EBS d.a.c.

Directors' Report and
Annual Financial Statements
for the financial year ended 31 December 2019

Contents

Presentation of information

The information contained in this Financial Report is that of EBS d.a.c. and its subsidiaries. In this Financial Report, and unless specified otherwise, the terms "EBS d.a.c." or "the Company" refer to the parent company, "EBS" refers to the parent company and its subsidiaries, "AIB Group" refers to AIB Group plc and "AIB" refers to Allied Irish Banks, p.l.c.

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
	Paul Owens	Independent Non-Executive Director
	Yvonne Hill	Independent Non-Executive Director
Joint Secretary	Diane Lumsden Brian Kearns	
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. ("EBS") present their Directors' Report (the "Report") and audited financial statements for the financial year ended 31 December 2019. A Directors' Responsibility Statement in relation to the financial statements appears on page 56.

Principal activities
EBS d.a.c., 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 d.a.c. has an Irish banking licence under the Irish Central Bank Act, 1971 (as amended).

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 also distributes mortgages through Haven Mortgages Limited, a wholly owned subsidiary, to independent mortgage intermediaries.

All of EBS's activities are outsourced to AIB under a Managed Services Agreement, 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 and control of EBS d.a.c and is responsible for financial performance to its shareholder and ultimate parent AIB Group plc.

The conditions of EBS's Central Bank of Ireland Licence require that there should be a minimum of two Non-Executive Directors who are independent of the ultimate parent company. Throughout 2019, 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. On 23 January 2020 Paul Owens and Yvonne Hill were appointed as directors of EBS d.a.c.

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 d.a.c. benefits as a subsidiary of AIB from the wider AIB governance and operating structure, such as oversight of audit and risk related activities. AIB provides services to EBS d.a.c. through a formal Managed Services Agreement, updates in respect of the performance against agreed service levels 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 together 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.

EBS 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.

Corporate Governance Requirements
EBS is subject to the provisions of the Central Bank of Ireland ("CBI") Corporate Governance Requirements for Credit Institutions 2015 ("the 2015 Requirements"), which imposes minimum core standards upon all credit institutions licensed or authorised by the CBI. EBS is designated as a "high impact institution" for the purposes of the Requirements. EBS d.a.c. sought and received derogations from a number of the obligations imposed on high impact institutions, namely:

- Derogation granted from the requirement to have an external evaluation of Board effectiveness carried out every three years, on the basis that the Board will continue to conduct an internal review of its own performance and that of its individual directors annually and that this exercise is led by the Chairman;
- Derogation granted from the requirement for the Board of EBS to meet at least six times per calendar year, on the basis that the Board will continue to meet at least four times per calendar year and at least once every quarter;
- Derogation granted to EBS to rely on the following AIB Committees: AIB Board Risk committee; AIB Remuneration Committee; and AIB Nomination and Corporate Governance Committee; and
- Derogation granted from the requirement for cross committee membership on the basis that EBS has only one sub-committee.

Directors' Report

Corporate Governance Statement (continued)

Corporate Governance Requirements (continued)
EBS d.a.c. has established a Board Audit Committee to facilitate it in overseeing accounting policies, financial and narrative reports, and disclosure practices relative to EBS d.a.c. in the context of AIB Group as a whole.

EBS d.a.c. has received approval from the CBI that the Chief Risk Officer ("CRO") of AIB Group acts as the CRO of EBS d.a.c. on an outsourced basis and a Designated Risk Representative ("DRR") has been appointed for EBS d.a.c. for maintaining and monitoring the effectiveness of the credit institution's risk management system. The appointed DRR has a direct reporting line to the CRO.

EBS was deemed to be materially compliant with the provisions of the Requirements throughout 2019 and all regulatory requirements including Irish company law.

Audit Committee
In accordance with section 167 of the Companies Act 2014 and Requirement 19.1 of the Requirements, the Directors confirm that an Audit Committee ("the Committee") has been established. The Board is assisted in the discharge of its duties by this Committee which is composed of three Non-Executive Directors and which operates under Terms of Reference approved by the Board.

During 2019, the Committee, had oversight responsibility for audit matters including, inter alia:

- The quality and integrity of EBS's accounting policies, financial and narrative reports and disclosure practices;
- the independence and performance of the External Auditor ("the Auditor") and Internal Audit, duly liaising with the AIB Group Board Audit Committee on matters in relation to the Auditor and Internal Audit, as necessary; and
- 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 effectiveness of EBS's internal control, risk management, and accounting and financial reporting systems.

These responsibilities are discharged through its meetings with and receipt of reports from management including Finance, Internal Audit, and Risk and Compliance. The Committee reviewed EBS's annual financial statements prior to approval by the Board, including EBS's accounting policies and practices.

The Committee met on 4 occasions during 2019 and amongst other activities the Committee reviewed EBS's annual financial statements and related accounting policies, key judgements and practices; reports on compliance; the effectiveness of internal controls, including the effectiveness of controls operated under the Managed Services Agreement; and the findings, conclusions and recommendations of the Auditor and Internal Auditor. The Committee satisfied itself through regular reports from the Internal Auditor, Risk, Compliance and the Auditor that the system of internal controls was effective.

The Committee ensures that appropriate measures are taken to consider and address any control issues identified by Internal Audit and the Auditor. The members of the Audit Committee during 2019 were Tom Foley (Chair), Bryan O'Connor and Jim O'Hara. Jim O'Hara resigned as a Director on 30 January 2020.

Directors' Report

Results for the year
EBS generated profit before tax in 2019 of €4m (2018: €120m), information on the factors driving the reduction of €116m compared to 2018 are shown below in addition to movement in the principal statement of financial position balances.

	2019	2018	
Net interest income ('NII')	**€264m**	€279m	Decrease in Net Interest Income €15m compared to 2018, reflecting customer rate reductions and deleveraging of non-performing loans. This was partially offset by lower funding costs.
Total operating expenses	**€(175)m**	€(189)m	Total operating expenses decreased by €14m compared to 2018 due to reduction in amounts payable to AIB
Net credit impairment (charge)/writeback	**€(91)m**	€11m	There was a net credit impairment charge of €91m in 2019, comprising of a net re-measurement charge of €65m and write offs not provided for €26m. There was a net credit impairment writeback of €11 million in 2018 driven by writeback on defaulted loans.
Loans and advances to customers	**€11,224m**	€11,404m	Loans and advances to customers decreased by €180m compared to 31 December 2018 as customer repayments, loan restructures and disposal on non-performing loans exceeded new lending.
Loans and advances to banks	**€68m**	€137m	Loan and advances to banks were €69m lower than at 31 December 2018 due to the wind down of the EBS securitisation entities, Emerald 5 and Mespil during 2019.
Deposits by banks	**€5,216m**	€4,833m	Deposits by Banks were €383m higher than at 31 December 2018 as an increase in borrowings from AIB
Customer Accounts	**€5,250m**	€5,374m	Customer accounts decreased by €124m compared to 31 December 2018 as EBS ceased operating in the Corporate and Non Personal deposit market.

Business review
The Irish economy performed strongly again in 2019, despite the challenges posed by ongoing uncertainty in relation to Brexit and a marked slowdown in global growth. Meanwhile, the unemployment rate continues to decline standing at 4.7% at the end of December 2019 against 5.6% in 2018 (Source: Central Statistics Office). Total mortgage market new lending drawdowns in Ireland were €9.5bn in 2019 compared with €8.7bn in 2018 (Banking and Payments Federation Ireland).

Construction output was up by 2.4% in the first three quarters of the year, driven by the continuing pick-up in house building activity. New house completions rose by 18% to 21,241 in 2019, up from 17,952 in 2018.

The CSO Residential Property Price Index showed an increase in prices nationally of 0.9% in the 12 months to December 2019 (6.5% in 2018). Residential Property Prices outside Dublin in 2019 saw an annual increase of 2.8% (December 2018 9.6%). Property prices in Dublin decreased in the 12 month period by 0.9% (increase of 3.8% in 2018). The residential property price fall from peak (February 2007) was 22.1% Dublin and 20.3% non-Dublin at 31 December 2019 (2018: 21.4% Dublin and 22.0% non-Dublin).

EBS continues to provide highly competitive home loans in the Irish market, offering a range of fixed and variable rates and channel options including Branch and Intermediary. 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 2020. 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.

Directors' Report

Business review (continued)
The EBS Group's loan portfolio before loss allowance decreased by 1.8% during 2019 to €11.5bn as at 31 December 2019 principally because repayments, loan sales and restructures, including non-contracted write-offs, exceeded loans granted during the year (2018: decrease of 4.9%).

The Bank's mortgage portfolio comprises €11.3bn Owner-Occupier (2018: €11.4.bn), €0.1bn Buy-To-Let mortgages (2018: €0.2bn) and Commercial mortgages €0.1bn (2018: €0.1bn).

Tracker Mortgage Examination Programme
EBS Group continues to make progress to complete the Tracker Mortgage Examination programme. EBS determined in 2019 that a further €21m provision was required of which €5m utilised in 2019, to cover the additional redress and compensation costs for a number of customers and other costs of closing out the Tracker Mortgage Examination including any sanction that may arise on completion of the investigation by the Central Bank of Ireland under an administrative sanctions procedure. There is a range of potential sanction outcomes based on general and specific circumstances and the amount of any sanction imposed may differ from the amount provided at 31 December 2019.

The Tracker Mortgage Examination programme is materially complete with all known cohorts of customers repaid and put into the position they should always have been in. EBS is working closely with the Central Bank of Ireland in terms of their investigations. EBS is aware that issues can and do continue to emerge from the past and when they do EBS is committed to dealing with them in a transparent and fair way for our customers.

Asset Quality
Gross loans and advances to customers (before impairment loss allowances) at amortised costs amounted to €11.5bn at 31 December 2019 (2018: €11.7bn)

Non-performing loans decreased from €1.4bn at 31 December 2018 to €1.0bn at 31 December 2019. This 28% reduction was achieved through redemptions and repayments from customers, loan restructuring activity including non-contracted write-offs and asset sales/disposals.

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 materially improved EBS's asset quality and lowered its overall risk profile. 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 EBS, where feasible. EBS continues to review all options in relation to reducing impaired loans including sales and strategic initiatives.

Funding activities
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 regulatory developments. EBS Group continued to have a strong franchise in the retail deposit market and at 31 December 2019 has total customer accounts of €5,250m (2018: €5,374m). Customer funding was down by €124m due to repayment of maturing term deposits. Retail balances were €5,243m at 31 December 2019 (2018: €5,299m) and represent 99% (2018: 99%) of customer funding.

Deposits by Banks
Funding from AIB increased by €383m to €5,216m in 2019 due to higher funding requirement driven by repayment of excess capital to the Banks sole shareholder AIB. There was no direct ECB funding in 2018 or 2017.

Directors' Report

Share Capital

In 2019 the Company completed a review of the level of capital required and the Board sought and received approval from the regulator to implement a capital re-organisation, including the payment of excess capital to AIB. This exercise was completed in June 2019 and involved a reduction in the par value of each of the 1,655m issued shares from €1 to €0.25, thereby reducing Bank's issued share capital by €1,241m, facilitating a payment of €300m to AIB and a transfer of the residual reduction amount of €941m to reserves.

The share capital of EBS d.a.c. is €413m (2018: €1,654m), comprised of ordinary shares of €0.25 each. Information on the structure of EBS's share capital, including the rights and obligations attaching to each class of shares, is set out in note 34 to the consolidated financial statements.

Capital resources and regulatory capital ratios

The objectives of EBS's capital management policy are to at all times comply with regulatory capital requirements and to ensure that EBS has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

EBS's minimum CET1 requirement is 8.0%, comprised of a Pillar 1 requirement of 4.5%, Capital Conservation Buffer ("CCB") of 2.5% and a Countercyclical Capital Buffer ("CCyB") of 1.0%. The minimum requirement for the total capital ratio is 11.0%.

At 31 December 2019 the fully loaded CET1 ratio was 19.1% (2018: 26.4%). The fully loaded total capital ratio was 19.1% (2018: 26.4%). The decrease in the ratio was driven by a distribution of €300m to the immediate parent Allied Irish Banks. p.l.c. offset by a decrease in Risk Weighted Assets due to a repayment of capital from EBS Mortgage Finance of €400m.

At 31 December 2019 the transitional CET1 ratio was 21.1% (2018: 26.4%), the transitional total capital ratio was 21.1% (2018: 26.4%). The decrease was driven by the distribution detailed above.

Leverage ratio

The leverage ratio at 31 December 2019 was 8.4% (2018: 11.1%) on a fully loaded basis and 9.2% (2018: 12.1%) on a transitional basis. The reduction in both the fully loaded and transitional ratios is due to the capital distribution of €300m in 2019.

Directors' Report

Risk Management
EBS adopts the same risk management framework and risk mitigation initiatives as AIB. The risk management framework provides an AIB 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, 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 55.

Outlook and priorities for 2020

Coronavirus outbreak
The recent coronavirus outbreak (COVID-19) is an emerging risk that EBS and AIB are monitoring closely. The outbreak is expected to impact the economies or markets to which EBS or our customers are exposed, and potentially impact on EBS's performance. AIB has established a monitoring group to assess the range of possible impacts and will continue to respond to the situation as it evolves. Any impact will depend on future developments, which are highly uncertain. A priority of EBS will be to support mortgage customers who may experience short term financial difficulty as a result of COVID-19 with short term modifications to repayment arrangements.

Brexit
The UK left the EU on 31 January 2020 after Parliament approved a revised Withdrawal Agreement. This includes a transition period to end 2020, during which time the existing EU trading rules will remain in place. The UK hopes to conclude a trade deal with the EU before end 2020 that will frame the basis for its future trading relationship with Europe. These trade talks are likely to prove very difficult. Considerable uncertainty will persist about Brexit until the future trading relationship is finalised.

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

The EBS Group is dependent on AIB for continued funding and is therefore dependent on the going concern status of the parent. The financial statements of AIB have been prepared on a going concern basis.

In making its assessment, the Directors of AIB have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2020 to 2022 approved by the AIB Board in December 2019, 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 EBS Board approved financial plans in base and alternative scenarios, and notwithstanding the potential of COVID-19 to impact the performance of EBS, 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 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 schemes.

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 2019. 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 2019 and 19 March 2020.

Directors' Report

Attendance at scheduled Board Meetings during 2019

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	4	4	—	—
Tom Foley	4	4	4	4	4	4
Gerry Gaffney	4	3	4	4	—	—
Denis O'Callaghan	4	4	4	4	—	—
Bryan O'Connor	4	3	4	3	4	4
Jim O'Hara	4	4	4	4	4	4
Catherine Woods	4	3	4	2	—	—

Directors and Secretary
The following were Directors of EBS d.a.c. during 2019 – Desmond Fitzgerald, Tom Foley, Gerry Gaffney, Denis O'Callaghan (Chair), Bryan O'Connor, Jim O'Hara (resigned 30 January 2020) and Catherine Woods (resigned 31 December 2019).

