to 50bps, mainly in the mortgage portfolio. These movements have materially resulted in exposures starting and ending in different stages due to an observed increase in credit risk, however, given the movements represent the cumulative month by month impact, movements to Stage 2 also include those loans that may have subsequently transferred back to Stage 1 (and included in the € 253m as outlined below) or further deteriorated to Stage 3 by the end of 2018.

Similarly, transfers from Stage 2 to Stage 1 of €253m represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

Transfers from Stage 2 to Stage 3 of €54m represent those loans that defaulted during the year. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation.

Risk Management Report (continued)

4. Company risk information (continued)

Summary of movements on ECL allowances* (continued)
Transfers from Stage 3 to Stage 2 of €89m were driven by resolution activity with the customer, through either restructuring or forbearance, who had subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place. Transfers from Stage 3 to Stage 1 of €1m primarily reflect curing events from default and loans which were fundamentally restructured in the period and which met derecognition criteria.

The caption 'Other changes in net exposures', which contributed €73m to the reduction in exposures, consists of term lending offset by cash repayments. This includes €1.0bn in new residential mortgage lending which originates in Stage 1.

Write-offs represent the write down of the gross loan balance by the relevant ECL allowance in accordance with the accounting policy. Write-offs due to restructuring activity are also included in this amount.

In summary, the staging movements of the overall portfolio were as follows:

Stage 1 loans increased by €561m during 2018 with an ECL of €2m and resulting cover of 0.05%. This was primarily on foot on net new lending and loans curing to Stage 1.

Stage 2 loans decreased by €311m during 2018 with an ECL of €13m and resulting cover of 3%. This was due to model recalibration and enhancements to the Stage 2 criteria.

Stage 3 exposures decreased by €363m during 2018 with the ECL cover reducing from 41% to 24%. Key drivers were the level of deleveraging activity, portfolio sales and write-off activity of loans with higher ECLs.

Treasury assets*
Treasury assets consist of cash and balances with CBI, central government bills and other eligible bills, derivative financial instruments, investment securities, held-to-maturity financial assets and loans and advances 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	**Investment Securities**	**Loans & Receivables to Banks**	**Off Balance Sheet Commitments**
	€m	**€m**	**€m**	**€m**
Company				
Balances at 31 December 2018	**48**	**2,614**	**731**	**199**
	%	%	%	%
Aaa	**-**	**99**	**-**	**-**
Aa3 to Aa1	**-**	**-**	**-**	**-**
A3 to A1	**100**	**-**	**-**	**-**
Lower than A3	**-**	**-**	**100**	**-**
Unrated	**-**	**1**	**-**	**100**

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

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

4. Company risk information (continued)

Exposure to liquidity risk*
The following table analyses financial liabilities by contractual residual maturity.

Company	**Repayable on demand**	**3 months or less not repayable on demand**	**Over 3 months to 6 months**	**Over 6 months to 1 year**	**1 to 2 years**	**Over 2 years**	**Total**
							2018
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Deposits by Banks	**5**	**4,857**	**-**	**-**	**-**	**-**	**4,862**
Derivative financial instruments	**-**	**1**	**1**	**1**	**3**	**33**	**39**
Customer accounts	**2,515**	**421**	**568**	**1,072**	**447**	**351**	**5,374**
Total	**2,520**	**5,279**	**569**	**1,073**	**450**	**384**	**10,275**
Off-balance sheet loan commitments	**190**	**-**	**-**	**-**	**-**	**-**	**190**

Company	Repayable on demand	3 months or less not repayable on demand	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
							2017
	€m	€m	€m	€m	€m	€m	€m
Deposits by Banks	95	4,903	-	-	-	-	4,998
Derivative financial instruments	1	1	-	3	-	26	31
Customer accounts	2,431	888	606	919	367	464	5,675
Total	2,527	5,792	606	922	367	490	10,704
Off-balance sheet loan commitments	160	-	-	-	-	-	160

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

EBS

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 EBS 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 EBS Group 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 EBS Group 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 EBS 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: 25 March 2019

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Deloitte Ireland LLP
Chartered Accountants &
Statutory Audit Firm

Independent auditor's 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 2018 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, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- 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 Shareholders' Equity; and
- the related notes 1 to 47, including a summary of significant accounting policies as set out in note 1.

The relevant financial reporting framework that has been applied in the preparation of the Group and Company financial statements 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: • Expected credit losses on loans and advances to customers; • Deferred tax asset; • Defined benefit obligations; and • Provisions for customer redress and related matters. Within this report, any new key audit matters are identified with ⮝ and any key audit matters which are the same as the prior year are identified with ⮞
Materiality	We determined materiality for: - the Group to be €12 million which is 6% of Profit Before Tax ("PBT") excluding amounts payable to Allied Irish Banks, p.l.c. (note 13 – Administrative expenses); and - the Company to be €12 million which is 1% of total equity of the Company.
Scoping	We focused the scope of our Group audit 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 99% of the Group's total assets and 99% of the Group's total operating income.

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Significant changes in our approach	On 1 January 2018, the Company transitioned to the financial instruments accounting standard IFRS 9 which replaced IAS 39. Under the new impairment model, losses on financial assets which are recognised as amortised cost are recognised on an expected credit loss basis. As result we have identified a new key audit matter, *'Expected credit losses on loans and advances to customers'.*

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.

Expected credit losses on loans and advances to customers	
Key audit matter description	On 1 January 2018, the Company transitioned to financial instruments accounting standard IFRS 9 which replaced IAS 39. Under the new impairment model, losses on assets which are classified at amortised cost are recognised on an expected credit loss basis. Expected credit losses ("ECL") are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved in the calculations required Management to develop new methodologies involving the use of significant judgements. In order to meet the requirements of the new standard, significant changes have also been made to systems, processes and controls with effect from 1 January 2018. Management have availed of the option within IFRS 9 to apply the standard prospectively. Information regarding the transitional effect of IFRS 9 is disclosed in note 3, including the impact on shareholders' equity at 1 January 2018. Expected credit loss allowances on loans and advances to customers was €324m at 31 December 2018 (€730 million at 1 January 2018). Measurement of the ECL allowances on loans and advances to customers is a key audit matter as the determination of assumptions for ECLs is highly subjective due to the level of judgement applied by Management. The most significant judgements include: • Determining the criteria for a significant increase in credit risk, ("SICR") and for being classified as credit impaired; • Accounting interpretations and assumptions used to build the models that calculate the ECL; • The completeness and accuracy of data used to calculate the ECL; • The completeness and valuation of post model adjustments determined by Management for certain higher risk portfolio's and to address known model limitations; and

	• Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the impact of Brexit. This results in a wide range of possible outcomes. Please also refer to pages 91 to 93 (Accounting Policy 1.19 – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 3 – Transition to IFRS 9, Note 15 – Net credit impairment write back and Note 20 – Loans and advances to customers.
How the scope of our audit responded to the key audit matter	We tested key controls supporting the calculation of ECLs on loan and advances to customers focusing on: – model development, validation and approval to ensure compliance with IFRS 9 requirements; – review and approval of key assumptions, judgements and macroeconomic forward looking information used in the models; – the integrity of data used as input to the models including the transfer of data between source systems and the ECL models; – the application of SICR criteria and default definition used to determine stage outcomes; – governance and approval of post model adjustments recorded by Management; – governance and approval of the output of IFRS 9 models; and – front line credit monitoring and assessment controls including annual case file reviews. Our testing included an evaluation of the design and implementation of these key controls. Where control deficiencies were identified we tested compensating controls implemented to produce the ECLs and financial statement disclosures. We also assessed Management review controls and governance controls including attendance and observation of Board Risk Committee and Credit Committee meetings. We evaluated IT system controls including assessing data inputs and new controls which were implemented for IFRS 9. We tested the completeness and accuracy of key data inputs and reconciled to source systems where appropriate. We evaluated IT system controls including assessing data inputs and new controls which were implemented for IFRS 9. We tested the completeness and accuracy of key data inputs and reconciled to source systems, where appropriate. We critically assessed the ECL models developed by the Group. In conjunction with Deloitte credit modelling specialists we assessed judgements and assumptions supporting the ECL requirements of the standard. These included assumptions used in the ECL models applied in stage allocation, calculation of lifetime probability of default and methods applied to derive loss given default rates. We evaluated the methodology and performed code reviews for a sample of models. We assessed the reasonableness of forward looking information incorporated into the impairment calculations including assessing Management's experts. We challenged the macroeconomic scenarios chosen and the weighting applied to capture non-linear losses. This included benchmarking the economic data used to recognised external data sources. We also considered the impact of key uncertainties, including Brexit. We considered material post-model adjustments applied by Management to address model and data limitations. We challenged the rationale for these adjustments and performed testing on their calculation.

	We considered significant items impacting the ECL allowance balance. This included portfolio sales and noncontracted write-offs as well as recoveries on amounts previously written-off. 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 the ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions. Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.
Deferred tax asset	
Key audit matter description	The key audit matter relates to the incorrect recognition or measurement of the deferred tax asset. Deferred tax assets of €229 million (2017: €233 million) 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 Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes, including the impact of Brexit. Please refer to pages 84 to 85 (Accounting Policy 1.12 – Income tax, including deferred income tax), Note 2 – Critical accounting judgements and estimates and Note 25 – Deferred taxation.
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of key controls over the preparation of financial plans and budgets. We assessed whether the level of forecasted profits were appropriate by challenging the growth, profitability and economic assumptions. We tested the accuracy of Management's forecasting process by reviewing previous forecasts and compared to actual results. 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 the "more likely than not" test and assessed the adequacy of the financial statement disclosures. Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset is within a range we consider to be reasonable.

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Defined benefit obligations	
Key audit matter description	The key audit matter is that the recognition and measurement of defined benefit obligations of €191 million (2017: €197 million) is inappropriate. There is a high degree of estimation and judgement in the calculation of defined benefit obligations. A 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 pages 83 to 84 (Accounting Policy 1.10 – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 32 – 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 and implementation 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 challenging 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 the defined benefit obligations. We benchmarked economic and demographic assumptions against market data and assessed Management adjustments to market rates 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 assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Provisions for customer redress and related matters	
Key audit matter description	The key audit matter relates to the recognition, measurement and disclosure of provisions for customer redress and related matters (included within Note 33 – Provisions for liabilities and commitments of €19m (2017: €21m)) are inappropriate for allegations of mis-selling of financial products, allegations of overcharging and breach of contract and/or regulation including provisions for Tracker Mortgage Examinations. The measurement of provisions for these issues is highly judgemental and involves the use of several Management assumptions including the identification of relevant impacted customers and related redress costs. There is also a risk that these known and emerging issues may not be appropriately disclosed in the financial statements. Please refer page 96 (Accounting Policy 1.25 – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates and Note 33 - Provisions for liabilities and commitments.

How the scope of our audit responded to the key audit matter	We have evaluated the design, implementation and tested the operating effectiveness of the Company's controls over the identification, measurement and the disclosure of the provisions. We also assessed Management review controls and governance controls including attendance at and observation of AIB Group Board Risk Committee. We challenged the assumptions regarding the interpretation of contract terms, the numbers of customers affected and the costs arising from the issues in the calculation of the provisions. We reviewed the correspondence with regulators and legal advice. We also considered regulatory developments and management's interactions with regulators including status of the enforcement process. Given the inherent uncertainty in the calculation of conduct provisions and their judgemental nature, we evaluated the disclosures made in the financial statements. We challenged Management on the disclosures, in particular that they are sufficiently clear in highlighting the exposures that remain, significant uncertainties that exist in respect of the provisions and the sensitivity of the provisions to changes in the underlying assumptions. Based on the evidence obtained, we found that the assumptions used by Management in the measurement of provisions for customer redress and related matters are within a range we consider to be reasonable.

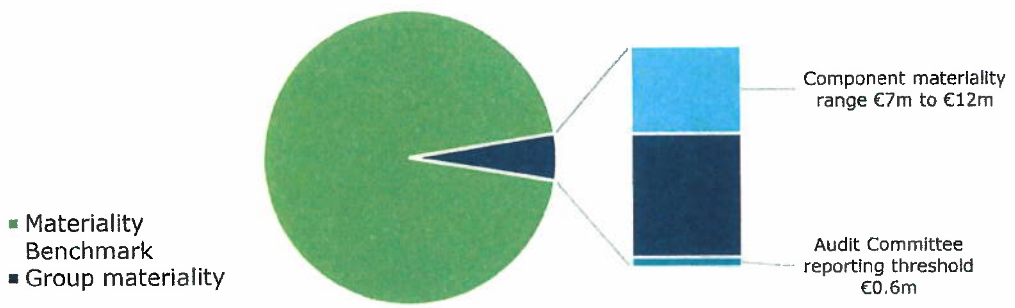
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, 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 €12m which is 6% of profit before tax excluding amounts payable to Allied Irish Banks, p.l.c. (note 13 – Administrative expenses) ('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 company and the reliability of control environment.

We determined materiality for the Company to be €12 million which is 1% of Company total equity. We have selected total equity as an appropriate benchmark for Company materiality as this is a key benchmark for users of the financial statements of the Company.



We agreed with the Audit Committee that we would report to them any audit differences in excess of €0.6 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.

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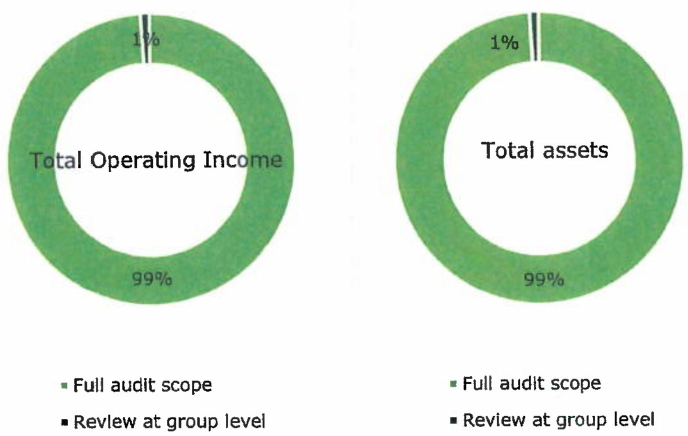
An overview of the scope of our audit

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 work in EBS d.a.c. and four legal entities, two of which are disclosed as principle subsidiary undertakings in Note 26 – Shares in Group undertakings 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 99% of the Group's total assets and 99% of the Group's total operating income. 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.