Catherine Woods resigned as a Director on 31 December 2019 and Jim O'Hara resigned as a Director on 30 January 2020.

Paul Owens and Yvonne Hill were each appointed as a Director of EBS d.a.c. on 23 January 2020.

The Company Secretary during 2019 was Diane Lumsden and Brian Kearns was appointed as a Joint Secretary of EBS d.a.c. on 25 March 2019.

Directors Remuneration
Details of total remuneration of the Directors in office during 2019 and 2018 are shown in the Remuneration Table in note 41

Dividend
There was no interim dividend paid to the shareholder during 2019 and the Board is not recommending the payment of a final dividend for 2019 (2018: no dividend paid).

Accounting Policies
The principal accounting policies, together with the basis of preparation of the financial statements, are set out in note 1 to the consolidated financial statements.

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

Branches Outside the State
EBS has not established any branches outside the State.

Disclosure Notice under Section 33AK of the Central Bank Act 1942
EBS did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2019.

Adequate Accounting Records
The Directors 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 Outsourcing and Agency Agreement for the provision of various services including accounting and other financial services to EBS by AIB. The accounting records of EBS are maintained at the registered office of its ultimate parent at AIB Group plc, Bankcentre, Ballsbridge, Dublin 4.

Directors' Report

Directors' Compliance Statement
As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing EBS'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 EBS's policies, which, in the Directors' opinion, are appropriate to ensure compliance with EBS's relevant obligations;
(b) appropriate arrangements or structures that are, in the Directors' opinion, appropriate to EBS 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.

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

Coronavirus outbreak
The recent coronavirus outbreak (COVID-19) is an emerging risk that EBS and AIB are monitoring closely. The outbreak is expected to impact the economies or markets to which EBS or our customers are exposed, and potentially impact on EBS's performance. AIB has established a monitoring group to assess the range of possible impacts and will continue to respond to the situation as it evolves. Any impact will depend on future developments, which are highly uncertain. A priority of EBS will be to support mortgage customers who may experience short term financial difficulty as a result of COVID-19 with short term modifications to repayment arrangements,

Burlington Mortgages No. 1 DAC ("Burlington")
In March 2020 EBS securitised €4bn of residential mortgages originated by EBS d.a.c. and its subsidiary Haven Mortgages Limited ("Haven") through Burlington. All bonds issued by Burlington were subscribed for by EBS d.a..c and Haven.

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 EBS's Auditors are 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 EBS's Auditors are 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.

Independent auditor
Deloitte Ireland LLP Chartered Accountants & 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	Tom Foley
Chairman	*Independent Non-Executive Director*

Date: 19 March 2020

Risk Management Report

1. Introduction

All of EBS's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed across AIB Group. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the AIB Group's risk management framework. EBS experiences similar risks and uncertainties facing AIB Group and adopts the same risk mitigation initiatives.

2. Risk management framework

EBS relies on AIB Group's risk management framework and its supporting policies, processes and governance. For more information on the operation of the EBS Board see pages 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:

3.1 Credit risk;
3.2 Funding and liquidity risk;
3.3 Capital adequacy risk;
3.4 Market risk;
3.5 Operational risk;
3.6 Regulatory compliance risk;
3.7 Conduct risk;
3.8 People and culture risk;
3.9 Business model risk; and
3.10 Model risk.

Risk Management Report

3.1 Credit risk

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

Based on the annual risk identification and materiality assessment, credit risk is grouped into the following three sub categories:

i. Counterparty risk: The risk of losses arising as a result of the counterparty not meeting their 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; and
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.

The most significant credit risks assumed by EBS arise from mortgage lending activities to customers in the Republic of Ireland. Credit risk also arises on funds placed with other banks, derivatives relating to interest rate risk management and 'off-balance sheet' commitments.

Credit risk management and key principles

The principles and activities which govern the management of credit risk within EBS are as follows:

– 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's approved risk appetite statement and generate appropriate returns on capital within acceptable levels of credit quality.
– Establish governance authority fora to provide independent oversight and assurance to the Board with regards to credit risk management activities and the quality of the credit portfolio.
– Develop and continuously reinforce a strong, risk focused culture across the credit risk management functions through the credit cycle, which supports EBS's goals and enables business growth, provides constructive challenge and avoids risks that cannot be adequately measured.
– Operate within a sound and well defined credit granting process, where risks for new and existing lending exposures are identified, assessed, measured, managed and reported in line with risk appetite and the credit risk policy.
– Establish and enforce an efficient internal review and reporting system to manage effectively EBS'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.
– Ensure sound methodology exists to proactively assess risk and to identify deteriorating credit quality to minimise losses and maximise recoveries in work out scenarios.
– Utilise management information and risk data, of appropriate quality, to ensure an effective credit risk measurement process when reporting on the holistic risk profile of EBS including any changes in risk profile and emerging or horizon risks.
– Mitigate potential credit risk arising from new or amended products or activities.

Credit risk organisation and structure

AIB's credit risk management systems operate through a hierarchy of lending authorities. All customer mortgage applications are subject to a credit assessment process. The role of the Credit Risk function is to provide direction, independent oversight of and challenge to credit risk-taking.

EBS Risk Appetite Statement

EBS has its own risk appetite statement ("RAS") which is fully aligned with the AIB RAS. EBS's RAS sets the amount and nature of risks that EBS is willing to accept within its risk capacity in pursuit of its financial objectives and informs both EBS strategy and policies. Credit Risk appetite is set at EBS Board level and is described, reported and monitored through a suite of qualitative and quantitative metrics. Risk appetite is stress tested to ensure limits are within the risk taking capacity of EBS. EBS's risk appetite for credit risk is reviewed and approved at least annually.

Credit risk principles and policy*

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

The AIB Credit Risk Policy 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.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Credit risk principles and policy* *(continued)*

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, if required, to take early and proactive mitigating actions for any potential areas of concern.

Credit approval overview

EBS operates credit approval criteria which:

- Include a clear indication of EBS's target market(s), in line with EBS's risk appetite statement;
- Require 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
- Enforce compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken by professionals operating within a defined delegated authority framework. At an AIB Group level the AIB Board is the ultimate credit approval authority. The AIB Board has delegated credit authority to various credit committees and to the Chief Credit Officer (CCO). The CCO is permitted to further delegate this credit authority to individuals within AIB on a risk appropriate basis. 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 AIB 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*

As part of the credit approval process and the ongoing review of this process, one of the objectives of credit risk management is to accurately quantify the level of credit risk to which EBS 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 probability of default (PD through the cycle) 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. In line with the EBS's credit management lifecycle, heightened credit management is in place and special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/ defaulted loans which are defined below.

Using internal models, EBS has designed and implemented a credit grading masterscale that gives it the ability to categorise credit risk across different rating models and portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from the risk models with EBS's Definition of Default 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 / default loans. Page 32 sets out the profile of EBS's loan portfolio under each of the above grade categories.

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

Internal credit ratings* *(continued)*

In addition to the internal credit ratings as outlined above, EBS implemented IFRS 9 on 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 macroeconomic factors to obtain the relevant IFRS 9 12 month and Lifetime PDs (i.e. point in time). EBS has set out its methodologies and judgements exercised in determining its expected credit loss ("ECL") under IFRS 9 on pages 18 to 27.

Non-performing/default

On 1 January 2018, EBS 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 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). This alignment ensures consistency with EBS's internal credit risk management and assessment practices.

These 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 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 credit obligor is 90 days or more past due on any material credit obligation. Day count starts when any amount of principal, interest or fee has not been paid by a credit obligor on the due date.

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

Non-performing loans are analysed by the following categories on page 34:

Unlikely to pay – Where EBS 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.
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 – Where the credit obligor, as a result of financial distress, received a concession from EBS on terms or conditions, and is currently operating in line with the post restructure arrangements, and will remain in the non-performing probationary period for a minimum of 12 months moving to a performing classification, subject to meeting defined probation criteria.

Credit risk monitoring*

EBS 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'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. Credit managers proactively manage EBS's credit risk exposures at a transaction and relationship level. Monitoring includes 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.

EBS allocates significant resources to ensure ongoing 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/early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected. In addition, exceptions to credit policy are reviewed regularly.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Credit risk monitoring* *(continued)*

Through a range of forbearance solutions, EBS employs a dedicated approach to loan workout, monitoring and proactive management of non-performing loans. A specialised recovery function focuses on managing the majority of criticised loans and deals with customers in default, collection or insolvency. Their mandate is to support customers in difficulty while maximising the return on non-performing loans. Whilst the basic principles for managing weaknesses in commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

Credit Exposure

Credit risk mitigants*

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan. However, EBS 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.

EBS 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's lending policies. Where collateral and/or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. EBS maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are:
– Mortgages over residential and commercial real estate

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 for 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 the EBS's loans and advances portfolio, some key principles have been applied in respect of property collateral held by EBS.

In accordance with AIB's Property Valuation Policy and Guidelines, EBS 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.

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.

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk - Credit exposure
Credit risk mitigants* *(continued)*
Collateral and ECLs
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. 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.

Summary of risk mitigants by selected portfolios
Set out below are details of risk mitigants used by EBS in relation to financial assets detailed in the maximum exposure to credit risk table on page 28.

Loans and advances to customers - residential mortgages
The following tables show the estimated fair value of collateral held for residential mortgages at 31 December 2019 and 2018:

					2019
	Measured at amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Fully collateralised[1]					
Loan-to-value ratio:					
Less than 50%	3,176	205	347	20	3,748
50% - 70%	3,291	289	223	48	3,851
71% - 80%	1,367	114	107	25	1,613
81% - 90%	1,191	89	64	22	1,366
91% - 100%	449	84	61	18	612
	9,474	781	802	133	11,190
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	87	38	86	9	220
Total collateral value	9,561	819	888	142	11,410
Gross carrying value residential mortgages	9,572	824	902	148	11,446
Loss allowance	(4)	(29)	(218)	(24)	(275)
Carrying value residential mortgages	9,568	795	684	124	11,171

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

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk - credit exposure
Credit risk mitigants* *(continued)*
Loans and advances to customers - residential mortgages *(continued)*

					2018
	Measured at amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Fully collateralised[1]					
Loan-to-value ratio:					
Less than 50%	3,010	223	198	19	3,450
50% - 70%	3,265	307	227	50	3,849
71% - 80%	1,366	136	124	29	1,655
81% - 90%	966	98	118	24	1,206
91% - 100%	548	87	117	20	772
	9,155	851	784	142	10,932
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	211	63	297	13	584
Total collateral value	9,366	914	1,081	155	11,516
Gross carrying value residential mortgages	9,383	920	1,152	169	11,624
Loss allowance	(4)	(25)	(261)	(20)	(310)
Carrying value residential mortgages	9,379	895	891	149	11,314

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

For residential mortgages, EBS takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The value at 31 December 2019 and 2018 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index to these values to take account of price movements in the interim.

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 2019 amounted to €5m (2018: €1m) and those with a negative fair value are reported as liabilities which at 31 December 2019 amounted to €22m (2018: €16m).

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 of €2,189m at 31 December 2019 (2018: €2,343m).

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements*

Introduction

The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") allowance for the year to 31 December 2019.

International Financial Reporting Standard 9 (IFRS 9) introduced the expected credit loss impairment model that requires a more timely recognition of ECL across EBS. The standard does not prescribe specific approaches to be used in estimating ECL allowances, 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.

The ECL model applies to financial instruments measured at amortised cost or at fair value through other comprehensive income. In addition, the ECL approach applies to loan commitments that are not measured at fair value through profit or loss.

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; and
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 POCI criteria.

Staging

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 became irrevocably committed to the contractual obligation and the account was first graded on an appropriate model.

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

EBS uses best available information for facilities which originated prior to 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 probation 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 assesses at each reporting date whether a significant increase in credit risk has occurred on its financial obligations since their initial recognition. This assessment is performed on individual obligations 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.

SICR assessment
The Group's SICR assessment is determined based on both Quantitative and Qualitative measures:
Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. EBS compares each obligation's annualised average probability weighted residual lifetime probability of default ("LTPD") at origination (see 'Credit risk at origination') 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 transfers the financial obligation into Stage 2. Increases in LTPD may be due to credit deterioration of the individual obligation or due to macroeconomic factors or a combination of both. On adoption of IFRS 9, EBS determined that an account had met the quantitative measure if the average residual LTPD at the reporting date was more than double the average residual LTPD at origination, and the difference between the LTPDs was at least 50bps.

The impact of this measure is under regular review by EBS for items such as the (i) volume of exposures moving frequently between Stages 1 and 2, (ii) potential over-reliance on backstop and qualitative measures for identifying Stage 2 exposures and (iii) comparison of Stage 1 and 2 exposures to the internal credit ratings view of exposures. In 2019, following an assessment of mortgage exposures including the items above, a change to the quantitative SICR threshold from 50bps to 85bps was approved by EBS. This was implemented in the residential mortgage portfolio at December 2019.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on EBS's credit management 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 including monitoring of account activity 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/or
– Forbearance has been provided and the account is within the probationary period.

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

Where SICR criteria are no longer a trigger the account can exit Stage 2 and return to Stage 1.

Stage 3 characteristics
Defaulted obligations (with the exception of newly originated loans that are in Stage 1 or POCI) are classified as credit impaired and allocated to Stage 3. Where default criteria are 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 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 when any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk
Measurement, methodologies and judgements* *(continued)*
Stage 3 characteristics *(continued)*
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's definition of financial distress, forbearance, non-performing exposures and unlikeliness to pay are included in EBS's Definition of Default policy.

Loans may return to Stage 3 if any of the default triggers reoccur.

Purchased or originated credit impaired ("POCI")
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 uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted effective interest rate. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCI obligations remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCI obligations 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 relevant governance forum. EBS's IFRS 9 models have been approved through AIB's Model Governance Framework.

ii. Simplified approach: For portfolios not on the standard approach, EBS 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 considered appropriate for an adjustment to ECL. The management adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management experience. The methodology to incorporate the adjustment should consider the degree of over collateralization (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2019 year end ECL estimates are outlined on pages 25 and 26.

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 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 has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

Policy elections and simplifications
Low credit risk exemption
EBS utilises practical expedients, as allowed by IFRS 9, for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits EBS 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 allocates such assets to Stage 1.

* Forms an integral part of the audited financial statements

3.1 Credit risk
Measurement, methodologies and judgements* *(continued)*
Policy elections and simplifications *(continued)*
Low credit risk exemption *(continued)*
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.

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 13, along with key factors such as the age of an account, the current/recent arrears status or the current/recent forbearance status and macroeconomic 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 (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 credit products, prepayment occurs where a customer fully prepays an account prior to the end of its contractual term.

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
Both the origination date and the expected maturity of a facility must be determined for ECL purposes. The origination date is used to measure credit risk at origination (as explained above).

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)***

Forward looking indicators in models

For ECL calculations reliant on models in the standard and simplified approaches, forward looking indicators are incorporated into the models through the use of macroeconomic variables. These have been identified statistically as the key macroeconomic variables that drive the parameter being assessed (e.g. PD or LGD). The final model structure incorporates these as inputs with the 12 month and lifetime calculations utilising the macro-economic forecasts for each scenario. See 'macroeconomic scenarios and weightings' below for more detail on the process for generating scenarios and associated key macroeconomic factors relevant for the models

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. EBS determines, based on specific criteria, 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). Refer to pages 36 and 37 for details of forbearance.

The contractual amount outstanding of loans written off during the year that are still subject to enforcement activity are outlined on page 44 and relate to non-contracted write-offs, both full and partial.

EBS 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.

Macroeconomic scenarios and weightings

The macro-economic scenarios used by EBS for ECL allowance calculations are subject to EBS's 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 Asset and Liability Committee (ALCo). The parameters used within EBS's ECL models include macroeconomic factors which are established drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each combination of macroeconomic factors within a particular scenario. These credit loss estimates for each given scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macro-economic scenarios:

EBS's approach is to use its base, downside (both 'disorderly Brexit' and 'global slowdown') and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The inclusion of a fourth scenario in 2019 ('global slowdown') was deemed necessary to ensure that different triggers of downside outcomes are available given the continued uncertainty over the Brexit process. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with EBS's 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 a single upside and two downside scenarios. AIB's Economic Research Unit (ERU) provides base, downside and upside forecasts over five years for planning/IFRS 9. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the AIB Enterprise Risk Management (ERM) function. 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 based on realistic triggers for each scenario and represent 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 Group ALCo and on an annual basis by the AIB Board. The scenarios are described below and reflect the views of EBS at the reporting date.

Base case: As at the reporting date, this reflects an 'orderly' Brexit outcome. Under this scenario the Irish economy continues to perform strongly in the absence of external shocks, helped by very low interest rates, mildly expansionary fiscal policy, solid growth in exports, recovering construction sector and good growth in employment and real incomes. However, some deceleration from the very robust growth rates seen in recent years is likely as the economy is now close to full employment and given the slowdown in growth in Ireland's key export markets. Irish house price inflation has decelerated over the past year reflecting the impact of the Central Bank's macro-prudential rules on mortgage lending and supply. House prices are expected to rise at low single digit levels, broadly in line with wage inflation over the next five years. The rate of increase in commercial real estate prices is expected to run at low single digit levels as the market moves closer to equilibrium.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* ***(continued)***

Under an orderly Brexit, the UK economy is not expected to suffer any significant disruption and will perform at close to its long-term potential. In terms of the US economy, growth in GDP is expected to slow as a result of the diminishing effects of the significant fiscal stimulus, a slower pace of global growth and capacity constraints in the 'full-employment' labour market. Growth in the eurozone is expected to improve slightly over the forecast period.

Downside ('disorderly' Brexit): Under this scenario, the UK exits the EU in a disorderly manner and has to apply World Trade Organisation (WTO) rules. There is a significant slowdown in Irish GDP in this period as a result of the deep links between the two economies with 40% of indigenous Irish exports going to the UK, which is also the land bridge route for much of Irish exports to mainland Europe. These exports (as well as imports from the UK) all become subject to customs checks, tariffs, increased administration as well as regulatory costs and transport delays. As a result, this assumes that Irish GDP growth is lower in a 'disorderly' Brexit scenario than in the base case over the three years to 2022 although the adverse effects are offset somewhat by an expected rise of inward investment into Ireland (as firms divert new or existing investments away from the UK).

A 'disorderly' Brexit results in a sharp decline in trade between the UK and EU as well as an outflow of investment from the UK, especially from the financial sector and a decline in Foreign Direct Investment ("FDI"). The UK economy enters recession during this period. The impact on the EU is limited as less than 10% of EU exports go to the UK and the impact on the US is even more limited.

Downside ('global slowdown'): Under this scenario the global economy continues to lose momentum. The key triggers for this under this scenario are:

– a continued move towards protectionism, which would result in further escalation in trade tensions;
– an increase in risk aversion, which would cause large asset price shifts and financial market instability; and
– an 'orderly' Brexit outcome

In the next three years, large developed European economies would enter a mild recession while activity in the US is subdued. For the Irish economy, given the importance of exports as an engine of growth, the slowdown in the international economy has a significant impact. FDI is also adversely affected with business and consumer confidence lowered as a result. There is a slowdown in the recovery of house building and GDP growth over the first three years is significantly lower than in the base case. Irish house prices register modest declines - the scarcity of supply and the fact that the economy continues to see some growth help support the market, although some foreign institutional investors reduce their exposure.

Upside: Under this scenario, given the moderate pace of growth in the current cycle since the end of the 2008-2009 recession, there is scope for stronger growth in activity over the next number of years than is forecast in the base case. The lagged effects of very loose monetary conditions, with central banks able to maintain interest rates at low levels because of subdued inflation, would see growth strengthen above trend in advanced economies, helped also by an improvement in productivity and a recovery in international trade as tensions in this area subside. Additionally, other countries could follow the lead of the US and adopt a more expansionary fiscal programme of increased capital spending and tax cuts to boost growth, most notably in Europe. The UK agrees an 'orderly' Brexit with the EU.

Given Ireland's exposure to international trade, a better than expected performance by its key trading partners would have a positive knock-on impact on its exports and in turn, on the rate of growth of the economy. This results in stronger growth on the domestic side of the economy also, helped by a more expansionary fiscal policy stance. House building would also pick up strongly, helped by government measures. As a result Irish growth rates would exceed the base case materially over the first three years of the forecast period.

The table below sets out the average five year forecast for each of the key macroeconomic variables that are required to generate the scenarios or are material drivers of the ECL under (i) base; (ii) downside ('disorderly' Brexit); (iii) downside ('global slowdown'); and (iv) upside scenarios at 31 December 2019 and 2018

	2019				2018		
Macroeconomic factor (%)	**Base**	**Downside ('disorderly' Brexit)**	**Downside ('global slowdown')**	**Upside**	Base	Downside	Upside
GDP growth	**2.9**	**1.8**	**1.7**	**4.1**	3.3	2.2	4.4
Residential property price growth	**2.6**	**0.2**	**0.5**	**4.6**	4.9	2.7	7.4
Unemployment rate	**4.7**	**7.8**	**7.4**	**4.0**	4.9	7.1	4.5
Commercial property price growth	**2.0**	**(1.8)**	**(1.8)**	**3.9**	4.0	0.6	6.1

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

The key changes to the scenario forecasts in the reporting period are:

– Reductions in residential property price growth forecast in Ireland across all scenarios as a result of the increased impact of the Central Bank's macro-prudential rules on mortgage lending as the property price growth in recent years has resulted in the loan to value ("LTV") and loan to income ("LTI") thresholds becoming more difficult to meet for purchasers; and
– Reductions in the commercial property price growth forecast in Ireland across all scenarios as the market has moved closer to equilibrium.

The four scenarios detailed above are used to reflect a representative sample of possible outcomes (i.e. base, downside ('disorderly' Brexit), downside ('global slowdown'), and upside scenarios). The ECL allowance reflects a weighted average of the credit loss estimates under the four scenarios.

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the ERU, with a review and challenge from ERM. These are subject to review at AIB Group ALCo and the probabilities described below reflect the views of EBS at the reporting date.

The weights for the scenarios are derived based on the expert judgement, with reference to external market information, informed by a quantitative analysis. The key quantitative analysis is a statistical distribution analysis of Irish GDP growth over different time horizons informed by historic patterns in the economic data.

These weightings were reviewed regularly during 2019. There were two changes to the probability weightings during the reporting period

– The probability of the downside scenario (prior to the additional downside scenario being added) was increased by 5% in the third quarter of 2019 to reflect the increased uncertainty in relation to the Brexit process;
– A new downside scenario ('global slowdown') was introduced in the fourth quarter of 2019 which required a full review of the probability weightings in order to incorporate this new scenario. As the UK election has brought increased certainty to the withdrawal element of Brexit this was deemed to have reduced the risk of the 'disorderly' Brexit scenario. A review of the new 'global slowdown' scenario indicated that as risks to the global economy remain to the downside, that this new scenario along with the 'disorderly' Brexit scenario should continue to have a significant probability attached. This reflects the fact that uncertainty, evident at 31 December 2019, in relation to both Brexit and global economic conditions, continues to remain elevated.

The weights that have been applied as at the reporting date are:

Scenario	Weighting	
	31 December 2019	31 December 2018
Base	50%	50%
Downside ('disorderly' Brexit)	25%	35%
Downside ('global slowdown')	15%	N/A
Upside	10%	15%

In assessing the adequacy of the ECL allowance, EBS has considered all available forward looking information as of the balance sheet date in order to estimate the future expected credit losses. EBS, through its risk management processes (including the use of expert credit judgement and other techniques) assesses its ECL allowance for events that cannot be captured by the statistical models it uses and for other risks and uncertainties. The assessment of ECL at the balance sheet date does not reflect the worst case outcome, but rather a probability weighted outcome of the four scenarios. Should the credit environment deteriorate beyond EBS's expectation, EBS's estimate of ECL would increase accordingly.

Sensitivities

EBS'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 which indicate the approximate impact on the current ECL allowance before the application of probability weights to the forward looking macroeconomic scenarios. The sensitivities provide an estimate of ECL movements driven by both changes in model parameters including current management judgements, and quantitative 'significant increase in credit risk' ("SICR") staging assignments.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Sensitivities *(continued)*

Relative to the base scenario, in the 100% downside ‘disorderly Brexit’ and ‘global slowdown’ scenario, the ECL allowance increases by 31% and 18% respectively. In the 100% upside scenario, the ECL allowance declines by 14%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2019, a 100% downside ‘disorderly Brexit’ and ‘global slowdown’ scenarios sees a higher ECL allowance sensitivity of €82m and €48m respectively compared to base (€58m and €24m respectively compared to reported).

	ECL allowance at 31 December 2019				
	Reported	**100% Base**	**100% downside ('disorderly' Brexit)**	**100% downside ('global slowdown')**	**100% upside**
	Total	**Total**	**Total**	**Total**	**Total**
Loans and advances to customers	**€m**	**€m**	**€m**	**€m**	**€m**
Residential mortgages	**275**	**251**	**333**	**299**	**213**
Property and construction	**12**	**12**	**12**	**12**	**12**
Total	**287**	**263**	**345**	**311**	**225**
Off-balance sheet loan commitments	**—**	**—**	**—**	**—**	**—**
	287	**263**	**345**	**311**	**225**

	ECL allowance at 31 December 2018			
	Reported (50% Base, 35% downside, 15% upside)	100% Base, 0% downside, 0% upside	0% Base, 100% downside, 0% upside	0% Base, 0% downside, 100% upside
	Total	Total	Total	Total
Loans and advances to customers	€m	€m	€m	€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

Management judgements

EBS reflects reasonable and supportable information that is available at the reporting date, in the measurement of ECLs.

Management adjustments may be required to increase or decrease ECLs to reflect all available reasonable and supportable information to include risk factors that have not been included in the risk measurement process or where there is insufficient time to appropriately incorporate relevant new information. Experienced credit judgement may be used to determine the particular attributes of exposures that have not been adequately captured in the impairment models. Adjustments are required to be directionally consistent with forward-looking forecast, supported by appropriate documentation and subject to appropriate governance processes. If an ongoing adjustment is required, the risk measurement methodology should be updated to eliminate the adjustment, and as such, should be temporary in nature, where appropriate.

* Forms an integral part of the audited financial statements

3.1 Credit risk
Measurement, methodologies and judgements* *(continued)*
Management judgements *(continued)*
The ECL allowance at 31 December 2019 includes the following management adjustments:

Primary dwelling house ("PDH") mortgage post model adjustments
Stage 3 PDH ECL
The Group's strategy is to deliver sustainable long term solutions and to work with customers through their financial difficulties. This is primarily through work out arrangements with customers, including split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solution or through loan recovery following realisation of collateral. The mortgage LGD model is based on empirical internal data for such resolved cases, and represents EBS's expected loss based on those expected work-out strategies. However, it is recognised that alternative recovery strategies, such as portfolio sales, also need to be considered which were not envisaged at the time of model development. Accordingly, a post model adjustment has been applied to a cohort of loans to reflect the potential resolution outcomes not currently considered within the modelled outcome.

The post model adjustment is calculated on a range of alternative recovery assumptions (including portfolio sales). An independent external benchmark exercise is undertaken to provide information to support the range of alternative recovery outcomes with reference to collateral values of the loans and to the underlying market conditions. The cohort to which the overlay applies to is primarily those PDH loans in Stage 3 and in deep arrears (greater than 180 days) and was widened in 2019 to include certain loans from the 90 to 180 days past due category (c. €40m).

Probability weightings are applied to reflect a range of possible outcomes, incorporating potential market uncertainty around the ultimate execution, aligned to EBS's four economic scenarios used for ECL calculations as outlined on pages 22 to 24.

The ECL allowance of €275m for residential mortgages at 31 December 2019 includes €121m as a result of this management adjustment (31 December 2018: €310m and €137m respectively). The main movements in the overlay during the year were due to:
– Increase in portfolio following widening of the criteria as noted above;
– Reduction in portfolio following sales;
– Revisions to collateral valuations and market conditions; and
– The impact of the outcome of the four economic scenarios compared to the outcome assessed in 2018.

The revised portfolio size and collateral valuations resulted in an income statement charge of €27m. The greater market and economic uncertainty reflected in the four scenarios resulted in a further €21m charge. (Total income statement charge in 2019: €48m).

Forbearance product
An element of forborne loans in Stage 3 (€73m), may require an alternative treatment at loan expiry in line with EBS's current mortgage resolution strategy. This is not currently captured within the modelled ECL outcome for this product.

Management have considered the proportion of this cohort that may require alternative treatment and a range of quantitative outcomes in determining the estimated loss amounts at loan expiry which has resulted in a post model adjustment of €9m in 2019 (2018: Nil).