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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.

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 company (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.

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.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may be reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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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.

Report on other legal and regulatory requirements

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.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages 3 to 4 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and 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 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.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the 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. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 2013 to 2018.

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.

Sinéad Moore

Sinéad Moore
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Date: 25 March 2019

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 2018

	Note	2018 €m	2017 €m
Continuing operations			
Interest income calculated using the effective interest method	5	**337**	369
Interest expense	6	**(58)**	(77)
Net Interest Income		**279**	292
Dividend income	7	**1**	1
Net fee and commission income	8	**10**	12
Net trading gain	9	**-**	1
Net gain on other financial assets measured at FVTPL	10	**4**	-
Net gain on derecognition of financial assets measured at amortised cost	11	**3**	-
Other operating income	12	**1**	4
Other Income		**19**	18
Total Operating Income		**298**	310
Administrative expenses	13	**(186)**	(160)
Impairment and amortisation of intangible assets	22	**(2)**	(2)
Impairment and depreciation of property, plant and equipment	23	**(1)**	(2)
Total Operating Expenses		**(189)**	(164)
Operating profit before impairment losses and provisions		**109**	146
Net credit impairment writeback/(losses)	15	**11**	(35)
Profit before taxation from continuing operations		**120**	111
Income tax charge from continuing operations	16	**(17)**	(12)
Profit for the year		**103**	99

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 77 to 152 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2018

	2018 €m	2017 €m
Profit for the year	**103**	99
Comprehensive profit net of taxation		
Items that will not be reclassified to profit and loss:		
Net actuarial movement in retirement benefits, net of tax	**(3)**	19
Total Items that will not be reclassified subsequently to profit and loss:	**(3)**	19
Items that will be reclassified subsequently to profit and loss when specific conditions are met:		
Net movement in cash flow hedge reserve, net of tax	**(5)**	2
Net movement in investment securities reserve, net of tax	**-**	1
Total items that will be reclassified subsequently to profit and loss when specific conditions are met:	**(5)**	3
Comprehensive income for the financial year, net of taxation	**(8)**	22
Total comprehensive income for the year	**95**	121

The notes on pages 77 to 152 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	**31 Dec 2018** **€m**	1 Jan 2018 (1) €m	31 Dec 2017 €m
Assets				
Cash and balances at central banks	17	**48**	80	80
Non-current assets held for sale		**5**	4	4
Derivative financial instruments	18	**1**	3	3
Loans and advances to banks	19	**137**	340	340
Loans and advances to customers	20	**11,404**	11,526	11,469
Investment securities	21	**21**	21	21
Intangible assets	22	**15**	10	10
Property, plant and equipment	23	**25**	23	23
Other assets	24	**3**	2	2
Current taxation		**-**	1	1
Deferred taxation	25	**229**	235	233
Prepayments and accrued income		**5**	11	11
Total assets		**11,893**	12,256	12,197
Liabilities				
Deposits by central bank and banks	27	**4,833**	4,971	4,971
Customer accounts	29	**5,374**	5,675	5,675
Derivative financial instruments	18	**16**	11	11
Current taxation		**2**	-	-
Other liabilities	30	**35**	39	39
Deferred taxation		**9**	11	-
Accruals and deferred income	31	**28**	49	49
Retirement benefit liability	32	**29**	26	26
Provisions for liabilities and commitments	33	**19**	21	21
Total liabilities		**10,345**	10,803	10,792
Shareholders' equity				
Called up share capital presented as equity	34	**1,654**	1,654	1,654
Capital contribution	35	**249**	249	249
Reserves		**(355)**	(450)	(498)
Total shareholders' equity		**1,548**	1,453	1,405
Total liabilities and shareholders' equity		**11,893**	12,256	12,197

(1)The 'Statement of financial position' as at 1 January 2018 reflects the adoption of IFRS 9 which applies with effect from 1 January 2018. See 'Basis of preparation' in note 1.3.

The notes on pages 77 to 152 are an integral part of these financial statements.

Denis O'Callaghan
Non-Executive Chairman

Desmond Fitzgerald
Managing Director

Tom Foley
Non-Executive Director

Diane Lumsden
Company Secretary

Date: 25 March 2019

Consolidated Statement of Cash Flows

For the Financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Cash flows from operating activities			
Operating profit before taxation		**120**	111
Adjustments for:			
Amortisation and impairment of intangibles	22	**2**	2
Impairment and depreciation of property, plant and equipment	23	**1**	2
Loss allowance on financial assets	15	**(11)**	35
Pension expense	32	**(1)**	1
Fair value movement on hedging derivatives		**1**	2
Fair value movement on hedged items		**19**	2
		131	155
Changes in operating assets and liabilities			
Change in loans and advances to banks		**200**	522
Change in loans and advances to customers		**123**	29
Change in other assets		**4**	9
Change in customer accounts		**(301)**	(976)
Change in other liabilities		**(30)**	(130)
Net cash flows from operations before taxation		**127**	(391)
Taxation paid		**(9)**	(2)
Net cash flows from operations		**118**	(393)
Cash flows from investing activities			
Additions to intangible assets	22	**(7)**	(6)
Additions to property, plant and equipment	23	**(3)**	(1)
Net cash flows from investing activities		**(10)**	(7)
Cash flows from financing activities			
Change in hedging items		**(5)**	(393)
Change in deposits from central bank and banks		**(138)**	723
Net cash flows from financing activities		**(143)**	330
Change in cash and cash equivalents		**(35)**	(70)
Cash and cash equivalents at 1 January		**156**	226
Cash and cash equivalents at 31 December	38	**121**	156

The notes on pages 77 to 152 are an integral part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the financial year ended 31 December 2018

	Ordinary Share Capital	Capital Contribution	Revenue reserves	Investment Securities Reserve	Cash Flow Hedge Reserve	Total Shareholders' Equity
	€m	€m	€m	€m	€m	€m
At 31 December 2018	**1,654**	**249**	**(509)**	**16**	**(5)**	**1,405**
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	**48**	**-**	**-**	**48**
Restated balance at 1 January 2018	**1,654**	**249**	**(461)**	**16**	**(5)**	**1,453**
Total comprehensive income for the financial year	**-**	**-**	**100**	**1**	**(6)**	**95**
At 31 December 2018	**1,654**	**249**	**(361)**	**17**	**(11)**	**1,548**

For the financial year ended 31 December 2017

	Ordinary Share Capital	Capital Contribution	Revenue reserves	Investment Securities 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

Company Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 €m	1 Jan 2018 (1) €m	31 Dec 2017 €m
Assets				
Cash and balances at central banks	17	**48**	80	80
Non-current assets held for sale		**3**	2	2
Derivative financial instruments	18	**24**	23	23
Loans and advances to banks	19	**731**	1,925	1,925
Loans and advances to customers	20	**7,129**	6,778	6,777
Investment securities	21	**2,614**	2,195	2,195
Intangible assets	22	**15**	10	10
Property, plant and equipment	23	**25**	23	23
Other assets	24	**31**	30	30
Current taxation		**-**	1	1
Deferred taxation	25	**243**	243	241
Prepayments and accrued income		**15**	19	19
Shares in Group undertakings	26	**594**	594	594
Total assets		**11,472**	11,923	11,920
Liabilities				
Deposits by central bank and banks	27	**4,862**	4,998	4,998
Customer accounts	29	**5,374**	5,675	5,675
Derivative financial instruments	18	**39**	31	31
Other liabilities	30	**67**	40	40
Accruals and deferred income	31	**22**	66	48
Retirement benefit liability	32	**29**	26	26
Provisions for liabilities and commitments	33	**19**	20	20
Total liabilities		**10,412**	10,856	10,838
Shareholders' equity				
Called up share capital presented as equity	34	**1,654**	1,654	1,654
Capital contribution	35	**249**	249	249
Reserves		**(843)**	(836)	(821)
Total shareholders' equity		**1,060**	1,067	1,082
Total liabilities and shareholders' equity		**11,472**	11,923	11,920

(1)The 'Statement of financial position' as at 1 January 2018 reflects the adoption of IFRS 9 which applies with effect from 1 January 2018. See 'Basis of preparation' in note 1.3. The parent company's profit after tax for the financial year ended 31 December 2018 was €37m (2017: €48m).

The notes on pages 77 to 152 are an integral part of these financial statements.

Denis O'Callaghan
Non-Executive Chairman

Desmond Fitzgerald
Managing Director

Tom Foley
Non-Executive Director

Diane Lumsden
Company Secretary

Date: 25 March 2019

Company Statement of Cash Flows

For the Financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Cash flows from operating activities			
Operating profit before taxation		**44**	58
Adjustments for:			
Amortisation of and impairment of intangibles	22	**2**	2
Impairment and depreciation of property, plant and equipment	23	**1**	2
Loss allowance on financial assets	20	**(18)**	22
Pension expense		**(1)**	1
Fair value movement on hedging derivatives		**1**	4
Fair value movement on hedged items		**-**	2
		29	91
Changes in operating assets and liabilities			
Change in loans and advances to banks		**5**	4
Change in loans and advances to customers		**(348)**	(426)
Change in other assets		**2**	75
Change in customer accounts		**(301)**	(1,588)
Change in other liabilities		**(9)**	(152)
Net cash flows from operations before taxation		**(622)**	(1,996)
Taxation paid		**(1)**	(1)
Net cash flows from operations		**(623)**	(1,997)
Cash flows from investing activities			
Additions of intangible assets	22	**(7)**	(6)
Additions to property, plant and equipment	23	**(3)**	(1)
Investments in subsidiaries		**-**	18
Change in investment securities		**(452)**	(248)
Net cash flows from investing activities		**(462)**	(237)
Cash flows from financing activities			
Change in hedging items		**(5)**	6
Change in deposits from central bank and banks		**(136)**	732
Net cash flows from financing activities		**(141)**	738
Change in cash and cash equivalents		**(1,226)**	(1,496)
Cash and cash equivalents at 1 January		**2,005**	3,501
Cash and cash equivalents at 31 December	38	**779**	2,005

The notes on pages 77 to 152 are an integral part of these financial statements.

Company Statement of Changes in Shareholders' Equity

For the financial year ended 31 December 2018

	Ordinary Share Capital	Capital Contribution	Revenue reserves	Investment securities Reserve	Cash Flow Hedge Reserve	Total Shareholders' Equity
	€m	€m	€m	€m	€m	€m
At 31 December 2017	**1,654**	**249**	**(762)**	**(52)**	**(7)**	**1,082**
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	**(15)**	**-**	**-**	**(15)**
Restated balance at 1 January 2018	**1,654**	**249**	**(777)**	**(52)**	**(7)**	**1,067**
Total comprehensive income for the financial year	**-**	**-**	**36**	**(41)**	**-**	**(5)**
At 31 December 2018	**1,654**	**249**	**(743)**	**(93)**	**(7)**	**1,060**

For the financial year ended 31 December 2017

	Ordinary Share Capital	Capital Contribution	Revenue reserves	Investment securities 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

Notes to the Financial Statements

Notes to the Financial Statements

Accounting Policies Index

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 2018. The accounting policies have been consistently applied by EBS Group entities and are consistent with the previous year, apart from policies adopted as a result of the implementation of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* which are outlined below.

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.

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.

1.3. Basis of preparation

Functional and presentation currency

The financial statements of EBS 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 investment securities at fair value through other comprehensive income (FVOCI).

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 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 expected credit losses on financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 98 to 102.

1. ACCOUNTING POLICIES (continued)

1.3. Basis of preparation (continued)

Going concern
The financial statements for the financial year ended 31 December 2018 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 2018 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 2019 to 2021 approved by the Board in December 2018, 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 EBS 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

First time adoption of new accounting standards
On 1 January 2018, EBS Group implemented the requirements of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time.

Comparative data for 2017 was prepared under IAS 39 *Financial Instruments: Recognition and Measurement* and *IAS* 18 *Revenue*.

IFRS 9 Financial Instruments
The effective date for IFRS 9 *Financial Instruments* was 1 January 2018 and was adopted by EBS Group on that date. The 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, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable).

EBS Group applied IFRS 9 as issued in 2014 at 1 January 2018 and early adopted the amendments to IFRS 9 on the same date.

Since EBS Group is continuing to apply IAS 39 hedge accounting requirements as allowed by IFRS 9, there has been no change to the 'derivatives and hedge accounting policy' – Accounting policy 1.18.

IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a revised classification and measurement model for financial assets, a forward looking expected credit loss ("ECL") impairment methodology and modifies the approach to hedge accounting. The business model assessment test required by IFRS 9 was performed as at the date of initial application. EBS Group assessed whether the financial assets met the conditions for recognising a change in the classification/measurement basis at that date. This classification applies retrospectively.

1. ACCOUNTING POLICIES (continued)

1.3. Basis of preparation (continued)

IFRS 9 Financial Instruments **(continued)**
Impairment losses were measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9.

The impact net of tax on transition to IFRS 9 was €48m representing an increase in revenue reserves and other comprehensive income, principally due to the impairment requirements.

Further details on the impact of adopting IFRS 9 are set out in note 3 to these financial statements.

IFRS 9 accounting policies
The more significant accounting policies for EBS Group under IFRS 9 are:
a) Recognition and initial measurement;
b) Classification and subsequent measurement;
c) Interest income and expense recognition;
d) Derecognition; and
e) Impairment of financial assets

A summary of these policies is set out below under the relevant headings.

IFRS 15 *Revenue from Contracts with Customers*
The effective date for IFRS 15 *Revenue from Contracts with Customers* was 1 January 2018 and was adopted by EBS Group on that date by recognising the cumulative effect of initially adopting the standard as an adjustment to the opening balance of retained earnings.

IFRS 15 replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other accounting standards.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for fulfilling its performance obligations to a customer.

IFRS 15 had no material impact on the date of initial adoption.

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 EBS 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 IFRS 9 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. EBS 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.

1. ACCOUNTING POLICIES (continued)

1.4. Basis of consolidation (continued)

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.

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

Parent Company financial statements: Investment in subsidiary
The parent accounts for investments in subsidiaries 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 subsidiaries are recognised in the income statement, when the Company's right to receive the dividend is established.

1.5. Interest income and expense recognition

Interest income and expense is recognised in the income statement using the effective interest method.

Effective interest rate
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 gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments other than credit impaired assets, EBS Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected 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.

Amortised cost and gross carrying amount
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

Calculation of interest income and interest expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, the calculation of interest income reverts to the gross basis.

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss), the Company presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off. (The Company policy prior to the adoption of IFRS 9 on 1 January 2018 was to recognise such income in interest income). Interest income and expense on financial assets and liabilities classified as held for trading or at FVTPL is recognised in 'other interest income and similar income' or 'interest expense' on the income statement, as applicable.

1. ACCOUNTING POLICIES (continued)

1.5. Interest income and expense recognition (continued)

Presentation

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

– Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
– Interest on investment debt securities measured at FVOCI calculated on an effective interest basis;
– Interest on financial assets measured at FVTPL;
– 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.

1.6. Foreign currency translation

Items included in the financial statements of each of EBS 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. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss.

1.7. Dividend income

Dividends on equity investments measured at FVTPL are recognised in the income statement when the entity's right to receive payment is established. Dividends on equity investments measured at FVOCI are recognised in the income statement provided that they represent a return on capital.

1.8. Fee and commission income

The measurement and timing of recognition of fee and commission income is based on the core principles of IFRS 15 *Revenue from Contracts with Customers.*

The principles in IFRS 15 are applied using the following 5 step model:

– Identify the contract(s) with a customer;

– Identify the performance obligations in the contract;

– Determine the transaction price;

– Allocate the transaction price to the performance obligations in the contract; and

– Recognise revenue when or as the Group satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, 'point in time' recognition, or 'over time' recognition if the performance obligation is performed over a period of time unless the income has 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

EBS Group 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.

1. ACCOUNTING POLICIES (continued)

1.10. Employee benefits (continued)

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.

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

Remeasurements of the net defined benefit liability/ (asset), comprising actuarial gains and losses and the return on scheme assets are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to re-measurements of the net defined benefit liability/ (asset) will not be reclassified to profit or loss in a subsequent period.

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

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 past service cost. These are recognised in the income statement.

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.

In early 2017, AIB implemented this process and made a decision not to provide any funding for any discretionary increases in pensions in payment for 2017. In 2018, under this process, EBS Group agreed to provide a level of funding for increases in pensions in payment for 2018. The Trustees of certain EBSs schemes awarded an increase of 0.35% in respect of pensions eligible for discretionary pension increases. EBS Group completed the same process early in 2019 taking account of all relevant factors and decided that the funding of discretionary increases to pensions in payment was appropriate for 2019 and approved an increase of 0.5%.

Continuing the alignment to the position on increases to pensions in payment maintained by AIB for 2018 the Company has approved an increase of 0.35% for pensions in payment for 2018.

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.

1. ACCOUNTING POLICIES (continued)

1.12. Income tax, including deferred income tax (continued)

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

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

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

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

1.13. Financial assets

Recognition and initial measurement
EBS Group initially recognises financial assets on the trade date, being the date on which EBS Group commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers.

Financial assets measured at amortised cost or at fair value through other comprehensive income ("FVOCI") are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ("FVTPL") are recognised initially at fair value and transaction costs are taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. 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.

Classification and subsequent measurement
On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:

– EBS Group's business model for managing the asset; and

– The cash flow characteristics of the asset (for assets in a 'hold-to-collect' or 'hold-to-collect-and-sell' business model).

Based on these factors, EBS Group classifies its financial assets into one of the following categories:

– Amortised cost
Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect' business model whose objective is to hold assets to collect contractual cash flows; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The carrying amount of these assets is calculated using the effective interest method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

1. ACCOUNTING POLICIES (continued)

1.13. Financial assets (continued)

– Fair value through other comprehensive income ("FVOCI")
Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect-and-sell' business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"). Movements in the carrying amount of these assets are taken through other comprehensive income ("OCI"), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

– Fair value through profit or loss ("FVTPL")
Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses on such assets are recognised in profit or loss on an on-going basis.
In addition, EBS Group may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

– Embedded derivatives
Certain hybrid contracts may contain both a derivative and a non-derivative component, an 'embedded derivative'. Under IFRS 9, there is no bifurcation of embedded derivatives from the host financial asset. As a result, financial assets with embedded derivatives will generally fail the SPPI test unless the embedded derivative does not substantially modify the cash flows that would otherwise be required by the contract. Those failing the SPPI test will be classified and measured at FVTPL.

– Business model assessment
EBS Group makes an assessment of the objective of the business model at a portfolio level, as this reflects how portfolios of assets are managed to achieve a particular objective, rather than management's intentions for individual assets.
The assessment considers the following:

- The strategy for the portfolio as communicated by management;
- How the performance of the portfolio is evaluated and reported to senior management;
- The risks that impact the performance of the business model, and how those risks are managed;
- How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

– Characteristics of the contractual cash flows
An assessment ('SPPI test') is performed on all financial assets at origination that are held within a 'hold-to-collect' or 'hold-to-collect and- sell' business model to determine whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding, and for other basic lending risks and costs (i.e. liquidity, administrative costs), and profit margin.

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, EBS Group considers:

– Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
– Terms providing for prepayment and extension;
– Leverage features;
– Contingent events that could change the amount and timing of cash flows;
– Terms that limit EBS Group's claim to cash flows from specified assets; and
– Contractually linked instruments.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

1. ACCOUNTING POLICIES (continued)

1.13. Financial assets (continued)
– Reclassifications
Reclassifications of financial assets to alternative asset categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur if EBS Group decides to make a fundamental change in its business model for managing a specific portfolio of financial assets.

– Investments in equity instruments
Equity instruments are classified and measured at FVTPL with gains and losses reflected in profit or loss.
On initial recognition, EBS Group may elect to irrevocably designate at FVOCI, an equity instrument that is not held for trading.

This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss on derecognition of the equity instrument.

1.14. Financial liabilities
EBS Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

EBS Group recognises a financial liability when it becomes party to the contractual provisions of the contract.

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 held for 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.

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 EBS 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.

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

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.

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
EBS 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 EBS 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 EBS 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 are used for hedging purposes.

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

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

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

1. ACCOUNTING POLICIES (continued)

1.18. Derivatives and hedge accounting (continued)

Hedging
EBS Group has opted to remain with the IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9.

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 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 debt securities measured at FVOCI, 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.

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 18 for detailed disclosure of the valuation techniques used.

1.19. Impairment of financial assets
EBS Group recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:

- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments); and
- Loan commitments issued.

ECLs are the weighted average of credit losses with the respective risks of a default occurring as the weights. These are an estimate of credit losses over the life of a financial instrument. When measuring ECLs, EBS Group takes into account:

- probability-weighted outcomes;
- the time value of money so that ECLs are discounted to the reporting date; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

The 12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In the case of Stage 2, credit risk on the financial instrument has increased significantly since initial recognition but the instrument is not considered credit impaired. For a financial instrument in Stage 3, credit risk has increased significantly since initial recognition and the instrument is considered credit impaired.

Financial assets are allocated to stages dependent on credit quality relative to when the asset was originated.

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ("POCI"). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs.

Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in EBS Group's loss given default models ('LGD').

Purchased or originated credit impaired
Purchased or originated credit impaired ("POCI") financial assets are those that are credit-impaired on initial recognition. EBS Group may originate a credit-impaired financial asset following a substantial modification of a distressed financial asset that resulted in derecognition of the original financial asset.

1. ACCOUNTING POLICIES (continued)

1.19. Impairment of financial assets (continued)

Purchased or originated credit impaired (continued)
POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. EBS Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted EIR. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCIs remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCIs is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

At each reporting date, EBS Group recognises the amount of the change in lifetime expected credit losses as a credit impairment gain or loss in profit or loss. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

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

A modification refers to either:

– A change to the previous terms and conditions of a debt contract; or

– A total or partial refinancing of a debt contract.

Modifications may occur for both customers in distress and for those not in distress. Any financial asset that undergoes a change or renegotiation of cash flows and is not derecognised is a modified financial asset.

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement but requires a modification gain or loss to be taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset 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.

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process, thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

Collateralised financial assets – Repossessions
The ECL calculation for 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.

1. ACCOUNTING POLICIES (continued)

1.19. Impairment of financial assets (continued)

Collateralised financial assets – Repossessions (continued)

For loans which are credit 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 that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI

ECL allowances for financial assets measured at FVOCI do not reduce the carrying amount in the statement of financial position because the carrying amount of these assets is fair value. However, an amount equal to the ECL allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income ('OCI') as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

Write-offs and debt forgiveness

EBS Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

Where there is no formal debt forgiveness agreed with the customer, EBS Group may write off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

1. ACCOUNTING POLICIES (continued)

1.20. Collateral and netting

EBS 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

EBS 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 EBS 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.

EBS 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, EBS Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and advances 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. ACCOUNTING POLICIES (continued)

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.

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 IFRS 9 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. ACCOUNTING POLICIES (continued)

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.

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 EBS 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.

Investment securities reserves (previously available for sale securities reserves)
Investment securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of investment securities at FVOCI. 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. ACCOUNTING POLICIES (continued)

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 EBS Group, will impact EBS Group's financial reporting in future periods. EBS Group is currently considering the impacts of these new standards and amendments. The new accounting standards and amendments which are more relevant to EBS Group are detailed below:

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.

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

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

Annual Improvements: 2015-2017 cycle
The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2015- 2017 Cycle amends IFRSs in relation to three issues addressed during this cycle.

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

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 regarding Plan Amendment, Curtailment or Settlement which were issued in February 2018, require the following change:

– If a plan amendment, curtailment or settlement occurs, it is required that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
– Amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

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

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

1. ACCOUNTING POLICIES (continued)

1.28. Prospective accounting changes (continued)

Amendments to IAS 1 and IAS 8: Definition of Material
The amendments to IAS 1 and IAS 8 regarding the definition of material which were issued in October 2018, clarify the definition of material through the following changes:

– A revised definition of 'material' which is included in the defined terms
– as follows "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

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

Effective date: Annual reporting periods beginning on or after 1 January 2020.

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 increase both the assets and liabilities of the Company by c. €48m.

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 EBS 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) Impairment of financial assets
EBS Group's accounting policy for impairment of financial assets is set out in accounting policy (1.19) in note 1. The expected credit loss ('ECL') allowances for financial assets at 31 December 2018 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

On 1 January 2018, EBS Group implemented the three stage ECL impairment model under IFRS 9. The calculation of ECL allowances is required for all financial assets measured at amortised cost, financial assets at FVOCI (apart from equities) and loan commitments and financial guarantee contracts. The estimation of ECL allowances is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates both current and evolving, conditions in various industries to which EBS Group is exposed and other external factors such as legal and regulatory requirements.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) Impairment of financial assets (continued)

The implementation of an expected credit loss model for the first time has resulted in a new methodology and basis for calculating impairment losses compared to the incurred loss model under IAS 39. The calculation of ECL allowances is complex and therefore, an entity must consider much more information in the determination of such expectations of future credit losses. This process requires significant use of estimates, judgements and assumptions, some of which, by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. Further information on the IFRS 9 methodologies and judgements is detailed on pages 20 to 26.

The management process for the calculation of ECL allowances is underpinned by independent tiers of review. Credit quality and ECL provisioning are independently monitored by credit and risk management on a regular basis. All the Group's segments assess and approve their ECL allowances and their adequacy on a quarterly basis. These ECL allowances are, in turn, reviewed and approved by the Group Credit Committee on a quarterly basis with final Group levels being approved by the Board Audit Committee. Further detail on the ECL governance process is set out on pages 19 and 20.

On an on-going basis, the various judgements, estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions.

After a period of time, when it is concluded that there is no reasonable expectation of recovering a Stage 3 loan in its entirety or a portion thereof, EBS Group reduces the gross carrying amount directly by the relevant ECL allowance for that amount deemed irrecoverable.

Inputs for calculating ECL allowances

The inputs to models used to derive ECL allowances rely, to a large extent, on reasonably supportable past events as predictors of future outcomes. Given the severe financial crisis which affected the Irish banking sector in the past, the use of historical loss data as a predictor of future outcomes may not relevant due to significant changes in circumstances albeit that this data has been be adjusted on the basis of current observable data in order to reflect the effects of current conditions.
The ECL methodology has resulted in a reassessment of the critical accounting judgements and estimates used for the determination of loss allowances which are as follows:
– Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
– Choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD;
– Determining the life of a financial instrument and therefore, the period over which to measure ECL;
– Establishing the number and relative weightings for forward looking scenarios for each asset class and ECL, particularly in relation to Brexit;
– Stratifying financial assets into groups with similar risk characteristics.

EBS Group estimates its ECL provisions on Mortgages based on its historic experience of working out arrangements with customers which predominantly consist of split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions. This is consistent with the Group's strategy to deliver sustainable long-term solutions and to support customers. In particular, the IFRS 9 Mortgage LGD model which was implemented from 1 January 2018 is based on the actual empirical internal data for such resolved and unresolved cases, and represents the Group's expected loss based on those current and expected work-out strategies at the time. However, for a cohort of loans that are deep in arrears and/or in a legal process for a significant period of time, it is recognised that alternative recovery strategies may need to be considered. To reflect the range of possible outcomes for this cohort where alternative recovery strategies are required, management judgement has been applied to increase the ECL outcome on transition on 1 January 2018 and as at 31 December 2018.

Forbearance

EBS Group's accounting policy for forbearance is set out in accounting policy (1.19) 'Impairment of financial assets' in note 1 which incorporates forbearance. EBS Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining the effects of forbearance strategies on ECL allowances and on the future cash flows arising from restructured loans. Further information on forbearance strategies is set out in the 'Risk management' section.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(b) Deferred tax

EBS Group's accounting policy for deferred tax is set out in accounting policy number 1.3. Details of EBS Group's deferred tax assets and liabilities are set out in note 25.

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 EBS Group, 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 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 EBS 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).

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 EBS Group'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;
- the impact of Brexit
- 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, EBS 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, EBS 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 2019 to 2021. Assuming a sustainable market return on equity (c.8.0%) 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 19 years (2017: 22 years) for the deferred tax asset (€220m) of EBS Group to be utilised. Furthermore, under this scenario, it is expected that 45% of the deferred tax asset will be utilised within 10 years (2017: 49%) and 75% utilised within 15 years (2017: 78%).

In a more stressed scenario with a return on equity of 5.6% and GDP growth of 1.5%, the utilisation period increases by a further 7 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.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(c) Determination of 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'.