Lifetime interest only
A cohort of non-defaulted lifetime interest only mortgages have been identified for individual assessment to confirm likeliness to pay (€58m). The loans within this cohort have been allocated to Stage 2, pending individual assessment, reflecting management's qualitative judgement of a significant increase in credit risk given the additional end of term risk not fully incorporated into modelled outcomes. This has resulted in a post model adjustment of €5m in 2019 (2018: Nil).

Further information on the above overlays is not provided as EBS believes that such information could compromise the resolution outcomes given the underlying nature of the portfolios.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* ***(continued)***

ECL governance

The Board of 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 AIB Group.

The key governance points in the ECL approval process during 2019 were:
– Model Risk Committee;
– Assets and Liabilities Committee;
– Business level ECL Committees;
– Group Credit Committee; and
– Board Audit Committee.

For ECL governance, EBS management employs its expert judgement on the adequacy of ECL. 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 AIB 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.

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 Group Credit Committee (GCC). GCC reviews and challenges ECL levels prior to recommendation to the Board Audit Committee.

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

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Risk Management Report

3.1 Credit risk - Credit exposure overview

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 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 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 2019 and 2018:

			2019			2018
	Amortised Cost[1]	**Fair Value[2]**	**Total**	Amortised Cost[1]	Fair Value[2]	Total
	€m	**€m**	**€m**	€m	€m	€m
Cash and balances at central banks	**345**	**—**	**345**	48	—	48
Derivative financial instruments	**—**	**5**	**5**	—	1	1
Loans and advances to banks	**68**	**—**	**68**	137	—	137
Loans and advances to customers	**11,224**	**—**	**11,224**	11,404	—	11,404
Included elsewhere:						
Accrued interest	**1**	**—**	**1**	2	—	2
Other assets	**14**	**—**	**14**	3	—	3
	11,652	**5**	**11,657**	11,594	1	11,595
Off balance sheet loan commitments[3]	**232**	**—**	**232**	287	—	287
Maximum exposure to credit risk	**11,884**	**5**	**11,889**	11,881	1	11,882

[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] A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit exposure overview

Credit risk exposure derives from standard on-balance sheet products such as mortgages. In addition, credit risk arises from other products and activities including "off-balance sheet" commitments.

The following table summarises financial instruments in the statement of financial position at 31 December 2019 and 2018:

	2019*				2018*			
	Statement of financial position			**Income statement**	Statement of financial position			Income statement
	Exposure	**ECL allowance**	**Carrying amount**	**Net credit impairment (charge)/ writeback**	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Loans and advances to banks	**68**	**—**	**68**	**—**	137	—	137	—
Loans and advances to customers:	**11,511**	**(287)**	**11,224**	**(91)**	11,728	(324)	11,404	11
Loan commitments	**232**	**—**	**232**	**—**	287	—	287	—
Total				**(91)**				11

There was a €91m net credit impairment charge in the year to 31 December 2019. This comprised of a €91m charge on loans and advances to customers (net re-measurement of ECL allowance charge of €108m offset by recoveries of amounts previously written-off of €17m) and an immaterial amount for off-balance sheet exposures.

Further details on the net credit impairment charge in the year to 31 December 2019 are set out on page 103.

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk - Credit profile of the loan portfolio

The following table analyses the loan portfolio by ECL staging at 31 December 2019 and 2018:

Amortised cost			**2019**			2018
	Residential mortgages	**Commercial properties**	**Total**	Residential mortgages	Commercial properties	Total
Gross loans and advances to customers	**€m**	**€m**	**€m**	€m	€m	€m
Total gross carrying amount	**11,446**	**65**	**11,511**	11,624	104	11,728
Analysed as to ECL staging						
Stage 1	**9,572**	**24**	**9,596**	9,383	41	9,424
Stage 2	**824**	**14**	**838**	920	17	937
Stage 3	**902**	**27**	**929**	1,152	45	1,197
POCI	**148**	**—**	**148**	169	1	170
Total	**11,446**	**65**	**11,511**	11,624	104	11,728
ECL allowance - statement of financial position	**€m**	**€m**	**€m**	€m	€m	€m
Stage 1	**(4)**	**—**	**(4)**	(4)	—	(4)
Stage 2	**(29)**	**(1)**	**(30)**	(25)	(1)	(26)
Stage 3	**(218)**	**(11)**	**(229)**	(261)	(13)	(274)
POCI	**(24)**	**—**	**(24)**	(20)	—	(20)
Total ECL allowance	**(275)**	**(12)**	**(287)**	(310)	(14)	(324)
Carrying amount loans and advances	**11,171**	**53**	**11,224**	11,314	90	11,404
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**—**	**1**	**—**	—	1	—
Stage 2	**4**	**7**	**4**	3	9	3
Stage 3	**24**	**41**	**25**	23	29	23
POCI	**16**	**—**	**16**	12	1	12
Income statement credit impairment charge/(writeback)	**€m**	**€m**	**€m**	€m	€m	€m
Net remeasurement of loss allowance	**104**	**4**	**108**	13	(15)	(2)
Recoveries of amounts written off in previous years	**(17)**	**—**	**(17)**	(8)	(1)	(9)
Net credit impairment charge/ (writeback)	**87**	**4**	**91**	5	(16)	(11)
	%	**%**	**%**	%	%	%
Net credit impairment charge/ (writeback) on average loans	**0.75**	**5.14**	**0.79**	0.04	(13.50)	(0.09)

3.1 Credit risk - Credit profile of the loan portfolio

Gross loans and advances to customers

Gross loans and advances to customers reduced by €217m in the year to 31 December 2019. The reduction was driven by redemptions net of interest credited and other miscellaneous movements of €1,134m and write-offs / restructures of €128m. In addition, there was a further reduction of €62m due to disposals. These reductions were offset against new lending activity of €1,107m in 2019 which was €112m higher than 2018.

Stage 3 loans decreased by €268m to €929m. The reduction was a result of write-offs / restructures of €124m, redemptions/ repayments of €98m and loan disposals of €51m which includes the portfolio sales completed throughout the year.

ECL allowance

The ECL allowance on loans and advances to customers reduced by €37m to €287m in the year. The reduction was predominately in Stage 3 as a result of write-offs / restructures. The ECL cover rate decreased from 2.8% at 31 December 2018 to 2.5% at 31 December 2019. This was primarily driven by the NPE reduction and underlying PD / credit quality improvements.

There was a €91m net credit impairment charge for the year to 31 December 2019 (2018: credit impairment writeback of €11m). This comprised of a €108m gross charge on loans and advances to customers (2018: €2m writeback) offset by €17m (2018: €9m) recoveries of amounts previously written-off.

There were a number of key drivers which contributed to the €108m gross charge, the most significant of which were: the additional ECL allowance required for post model adjustments; the impact of the probability weightings across four economic scenarios; and the changes in macroeconomic factors.

As outlined under the Management judgements section, the total impact of the post model adjustments on the ECL allowance resulted in a charge of €62m.

Changes to the macroeconomic factors and probability weightings, excluding their impacts in post model adjustments, resulted in a €24m charge. In the first half year, EBS updated the House Price Index forecast to reflect slower anticipated growth which resulted in a €11m charge. In the second half of 2019, a fourth macroeconomic scenario was introduced to reflect a global slowdown accordingly, the probability weightings across the scenarios were changed, details of which are set out on pages 22 to 24, and resulted in a charge of €13m.

Excluding the impact of the model and overlay changes (€64m) and macroeconomic factors (€24m) there was a net charge of €20m. The ECL allowance movements are outlined on page 43.

Against a backdrop of favourable economic conditions and a strong performance by AIB Group's specialised recovery function, recoveries of amounts previously written-off amounted to €17m in 2019 (2018: €9m).

3.1 Credit risk - Credit profile of the loan portfolio

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers 31 December 2019 and 2018:

Amortised cost					**2019***
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Total	**€m**	**€m**	**€m**	**€m**	**€m**
Strong	8,302	65	—	1	8,368
Satisfactory	1,055	89	—	—	1,144
Total	9,357	154	—	1	9,512
Criticised watch	235	369	—	—	604
Criticised recovery	4	315	—	5	324
Total criticised	239	684	—	5	928
Non-performing	—	—	929	142	1,071
Gross carrying amount	9,596	838	929	148	11,511
ECL allowance	(4)	(30)	(229)	(24)	(287)
Total carrying amount	9,592	808	700	124	11,224

Analysis by asset class

Residential mortgages					
Strong	8,302	65	—	1	8,368
Satisfactory	1,055	89	—	—	1,144
Total	9,357	154	—	1	9,512
Criticised watch	212	362	—	—	574
Criticised recovery	3	308	—	5	316
Total criticised	215	670	—	5	890
Non-performing	—	—	902	142	1,044
Gross carrying amount	9,572	824	902	148	11,446
ECL allowance	(4)	(29)	(218)	(24)	(275)
Total carrying amount	9,568	795	684	124	11,171

Commercial properties					
Strong	—	—	—	—	—
Satisfactory	—	—	—	—	—
Total	—	—	—	—	—
Criticised watch	23	7	—	—	30
Criticised recovery	1	7	—	—	8
Total criticised	24	14	—	—	38
Non-performing	—	—	27	—	27
Gross carrying amount	24	14	27	—	65
ECL allowance	—	(1)	(11)	—	(12)
Total carrying amount	24	13	16	—	53

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3.1 Credit risk - Credit profile of the loan portfolio
Internal credit grade profile by ECL staging *(continued)*

Amortised cost					2018*
	Stage 1	Stage 2	Stage 3	POCI	Total
Total	€m	€m	€m	€m	€m
Strong	8,055	25	—	2	8,082
Satisfactory	1,057	79	—	—	1,136
Total	9,112	104	—	2	9,218
Criticised watch	300	410	—	—	710
Criticised recovery	—	423	—	5	428
Total criticised	300	833	—	5	1,138
Non-performing	12	—	1,197	163	1,372
Gross carrying amount	9,424	937	1,197	170	11,728
ECL allowance	(4)	(26)	(274)	(20)	(324)
Total carrying amount	9,420	911	923	150	11,404

Analysis by asset class

Residential mortgages

Strong	8,055	25	—	2	8,082
Satisfactory	1,057	78	—	—	1,135
Total	9,112	103	—	2	9,217
Criticised watch	272	402	—	—	674
Criticised recovery	—	415	—	5	420
Total criticised	272	817	—	5	1,094
Non-performing	(1)	—	1,152	162	1,313
Gross carrying amount	9,383	920	1,152	169	11,624
ECL allowance	(4)	(25)	(261)	(20)	(310)
Total carrying amount	9,379	895	891	149	11,314

Commercial properties

Strong	—	—	—	—	—
Satisfactory	—	1	—	—	1
Total	—	1	—	—	1
Criticised watch	28	8	—	—	36
Criticised recovery	—	8	—	—	8
Total criticised	28	16	—	—	44
Non-performing	13	—	45	1	59
Gross carrying amount	41	17	45	1	104
ECL allowance	—	(1)	(13)	—	(14)
Total carrying amount	41	16	32	1	90

The asset quality profile of EBS continues to improve and has benefited from the continued deleveraging activity on the non-performing book, the strong quality profile of new business and lower levels of grade deterioration.

Of the total loans to customers of €11,511m, €9,512m or 83% are rated as either 'strong' or 'satisfactory' which is an increase of €294 million (2018: €9,217m or 79%). The 'criticised' classification includes 'criticised watch' of €604m and 'criticised recovery' of €324m, the total of which has decreased by €210m. Overall, the total performing book has increased by €85m to €10,441m or 91% of gross loans and advances to customers (2018: €10,356m and 88%).

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio

Internal credit grade profile by ECL staging *(continued)*

Non-performing loans are aligned to EBS's definition of default and Stage 3 credit impaired with the exception of those originating in POCI (€142m). Non-performing loans originating in Stage 1 have decreased by €12m during the year to 31 December 2019 due to disposals and loan quality deterioration. Non-performing loans have reduced by €301m to €1,071m or 9% of gross loans and advances to customers (2018: €1,313m and 12%).

Residential mortgages non-performing loans decreased from €1,313m at 31 December 2018 to €1,044m at 31 December 2019, impacted by the portfolio sales of distressed loans and also due to repayments / redemptions and write-offs.

Commercial properties non-performing loans decreased by €32m to €27m at 31 December 2019.

Non-performing exposures ("NPE") to customers

The table below analyses non-performing loans and advances to customers by asset class at 31 December 2019 and 2018:

			2019
	Residential mortgages	**Commercial properties**	**Total**
Non-performing loans	**€m**	**€m**	**€m**
At amortised cost			
Collateral disposals	**67**	**6**	**73**
Unlikely to pay (including > 90 days past due)	**851**	**19**	**870**
Non-performing loans probation	**126**	**2**	**128**
Total non-performing loans and advances to customers	**1,044**	**27**	**1,071**
Total ECL on non-performing loans and advances to customers	**242**	**11**	**253**
Non-performing loans as % of total loans and advances to customers	**9%**	**41%**	**9%**

			2018
	Residential mortgages	Commercial properties	Total
Non-performing loans	€m	€m	€m
At amortised cost			
Collateral disposals	13	6	19
Unlikely to pay (including > 90 days past due)	1,086	48	1,134
Non-performing loans probation	214	5	219
Total non-performing loans and advances to customers	1,313	59	1,372
Total ECL on non-performing loans and advances to customers	280	13	293
Non-performing loans as % of total loans and advances to customers	11%	56%	12%

Non-performing loans reduced by €301m or 22% to €1,071m in the year to 31 December 2019. This reduction continues to be reflective of proactive deleveraging activities primarily due to write-offs, portfolio disposals and redemptions. NPE reductions were evident across both asset classes with reductions noted in unlikely to pay stock (including > 90 days past due) and loans in a probationary period.