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 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 has 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; EBS Group's financial circumstances and ability to pay; the views of the Trustees: EBS Group's commercial interests and any competing obligations to the State.

In early 2017, AIB implemented this process and made a decision not to provide any funding for any discretionary increases in pensions in payment for 2017. In 2018, under this process, EBS Group agreed to provide a level of funding for increases in pensions in payment for 2018. The Trustees of certain EBS schemes awarded an increase of 0.35% in respect of pensions eligible for discretionary pension increases. EBS Group completed the same process early in 2019 taking account of all relevant factors and decided that the funding of discretionary increases to pensions in payment was appropriate for 2019 and approved an increase of 0.5%.

The above process is a formal annual process carried out on a standalone basis. Therefore, a constructive obligation is not being created on the part of the members. Accordingly, the long term rate of increases of pensions in payment is Nil.

The assumptions adopted for EBS defined benefit pension schemes are set out in note 32 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(e) 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 33 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.

In March 2018, EBS was advised by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The investigations relate to alleged breaches of the relevant consumer protection legislation, principally regarding inadequate controls or instances where EBS acted with a lack of transparency, unfairly or without due skill and care. The investigations are ongoing and EBS are co-operating with the CBI in this regard.

In addition, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Further cases may be served in the future in relation to tracker mortgages.

Based on the facts currently known and the current stages that the investigations and litigation are at, it is not practical at this time to predict the final outcome of these investigations and litigation, nor the timing and possible impact, including any monetary penalties on EBS. Accordingly, EBS has not made any provision at this stage in relation to these matters.

3. TRANSITION TO IFRS 9

(a) Summary
On 1 January 2018, EBS Group implemented the requirements of IFRS 9 *Financial Instruments*, a new accounting standard, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. In addition, EBS Group early adopted a narrow scope amendment to IFRS 9 titled *'Prepayment features with Negative Compensation'* which was endorsed by the European Union in March 2018.

As permitted by IFRS 9, EBS Group did not restate prior periods on initial application, accordingly, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

The information set out in this note provides details relevant to understanding the impact of IFRS 9 on EBS Group's financial position at 1 January 2018 and has been prepared in accordance with the requirements for initial application of IFRS 9 as set out in IFRS 7 *Financial Instruments: Disclosures.* The disclosures supplement those provided in the Annual Financial Report 2017 and precede those required in the Annual Financial Report 2018. These transition disclosures provide a point-in-time bridge between IAS 39 *Financial Instruments: Recognition and Measurement,* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 9 *Financial Instruments* results and should be read in conjunction with the IFRS 9 related accounting policies set out on page 78 and the credit impairment methodologies and judgements set out on pages 20 to 26.

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

(a) Summary (continued)
IFRS 9 impacts the accounting for financial instruments in the following areas:
Classification and measurement – the classification of financial assets under IFRS 9 determines how they are accounted for and how they are measured on an on-going basis. This did not result in any significant changes for EBS Group at initial recognition.

Impairment – IFRS 9 introduces an expected credit loss model that requires recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. This resulted in an overall decrease in loss allowances of €57m for EBS Group.

Hedge accounting – IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. This had no impact for EBS Group as it is exercising a policy choice, as permitted by IFRS 9, to continue hedge accounting under IAS 39. However, EBS Group will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

The opening statement of financial position at 1 January 2018 under IFRS 9 is set out on page 107. This shows an increase in net assets of €48m with a corresponding increase in shareholders' equity driven by credit impairment provisions on loans and advances amounting to €57m net of related deferred tax amounting to €9m.

In particular, the following table reconciles impairment provisions (specific and IBNR) under IAS 39 at 31 December 2017 to the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

Group

	31 December 2017			**1 January 2018**
	Impairment allowance under IAS 39 or provision under IAS 37	**Reclassification Impact**	**Reduction in IFRS9 loss allowance**	**Loss allowance under IFRS9**
Impairment Allowance	€m	**€m**	**€m**	**€m**
Loans and advances to customers at amortised cost	787	**-**	**(57)**	**730**
Total	787	**-**	**(57)**	**730**

Company

	31 December 2017			**1 January 2018**
	Impairment allowance under IAS 39 or provision under IAS 37	**Reclassification Impact**	**Reduction in IFRS9 loss allowance**	**Loss allowance under IFRS9**
Impairment Allowance	€m	**€m**	**€m**	**€m**
Loans and advances to customers at amortised cost	436	**-**	**(1)**	**435**
Total	436	**-**	**(1)**	**435**

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

(a) Summary (continued)

IFRS 9 impacts the accounting for financial instruments in the following areas: (continued)

The following table presents a reconciliation of gross loans and advances to customers at amortised cost together with impairment provisions under IAS 39 to gross loans and advances to customers at amortised cost together with loss allowances, analysed by staging under IFRS 9.

Group

					At 1 January 2018
					IFRS 9
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross loans and advances to customers	8,574	1,729	1,778	175	12,256
Impairment provisions/loss allowance	(5)	(52)	(661)	(12)	(730)
Carrying amount	8,569	1,677	1,117	163	11,526
	%	%	%	%	%
Loss allowance coverage rate	0.06%	3.01%	37.18%	6.86%	5.96%

Company

Loans and advances to customers – third parties					At 1 January 2018
					IFRS 9
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross loans and advances to customers	3,752	750	976	89	5,567
Impairment provisions/loss allowance	(2)	(26)	(400)	(7)	(435)
Carrying amount	3,750	724	576	82	5,132
	%	%	%	%	%
Loss allowance coverage rate	0.05%	3.47%	40.98%	7.87%	7.81%

Company

Loans and advances to subsidiaries and special purpose vehicles					At 1 January 2018
					IFRS 9
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Loans and advances to subsidiaries and special purpose vehicles	1,646	-	-	-	1,646
Impairment provisions/loss allowance	-	-	-	-	-
Carrying amount	1,646	-	-	-	1,646
	%	%	%	%	%
Loss allowance coverage rate	0.0%	-	-	-	0.0%

3. TRANSITION TO IFRS 9 (continued)

(b) Principal impacts of IFRS 9
This section details the principal impacts of IFRS 9 in relation to classification and measurement, impairment and hedge accounting.

(i) Classification and measurement
The classification of financial assets under IFRS 9 determines how they are accounted for, and, in particular, how they are measured on an on-going basis.

- 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 ("FVOCI") and fair value through profit or loss ("FVTPL");
- 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 loss allowance;
- There is no separation of an embedded derivative where the instrument is a financial asset;
- Investment in 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.

The business model assessment which was carried out did not result in any change to the current measurement basis at the entity level.

In relation to SPPI testing which was carried out on the financial instruments portfolio, a small number of loans and advances to customers failed the SPPI test. Accordingly, such instruments are measured at FVTPL in accordance with IFRS 9. Fair value movements on these instruments will be shown in profit or loss. There was no impact on the carrying value on transition to this new measurement basis.

EBS Group has not currently opted to designate any financial assets at FVTPL 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 Group has set up governance structures for the on-going validation of its business models and for ensuring that financial instruments failing the SPPI test are correctly identified at initial recognition.

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

(b) Principal impacts of IFRS 9 (continued)

(ii) Impairment
IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. Expected credit losses on certain loan commitments and on financial guarantee contracts together with lease receivables are also covered by this new impairment model. Under IAS 39, impairment losses were compiled on an 'incurred loss' basis where there was objective evidence of impairment. In particular, IFRS 9:

- Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, an allowance 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, an allowance for 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 losses;
- The assessment of credit risk, and the estimation of expected credit losses, are required to be unbiased and probability-weighted. They 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 losses should take into account the time value of money. As a result, the recognition and measurement of impairment is now more forward-looking unlike IAS 39 and the resulting credit impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of credit loss allowances, since all financial assets will be assessed for at least 12 month expected credit losses and the population of financial assets to which lifetime expected credit losses apply is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The impact of IFRS 9 on credit loss allowances is set out below. The credit impairment methodologies and judgements applied are set out in the 'Risk management' section of this report on pages 11 to 58.

(iii) Hedge accounting
IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. It makes some fundamental changes to the requirements under IAS 39 by removing or amending some of the key prohibitions and rules. However, many of these changes are more relevant to non-financial corporations.

The general hedge accounting requirements of IFRS 9 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 until macro hedge accounting is addressed by the IASB as part of a separate project.

EBS Group is exercising this policy choice and will continue to account under IAS 39. However, it has implemented the revised hedge accounting disclosures required by the amendments to IFRS 7.

3. TRANSITION TO IFRS 9 (continued)

(c) Financial statement impacts at 1 January 2018

This section sets out: the opening statement of financial position; the impact of classification and measurement on the Group's financial assets; an impairment reconciliation; and revenue reserves and other components of equity reconciliations at 1 January 2018.

(i) Opening statement of financial position

The following table reconciles the statement of financial position under IAS 39 at 31 December 2017 to that under IFRS 9 at 1 January 2018.

Group

	31 December 2017 (IAS 39) €m	Classification and measurement €m	Loss allowance €m	Tax €m	1 January 2018 (IFRS 9) €m
Assets					
Cash and balances at central banks	80	-	-	-	80
Disposal groups and non-current assets held for sale	4	-	-	-	4
Derivative financial instruments	3	-	-	-	3
Loans and advances to banks	340	-	-	-	340
Loans and advances to customers	11,469	-	57	-	11,526
Investment securities	21	-	-	-	21
Intangible assets	10	-	-	-	10
Property, plant and equipment	23	-	-	-	23
Other assets	2	-	-	-	2
Current taxation	1	-	-	-	1
Deferred tax assets	233	-	-	2	235
Prepayments and accrued income	11	-	-	-	11
Total assets	12,197	-	57	2	12,256
Liabilities					
Deposits by central banks and	4,971	-	-	-	4,971
Customer accounts	5,675	-	-	-	5,675
Derivative financial instruments	11	-	-	-	11
Deferred tax liabilities	-	-	-	11	11
Retirement benefit liabilities	26	-	-	-	26
Other liabilities	39	-	-	-	39
Accruals and deferred income	49	-	-	-	49
Provisions for liabilities and commitments	21	-	-	-	21
Total liabilities	10,792	-	-	11	10,803
Equity					
Share capital	1,654	-	-	-	1,654
Capital contribution	249	-	-	-	249
Revenue reserves	(498)	-	57	(9)	(450)
Total shareholders' equity	1,405	-	57	(9)	1,453
Total liabilities and equity	12,197	-	57	2	12,256

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

Company

	31 December 2017 (IAS 39) €m	Classification and measurement €m	Loss allowance €m	Tax €m	1 January 2018 (IFRS 9) €m
Assets					
Cash and balances at central banks	80	-	-	-	80
Disposal groups and non-current assets held for sale	2	-	-	-	2
Derivative financial instruments	23	-	-	-	23
Loans and advances to banks	1,925	-		-	1,925
Loans and advances to customers	6,777	-	1	-	6,778
Investment securities	2,195	-	-	-	2,195
Shares in group undertakings	594	-	-	-	594
Intangible assets	10	-	-	-	10
Property, plant and equipment	23	-	-	-	23
Other assets	30	-	-	-	30
Current taxation	1	-	-	-	1
Deferred tax assets	241	-	-	2	243
Prepayments and accrued income	19	-	-	-	19
Total assets	11,920	-	1	2	11,923
Liabilities					
Deposits by central banks and banks	4,998	-	-	-	4,998
Customer accounts	5,675	-	-	-	5,675
Derivative financial instruments	31	-	-	-	31
Retirement benefit liabilities	26	-	-	-	26
Other liabilities	40	-	-	-	40
Accruals and deferred income	48	18	-	-	66
Provisions for liabilities and commitments	20	-	-	-	20
Total liabilities	10,838	18	-	-	10,856
Equity					
Share capital	1,654	-	-	-	1,654
Capital contribution	249				249
Revenue reserves	(821)	(18)	1	2	(836)
Total shareholders' equity	1,082	(18)	1	2	1,067
Total liabilities and equity	11,920	-	1	2	11,923

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

(ii) Financial assets - Classification and measurement
The following table summarises the impact of classification and measurement on the Group's financial assets at 1 January 2018.

Group	Original measurement category determined in accordance with IAS 39 at 31 December 2017	New measurement category determined in accordance with IFRS 9 at 1 January 2018	Carrying amount determined in accordance with IAS 39 at 31 December 2017	**Carrying amount determined in accordance with IFRS 9 at 1 January 2018**
Financial assets			€m	**€m**
Cash and balances at central banks	Loans and receivables	Amortised cost	80	**80**
Derivative financial instruments	Fair value	FVTPL (mandatory)	3	**3**
Loans and advances to banks	Loans and receivables	Amortised cost	340	**340**
Loans and advances to customers	Loans and receivables	Amortised cost	11,469	**11,526**
Investment securities - equity	Available for sale	FVOCI	21	**21**
Other financial assets	Amortised cost	Amortised cost	7	**7**
Total assets			11,920	**11,977**

There were no changes in the classification of financial liabilities.