Risk Management Report

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis

Loans and advances to customers - Residential mortgages

The following table analyses the residential mortgages portfolio showing the ECL allowance at 31 December 2019 and 2018:

			2019*			2018*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Gross loans and advances to customers	**€m**	**€m**	**€m**	€m	€m	€m
Total gross carrying amount	**11,290**	**156**	**11,446**	11,410	214	11,624
Analysed as to ECL staging						
Stage 1	**9,492**	**80**	**9,572**	9,254	129	9,383
Stage 2	**769**	**55**	**824**	894	26	920
Stage 3	**882**	**20**	**902**	1,098	54	1,152
POCI	**147**	**1**	**148**	164	5	169
Total	**11,290**	**156**	**11,446**	11,410	214	11,624
ECL allowance - statement of financial position	**€m**	**€m**	**€m**	€m	€m	€m
Stage 1	**(4)**	**—**	**(4)**	(3)	(1)	(4)
Stage 2	**(24)**	**(5)**	**(29)**	(23)	(2)	(25)
Stage 3	**(213)**	**(5)**	**(218)**	(246)	(15)	(261)
POCI	**(23)**	**(1)**	**(24)**	(18)	(2)	(20)
Total ECL allowance	**(264)**	**(11)**	**(275)**	(290)	(20)	(310)
Residential mortgages	**11,026**	**145**	**11,171**	11,120	194	11,314
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**—**	**—**	**—**	—	—	—
Stage 2	**3**	**10**	**4**	3	6	3
Stage 3	**24**	**22**	**24**	22	27	23
POCI	**16**	**67**	**16**	11	33	12
Income statement credit impairment charge/(writeback)	**€m**	**€m**	**€m**	€m	€m	€m
Net remeasurement of loss allowance	**101**	**3**	**104**			13
Recoveries of amounts written off in previous years	**(15)**	**(2)**	**(17)**			(8)
Net credit impairment charge/(writeback)	**86**	**1**	**87**	—	—	5
	%	**%**	**%**	%	%	%
Net credit impairment charge/(writeback) on average loans	**0.76**	**0.67**	**0.75**			0.04

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis

Loans and advances to customers - Residential mortgages *(continued)*

Residential mortgages amounted to €11,446m at 31 December 2019 compared to €11,624m at 31 December 2018. The decrease in the portfolio was primarily due to loan repayments and disposals, offset by new lending. Total drawdowns in the year to 31 December 2019 were €1,107m. New lending in the 12 months to 31 December 2019 increased by 8% on the comparable period in 2018 driven by the favourable macro-economic conditions.

Income statement

There was a net credit impairment charge of €87m to the income statement for the year to 31 December 2019 compared to a net credit impairment charge of €5m for 2018. The ECL allowance cover level at 31 December 2019 is 2% (2018: 3%). For the Stage 3 element of the portfolio, €218m of ECLs are held providing cover of 24% (2018: €261m and 23% respectively).

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 18% during the year to 31 December 2019, a decrease of 16% in the owner-occupier portfolio and a decrease of 58% in the buy-to-let portfolio. The decrease in the buy-to-let arrears was driven by the portfolio sale of distressed loans.

Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the existing contracted terms of a facility ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. This also includes a total or partial refinancing of existing debt due to the actual or apparent financial stress or distress of a borrower or where a borrower avails of an embedded forbearance clause(s). A forbearance agreement is entered into where the customer is in actual or apparent financial stress or distress to the extent that they are unable currently to repay both the principal and interest in accordance with the existing contracted terms of a facility. A concession or an agreed change to the contracted terms can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

EBS uses a range of initiatives to support its customers. EBS considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with EBS's Forbearance Policy and relevant procedures, and completes an affordability / repayment capacity assessment taking account of factors such as current and likely future financial circumstances, the borrower's willingness to resolve such difficulties, and all relevant legal and regulatory obligations to ensure sustainable measures are put in place as appropriate.

EBS Credit Policies, supported by relevant processes and procedures, are in place which set out the policy rules and principles underpinning EBS's approach to forbearance, ensuring the forbearance measure(s) provided to borrowers are affordable and sustainable, and in line with relevant regulatory requirements. Key principles include providing support to enable customers remain in their family home, whenever possible. EBS has implemented the standards for the Codes of Conduct in relation to customers in actual or apparent financial stress or distress, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

A request for forbearance is a trigger event for EBS to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance measure. This may result in the downgrading of the credit grade assigned and an increase in the expected credit loss. Facilities 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.

The effectiveness of forbearance measures over the lifetime of the arrangements are subject to ongoing management and review. A forbearance measure is deemed to be effective if the borrower meets the revised or original terms of the contract over a sustained period of time resulting in an improved outcome for EBS and the borrower.

Risk Management Report

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis
Loans and advances to customers - Residential mortgages *(continued)*
Forbearance *(continued)*
Residential mortgages subject to forbearance measures decreased by €265m from €1,422m at 31 December 2018 to €1,157m at 31 December 2019. A key feature of the forbearance portfolio is the level of advanced forbearance solutions driven by EBS's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Mortgage portfolio
Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"), EBS 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.

The core objective of the process is to determine sustainable solutions that, where possible, help to keep customers in their family home. In addition to relevant short term measures, this includes the following long term forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in actual or apparent financial stress or distress: low fixed interest rate sustainable solution, split mortgages, negative equity trade down, voluntary sale for loss, arrears capitalisation and term extension.

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis
Loans and advances to customers - Residential mortgages *(continued)*
Actual and weighted average indexed loan to value ratios of Republic of Ireland residential mortgages
The following table profiles the residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average loan-to-value ratios at 31 December 2019 and 2018:

	2019*														
	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%	3,150	26	3,176	187	19	206	336	11	347	20	—	20	3,693	56	3,749
50% to 70%	3,274	17	3,291	282	7	289	218	6	224	48	—	48	3,822	30	3,852
71% to 80%	1,361	8	1,369	110	4	114	106	—	106	25	—	25	1,602	12	1,614
81% to 90%	1,185	5	1,190	85	4	89	63	1	64	22	—	22	1,355	10	1,365
91% to 100%	426	23	449	69	15	84	59	2	61	17	—	17	571	40	611
101% to 120%	79	1	80	30	6	36	65	—	65	9	—	9	183	7	190
121% to 150%	7	—	7	2	—	2	28	—	28	1	—	1	38	—	38
Greater than 150%	10	—	10	4	—	4	6	—	6	—	—	—	20	—	20
Total with LTVs	9,492	80	9,572	769	55	824	881	20	901	142	—	142	11,284	155	11,439
Unsecured	—	—	—	—	—	—	1	—	1	5	1	6	6	1	7
Total	9,492	80	9,572	769	55	824	882	20	902	147	1	148	11,290	156	11,446

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis *(continued)*
Loans and advances to customers - Residential mortgages *(continued)*
Actual and weighted average indexed loan to value ratios of Republic of Ireland residential mortgages* *(continued)*

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	11,611
Unsecured	1	—	1	—	—	—	—	—	—	7	5	12	8	5	13
Total	9,254	129	9,383	894	26	920	1,098	54	1,152	164	5	169	11,410	214	11,624

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis

Residential mortgages – properties in possession

EBS 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. EBS uses external agents to realise the maximum value as soon as is practicable. Where EBS 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 2019 and 2018 is set out below:

	2019		2018	
	Stock	**Balance outstanding €m**	Stock	Balance outstanding €m
Owner-Occupier	**374**	**89**	417	103
Buy-To-Let	**3**	**1**	5	1
Total	**377**	**90**	422	104

The stock of residential properties in possession decreased by 45 properties in 2019. This decrease relates to the disposal of 183 properties (2018: 35 properties) which were offset by the addition of 144 properties (2018: 27 properties), the majority of which were voluntary surrenders or abandonments. In addition, a further 6 properties were removed from the stock in 2019, mainly due to the sale of a portfolio of loans.

The disposal of 183 residential properties in the Republic of Ireland resulted in a total loss on disposal of €22 million at 31 December 2019 (before ECL allowance) and compares to 2018 when 35 residential properties were disposed of resulting in a total loss of €4 million. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment charge.

Residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2019 and 2018:

					2019
	Number of disposals	**Outstanding balance at repossession date €m**	**Gross sales proceeds on disposal €m**	**Costs to sell €m**	**Loss on sale[1] €m**
Owner-Occupier	**183**	**44**	**23**	**1**	**22**
Buy-To-Let	**—**	**—**	**—**	**—**	**—**
	183	**44**	**23**	**1**	**22**

					2018
	Number of disposals	Outstanding balance at repossession date €m	Gross sales proceeds on disposal €m	Costs to sell €m	Loss on sale[1] €m
Owner-Occupier	35	9	5	1	4
Buy-To-Let	—	—	—	—	—
Total residential	35	9	5	1	4

[1]Before ECL allowance.

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis

Loans and advances to customers - Commercial properties*

The following table analyses commercial property lending by ECL staging at 31 December 2019 and 2018:

	2019*	2018*
	Total	Total
Gross loans and advances to customers	**€m**	€m
Total gross carrying amount	**65**	104
Analysed as to ECL staging		
Stage 1	**24**	41
Stage 2	**14**	17
Stage 3	**27**	45
POCI	**—**	1
Total	**65**	104
ECL allowance - statement of financial position	**€m**	€m
Stage 1	**—**	—
Stage 2	**(1)**	(1)
Stage 3	**(11)**	(13)
POCI	**—**	—
Total ECL allowance	**(12)**	(14)
Commercial property	**53**	90
ECL allowance cover percentage	**%**	%
Stage 1	**1**	1
Stage 2	**7**	9
Stage 3	**41**	29
POCI	**—**	—
Income statement credit impairment charge/(writeback)	**€m**	€m
Net remeasurement of loss allowance	**4**	(15)
Recoveries of amounts written off in previous years	**—**	(1)
Net credit impairment charge/(writeback)	**4**	(16)
	%	%
Net credit impairment charge/(writeback) on average loans	**5.14**	13.50

The portfolio reduced by €39m or 37% during the year to 31 December 2019.

There was a net credit impairment charge of €4m to the income statement for the year to 31 December 2019.

The portfolio held €12m of ECL allowances which provide ECL allowance cover of 18%. For the Stage 3 portfolio, the ECL allowance cover is 41% (2018: €14m, 13% and 29% respectively).

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio
Gross loans and ECL movements[(1)]
The following tables set out the movements in the gross carrying amount and ECL allowances for loans and advances to customers by ECL staging for the years to 31 December 2019 and 2018.

Amounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 19) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. EBS believes this presentation aids the understanding of underlying credit migration.

Gross carrying amount movements

					2019*
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**9,424**	**937**	**1,197**	**170**	**11,728**
Transferred from Stage 1 to Stage 2	**(527)**	**527**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**676**	**(676)**	**—**	**—**	**—**
Transferred to Stage 3	**(21)**	**(115)**	**136**	**—**	**—**
Transferred from Stage 3	**9**	**158**	**(167)**	**—**	**—**
New loans originated/top-ups	**1,106**	**—**	**—**	**1**	**1,107**
Redemptions/repayments	**(1,282)**	**(99)**	**(98)**	**(11)**	**(1,490)**
Interest credited	**281**	**31**	**22**	**6**	**340**
Write-offs	**—**	**—**	**(124)**	**(4)**	**(128)**
Derecognised due to disposals	**(4)**	**(2)**	**(51)**	**(5)**	**(62)**
Exchange translation adjustments	**2**	**—**	**—**	**—**	**2**
Other movements	**(68)**	**77**	**14**	**(9)**	**14**
At 31 December	**9,596**	**838**	**929**	**148**	**11,511**

					2018*
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€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 exposure	(175)	(179)	(117)	—	(471)
Write-offs	—	—	(396)	—	(396)
Derecognised due to disposals	—	—	(15)	—	(15)
Interest applied to accounts	267	54	36	—	357
Other movements	576	(557)	(17)	(5)	(3)
At 31 December	9,424	937	1,197	170	11,728

[(1)]Movements on the gross loans table have been prepared on a ‘sum of the months’ basis.

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio
Gross loans and ECL movements[1] ***(continued)***

ECL allowance movements

	Stage 1	Stage 2	Stage 3	POCI	2019* Total
	€m	€m	€m	€m	€m
At 1 January	4	26	274	20	324
Transferred from Stage 1 to Stage 2	(1)	22	—	—	21
Transferred from Stage 2 to Stage 1	1	(14)	—	—	(13)
Transferred to Stage 3	—	(5)	17	—	12
Transferred from Stage 3	—	3	(17)	—	(14)
Net re-measurement	—	(13)	25	3	15
New loans originated/top-ups	—	—	—	—	
Redemptions/repayments	(1)	—	—	—	(1)
Impact of model and overlay changes	—	6	55	3	64
Impact of credit or economic risk parameters	1	4	16	3	24
Income statement credit impairment charge	—	3	96	9	108
Write-offs	—	—	(124)	(4)	(128)
Derecognised due to disposals	—	—	(15)	(1)	(16)
Exchange translation adjustments	—	—	—	—	—
Other movements	—	1	(2)	—	(1)
At 31 December	4	30	229	24	287

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

Total exposures to which an ECL applies decreased during the year by €217m from €11,728m as at 1 January 2019 to €11,511m as at 31 December 2019.

Stage transfers are a key component of ECL allowance movements (i.e. Stage 1 to Stage 2 to Stage 3) being the primary driver of a higher income statement charge (and vice versa) in addition to the net re-measurement of ECL due to change in risk parameters within a stage.

Transfers from Stage 1 to Stage 2 of €527m 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 the doubling of PDs, subject to 50bps.

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio
Gross loans and ECL movements[1] *(continued)*
Similarly, transfers from Stage 2 to Stage 1 of €676m 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.

In 2019, following an assessment of the mortgage exposures, a change to the quantitative SICR threshold from 50bps to 85bps was approved by EBS. This was implemented in the residential mortgage portfolio as at December 2019.

Transfers from Stage 2 to Stage 3 of €115m represent those loans that defaulted during the period. 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 €158m were mainly driven by resolution activity with the customer, through either restructuring or forbearance previously granted and which 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 €9m primarily reflect curing events from default where no forbearance measure was required.

Disposals of €62m primarily reflects the portfolio sales of distressed loans during the year which, in addition to write-offs and redemptions were the key drivers of the Stage 3 reduction.

Reductions due to write-offs continues to reflect the utilisation of ECL stock as a result of the restructure of customer debt in line with EBS's strategy.

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to €73m (2018: €363m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2019 amounted to €392m (2018: €363m).*

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

Stage 1 loans increased by €172m in 2019 with an ECL of €4m and resulting cover of 0.04%. This was primarily on foot of net new lending and loans curing to Stage 1.

Stage 2 loans decreased by €99m in 2019 with an ECL of €30m and resulting cover of 3.61%. This was driven by repayments or redemptions and loans for which a significant increase in credit risk no longer applied and/or which had completed a probation period.

Stage 3 loans decreased by €268m in 2019 with the ECL cover increasing from 23.00%% to 24.64%. Key drivers were redemptions/repayments, write-offs and disposals which includes the portfolio sales of distressed loans. The increase in cover primarily reflects the update to the PDH ECL post model adjustment, the updates to the macroeconomic factors, and the introduction of the additional mortgage overlays.

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.

Cross-Border outstandings
Cross-border outstandings are based on the country of domicile of the borrower and comprise placings with banks and money at call and short notice, loans to customers and other monetary assets. EBS monitors geographic breakdown based on the country of the borrower and the guarantor of ultimate risk. Cross-border outstandings exceeding 1% of total assets in 2019 were Nil (2018: Nil).

Large Exposures
At 31 December 2019, EBS's top 50 exposures amounted to €110m, and accounted for 1% (€146m and 1.2% at 31 December 2018) of the on-balance sheet total gross loans and advances to customers. No single customer exposure exceeded regulatory limits which would require disclosure.