Company	Original measurement category determined in accordance with IAS 39 at 31 December 2017	New measurement category determined in accordance with IFRS 9 at 1 January 2018	Carrying amount determined in accordance with IAS 39 at 31 December 2017	**Carrying amount determined in accordance with IFRS 9 at 1 January 2018**
Financial assets			€m	**€m**
Cash and balances at central banks	Loans and receivables	Amortised cost	80	**80**
Derivative financial instruments	Fair value	FVTPL (mandatory)	23	**23**
Loans and advances to banks	Loans and receivables	Amortised cost	1,925	**1,925**
Loans and advances to customers	Loans and receivables	Amortised cost	6,777	**6,778**
Investment securities – debt	Available for sale	FVOCI	2,174	**2,174**
Investment securities - equity	Available for sale	FVOCI	21	**21**
Other financial assets	Amortised cost	Amortised cost	16	**16**
Total assets			11,016	**11,017**
Financial liabilities			**€m**	**€m**
Derivative financial instruments	Fair value	FVOCI	31	**31**
Deposits by Banks	Amortised cost	Amortised cost	4,998	**4,998**
Customer accounts	Amortised cost	Amortised cost	5,675	**5,675**
Other financial liabilities	Amortised cost	Amortised cost	45	**45**
Accruals and deferred income	Amortised cost	Amortised cost	48	**66**
Total liabilities			10,797	**10,815**

3. TRANSITION TO IFRS 9 (continued)

(iii) Impairment reconciliation

The following table reconciles the closing impairment provision (recognised in accordance with IAS 39) and any provision for loan commitments and financial guarantee contracts (recognised in accordance with IAS 37) as at 31 December 2017 to the opening ECL allowances (in accordance with IFRS 9) as at 1 January 2018:

Group

Financial assets at amortised cost	Impairment provision at at 31 December 2017 (IAS 39) €m	Reclassification €m	Remeasurement €m	1 January 2018 (IFRS 9) €m
Loans and advances to customers	787	-	(57)	730
	787	-	(57)	730

Recognised in statement of financial position as:	At 31 December 2017 €m	Reclassification €m	Remeasurement €m	At 1 January 2018 €m
Impairment provision/ECL allowance - IAS39/IFRS9	787	-	(57)	730
	787	-	(57)	730

3. TRANSITION TO IFRS 9 (continued)

Company

Financial assets at amortised cost	Impairment provision at at 31 December 2017 (IAS 39) €m	**Reclassification** **€m**	**Remeasurement** **€m**	**1 January 2018 (IFRS 9)** **€m**
Loans and advances to customers – third parties	436	**-**	**(1)**	**435**
	436	**-**	**(1)**	**435**

Recognised in statement of financial position as:	At 31 December 2017 €m	**Reclassification** **€m**	**Remeasurement** **€m**	**At 1 January 2018** **€m**
Impairment provision/ECL allowance - IAS39/IFRS9 (third parties)	436	**-**	**(1)**	**435**
	436	**-**	**(1)**	**435**

3. TRANSITION TO IFRS 9 (continued)

(iv) Revenue reserves and other components of equity reconciliations

The following table sets out the impact of applying IFRS 9 on opening revenue reserves and other components of equity as at 1 January 2018:

Group

Available for sale reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017 (IAS 39)	18	(2)	16
Reclassification to investment securities reserves	(18)	2	(16)
Opening balance at 1 January 2018 (IFRS 9)	-	-	-

Investment securities reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017	-	-	-
Reclassification from available for sale reserves (IAS 39) - equity at FVOCI	18	(2)	16
Opening balance at 1 January 2018 (IFRS9)	**18**	**(2)**	**16**

Revenue Reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017 (IAS 39)			(509)
Recognition of expected credit losses for loans and advances to customers at amortised cost	57	(9)	48
Recognition of expected credit losses for loan commitments	-	-	-
Opening balance at 1 January 2018 (IFRS 9)			**(461)**
IFRS 9 transition adjustment to total reserves at 1 January 2018	**57**	**(9)**	**48**

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

Company

Available for sale securities reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017 (IAS 39)	(60)	8	(52)
Reclassification to investment securities reserves	60	(8)	52
Opening balance at 1 January 2018 (IFRS 9)	-	-	-

Investment securities reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017	-	-	-
Reclassification from available for sale reserves (IAS 39) - debt at FVOCI	(78)	10	(68)
Reclassification from available for sale reserves (IAS 39) - equity at FVOCI	18	(2)	16
Recognition of expected credit losses investment securities - debt at FVOCI	-	-	-
Opening balance at 1 January 2018 (IFRS 9)	(60)	8	(52)

Revenue Reserves	Gross €m	Taxation €m	Net €m
Closing balance at 31 December 2017 (IAS 39)	-	-	(762)
Recognition of expected credit losses for loans and advances to customers at amortised cost	1	-	1
Recognition of changes in loan note to special purpose vehicles	(18)	2	(16)
	(17)	2	(15)
Opening balance at 1 January 2018 (IFRS 9)			(777)
IFRS9 transition adjustment to total reserves at 1 January 2018	(17)	2	(15)

3. TRANSITION TO IFRS 9 (continued)

(d) Analysis of financial instruments by staging

This section provides detailed analysis of: exposures within the scope of the ECL framework by balance sheet caption and staging; loans and advances to customers by asset class and staging; off-balance sheet commitments by staging; loans and advances to customers by segment and staging; and forbearance by staging.

(i) Exposures within the scope of the ECL framework by balance sheet caption and staging

The following table analyses exposures within the scope of IFRS 9 including off-balance sheet commitments and guarantees. Exposures are shown gross of ECL.

Items outside the scope of the ECL framework such as cash and items in the course of collection are excluded from this table as it is the EBS Group policy not to calculate an ECL for such items as they have a low risk of default with a very low risk profile. In addition, equity investments have been excluded as they are outside the scope of the ECL framework.

Group

					1 January 2018
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Loans and advances to banks	340	-	-	-	340
Loans and advances to customers	8,574	1,729	1,778	175	12,256
Investment securities	21	-	-	-	21
Total assets	8,935	1,729	1,778	175	12,617
Undrawn commitments and financial guarantee contracts	264	-	-	-	264
Total exposure	9,199	1,729	1,778	175	12,881

Company

					1 January 2018
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Loans and advances to banks	1,925	-	-	-	1,925
Loans and advances to customers	3,752	750	976	89	5,567
Loans and advances to subsidiaries and special purpose vehicles	1,646	-	-	-	1,646
Investment securities	2,195	-	-	-	2,195
Total assets	9,518	750	976	89	11,333
Undrawn commitments and financial guarantee contracts	160			-	160
Total exposure	9,678	750	976	89	11,493

3. TRANSITION TO IFRS 9 (continued)

(d) Analysis of financial instruments by staging

(ii) Loans and advances to customers by asset class

The following table reconciles the carrying amount for loans and advances to customers in accordance with IAS 39 as at 31 December 2017 to the carrying amount in accordance with IFRS 9 as at 1 January 2018. Loans and advances to customers measured at amortised cost have been analysed as to ECL staging:

Measured at amortised cost

Group **Gross carrying amount**									**1 Jan 2018**			31 Dec 2017
		Impact of adopting IFRS 9			**Analysed as to:**					**Of which impaired under IAS 39**		
	At 31 Dec 2017 IAS 39	**Reclassifications**	**Remeasurement**	**At 1 Jan 2018** **IFRS 9**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Individually assessed**	**Collectively assessed**	**Total**
Gross carrying amount by asset class	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Residential mortgages	12,106	**-**	**-**	**12,106**	**8,551**	**1,704**	**1,678**	**173**	**12,106**	**-**	**-**	**-**
Property and construction	150	**-**	**-**	**150**	**23**	**25**	**100**	**2**	**150**	**-**	**-**	**-**
Total	12,256	**-**	**-**	**12,256**	**8,574**	**1,729**	**1,778**	**175**	**12,256**	**-**	**-**	**-**
Company												
Residential mortgages	5,417	**-**	**-**	**5,417**	**3,729**	**725**	**876**	**87**	**5,417**	**-**	**-**	**-**
Property and construction	150	**-**	**-**	**150**	**23**	**25**	**100**	**2**	**150**	**-**	**-**	**-**
Total	5,567	**-**	**-**	**5,567**	**3,752**	**750**	**976**	**89**	**5,567**	**-**	**-**	**-**

3. TRANSITION TO IFRS 9 (continued)

(d) Analysis of financial instruments by staging (continued)

(ii) Loans and advances to customers by asset class (continued)

Group

Loss allowance									**1 January 2018**			31 December 2017
		Impact of adopting IFRS 9 on loss allowance			**Analysed as to:**					Impairment provisions under IAS 39		
Loss allowance by asset class	At 31 December 2017 Specific and IBNR provisions IAS 39	**Reclassifications**	**Remeasurement**	**At 1 January 2018 IFRS 9**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	Specific provisions	IBNR provisions	Total
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	€m	€m	€m
Residential mortgages	(743)	**-**	**69**	**(674)**	**(5)**	**(48)**	**(609)**	**(12)**	**(674)**	(631)	(112)	(743)
Property and construction	(44)	**-**	**(12)**	**(56)**	**-**	**(4)**	**(52)**	**-**	**(56)**	(42)	(2)	(44)
Total	(787)	**-**	**57**	**(730)**	**(5)**	**(52)**	**(661)**	**(12)**	**(730)**	(673)	(114)	(787)
Measured at amortised cost carrying amount	11,469	**-**	**57**	**11,526**	**8,569**	**1,677**	**1,117**	**163**	**11,526**			

3. TRANSITION TO IFRS 9 (continued)

(d) Analysis of financial instruments by staging (continued)

(ii) Loans and advances to customers by asset class (continued)

Company

Loss allowance				1 January 2018							31 December 2017
		Impact of adopting IFRS 9 on loss allowance			Analysed as to:					Impairment provisions under IAS 39	
Loss allowance by asset class	At 31 December 2017 Specific and IBNR provisions IAS 39	Reclassifications	Remeasurement	At 1 January 2018 IFRS9	Stage 1	Stage 2	Stage 3	POCI	Total	Specific provisions	IBNR provisions	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Residential mortgages	(391)	-	12	(379)	(2)	(22)	(348)	(7)	(379)	(340)	(51)	(391)
Property and construction	(45)	-	(11)	(56)	-	(4)	(52)	-	(56)	(43)	(2)	(45)
Total	(436)	-	1	(435)	(2)	(26)	(400)	(7)	(435)	(383)	(53)	(436)
Measured at amortised cost carrying amount	5,131	-	1	5,132	3,750	724	576	82	5,132			

Notes to the Financial Statements (continued)

3. TRANSITION TO IFRS 9 (continued)

(d) Analysis of financial instruments by staging

(iii) Off-balance sheet commitments

The following table analyses the nominal amount of off-balance sheet commitments and the opening loss allowance at 1 January 2018:

Group

	Off-balance sheet commitments			Analysed as to:				
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Nominal amount	264	-	264	264	-	-	-	264

	Loss allowance			Analysed as to:				
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Loss allowance	-	-	-	-	-	-	-	-

Company

	Off-balance sheet commitments			Analysed as to:				
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Nominal amount	160	-	160	160	-	-	-	160

	Loss allowance			Analysed as to:				
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Loss allowance	-	-	-	-	-	-	-	-

Notes to the Financial Statements (continued)

4. REPORTING BY BUSINESS SEGMENTS AND GEOGRAPHICAL LOCATION

For management and reporting purposes EBS 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 EBS Group involve the provision of mortgage lending, savings, investments and insurance arrangement services to customers. EBS operates through 70 offices and a direct telephone line in the Republic of Ireland.

5. INTEREST AND SIMILAR INCOME

	2018 €m	2017 €m
Interest on loans and advances to customers at amortised cost	**337**	357
Interest received from AIB	**1**	13
Other interest income	**(1)**	(1)
	337	369

All interest income is calculated using the effective interest method.

In 2017, interest income recognised on impaired loans amounted to €32m.

6. INTEREST EXPENSE

	2018 €m	2017 €m
Interest on customer accounts	**32**	67
Interest on debt securities in issue	**-**	(1)
Interest paid to AIB	**26**	11
	58	77

Interest expense includes €33k in respect of charges payable under the Credit Institutions (Eligible Liabilities Guarantee) scheme in 2018 (2017: €4m). The ELG scheme ended in March 2018.

Notes to the Financial Statements (continued)

7. DIVIDEND INCOME

Dividend income received on NAMA subordinated bonds amounted to €1m at 31 December 2018 (2017: €1m).

8. NET FEE AND COMMISSION INCOME

	2018 €m	2017 €m
Fees and commissions receivable	**17**	18
Fees and commissions payable	**(7)**	(6)
	10	12

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

9. NET TRADING GAIN

	2018 €m	2017 €m
Interest rate contracts	**-**	1
	-	1

The total hedging ineffectiveness on cash flow hedges reflected in net trading income is nil (2017: Nil).

10. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2018 €m	2017 €m
Loans and advances to customers	**4**	-
	4	-

The fair value gain on loans and advances to customers measured at FVTPL was €4m in 2018.

11. NET GAIN ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

	2018 €m	2017 €m
Profit on disposal of loans and advances to customers	**3**	-

	Carrying value at derecognition €m	**Gain on derecognition €m**	**Loss on derecognition €m**	**Net gain on derecognition €m**
Loans and advances to customers	**8**	**3**	**-**	**3**

Gains and losses on derecognition have been computed at a customer connection level

12. OTHER OPERATING INCOME

	2018 €m	2017 €m
Miscellaneous operating income	**1**	4
	1	4

Notes to the Financial Statements (continued)

13. ADMINISTRATIVE EXPENSES

	2018 €m	2017 €m
Personnel expenses	**1**	1
Amounts payable to AIB	**96**	112
Other administrative expenses	**89**	47
Total administrative expenses	**186**	160

	2018 €m	2017 €m
Personnel expenses comprise:		
Wages and salaries	**-**	-
Voluntary Severance	**-**	-
Social insurance costs	**-**	-
Retirement benefits charge/(credit) (note 32)	**1**	1
Other personnel expenses	**-**	-
	1	1

In 2017, a review was completed of pricing arrangements between AIB and EBS Group. Arising from this review a new pricing agreement was signed and implemented during 2017. The 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.

Amounts payable to AIB decreased by €16m in 2018 from €112m in 2017 following the revision of the transfer pricing calculation for 2018.

Other administrative expenses includes a provisions for liabilities and commitments debit of €35m (2017: €13m credit) for Group that relates to provisions for customer redress. For EBS Company provisions for liabilities and commitments that relates to customer redress is a debit of €25m (2017: €13m credit). (*see note 33 Provisions for liabilities and commitments*).

For the financial year ended 31 December 2018 the monthly average number of employees was 1 (2017: 1). As at 31 December 2018, EBS Group had 1 employee. In addition a small number of AIB 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 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 40).

14. AUDITORS' REMUNERATION

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

	2018 €'000	2017 €'000
Statutory audit	**260**	220
Other assurance services	**8**	32
Tax advisory services	**-**	-
Other non-audit services	**-**	-
	268	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 is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of fees paid/payable to the EBS Group's Auditor (Deloitte) for services relating to the Group financial statements in the categories above. Both years are presented on that basis.

All the above amounts were paid to the EBS Group Auditor for services provided to subsidiaries of the Group.

Notes to the Financial Statements (continued)

15. NET CREDIT IMPAIRMENT WRITEBACK

The following table analyses the income statement net credit impairment writeback on financial instruments for the year ended 31 December 2018.

	2018
Credit impairment writeback on financial instruments measured at amortised cost	**€m**
Loans and advances to customers	**2**
Credit impairment writeback	**2**
Recoveries of amounts previously written-off	**9**
Net credit impairment writeback	**11**

	2017
	€m
Provisions for impairment on loans and advances	(35)

16. TAXATION

	2018	2017
	€m	€m
Corporate taxation		
Current tax charge on income for financial year	**11**	6
Deferred taxation		
Origination and reversal of temporary differences and tax losses	**6**	6
	17	12

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

	2018	2017
Profit before tax at 12.5%	**15**	14
Adjustments:		
Expense not deductible for tax purposes	**2**	3
Recognition of deferred tax asset previously not recognised	**-**	(5)
Effective tax rate 14.2% (2017: 10.5%)	**17**	12

Income tax recognised in other comprehensive income

	2018 Before Tax €m	2018 Tax benefit (expense) €m	2018 Net of Tax €m	2017 Before Tax €m	2017 Tax benefit (expense) €m	2017 Net of Tax €m
Net movement in cash flow hedge reserve	**(7)**	**(1)**	**(6)**	2	-	2
Net movement in Investment securities reserve	**-**	**-**	**-**	1	-	1
Net actuarial gain/(loss) on retirement benefits	**(3)**	**-**	**(3)**	21	3	18
	(10)	**(1)**	**(9)**	24	3	21

Notes to the Financial Statements (continued)

17. CASH AND BALANCES AT CENTRAL BANKS

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Cash in hand	**6**	6	**6**	6
Balances with Central Bank of Ireland other than mandatory reserve deposits	**42**	74	**42**	74
	48	80	**48**	80

18. 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 EBS Group to modify the re-pricing characteristics of assets and liabilities in a cost efficient manner. This flexibility helps EBS 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, EBS Group uses a combination of derivative financial instruments, particularly interest rate swaps. EBS 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 for EBS Group to AIB Group Asset and Liability Committee. However the AIB Board continues to retain ultimate responsibility for these risks. Membership of the AIB Group Asset and Liability Committee consists of senior management as well as management team members.

Group			**2018**			2017
	Notional amount	**Fair values**		Notional amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€m	**€m**	**€m**	€m	€m	€m
Derivatives held at fair value through the income statement						
Interest rate swaps	**-**	**-**	**-**	-	-	-
Derivatives classified as fair value hedging						
Interest rate swaps	**-**	**-**	**-**	13	-	-
Derivatives classified as cash flow hedges						
Interest rate swaps	**3,546**	**1**	**16**	3,060	3	11
Total hedging contracts	**3,546**	**1**	**16**	3,073	3	11
Total derivative financial instruments	**3,546**	**1**	**16**	3,073	3	11

Notes to the Financial Statements (continued)

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Company	**2018**			2017		
	Notional amount €m	**Fair values Assets €m**	**Fair values Liabilities €m**	Notional amount €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held at fair value through the income statement						
Interest rate swaps	**4,404**	**23**	**23**	4,834	20	20
Derivatives classified as fair value hedging						
Interest rate swaps	**-**	**-**	**-**	13	-	-
Derivatives classified as cashflow hedges						
Interest rate swaps	**3,546**	**1**	**16**	3,060	3	11
Total hedging contracts	**3,546**	**1**	**16**	3,073	3	11
Total derivative financial instruments	**7,950**	**24**	**39**	7,907	23	31

The derivative maturity table below analyses the asset fair value amounts by maturity bucket.

Derivative Maturity Table – at 31 December 2018

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	**-**	**1**	**-**	**1**
Total assets	**-**	**1**	**-**	**1**

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 2018

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	**-**	**1**	**23**	**24**
Total assets	**-**	**1**	**23**	**24**

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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
	2	1	20	23

Nominal values and average rates for cash flow hedges by residual maturity
At 31 December 2018, EBS DAC held the following hedging instruments in cash flow hedges of interest rate risk and foreign currency risk:

Interest rate risk	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5+ years	2018 Total
Interest rate swaps Assets						
Nominal principal amount (€m)	75	270	1,125	340	5	1,815
Average interest rate (%)	(0.35%)	(0.37%)	(0.33%)	(0.31%)	(0.32%)	(0.33%)
Interest rate swaps Liabilities						
Nominal principal amount (€m)	4	1	8	1,712	6	1,731
Average interest rate (%)	1.76%	1.97%	1.97%	0.06%	0.44%	0.08%

Cash flow hedges of interest rate and foreign currency risk
At 31 December 2018, the amounts designated as hedged items in cash flow hedges were as follows:

								2018
	Carrying amount						Hedge ineffectiveness	Amounts reclassified from cashflow hedging reserves to the income statement
	Nominal amount €m	Assets €m	Liabilities €m	Line item in SOFP where hedging instruments are included	Change in fair value of hedging instruments for calculating hedge ineffectiveness in the year €m	Change in the value of the hedging instruments recognised in OCI in the year €m	Line item in the income statement that includes hedge ineffectiveness	Line item in the income statement affected by the reclassification
Interest rate risk Interest rate swaps								
Derivative assets	1,815	1	-	Derivative financial instruments	(2)	-	Net trading income	Interest income
Derivative liabilities	1,731	-	(16)	Derivative financial instruments	-	(6)	Net trading income	Interest income

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges of interest rate risk

At 31 December 2018, the amounts designated as hedged items in cash flow hedges were as follows:

						2018
	Line item in the SOFP in which hedged item is included	**Change in fair value of hedged items used for calculating ineffectiveness for the year**	**Amount in the cash flow hedging reserves for continuing hedges[1] pre tax**	**Amounts in the cashflow reserves for continuing hedges[1] pre tax**	**Amounts remaining in cashflow reserves from any hedging relationship for which hedge accounting is no longer applied pre tax**	**Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax**
Hedged risk		**€m**	**€m**	**€m**	**€m**	**€m**
Interest rate risk						
Interest rate/cross currency	Loans and advances to customers	2	1	1	-	-
Interest rate	Customer accounts	-	(11)	(13)	(2)	(2)

[1]The cash flow hedging reserves is adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves shall be recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement

19. LOANS AND ADVANCES TO BANKS

Analysed by remaining maturity:	**Company 2018**	Company 2017	**Group 2018**	Group 2017
	€m	€m	**€m**	€m
Repayable on demand	**731**	1,925	**137**	340
	731	1,925	**137**	340

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

At 31 December 2018, in addition to the mandatory reserve deposits, EBS Group has €73m (2017: €64m) included in loans and advances 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.5 d.a.c. and Mespil 1 RMBS d.a.c. The reduction in loans and advances to banks is driven by a pay down of the inter-company loan between EBS Mortgage Finance and EBS DAC plus a general decrease in money market trades held between EBS and AIB.

At 31 December 2018 loans restricted between EBS Group and AIB are €64m (2017: €264m). At 31 December 2018 loans restricted between EBS and AIB are €57m (2017: €251m). At 31 December 2018 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €672m (2017: €1,723m).

Notes to the Financial Statements (continued)

20. LOANS AND ADVANCES TO CUSTOMERS

Comparative figures have not been restated for the impact of IFRS 9 and are presented on an IAS 39 classification and measurement basis.

Loans and advances to customers –

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Loans and advances to customers	**5,421**	5,567	**11,728**	12,256
Loans to subsidiaries and special purpose vehicles	**1,879**	1,646	**-**	-
Total loans and advances to customers before provisions	**7,300**	7,213	**11,728**	12,256
Less ECL allowance	**(171)**	(436)	**(324)**	(787)
Total loans and advances to customers	**7,129**	6,777	**11,404**	11,469

Loans and advances to customers – analysis by maturity

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Repayable on demand	**2,295**	2,526	**780**	1,606
Repayable in less than three months	**3**	2	**3**	2
Repayable in more than three months but less than one year	**22**	12	**26**	14
Repayable in more than one but less than five years	**108**	101	**203**	192
Repayable in more than five years	**4,872**	4,572	**10,716**	10,442
Total loans and advances to customers before provisions	**7,300**	7,213	**11,728**	12,256
Less ECL allowance	**(171)**	(436)	**(324)**	(787)
Total loans and advances to customers	**7,129**	6,777	**11,404**	11,469

Included in Group loans and advances to customers is €4,440m (2017: €4,855m) of loans in the covered bond bank, EBS Mortgage Finance, €2,159m (2017: €1,955m) of loans in Haven Mortgages and €1,727m (2017: €1,921m) 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 2018, were nil (2017: nil).

Loss allowance on financial assets

The following table shows the movements on the impairment loss allowance on financial assets.

	Company IFRS 9 31 December 2018 € m	**Group IFRS 9 31 December 2018 € m**
Opening balance	**436**	**787**
Transition to IFRS 9	**(1)**	**(57)**
Net remeasurement of loss allowance- customers	**(13)**	**(2)**
Changes in loss allowance due to write-offs	**(244)**	**(396)**
Changes in loss allowance due to derecognition	**(7)**	**(8)**
At 31 December 2018	**171**	**324**
Amounts include ECL allowance on:		
Loans and advances to customers measured at amortised cost	**171**	**324**

For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

20. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Provision for loan impairments

Provisions for impairment on loans and advances to customers	Company 2017 €m	Group 2017 €m
At 1 January	546	934
Charge/(Writeback) to the Income Statement	22	35
Amounts written off	(132)	(182)
At 31 December	436	787

Total provisions are split between specific and IBNR as follows:		
Specific	383	673
IBNR	53	114
At 31 December	436	787

Continuing Involvement in Securitised Assets
At 31 December 2018, EBS Group had loans secured on residential property subject to non-recourse funding. These loans, which have not been de-recognised, are shown within loans and advances to customers and the non-recourse funding is shown within debt securities in issue within EBS 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.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 (2017: €2,500m). The carrying amount of transferred secured loans that EBS Group continues to recognise at 31 December 2018 is €1,072m (2017: €1,077m). The fair value of these loans at 31 December 2018 was €987m (2017: €979m).

Bonds were issued by Emerald 5 to EBS but these are not shown on EBS 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) (2017: €1,000m (EBS €290m; Haven Mortgages Limited €710m))

The total carrying amount of transferred secured loans that EBS Group continues to recognise as at 31 December 2018 is €661m (2017: €681m) in relation to the transfers from EBS and Haven Mortgages Limited. The fair value of these of these loans at 31 December 2018 was €633m (2017: €668m).

Bonds issued by Mespil to EBS are not shown on EBS 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 (2017: €11m), which is subordinated to the interest of the bond holders.

Notes to the Financial Statements (continued)

21. INVESTMENT SECURITIES

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Euro Bank Securities measured at FVOCI	**2,593**	2,174	**-**	-
Equity securities - NAMA subordinated bonds measured at FVTPL	**21**	21	**21**	21
	2,614	2,195	**21**	21

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

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Maturing within three months	**-**	-	**-**	-
Maturing between three months and one year	**-**	-	**-**	-
Maturing between one and five years	**1,437**	963	**-**	-
Maturing after 5 years	**1,156**	1,211	**-**	-
	2,593	2,174	**-**	-

The following table sets out at 31 December 2018 and 2017, the carrying value (fair value) of investment securities 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 2018				
Equity securities - NAMA subordinated bonds	**21**	**19**	**(2)**	**17**
Total	**21**	**19**	**(2)**	**17**
Company – 31 December 2018				
Euro Bank Securities	**2,593**	**-**	**-**	**-**
Equity securities - NAMA subordinated bonds	**21**	**19**	**(2)**	**17**
Total	**2,614**	**19**	**(2)**	**17**
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

Notes to the Financial Statements (continued)

22. INTANGIBLE ASSETS

Group and Company	2018	2017*
	€m	€m
Computer software (and development costs)		
Cost		
At 1 January	**41**	35
Additions - internally generated	**7**	6
Disposals	**-**	-
Amounts written off	**-**	-
At 31 December	**48**	41
Amortisation		
At 1 January	**31**	29
Impairment for financial year	**-**	-
Charge for financial year	**2**	2
Disposals	**-**	-
At 31 December	**33**	31
Carrying value at 31 December	**15**	10

* EBS company opening 2017 restated – now in line with EBS Group

23. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Property				
	Freehold	**Long Leasehold**	**Leasehold under 50 years**	**Equipment**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Cost					
At 1 January 2018	**27**	**8**	**15**	**11**	**61**
Additions	**-**	**-**	**-**	**3**	**3**
Transfers	**-**	**-**	**-**	**-**	**-**
At 31 December 2018	**27**	**8**	**15**	**14**	**64**
Depreciation and impairment					
At 1 January 2018	**9**	**4**	**14**	**11**	**38**
Charge for financial year	**1**	**-**	**-**	**-**	**1**
At 31 December 2018	**10**	**4**	**14**	**11**	**39**
Carrying value at 31 December	**17**	**4**	**1**	**3**	**25**

Land and buildings to the value of €25m (2017: €23m) were occupied by EBS Group for its own activities.

Notes to the Financial Statements (continued)

23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

24. OTHER ASSETS

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Items in transit - debit	**-**	-	**3**	2
Other receivables	**31**	30	**-**	-
	31	30	**3**	2

25. DEFERRED TAXATION

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Opening balance	**241**	254	**233**	242
Transition to IFRS 9	**2**	-	**(9)**	-
Current financial year tax losses	**(6)**	(9)	**(6)**	(6)
Deferred tax through equity	**6**	(4)	**2**	(3)
At 31 December	**243**	241	**220**	233
The amounts provided in relation to deferred taxation are as follows:				
Deferred tax assets				
DTA on transition to IFRS 9	**2**	-	**2**	-
Retirement benefits	**4**	3	**4**	4
Investment securities	**14**	8	**(1)**	(2)
Unutilised tax losses	**223**	230	**224**	231
	243	241	**229**	233
Deferred tax liabilities				
DTL on transition to IFRS 9	**-**	-	**(9)**	-
	-	-	**(9)**	-
Net deferred tax assets	**243**	241	**220**	233

25. DEFERRED TAXATION (CONTINUED)

At 31 December 2018, deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €220m (2017: €233m) for Group.

The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits.

EBS returned to profitability in 2014 and the Directors believe that it will continue to generate profits in the foreseeable future. In the absence of any expiry date for tax losses in Ireland, EBS therefore believes that it is more likely than not that there will be future profits against which to use the tax losses. EBS has carried out an exercise to determine the likely number of years required to utilise the deferred tax, which indicates the deferred tax asset will be fully utilised within the next 19 years.