* Forms an integral part of the audited financial statements

Risk Management Report

3.1 Credit risk - Credit ratings

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.

				2019
	Cash and balances with Central Bank of Ireland	**Investment securities**	**Loans and advances to banks**	**Off balance sheet commitments**
	€m	**€m**	**€m**	**€m**
Balance	**345**	**21**	**68**	**232**
	%	**%**	**%**	**%**
Aaa	**—**	**—**	**—**	**—**
Aa3 to Aa1	**—**	**—**	**—**	**—**
A3 to A1	**100**	**—**	**16**	**—**
Lower then A3	**—**	**—**	**84**	**—**
Unrated	**—**	**100**	**—**	**100**

				2018
	Cash and balances with Central Bank of Ireland	Investment securities	Loans and advances to banks	Off balance sheet commitments
	€m	€m	€m	€m
Balance	48	21	137	287
	%	%	%	%
Aaa	—	—	—	—
Aa3 to Aa1	—	—	—	—
A3 to A1	100	—	—	—
Lower then A3	—	—	100	—
Unrated	—	100	—	100

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

EBS has established and enforces operating limits and other practices that maintain exposures within levels consistent with their internal policies. EBS adheres to the principles of sound practices for managing interest rate risk and complies with any regulatory requirements as a minimum.

EBS transacts derivatives for the purpose of reducing or eliminating Interest Rate Risk in the 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.

3.1 Credit risk - Credit quality of forborne loans and advances to customers*

The following table sets out the internal credit ratings and ECL staging of forborne loans and advances to customers at 31 December 2019 and 2018:

	2019			2018		
	Residential mortgages	**Commercial properties**	**Total**	Residential mortgages	Commercial properties	Total
	€m	**€m**	**€m**	€m	€m	€m
Strong	**—**	**—**	**—**	—	—	—
Satisfactory	**—**	**—**	**—**	2	—	2
Total	**—**	**—**	**—**	2	—	2
Criticised Watch	**—**	**—**	**—**	—	1	1
Criticised Recovery	**316**	**8**	**324**	420	8	428
Total	**316**	**8**	**324**	420	9	429
Non-performing	**841**	**20**	**861**	1,000	44	1,044
Gross carrying amount	**1,157**	**28**	**1,185**	1,422	53	1,475
Analysed by ECL staging						
Stage 1	**3**	**1**	**4**	1	13	14
Stage 2	**307**	**7**	**314**	417	7	424
Stage 3	**699**	**20**	**719**	850	31	881
POCI	**148**	**—**	**148**	154	2	156
Total	**1,157**	**28**	**1,185**	1,422	53	1,475
Total gross carrying amount of loans and advances to customers	**11,446**	**65**	**11,511**	11,624	104	11,728

3.2 Funding and liquidity risk

Liquidity risk is the risk that EBS will not be able to fund its assets and meet its payment obligations as they fall 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, EBS holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

EBS's liquidity risk is managed as part of the overall AIB liquidity management. In accordance with the Capital Requirements Regulation ("CRR"), EBS 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's liquidity risk as part of the overall AIB liquidity risk management process. This includes the risk identification and assessment, risk management and mitigation, risk monitoring and reporting processes. Under this centralised approach the management of liquidity and related activities for EBS is integrated with its parent, AIB.

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

Key Mitigating Actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. EBS, as part of AIB Group, uses various approaches to help mitigate risks relating to funding and liquidity risk including:

- Board Approved Risk Appetite Statement covering key regulatory and internal liquidity requirements,
- Regular forward looking assessment of liquidity adequacy via annual Internal Liquidity Adequacy Assessment ("ILAAP") and internal stress testing which considers a range of scenarios.
- Funding contingency and Recovery Planning activities,
- Comprehensive ILAAP Framework and supporting policies,
- Independent second line review of defence review and challenge of ILAAP and Funding and Liquidity Plan.

* Forms an integral part of the audited financial statements

3.2 Funding and liquidity risk

Identification and assessment

Funding and 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 LCR is designed to promote short term resilience of EBS'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. The metrics are key risk metrics for EBS and are monitored against Board approved limits.

Management and measurement*

AIB operates a three lines of defence model for risk management. For funding and liquidity risk, the first line of defence comprises the Finance function, who reporting to the AIB CFO, is responsible for providing the necessary information for the management of AIB's liquidity gap and the efficient management of the liquidity buffer. This involves the identification, measurement and reporting of funding and liquidity risk and the application of behavioural adjustments to assets and liabilities.

This function 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 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:
– aims to ensure a balanced spread of repayment obligations through active management of EBS's liability maturity profile. Monitoring ratios also apply to longer periods for long term funding stability;
– 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-equivalent and price sensitivity; and
– monitors net inflows and outflows on a daily basis.

The second line of defence comprises of the Risk function who, reporting to the AIB CRO, provides second line assurance over AIB's funding and liquidity management. This function provides oversight on the effectiveness of the risk and control environment. It proposes and maintains the ILAAP Framework and supporting Policies 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). This function is also responsible for the integrity of AIB's liquidity risk methodologies.
The third line of defence comprises AIB Group Internal Audit who provide third line assurance on funding and liquidity risk.

AIB's ILAAP encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. The ILAAP considers evolving regulatory standards and aims to ensure that 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.

Monitoring, escalating and reporting

EBS's funding and liquidity position is reported regularly to the AIB Finance and Risk functions, AIB's Asset and Liability Committee ("ALCo"), the AIB Group Risk Committee ("GRC") and AIB Board Risk Committee ("BRC"). In addition, the AIB Executive Committee and the AIB Board and EBS management and the EBS Board are briefed on funding and liquidity on an ongoing basis.

Liquidity risk stress testing

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

As part of its contingency and recovery planning EBS has identified a suite of potential funding and liquidity options which could be exercised to help EBS to restore its liquidity position on the occurrence of a major stress event.

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral and as a result is no longer available to EBS to secure funding, satisfy collateral needs or to be sold. EBS had an encumbrance ratio of 21% at 31 December 2019 (2018: 31%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

* Forms an integral part of the audited financial statements

3.2 Funding and liquidity risk

Financial liabilities by undiscounted contractual maturity*
The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2019 and 2018:

							2019
	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	**3,027**	**2,189**	**—**	**—**	**—**	**—**	**5,216**
Customer accounts	**2,488**	**597**	**498**	**1,002**	**323**	**342**	**5,250**
Derivative financial instruments	**—**	**1**	**1**	**1**	**4**	**15**	**22**
Subordinated liabilities	**—**	**—**	**—**	**—**	**—**	**100**	**100**
Other liabilities	**75**	**—**	**—**	**—**	**—**	**—**	**75**
Total	**5,589**	**2,787**	**499**	**1,003**	**327**	**457**	**10,662**
Off-balance sheet loan commitments	**232**	**—**	**—**	**—**	**—**	**—**	**232**

							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
Customer accounts	2,515	421	568	1,072	447	351	5,374
Derivative financial instruments	—	1	1	1	3	10	16
Other liabilities*	62	—	—	—	—	—	62
Total	2,582	5,250	569	1,073	450	361	10,285
Off-balance sheet loan commitments	287	—	—	—	—	—	287

*Restated in line with revised reporting policy for 2019.

Analysis of Loans and advances to Customers by Interest Rate Sensitivity
The following table analyses gross loans to customers by interest rate sensitivity. Approximately 35% of the loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed by AIB Group Treasury level within agreed policy parameters.

Group loans and advances to customers

	Fixed	**Variable**	**Total**
	€m	**€m**	**€m**
2019	**4,025**	**7,486**	**11,511**
2018	2,892	8,836	11,728

* Forms an integral part of the audited financial statements

3.3 Capital adequacy risk*

Capital adequacy risk is the risk that the Group does not maintain sufficient capital to achieve its business strategy, support our customers or to meet regulatory capital requirements. Capital adequacy risk for EBS is evaluated through the annual financial planning and ICAAP processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using the Group's stress testing methodologies. The impact of changing regulatory requirements, changes in the risk profile of EBS balance sheet and other internal factors, and changing external risks are regularly assessed by first line of defence and second line of defence teams via regular monitoring of performance against the Financial Plan and Strategy. An annual material risk assessment is conducted to identify all relevant (current and anticipated) material risks which are then assessed from a capital perspective.

The EBS Board reviews and approves the EBS Financial Plan and the supporting stress tests on an annual basis, confirming it is satisfied with the capital adequacy of the Bank.

3.4 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.

Interest rate risk in the banking 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 the banking 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 the banking book is EBS's primary source of market risk. EBS does not engage in proprietary trading i.e. does not trade on its own account.

Market risk profile

The table below shows the sensitivity of EBS's banking book to an immediate and sustained 100 basis points ("bps") movement in interest rates in terms of the impact on net interest income over a twelve month period:

	100 bps parallel shift (increase/decrease)			
		2019		2018
		€m		€m
Banking book portfolio				
Average for the period	**- / +**	**3**	- / +	2
Maximum for the period	**- / +**	**4**	- / +	5
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's banking book over the life of the assets and liabilities contained therein.

Overall interest rate risk positions are managed by AIB Group Treasury. The use of derivatives to manage interest rate risk is described in note 17 of the consolidated financial statements.

* Forms an integral part of the audited financial statements

3.4 Market risk

Interest Rate Exposure and Sensitivity*

The net interest rate exposure of EBS at 31 December 2019 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	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets										
Cash and balances at central banks	345	—	—	—	—	—	—	—	—	345
Loans and advances to banks	68	—	—	—	—	—	—	—	—	68
Loans and advances to customers	7,795	146	685	874	488	734	789	1	(288)	11,224
Investment securities	—	—	—	—	—	—	—	—	21	21
Other assets	—	—	—	—	—	—	—	—	361	361
Total Assets	8,208	146	685	874	488	734	789	1	94	12,019
Liabilities										
Deposits by banks	5,216	—	—	—	—	—	—	—	—	5,216
Customer accounts	2,728	385	1,482	312	196	138	9	—	—	5,250
Retirement benefit liabilities	—	—	—	—	—	—	—	—	35	35
Subordinated liabilities	100	—	—	—	—	—	—	—	—	100
Other liabilities	—	—	—	—	—	—	—	—	178	178
Shareholders' equity	—	—	—	—	—	—	—	—	1,240	1,240
Total Liabilities	8,044	385	1,482	312	196	138	9	—	1,453	12,019
Derivatives affecting interest rate sensitivity	(1,557)	(148)	(617)	849	157	755	555	6	—	—
Interest sensitivity gap	1,721	(91)	(180)	(287)	135	(159)	225	(5)	(1,359)	—
Cumulative interest sensitivity gap	1,721	1,630	1,450	1,163	1,298	1,139	1,364	1,359	—	

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2019 would be circa -€40k/€40k respectively.

*Forms an integral part of the audited financial statements.

3.4 Market risk

Interest Rate Exposure and Sensitivity* (continued)

The net interest rate exposure of EBS 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	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets										
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
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
Derivatives affecting interest rate sensitivity	(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	—	

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2018 would be circa -€121k/€121k respectively.

*Forms an integral part of the audited financial statements.

Risk Management Report

3.4 Market risk

Foreign exchange risk
EBS takes the euro as its 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 GBP £1.1m and USD $0.5m foreign currency open positions at 31 December 2019 (2018: nil).

Interest rate benchmark reform
Authorities and regulators have requested that the market transition from interbank offered rates referred to as "IBOR" benchmark rates (e.g. Euribor and Libor) to alternative Risk Free Rates (RFRs) by end 2021. The reform was not contemplated when IAS 39 was published, and consequently the IASB has published a set of temporary exceptions from applying specific hedge accounting requirements to provide clarification on how the relevant standards should be applied in these circumstances.

The application of this set of temporary exceptions is mandatory for accounting periods starting on or after 1 January 2020, but early adoption is permitted which EBS elected to do at 31 December 2019 (note 1 to the consolidated financial statements).

Significant judgement will be required in determining when uncertainty is expected to be resolved and, therefore, when the temporary exceptions will cease to apply. However, at 31 December 2019, the uncertainty continued to exist and so the temporary exceptions apply to all of EBS's hedge accounting relationships that reference benchmarks subject to reform or replacement.

EBS has cash flow hedge accounting relationships that are exposed to Euribor. The transition not only impacts financial markets, but also EBS's customers who have an IBOR referenced in their contract. IBORs are embedded within EBS's processes, hence, this transformation will have far reaching impacts in terms of pricing, operations, risk, accounting, data and technology infrastructure, along with potential conduct risk implications.

AIB mobilised an Interest Rate Benchmark Reform Transition Programme ("The Programme") in 2018 to manage the successful evolution to, and embedding of, RFRs. The Programme is sponsored by the AIB Chief Financial Officer, overseen by a steering committee, chaired by a senior Treasury executive, supported by a Project Management layer and working groups comprising representation from customer-facing businesses, Finance, Treasury, Risk, Compliance, Legal, Operations and Customer and Strategic Affairs within AIB.

The programme is organised into four main workstreams, namely:
– Business readiness;
– Technology;
– Contract re-papering; and
– Customer communications and conduct.

The Programme is structured to deliver IBOR transition by the regulators' deadline of 31 December 2021, with much of the recent action focused on business readiness activities, agreeing new fallback clauses and preparing for awareness amongst EBS's customers. The Programme is also briefed on the activities associated with transitioning Euro OverNight Index Average ("EONIA") to Euro short-term rate ("€STER").

EBS's primary exposure to impacted benchmark rates is EURIBOR which has an amended calculation methodology and is now considered Benchmark Regulation compliant, thus reducing the impact of reform on EBS.

3.5 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.

Risk and Control Assessment (“RCA”) is a core process in the identification and assessment of operational risk across AIB Group, including EBS. 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 and compliance (GRC) system. SHIELD provides all areas with one consistent view of the risks, controls, actions and events across AIB. SHIELD underpins a robust risk culture focused on ensuring better customer outcomes while helping to safeguard, protect and support AIB. RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks, and action plans must be developed to provide mitigants for the more significant risks. Monitoring processes are in place at business unit and support level. The second line operational risk team sets and maintains policies and procedures for self-assessment and undertakes risk based reviews and testing to ensure the completeness and robustness of each business unit’s self-assessment, and that appropriate attention is given to the more significant risks.

EBS undertakes an operational risk self-assessment which focuses on activities specific to the Group, e.g. EBS'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 processes.

The key people, systems and processes are provided by AIB and this relationship is governed by an Outsourcing and Agency Agreement. The Group’s operational risk framework applies across all areas of the Group. A key focus of operational risk management in the Group is the oversight of outsourced service activities, in particular activities related 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 and control process within the Group is to provide timely and pertinent operational risk information to management so as to enable corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and operational risk event data for the Group

Business units 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.