26. SHARES IN GROUP UNDERTAKINGS

Company	**2018 €m**	2017 €m
At 1 January	**594**	612
Additions	**-**	-
Disposals	**-**	(18)
At 31 December	**594**	594

The following table sets out at 31 December 2018 and 2017, the carrying value of shares in group undertakings.

	2018 €m	2017 €m
EBS Mortgage Finance	**552**	552
Emerald 5	**31**	31
Mespil	**11**	11
Total	**594**	594

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

EBS Mortgage Finance:
EBS holds 551,540,000 (2017: 551,540,000) €1 ordinary shares (100%) in EBS Mortgage Finance which was incorporated in the Republic of Ireland on 30 October 2008 and is regulated as a designated credit institution. EBS Mortgage Finance does not sell mortgage loans directly to the public. Instead it has an origination agreement with EBS, whereby EBS continues to sell mortgage loans directly to the public and subsequently sells these loans to EBS Mortgage Finance for an appropriate consideration. The registered address of the Company is “2 Burlington Road, Dublin 4”.

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

Haven Mortgages Limited
EBS holds 1 (2017: 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 2018 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)

27. DEPOSITS BY CENTRAL BANK AND BANKS

Analysis by Counterparty	Company 2018 €m	Company 2017 €m	Group 2018 €m	Group 2017 €m
Due to Group undertaking	**29**	30	**-**	-
Due to AIB	**2,490**	2,458	**2,490**	2,461
Repurchase agreements with AIB	**2,343**	2,510	**2,343**	2,510
	4,862	4,998	**4,833**	4,971

Contractual maturity analysis

Analysis by maturity	Company 2018 €m	Company 2017 €m	Group 2018 €m	Group 2017 €m
Repayable on Demand	**34**	121	**5**	94
3 months or less	**4,828**	4,877	**4,828**	4,877
	4,862	4,998	**4,833**	4,971

28. PLEDGED COLLATERAL

	Company 2018 €m	Company 2017 €m	Group 2018 €m	Group 2017 €m
Asset backed securities (own issue)	**3,094**	2,790	**3,094**	2,790
	3,094	2,790	**3,094**	2,790

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.

EBS Group had €20m (2017: €20m) of unencumbered contingent collateral available at 31 December 2018, comprising residential mortgage assets of nil (2017: nil) and debt securities of €20m (2017: €20m).

29. CUSTOMER ACCOUNTS

Customer accounts – analysis by sector

	Company 2018 €m	Company 2017 €m	Group 2018 €m	Group 2017 €m
Retail	**5,299**	5,389	**5,299**	5,389
Corporate	**75**	286	**75**	286
	5,374	5,675	**5,374**	5,675

Customer accounts – Contractual maturity analysis

	Company 2018 €m	Company 2017 €m	Group 2018 €m	Group 2017 €m
Repayable on demand	**2,256**	2,073	**2,256**	2,073
Repayable in less than three months but not on demand	**667**	1,015	**667**	1,015
Repayable in more than three months but less than one year	**1,653**	1,756	**1,653**	1,756
Repayable in more than one year but less than five years	**798**	831	**798**	831
	5,374	5,675	**5,374**	5,675

Notes to the Financial Statements (continued)

30. OTHER LIABILITIES

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Funding liabilities fair value hedge	**-**	-	**-**	-
Items in transit	**31**	28	**31**	29
VAT payable	**-**	-	**-**	1
Other liabilities	**36**	12	**4**	9
	67	40	**35**	39

31. ACCRUALS AND DEFERRED INCOME

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017 €m
Accruals and deferred income	**22**	48	**28**	49
	22	48	**28**	49

32. 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, with exception of the managing director.

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 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 has been implemented by the AIB Board. These interests and factors include advice of the Actuary; the interests of the members of the scheme; the interests of the employees; EBS Group's financial circumstances and ability to pay; the views of the Trustees: EBS Group's commercial interests and any competing obligations to the State. EBS completed this process early in 2019 taking account of all relevant factors and decided that the funding of discretionary increases to pensions and payments was appropriate for 2019. Funding will be provided to enable the trustee to grant an increase of 0.5% in 2019 (2018: 0.35%)

In 2017, the EBS Board decided that funding of discretionary increases was not appropriate for 2017.

In accordance with the process as outlined, the EBS Board will make its next decision on the funding of discretionary increases to pensions in payment for certain EBS schemes for 2020 in early 2020.

32. 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 2018 is 21 years. (2017: 22 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 EBS Group and Company are determined as follows:

32. RETIREMENT BENEFITS (CONTINUED)

	2018				2017			
	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	**(197)**	**178**	**(7)**	**(26)**	(212)	173	(7)	(46)
Included in profit or loss								
Interest cost (income)	**(4)**	**4**	**-**	**-**	(4)	3	-	(1)
	(4)	**4**	**-**	**-**	(4)	3	-	(1)
Included in other comprehensive income								
Remeasurements loss (gain):								
Actuarial loss (gain) arising from:								
- Experience Adjustments	**1**	**-**	**-**	**1**	7	-	-	7
- Changes in demographic assumptions	**-**	**-**	**-**	**-**	1	-	-	1
- Changes in financial assumptions	**4**	**-**	**-**	**4**	7	-	-	7
Return on scheme assets excluding interest income	**-**	**(8)**	**-**	**(8)**	-	5	-	5
Asset ceiling/minimum funding adjustments	**-**	**-**	**(1)**	**(1)**	-	-	-	-
	5	**(8)**	**(1)**	**(4)**	15	5	-	20
Other								
Contributions by employer	**-**	**2**	**-**	**2**	-	1	-	1
Benefits paid	**5**	**(5)**	**-**	**-**	4	(4)	-	-
Administrative expenses paid from plan assets	**-**	**(1)**	**-**	**(1)**	-	-	-	-
	5	**(4)**	**-**	**1**	4	(3)	-	1
At 31 December	**(191)**	**170**	**(8)**	**(29)**	(197)	178	(7)	(26)
Recognised on the statement of financial position as:								
Retirement benefit assets				**-**				-
Retirement benefit liabilities				**(29)**				(26)
Net pension deficit				**(29)**				(26)

(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.

32. RETIREMENT BENEFITS (CONTINUED)

	2018 €m	2017 €m
The amounts recognised in the income statement are as follows:		
Defined Benefit Schemes		
Current service costs	**-**	-
Interest cost	**(3)**	(4)
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	**2**	3
Total (cost)/credit (included in staff costs)	**(1)**	(1)

Pension Plan Assets

The following tables set out an analysis of the scheme assets at 31 December 2018 and at 31 December 2017:

	2018 €m	2017 €m
Investment Funds		
Equity	**59**	69
Fixed Interest	**86**	85
Alternatives		
- Quoted	**25**	24
- Unquoted	**-**	-
Cash	**-**	-
Property	**-**	-
Total Investment funds	**170**	178

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

	2018	2017
Rate of inflation	**1.25%**	1.35%
Discount rate	**2.15%**	2.10%
Rate of increase of pensions in payment(1)	**0.00%**	0.00%

(1) Having taken actuarial and external legal advice, the Board determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. Accordingly, the long term rate of increases of pensions in payment is Nil.

The assumptions made for 2018 and 2017 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 2018 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 2018 was 23.2 years (2017: 23.1 years) and for a female pensioner aged 65 years was 25.1years (2017: 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 25.5years (2017: 25.4 years) and for a female pensioner aged 65 years will increase to 27.4 years (2017: 27.3 years).

The contribution to be paid by the Company in 2019 is estimated to be €1.4m, although these contributions may not ultimately be required, pending discussions with the trustees of each scheme

32. 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 c. 5.5%. An increase or decrease in the inflation rate of 25 basis points would reduce or increase the scheme liabilities by c. 2.0%. The addition of a one year age offset to the mortality table in use would increase the scheme liabilities by c. 2.5%.

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.

33. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	Company	Company	**Group**	Group
Group	**2018**	2017	**2018**	2017
	€ m	€ m	**€ m**	€ m
At 1 January	**20**	40	**21**	54
Amounts charged to income statement	**25**	13	**35**	13
Amounts written back to income statement	**(2)**	(9)	**(2)**	(19)
Provisions utilised	**(24)**	(24)	**(35)**	(27)
At 31 December[(1)]	**19**	20	**19**	21

[(1)] The total provisions expected to be settled within one year amounts to €15m (2017: €15m) for EBS Group and €15m (2017: €13m) for the Company.

Provisions for customer redress and other costs
Tracker Mortgage Examination Provisions amounting to €55m were created in the period 2015 to 2017 relating 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 have expected.

The Company determined that a further €26m was required during 2018 for customer redress and compensation, including payments arising on appeals. Of the provision €80m has now been utilised (€55m at 31 December 2017). As a result, the provision at 31 December 2018 is €1m, which is required for the remaining customers that have yet to receive redress and compensation. Payments are expected to complete in early 2019. The residual amount reflects the advanced stage of the examination process in the Bank. The Bank also created provisions of €43m with regard to 'Other Costs' during the period 2015 to 2017 of which €40m has now been utilised (€29m at 31 December 2017) leaving a provision at 31 December 2018 of €3m.

In March 2018, EBS were advised by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The investigations relate to alleged breaches of the relevant consumer protection legislation, principally regarding inadequate controls or instances where EBS acted with a lack of transparency, unfairly or without due skill and care. The investigations are ongoing and EBS are co-operating with the CBI in this regard. In addition, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Further cases may be served in the future in relation to tracker mortgages.

Based on the facts currently known and the current stages that the investigations and litigation are at, it is not practical at this time to predict the final outcome of these investigations and litigation, nor the timing and possible impact, including any monetary penalties on the Group. Accordingly, EBS and AIB have not made any provision at this stage in relation to these matters

34. SHARE CAPITAL

Group and Company

	2018 €m	2017 €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.

Group and Company

	2018 €m	2017 €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.

35. CAPITAL CONTRIBUTION

Group and Company

	2018 €m	2017 €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.

36. LEASING COMMITMENTS

Group and Company

	2018 €m	2017 €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	**23**	22
After five years	**19**	22
	48	50

37. CAPITAL COMMITMENTS

Group and Company

There was Nil (2017: Nil) capital expenditure contracted or authorised.

38. CASH AND CASH EQUIVALENTS

	Company 2018 €m	Company 2017 €m	**Group 2018 €m**	Group 2017* €m
For the purposes of the cash flow statement the cash and cash equivalents comprise the following:				
Cash and balances at Central Banks	**48**	80	**48**	80
Loans and advances to banks	**2**	7	**73**	76
Loans and advances to banks (Group Undertakings)	**729**	1,918	**-**	-
	779	2,005	**121**	156

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 EBS Group is included in note19.

* Restated due to incorrect disclosure of loans and advances to banks within cash and cash equivalents. 2017 was previously disclosed as €263m, now restated to €76m.

39. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company

(i) Off balance sheet commitments

At 31 December 2018 Group and Company loan approvals that have not been drawn down as at year end, amount to €287m (2017: €264m) and €190m (2017: €160m) 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. In addition, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Further cases may be served in the future in relation to tracker mortgages.

(iii) Contingent liability/contingent asset – NAMA

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

(iv) TARGET 2 – Gross settlement system

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

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

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

In each case, a 'Charged Property' for the purpose of securing all present and future liabilities of EBS in respect of EBS's participation in TARGET 2, arising from the floating charges and the Terms and Conditions for participation in TARGET2 – Ireland (specified from time to time by the Central Bank of Ireland), including, without limitation, liabilities to the Central Bank of Ireland, the European Central Bank, or any national central bank of a Member State that has adopted the euro.
These floating charges contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank of Ireland, EBS shall:

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

39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

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

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

40. RELATED PARTY TRANSACTIONS

Group
Details of the principal subsidiary undertakings are set out in Note 26. 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 2018, the State held 71.12% of the ordinary shares of AIB Group plc (31 December 2017: 71.12% of the ordinary shares of AIB).

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 2018 was nil (31 December 2017: €29m). 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 EBS 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 2017: €21m).

Financial institutions under Irish Government control/significant influence
Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government: – Permanent tsb plc The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure. In addition, the Irish Government is deemed to have significant influence over Bank of Ireland. Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms.

Notes to the Financial Statements (continued)

40. RELATED PARTY TRANSACTIONS (continued)

- Balances held with the Irish Government and related entities (continued)

The following table sets out the aggregate balance between EBS Group and these financial institutions.

As at 31 December	Investment securities assets €m	Derivative financial instruments (Assets) €m	Loans and advances to banks €m	Deposits by banks €m	Derivative financial instruments (Liabilities) €m
2018	**21**	**1**	**106**	**4,833**	**16**
2017	21	3	343	4,971	11

(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.

Schedule of related party amounts reflected in the financial statements	2018 €m	2017 €m
Loans and advances to banks	**2,683**	3,035
Deposits by central banks and banks	**485**	1,274
Included in the Income Statement		
Interest income on loans	**2**	3
Interest expense on loans	**39**	48
Other income	**26**	54
Derivative financial instruments		
Interest rate swaps		
Assets (Fair value)	**23**	20
Liabilities (Fair value)	**23**	20
Net trading income	**(2)**	2

(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 investment securities.

	2018 €m	2017 €m
Loans and advances to banks	**64**	270
Prepayments and accrued income	**-**	6
Deposits by central banks and banks	**4,833**	4,971
Included in the Income Statement		
Interest income on loans	**1**	13
Interest expense on loans	**(26)**	(11)
Administrative expenses	**(96)**	(112)
Derivative financial instruments		
Interest rate swaps		
Assets (Fair value)	**1**	3
Liabilities (Fair value)	**16**	11

Notes to the Financial Statements (continued)

40. 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 ("KMP") are defined as comprising Executive and Non-Executive Directors, together with Senior Executive Officers. As at 31 December 2018 EBS has 10 KMP (2017: 10 KMP).

(i) Compensation of Key Management Personnel
Compensation of KMP, 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.

Total compensation to key management personnel is as follows:

	2018 €'000	2017 €'000
Post-employment benefits	**-**	-
Short-term compensation [(1)]	**370**	328
Termination benefits	**-**	-
	370	328

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

(ii) Transactions with Key Management Personnel
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, 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	**2018 €'000**	2017 €'000
At 1 January	**595**	125
Loans issued during the year	**-**	-
Loan repayments during the year/change of KMP/other	**20**	470
At 31 December	**575**	595

The balances outlined above include loans, quasi loans and credit transactions held by the connected persons of KMP identified as such during the reporting period. In instances where the KMP 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 7 Directors in office during the year, 1 of whom availed of credit facilities (2017: 1). The Director who availed of credit facilities had balances outstanding at 31 December 2018 (2017: 1).