3.6 Regulatory compliance risk

Regulatory compliance risk is defined as the risk of legal or regulatory sanctions or failure to protect market integrity, could result in material financial loss or reputational damage. Failure to comply with laws, regulations, or rules, for example Anti-Money Laundering and Countering Terrorist Financing, as well as self-regulatory standards and codes of conduct, could result in regulatory sanction.

The level of regulatory risk remained high in 2019 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 focussed financial services. EBS is committed to proactively identifying regulatory and compliance obligations arising in its operating markets in Ireland, and ensuring the timely implementation of regulatory change. Throughout 2019, projects were mobilised within AIB Group to prepare for the regulatory change horizon as outlined in AIB Group's annual report: Governance and Oversight – Supervision and Regulation.

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. AIB Group uses various approaches to help mitigate risks relating to conduct risk including a Conduct Risk Framework, aligned with the Group strategy, which is embedded in the organisation and provides oversight of conduct risks at Executive Committee and Board level by way of two key fora. The Group Conduct Committee provides the Executive Committee oversight of conduct through promoting and supporting a 'customer first' culture, and also oversees the key conduct risk appetite metrics for complaints management and product reviews. The Group Product and Proposition Committee focus is exclusively in product oversight and management, including overseeing a rolling programme of product reviews.

The level of regulatory change is expected to remain at high levels in 2020 and beyond.

3.7 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by EBS cause poor or unfair customer outcomes. Customer Complaints outstanding without proper investigation would lead to unfair customer outcomes.

EBS uses various approaches to help mitigate risks relating to conduct risk including a Conduct Risk Framework, aligned with AIB Group's strategy, which is embedded in the organisation and provides oversight of conduct risks at Executive Committee and Board level in AIB by way of two key fora. The AIB Group Conduct Committee provides the AIB Executive Committee oversight of conduct through promoting and supporting a 'customer first' culture, and also oversees the key conduct risk appetite metrics for complaints management and product reviews. The AIB Group Product and Proposition Committee focus is exclusively in product oversight and management, including overseeing a rolling programme of product reviews.

EBS's conduct risk is managed in line with the processes, procedures and organisational structures for the management of Conduct risk within AIB Group.

3.8 People and culture risk

People and culture risk is the risk to achieving EBS'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 EBS 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 EBS. The majority of business activities of EBS are outsourced to AIB under a Managed Services Agreement.

AIB Group uses various approaches to help mitigate risks relating to people and culture risk including a continuous review of the market situation and the introduction of new career mapping which will provide a transparent and consistent view of roles and also empower all employees to take accountability and control of their own careers.

AIB Group identifies and reviews employee satisfaction and engagement, indicators of culture, through the staff engagement programme, iConnect, which is facilitated by Gallup on an annual basis. In 2017, AIB Group 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 Group's dealings with customers, each other and all stakeholders.

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

3.8 People and culture risk

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

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. This also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

The Bank identifies and assesses business model risk as part of its Financial Planning process, which encapsulates strategic, business and financial planning. Every year, the bank prepares three-year business plans based on macro-economic and market forecasts across a range of scenarios.

The Bank's Financial Plan is aligned to its strategy and risk appetite. The business plan typically describes external market conditions, competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

The Bank manages business model risk via its Risk Appetite Statement, 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 regular monitoring of actual performance versus plan across a range of key performance indicators. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter.

Performance against plan is monitored at Bank level by executive management and Board on a quarterly basis. Risk profile against risk appetite measures, some of which reference performance against plan, is monitored monthly by the AIB Group Risk Function, with breaches of Risk Appetite relating to EBS reported on a monthly basis to the AIB Group Risk Committee. The EBS DAC Risk Appetite is also reported monthly to EBS DAC Executive Management and quarterly to the Board.

3.10 Model risk

Model risk is defined as the potential loss that the Bank may incur, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models.

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. Operating to the principles outlined in the Model Risk Framework supports EBS's strategic objectives and provides comfort to the Board on the integrity and completeness of the model risk governance.

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

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

AIB Group Internal Audit act as the "third line of defence" providing independent assurance to the AIB Board Audit Committee and the AIB Board on the adequacy, effectiveness and sustainability of the governance, risk management and control framework supporting model risk through their periodic review of the model risk management processes.

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

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

EBS

Directors' Responsibility Statement

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

The Directors are responsible for preparing the Directors' report and the 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. 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 as at the financial year end date and of the profit or loss of EBS for the financial year and otherwise comply with the Companies Act 2014.

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

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

The Directors are responsible for ensuring that EBS keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of EBS, enable at any time the assets, liabilities, financial position and profit or loss of EBS to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and the listing rules of Euronext Dublin (the Irish Stock Exchange), and enable the financial statements to be audited. They are also responsible for safeguarding the assets of EBS 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 EBS'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	Tom Foley
Chairman	*Independent Non-Executive Director*

Date: 19 March 2020

Deloitte.

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 2019 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 Statement of Financial Position;
- the Consolidated Statement of Cash Flows;
- the Consolidated 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 Company financial statements:

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

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; • Recoverability of deferred tax asset; • Defined benefit obligations; • Provisions for customer redress and related matters; and • IT systems and controls. 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 € 10 million which is approximately 1% of total shareholders' equity of the Group; and - the Company to be € 9.5 million which is approximately 1% of total shareholders' equity of the Company.

Scoping	We focused the scope of our Group audit primarily on the audit work in EBS d.a.c. and two 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.
Significant changes in our approach	*Key audit matters* As part of our 2019 audit we have identified one new key audit matter: - IT systems and controls: We regard this area as a key audit matter owing to the high level of IT dependency within the Group, the associated complexity and the risk that automated controls are not designed and operating effectively. *Materiality* For the current year we have considered total shareholders' equity to be the critical component for determining materiality given the fluctuation in profit before tax year on year. We have selected this measure as an appropriate benchmark for materiality as this is a key benchmark for users of the financial statements.

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	In line with IFRS 9, losses on financial assets which are classified at amortised cost are recognised on an Expected Credit Loss ("ECL") basis. ECLs are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved in the calculations require Management to develop methodologies involving the use of significant judgements. Expected credit loss allowances on loans and advances to customers was € 287 million at 31 December 2019 (2018: € 324 million). Measurement of the ECL allowance 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 portfolios 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 page 88 (Accounting Policy 1.19 – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 13 – Net credit impairment (charge)/writeback and Note 19 – 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 the definition of default 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.

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 at and observation of Board Risk Committee and Group Credit Committee meetings.

We evaluated IT system controls including assessing data inputs and general IT controls. 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 challenged judgements and assumptions supporting the ECL requirements of IFRS 9. 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. We challenged the macroeconomic scenarios chosen and changes to the weightings applied. This included benchmarking the economic data used to recognised external data sources. We also considered the impact of key uncertainties, including Brexit as well as assumptions made by Management around a 'Global Slowdown' scenario.

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 and application.

We considered significant items impacting the ECL allowance balance. This included portfolio sales and non-contracted write-offs, as well as recoveries on amounts previously written-off.

We evaluated the adequacy of 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.

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Recoverability of 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 € 228 million (2018: € 230 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 and a potential global economic slowdown. The Group has reassessed profitability and growth forecasts for the period 2020 to 2022. This forecast has been revised downwards and results in an increase in the expected deferred tax utilisation period. Please refer to page 79 (Accounting Policy 1.11 – Income tax, including deferred income tax), Note 2 – Critical accounting judgements and estimates and Note 24 – Deferred taxation.
How the scope of our audit responded to the key audit matter	We have evaluated the design and determined the 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 comparing 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.

Defined benefit obligations

Key audit matter description	The key audit matter is that the recognition and measurement of defined benefit obligations of €213 million (2018: €191 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 page 78 (Accounting Policy 1.10 – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 33 – Retirement benefits.
How the scope of our audit responded to the key audit matter	We understood the key 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 relevant 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 31 – Provisions for liabilities and commitments of €39m (2018: €19m)) 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 92 (Accounting Policy 1.25 – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates and Note 31 - Provisions for liabilities and commitments.
How the scope of our audit responded to the key audit matter	We have evaluated the design and determined the implementation of the Group's relevant controls over the identification, measurement and the disclosure of the provision. We also assessed Management review and governance controls. 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 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.

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IT systems and controls	
Key audit matter description	The Group's financial reporting processes are reliant on processes, controls and data managed by IT systems. The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed daily and the reliance on automated and IT dependent manual controls. This risk is also impacted by dependency on third parties and outsourced arrangements as well as migration to new systems. Our planned audit approach relies extensively on IT applications and the operating effectiveness of the control environment. As part of our assessment of the IT environment, we considered privileged user access management controls to be critical in ensuring that only appropriately authorised changes are made to relevant IT systems. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications or processing unauthorised transactions. We regard this area as a key audit matter owing to the high level of IT dependency within the Group, as well as the associated complexity and the risk that automated controls are not designed and operating effectively.
How the scope of our audit responded to the key audit matter	We examined the design of the governance framework associated with the Group's IT architecture. We gained an understanding and tested relevant General IT Controls for systems we considered relevant to the financial reporting process, including access management, programme development and change management. We gained an understanding of relevant IT controls over applications, operating systems and databases that are relevant for the financial reporting process and tested their operating effectiveness. We assessed the relevant automated controls within business processes and the reliability of relevant reports used as part of manual controls. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds and automated calculations. We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users. While we identified certain design and operating effectiveness deficiencies in relation to user access controls, we tested validation activities performed by Management and compensating controls to mitigate the risk of fraud or error as a result of unauthorised transactions. Based on this testing we were able to place reliance on IT controls for the purpose of our audit.

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 € 10m which is 0.8% of total shareholders' equity. In the prior year, we determined materiality with reference to an adjusted Profit Before Tax ("PBT"). For the current year, we have considered total shareholders' equity to be the critical component for determining materiality. We have selected this measure as an appropriate benchmark for materiality as this is a key benchmark for users of the financial statements. We used this benchmark given the fluctuation in profit before tax year-on year. 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 determine materiality for the Company to be € 9.5 million which is 1.2% of Company total shareholders' equity. We have selected this measure as an appropriate benchmark for Company materiality as this is a key benchmark for users of the financial statements of the Company.

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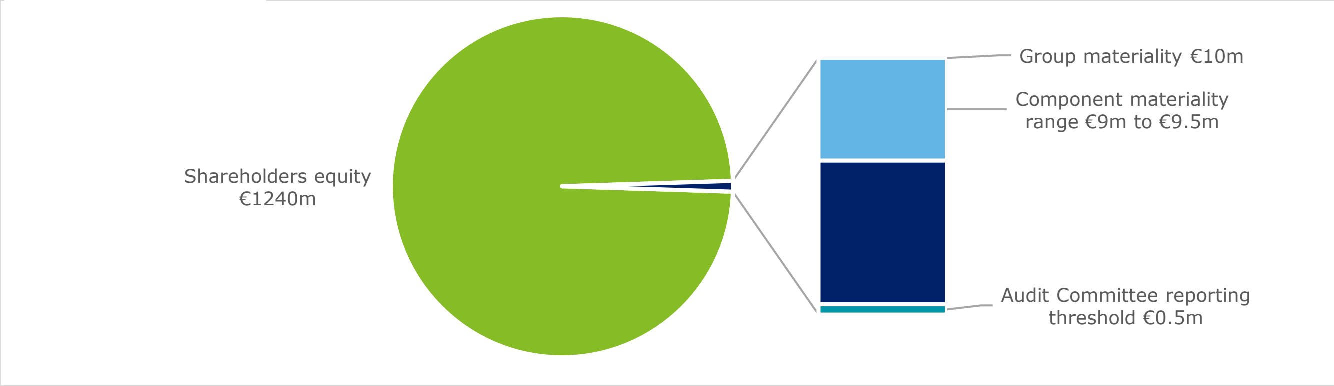


We agreed with the Audit Committee that we would report to them any audit differences in excess of €0.5 million, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

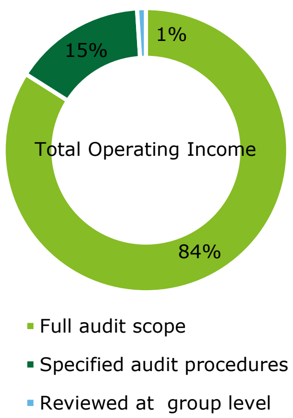
An overview of the scope of audit

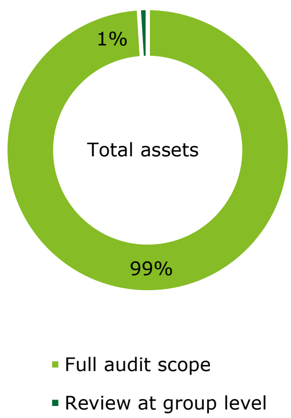
We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit work in EBS d.a.c. and two legal entities, which are disclosed in Note i – Investments in Group undertakings to the Company financial statements, which was subject to individual statutory audit, 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.

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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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.

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) 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 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.

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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 7 years, covering the years ending 2013 to 2019.

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: 27 March 2020

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 2019

	Note	**2019 €m**	2018 €m
Continuing operations			
Interest income calculated using the effective interest method	4	**320**	337
Interest and similar expense	5	**(56)**	(58)
Net interest income		**264**	279
Dividend income	6	**1**	1
Net fee and commission income	7	**12**	10
Net gain on other financial assets measured at FVTPL	8	**6**	4
Net (loss)/gain on derecognition of financial assets measured at amortised cost	9	**(14)**	3
Other operating income	10	**1**	1
Other Income		**6**	19
Total operating income		**270**	298
Administrative expenses	11	**(165)**	(186)
Impairment and amortisation of intangible assets	21	**(2)**	(2)
Impairment and depreciation of property, plant and equipment	22	**(8)**	(1)
Total operating expenses		**(175)**	(189)
Operating profit before credit impairment (charge)/writeback and taxation		**95**	109
Net credit impairment (charge)/writeback	13	**(91)**	11
Operating profit before taxation from continuing operations		**4**	120
Income tax charge	14	**(3)**	(17)
Profit for the year		**1**	103

The operating profit arises from continuing operations.

The notes on pages 72 to 137 are an integral part of these financial statements.

Consolidated statement of comprehensive income

For the financial year ended 31 December 2019.