Details of transactions with Directors for the year ended 31 December 2018 are as follows:

	Balance at 31 December 2017 €'000	Amounts advanced during 2018 €'000	Amounts repaid during 2018 €'000	**Balance at 31 December 2018 €'000**
Gerry Gaffney				
Loans	66	**-**	5	**61**
Interest charged during the year		**-**	**-**	**3**
Maximum debit balance during the year**				**66**

As required on transition to IFRS 9, an expected credit loss allowance (ECL) was created for all loans and advances. Accordingly, an insignificant ECL was created on 1 January 2018 and is held on the above facilities at 31 December 2018. All facilities are performing to their terms and conditions.

Notes to the Financial Statements (continued)

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Companies Act 2014 disclosures (continued)

(i) Loans to Directors (continued)
Desmond Fitzgerald, Bryan O'Connor, Tom Foley, Denis O'Callaghan, Jim O'Hara and Catherine Woods had no facilities with EBS during 2018.

(ii) Connected persons
The aggregate of loans to connected persons of Directors in office at 31 December 2018, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 2 persons, one of which is jointly held with a Director, and thus balances disclosed above; 2017: 2 persons): EBS connected persons do not hold credit cards or have access to an overdraft facility as EBS do not offer these products.

	Balance at 31 December 2018	Balance at 31 December 2017
	€'000	€'000
Loan	**141**	148
Interest Charged during the year	**2**	2
Maximum debit balance during the year*	**148**	154

As required on transition to IFRS 9, an expected credit loss allowance (ECL) was created for all loans and advances. Accordingly, an insignificant ECL was created on 1 January 2018 and is held on the above facilities at 31 December 2018. All facilities are performing to their terms and conditions.

*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 2018 represents less than 0.02% of the net assets of EBS Group (2017: 0.02%).

(iv) Directors' remuneration
The remuneration of the Independent Non-Executive Directors in office during 2018 is as follows:

	2018 €'000	2017 €'000
Tom Foley	**10**	10
Jim O'Hara	**10**	10
Catherine Woods	**10**	10
Total Directors' fees	**30**	30

At 31 December 2018, 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. 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 (2017: nil) to persons connected with a director in accordance with Section 306(1) of the Companies Act 2014.

41. 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 advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. 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. Investment securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income ('FVOCI').

All valuations are carried out within the Finance function of AIB and valuation methodologies are validated by the Risk function within AIB.

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate the EBS Group and 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 EBS Group and Company as a going concern at 31 December 2018.

The methods used for calculation of fair value in 2018 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.

Investment securities
The fair value of investment securities 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.

41. 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 advances to banks
The fair value of loans and advances 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 advances to customers at amortised costs
EBS Group and Company provide lending facilities of varying rates and maturities to 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 advances 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 2018 took account of EBS 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 and customer accounts
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 EBS Group.

Debt securities in issue
The estimated fair value of debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

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

Notes to the Financial Statements (continued)

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying value of financial instruments at the 31 December 2018 and 2017.

2018

Group	Carrying amount in the statement of financial position				
	At fair value through profit and loss		At amortised cost		Total
	Cashflow hedge derivatives	Investment securities	Loans and advances	Other	
Financial assets measured at fair value	€ m	€ m	€ m	€ m	€ m
Investment securities					
Equity – NAMA subordinated	-	21	-	-	21
Derivative financial instruments	1	-	-	-	1
Financial assets not measured at fair value					
Cash and balances at central banks	-	-	42	6	48
Loans and advances to banks	-	-	137	-	137
Loans and advances to customers	-	-	11,404	-	11,404
Other financial assets	-	-	-	1	1
	1	21	11,583	7	11,612
Financial liabilities measured at fair value					
Derivative financial instruments	-	16	-	-	16
Financial liabilities not measured at fair value					
Deposits by banks	-	-	-	4,833	4,833
Customer accounts	-	-	-	5,374	5,374
Other financial liabilities	-	-	-	16	16
	-	16	-	10,223	10,239

2017

Group	Carrying amount in the statement of financial position				
	At fair value through profit and loss		At amortised cost		Total
	Cashflow hedge derivatives	Available for sale securities	Loans and advances	Other	
Financial assets measured at fair value	€ m	€ m	€ m	€ m	€ m
Investment securities					
Equity – NAMA subordinated	-	21	-	-	21
Derivative financial instruments	3	-	-	-	3
Financial assets not measured at fair value					
Cash and balances at central banks	-	-	74	6	80
Loans and advances to banks	-	-	340	-	340
Loans and advances to customers	-	-	11,469	-	11,469
Other financial assets	-	-	-	7	7
	3	21	11,883	13	11,920
Financial liabilities measured at fair value					
Derivative financial instruments	-	11	-	-	11
Financial liabilities not measured at fair value					
Deposits by banks	-	-	-	4,971	4,971
Customer accounts	-	-	-	5,675	5,675
Other financial liabilities	-	-	-	45	45
	-	11	-	10,691	10,702

Notes to the Financial Statements (continued)

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at the 31 December 2018 and 2017

Group	**2018**			
	Fair value hierarchy			
Financial assets measured at fair value	**Level 1 € m**	**Level 2 € m**	**Level 3 € m**	**Total € m**
Investment securities				
Equity – NAMA subordinated	**-**	**-**	**21**	**21**
Derivative financial instruments	**-**	**1**	**-**	**1**
Financial assets not measured at fair value				
Cash and balances at central banks	**6**	**42**	**-**	**48**
Loans and advances to banks	**-**	**-**	**137**	**137**
Loans and advances to customers	**-**	**-**	**10,967**	**10,967**
Other financial assets	**-**	**-**	**1**	**1**
	6	**43**	**11,126**	**11,175**
Financial liabilities measured at fair value				
Derivative financial instruments	**-**	**16**	**-**	**16**
Financial liabilities not measured at fair value				
Deposits by banks	**-**	**-**	**4,833**	**4,833**
Customer accounts	**-**	**-**	**3,096**	**3,096**
Other financial liabilities	**-**	**-**	**16**	**16**
	-	**16**	**7,945**	**7,961**

Group	2017			
	Fair value hierarchy			
Financial assets measured at fair value	**Level 1 € m**	**Level 2 € m**	**Level 3 € m**	**Total € m**
Investment securities				
Equity – NAMA subordinated	-	-	21	21
Derivative financial instruments	-	3	-	3
Financial assets not measured at fair value				
Cash and balances at central banks	6	74	-	80
Loans and advances to banks	-	-	340	340
Loans and advances to customers	-	-	11,181	11,181
Other financial assets	-	-	7	7
	6	77	11,549	11,632
Financial liabilities measured at fair value				
Derivative financial instruments	-	11	-	11
Financial liabilities not measured at fair value				
Deposits by banks	-	-	4,971	4,971
Customer accounts	-	-	5,651	5,651
Other financial liabilities	-	-	45	45
	-	11	10,667	10,678

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying value of financial instruments at the 31 December 2018 and 2017.

2018

Company	Carrying amount in the statement of financial position					
		At fair value through profit and loss		At amortised cost		Total
	Held for trading	Cashflow hedge derivatives	Investment securities	Loans and advances	Other	
Financial assets measured at fair value	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Investment securities						
Euro bank securities	**-**		**2,593**	**-**	**-**	**2,593**
Equity – NAMA subordinated	**-**		**21**	**-**	**-**	**21**
Derivative financial instruments	**23**	**1**	**-**	**-**	**-**	**24**
Financial assets not measured at fair value						
Cash and balances at central banks	**-**		**-**	**42**	**6**	**48**
Loans and advances to banks	**-**		**-**	**731**	**-**	**731**
Loans and advances to customers	**-**		**-**	**7,129**	**-**	**7,129**
Other financial assets	**-**		**-**	**-**	**11**	**11**
	23	**1**	**2,614**	**7,902**	**17**	**10,557**
Financial liabilities measured at fair value						
Derivative financial instruments	**23**	**16**	**-**	**-**	**-**	**39**
Financial liabilities not measured at fair value						
Deposits by banks	**-**		**-**	**-**	**4,862**	**4,862**
Customer accounts	**-**		**-**	**-**	**5,374**	**5,374**
Other financial liabilities	**-**	**-**	**-**	**-**	**16**	**16**
	23	**16**	**-**	**-**	**10,252**	**10,291**

2017

Company	Carrying amount in the statement of financial position					
		At fair value through profit and loss		At amortised cost		Total
	Held for trading	Cash flow hedge derivatives	Available for sale securities	Loans and advances	Other	
Financial assets measured at fair value	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Investment securities						
Euro bank securities	-	-	2,914	-	-	2,914
Equity – NAMA subordinated	-	-	21	-	-	21
Derivative financial instruments	20	3	-	-	-	23
Financial assets not measured at fair value						
Cash and balances at central banks	-	-	-	74	6	80
Loans and advances to banks				1,925	-	1,925
Loans and advances to customers				6,777	-	6,777
Other financial assets				-	16	16
	20	3	2,935	8,776	22	11,756
Financial liabilities measured at fair value						
Derivative financial instruments	20	11	-	-	-	31
Financial liabilities not measured at fair value						
Deposits by banks	-	-	-	4,998	-	4,998
Customer accounts	-	-	-	5,675	-	5,675
Other financial liabilities	-	-	-	45	-	45
	20	11	-	10,718	-	10,749

Notes to the Financial Statements (continued)

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at the 31 December 2018 and 2017

Company	2018 Fair value hierarchy			
Financial assets measured at fair value	**Level 1 € m**	**Level 2 € m**	**Level 3 € m**	**Total € m**
Investment securities				
Euro bank securities	**-**	**2,593**	**-**	**2,593**
Equity – NAMA subordinated	**-**	**-**	**21**	**21**
Derivative financial instruments	**-**	**24**	**-**	**24**
Financial assets not measured at fair value				
Cash and balances at central banks	**6**	**42**	**-**	**48**
Loans and advances to banks	**-**	**-**	**731**	**731**
Loans and advances to customers	**-**	**-**	**5,147**	**5,147**
Other financial assets	**-**	**-**	**11**	**11**
	6	**2,659**	**5,910**	**8,575**
Financial liabilities measured at fair value				
Derivative financial instruments	**-**	**39**	**-**	**39**
Financial liabilities not measured at fair value				
Deposits by banks	**-**	**-**	**4,862**	**4,862**
Customer accounts	**-**	**-**	**3,096**	**3,096**
Other financial liabilities	**-**	**-**	**16**	**16**
	-	**39**	**7,974**	**8,013**

Company	2017 Fair value hierarchy			
Financial assets measured at fair value	**Level 1 € m**	**Level 2 € m**	**Level 3 € m**	**Total € m**
Investment securities				
Euro bank securities	-	2,914	-	2,914
Equity – NAMA subordinated	-	-	21	21
Derivative financial instruments	-	23	-	23
Financial assets not measured at fair value				
Cash and balances at central bank	6	74	-	80
Loans and advances to banks	-	-	1,925	1,925
Loans and advances to customers	-	-	5,121	5,121
Other financial assets	-	-	16	16
	6	3,008	7,080	10,100
Financial liabilities measured at fair value				
Derivative financial instruments	-	31	-	31
Financial liabilities not measured at fair value				
Deposits by banks	-	-	4,998	4,998
Customer accounts	-	-	5,651	5,651
Other financial liabilities	-	-	45	45
	-	31	10,694	10,725

There was no movement between levels in 2018.

Notes to the Financial Statements (continued)

41. 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 2018 and 2017:

					31 December 2018
		Financial assets		**Financial liabilities**	
Group	**Derivatives**	**Equity securities**	**Total**	**Derivatives**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January 2018	**-**	**21**	**21**	**-**	**-**
Income statement	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
At 31 December 2018	**-**	**21**	**21**	**-**	**-**

					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 2018
		Financial assets		**Financial liabilities**	
Company	**Derivatives**	**Equity securities**	**Total**	**Derivatives**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January 2018	**-**	**21**	**21**	**-**	**-**
Transfers out of Level 3	**-**	**-**	**-**	**-**	**-**
Income statement	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
At 31 December 2018	**-**	**21**	**21**	**-**	**-**

					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	-	-

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2018 and 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				**Range of estimates**	
Financial Instrument		**31 December 2018 €m**	31 December 2017 €m	**Valuation technique**	**Significant unobservable input**	**31 December 2018**	31 December 2017
NAMA Subordinated Bond	Asset	**21**	21	Discounted cash flows	Discount rate	**1% - 5% (Base 2.49%)**	2.79% - 6.0% (Base 3.98%)

The fair value measurement sensitivity to unobservable discount rates ranges from negative €0.6m to positive €0.4m at 31 December 2018 (31 December 2017: negative €0.8m to positive €0.6m).

42. 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 until 2018. The only remaining transitional arrangement for EBS Group relates to the deduction for the deferred tax asset which is to be phased in at a rate of 10% per annum commencing in 2015 and transitional arrangements for mitigating the impact of the introduction of IFRS 9 on capital as per Regulation (EU) 2017/2395 of the European Parliament which currently does not have any impact on EBS Group.

EBS 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 replaces the ECB as the central prudential supervisor of financial institutions in the Eurozone, including EBS and its subsidiaries. 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.

43. REGULATORY COMPLIANCE

During 2018, EBS and its regulated subsidiaries complied with their externally imposed capital ratios.

44. 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 2018:

(i) The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2018 was €2.5bn (2017: €2.0bn) of which Nil (2017: Nil) was held by third parties and €2.5bn (2017: €2.0bn) 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 2018 in issue is €3.4bn (2017: €3.8bn).

45. NON ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In 2018 the Company completed a review of the level of capital required and the Board approved the submission of an application to the Company's regulator seeking permission to complete a capital reorganisation, including the repayment of excess capital to AIB plc. As of the date of this report, the decision of the regulator is pending.

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

46. PARENT COMPANY

EBS d.a.c. is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ("AIB") which is a wholly owned subsidiary of 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, including EBS (together the "AIB Group") on 8 December 2017. AIB Group plc is now the ultimate parent company of EBS d.a.c. for which consolidated accounts are prepared. The financial statements of AIB and of the ultimate parent company are available from AIB Group plc, Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at www.aibgroup.com.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 25 March 2019.