	Note	2019 € m	2018 € m
Profit for the financial year		**1**	103
Other comprehensive (expense)/income for the year			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of investment securities, net of tax		**—**	—
Net actuarial movement in retirement benefits		**(5)**	(3)
Total items that will not be reclassified subsequently to profit or loss		**(5)**	(3)
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Exchange translation adjustments		**—**	—
Net movement in cash flow hedge reserve		**(4)**	(5)
Other gains/(losses) relating to the year		**—**	—
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(4)**	(5)
Other comprehensive (expense)/income for the year, net of tax		**(9)**	(8)
Total comprehensive (expense)/income for the year		**(8)**	95

The notes on pages 72 to 137 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2019

	Note	2019 €m	2018 €m
Assets			
Cash and balances at central banks	15	**345**	48
Non-current assets held for sale	16	**13**	5
Derivative financial instruments	17	**5**	1
Loans and advances to banks	18	**68**	137
Loans and advances to customers	19	**11,224**	11,404
Investment securities	20	**21**	21
Intangible assets and goodwill	21	**24**	15
Property, plant and equipment	22	**71**	25
Other assets	23	**14**	3
Deferred taxation	24	**228**	230
Prepayments and accrued income	25	**6**	5
Total assets		**12,019**	11,894
Liabilities			
Deposits by banks	26	**5,216**	4,833
Customer accounts	27	**5,250**	5,374
Lease liabilities	28	**38**	—
Derivative financial instruments	17	**22**	16
Other liabilities	29	**34**	35
Current taxation		**—**	2
Deferred taxation	24	**4**	10
Accruals and deferred income	30	**41**	28
Provisions for liabilities and commitments	31	**39**	19
Subordinated liabilities	32	**100**	—
Retirement Benefit Liabilities	33	**35**	29
Total liabilities		**10,779**	10,346
Shareholders' equity			
Issued share capital presented as equity	34	**413**	1,654
Capital contribution reserves	35	**249**	249
Reserves		**578**	(355)
Shareholders' equity		**1,240**	1,548
Total liabilities and shareholders' equity		**12,019**	11,894

The notes on pages 72 to 137 are an integral part of these financial statements

Denis O'Callaghan
Chairman

Tom Foley
Independent Non-Executive Director

Date: 19 March 2020

Diane Lumsden
Company Secretary

Gerry Gaffney
Executive Director

Date: 6 March 2023

Consolidated statement of cash flows

For the financial year ended 31 December 2019

	Note	**2019**	2018
		€m	€m
Cash flows from operating activities			
Operating profit for the year before taxation		**4**	120
Adjustments for:			
Net credit impairment charge/(writeback)	13	**91**	(11)
Retirement benefits - defined benefit expense/(income)	33	**1**	—
Depreciation, amortisation and impairment	22	**10**	3
Net gain on equity investments measured at FVTPL	8	**6**	4
Change in provisions for liabilities and commitments	31	**20**	(2)
Contributions to defined benefit pension schemes	33	**—**	(1)
		132	113
Changes in operating assets and liabilities			
Change in customer accounts	27	**(125)**	(300)
Change in loans and advances to customers	19	**81**	124
Change in loans and advances to banks	18	**7**	203
Change in prepayments and accrued income	25	**1**	6
Change in accruals and deferred income	30	**13**	(20)
Change in derivative financial instruments	17	**2**	7
Change in non-current assets held for sale	16	**(8)**	—
Change in other assets	23	**(11)**	(2)
Change in other liabilities	29	**(1)**	(4)
Net cash flows from operations before taxation		**91**	127
Taxation (paid)/refund	14	**(8)**	(9)
Net cash flows from operations		**83**	118
Cash flows from investing activities			
Additions to intangible assets	21	**(11)**	(6)
Additions to property, plant and equipment	22	**(7)**	(3)
Net cash flows from investing activities		**(18)**	(9)
Cash flows from financing activities			
Change in deposits by banks	26	**383**	(139)
Change in hedging items		**(5)**	(5)
Net proceeds on issue of subordinated liabilities		**100**	—
Repayment of capital by way of dividend	34	**(300)**	—
Repayment of lease liabilities		**(8)**	—
Net cash flows from financing activities		**170**	(144)
Net increase/(decrease) in cash and cash equivalents		**235**	(35)
Cash and cash equivalents at 1 January		**121**	156
Cash and cash equivalents at 31 December	40	**356**	121

The notes on pages 72 to 137 are an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

For the financial year ended 31 December 2019

	Ordinary Share Capital €m	Capital Reserves €m	Cash flow hedge reserve €m	Investment securities reserve €m	Revenue Reserves €m	Total Shareholders' Equity €m
At 1 January 2019	**1,654**	**249**	**(11)**	**17**	**(361)**	**1,548**
Total comprehensive income for the year						
Profit for the year	—	—	—	—	**1**	**1**
Other comprehensive income	—	—	**(4)**	—	**(5)**	**(9)**
Capital reduction[1]	**(1,241)**	—	—	—	**1,241**	—
Capital repayment by way of dividend[1]	—	—	—	—	**(300)**	**(300)**
At 31 December 2019	**413**	**249**	**(15)**	**17**	**576**	**1,240**

At 31 December 2017	1,654	249	(6)	17	(509)	1,405
Impact of adopting IFRS 9 at 1 January 2018	—	—	—	—	48	48
Restated balance at 1 January 2018	1,654	249	(6)	17	(461)	1,453
Total comprehensive income for the year						
Profit for the year	—	—	—	—	103	103
Other comprehensive income	—	—	(5)	—	(3)	(8)
At 31 December 2018	1,654	249	(11)	17	(361)	1,548

[1]For details in relation to the capital reduction transaction see note 34. Issued share capital presented as equity.

The notes on pages 72 to 137 are an integral part of these financial statements.

Notes to the consolidated financial statements

Notes to the consolidated financial statements

Accounting policies index

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the financial statements for the financial year ended 31 December 2019 are set out below.

1.1. Reporting entity

EBS d.a.c. is a company domiciled in Ireland. EBS's registered office is The EBS Building, 2 Burlington Road, Dublin 4, and 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, where appropriate, including certain special purpose entities and are prepared to the end of the financial year. EBS is and has been primarily involved in retail banking.

1.2. Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2019. The financial statements also comply with the Companies Act 2014 applicable to companies reporting under IFRS and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015, and the Asset Covered Securities Acts 2001 and 2007. The accounting policies have been consistently applied by EBS and are consistent with the previous year, unless otherwise described.

1.3. Basis of preparation

Functional and presentation currency

The financial statements are presented in Euro, which is the functional currency of EBS, 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.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, and the statement of changes in shareholders' 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 section of the 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, 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 periods affected. The estimates that have 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 Note 2: 'Critical accounting judgements and estimates' on pages 94 to 98.

Going concern

The financial statements for the financial year ended 31 December 2019 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting EBS, 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.

Conclusion

On the basis of the continued availability of funding from AIB to EBS Group, the EBS Board approved financial plans in base and alternative scenarios, and notwithstanding the potential of COVID-19 to impact the performance of EBS, the Directors of EBS believe that it is appropriate to prepare the financial statements on a going concern basis.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.3. Basis of preparation *(continued)*

First time adoption new accounting standard/amendments to standards

The following new standard and amendments to standards have been adopted by EBS during the year ended 31 December 2019.

IFRS 16 *Leases*

The effective date for IFRS 16 *Leases* was 1 January 2019 and was adopted by EBS on that date. The new standard replaces IAS 17 *Leases*.

EBS is applying this standard using the modified retrospective approach. Therefore, the comparative financial information for 2018 is not being restated as allowed in IFRS 16 paragraph C7 and continues to be reported under IAS 17. Accordingly, accounting policy 1.14 'Leases, as set out in the 2018 financial statements, applies for comparative information.

The total impact of IFRS 16 over the life of a lease will be neutral on the income statement, however, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years. This impact is not material in the twelve months to 31 December 2019.

Details on the impact of adopting IFRS 16 are set out in note 3 to these financial statements

Interest Rate Benchmark Reform

Amendments to IFRS 9 *Financial Instruments*; Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*; and Amendments to IFRS 7 *Financial Instruments: Disclosures.*

In September 2019, the IASB amended some of its requirements for hedge accounting in order to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) and their replacement with alternative nearly risk-free interest rates. These amendments allow hedging relationships affected by the IBOR reform to be accounted for as continuing hedges.

EBS has early adopted these amendments for the financial year to 31 December 2019. EBS will continue to apply the amendments to IFRS 9 and IAS 39 until the uncertainty arising from interest rate benchmark reform with respect to the timing and amount of underlying cash flows ends. EBS has assumed that this uncertainty will not end until EBS's contracts that reference IBORs are amended or fallback clauses are added to existing contracts.

For further details of Interest Rate Benchmark Reform see page 52.

***Definition of Material* (Amendments to IAS 1 and IAS 8)**

The amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policy, Changes in Accounting Estimates and Errors which* were issued in October 2018 and effective for reporting periods beginning on or after 1 January 2020 with earlier application permitted, clarify the definition of material 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".

The amendments are aimed at improving the understanding of the existing requirements rather than to significantly impact current materiality judgements. The new definition of material is to be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments are not expected to significantly impact on EBS's interpretation of material.

EBS early adopted these amendments with effect from 1 January 2019.

Other amendments resulting from improvements to IFRSs which EBS adopted in 2019 did not have a material impact on the accounting policies, financial position or performance of EBS.

1.4. Basis of consolidation

Subsidiary undertakings

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.4. Basis of consolidation *(continued)*

Subsidiary undertakings

EBS 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 loses control of a subsidiary, EBS:

(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 subsequently accounts for any investment retained in the former subsidiary in accordance with IFRS 9 *Financial Instruments*, 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 assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Transactions eliminated on consolidation

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

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

Parent Company financial statements: Investment in subsidiary undertakings

EBS accounts for investments in subsidiary undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, EBS accounts for it at the lower of its carrying value and fair value less costs to sell.

EBS reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in EBS's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

Dividends from a subsidiary undertaking are recognised in the income statement when EBS's right to receive the dividend is established.

1.5. Foreign currency translation

Items included in the financial statements of each of EBS'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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.6. 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 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), EBS presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off.

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.

1.7. 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

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 EBS 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 liabilities, and includes all realised and unrealised fair value changes. Interest revenue and dividend income on trading assets are shown in 'interest income' and 'dividend income' respectively.

1.10. Employee benefits

Retirement benefit obligations

EBS 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.

Retirement benefit obligations

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.

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

In early 2017, the AIB Board reassessed its obligation to fund increases in pensions in payment. The AIB Board confirmed that funding of increases in pensions in payment is a decision to be made by the AIB Board each year where increases are discretionary. This was based on actuarial and external legal advice obtained. EBS has aligned itself to the position taken by AIB in terms of increases to pensions in payment.

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.10. Employee benefits *(continued)*

Retirement benefit obligations
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.

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

Short-term employee benefits
Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that EBS 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. Income tax, including deferred 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 financial year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous financial years.

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

1.12. Financial assets
Recognition and initial measurement
EBS initially recognises financial instruments on the trade date, being the date on which EBS 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.12. Financial assets *(continued)*

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'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 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.

- 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 other than in the case of equity instruments designated at FVOCI.

- 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 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 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.12. Financial assets *(continued)*

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 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'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.

Reclassifications

Reclassifications of financial assets to alternative measurement categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur if EBS 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 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.

1.13. Financial liabilities

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

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

Issued financial instruments and their components are classified as liabilities where the substance of the contractual arrangement results in EBS having a present obligation to either deliver cash or another financial asset to the holder or 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 the 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 is recognised in the income statement using the effective interest rate method.

EBS derecognises a financial liability when its contractual obligation is discharged, cancelled or expired. Any gain or loss on the extinguishment or re-measurement of a financial liability is recognised in the income statement.

1.14. Leases

Lessor

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.14. Leases *(continued)*

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

Lessee
Leases are recognised, measured and presented in line with IFRS 16 *Leases*.

Identifying a lease
EBS assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether EBS obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

This policy is applied to all of its contracts that meet the definition of a lease.

EBS has elected to apply the practical expedient to account for each lease component and any non-lease component as a single lease component.

Lease term
The lease term comprises the non-cancellable period of the lease contract for which EBS has the right to use an underlying asset together with:
– periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
– periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Recognition
EBS recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases except for short-term leases of 12 months or less or leases where the underlying asset is of low value i.e. the value of the underlying asset, when new, is less than €5,000. The commencement date is the date on which a lessor makes an underlying asset available for use by EBS.

Initial measurement of right-of-use asset
Right-of-use assets are initially measured at cost, which comprises:
– the amount of the initial measurement of the lease liability;
– any lease payments made at or before the commencement date, less any lease incentives;
– any initial direct costs incurred by EBS; and
– an estimate of costs to be incurred by EBS in dismantling and removing the underlying assets or restoring the site on which the assets are located.

EBS provides for dilapidations/restoration costs where it has been identified or planned that it intends on exiting the premises, and/or where it has completed extensive modifications. EBS recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to their previous condition when the lease ends. Asset restoration obligations are capitalised as part of the cost of right-of-use assets and depreciated over the asset's estimated useful life on a straight-line basis.

Subsequent measurement of right-of-use asset
After the commencement date, a right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. EBS applies IAS 36 *Impairment of Assets* as set out in EBS's accounting policy (1.23) 'Impairment of property, plant and equipment, and intangible assets' to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

EBS depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, EBS uses the lease term as determined in the initial recognition calculation.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.14. Leases *(continued)*

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, AIB Group's incremental borrowing rate. Generally, EBS uses the AIB Group incremental borrowing rate as the discount rate given EBS's reliance on AIB for funding.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by EBS under a residual value guarantee;
- the exercise price of a purchase option if EBS is reasonably certain to exercise;
- lease payments in an optional renewal period if EBS is reasonably certain to exercise an extension option; and
- payments of penalties for terminating the lease, if the lease term reflects EBS exercising an option to terminate the lease.

Lease payments exclude variable elements which are dependent on external factors, e.g. payments that are based on transaction volume/usage. Variable lease payments that are not included in the initial measurement of the lease liability are recognised directly in the income statement in the period in which the event or condition that triggers these payments occurs.

VAT payments are not included in the calculation of the lease liability. These are expensed to the income statement when incurred and are included within 'General and administrative expenses'.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. restoration/dilapidation costs, EBS recognises a provision for a restoration costs under IAS 37 in its statement of financial position under 'Provisions for liabilities and commitments'.

Subsequent measurement of lease liability

After the commencement date, EBS measures the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made; and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in EBS's estimate of the amount expected to be payable under a residual value guarantee, or if EBS changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to Nil.

Lease modifications

Lease modifications arise from changes to the underlying contract between EBS and the lessor. The accounting for the modification is dependent on whether the modification is considered a separate lease or not.

A lease modification is accounted for as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope. If both criteria are met, EBS adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a lease modification fails the test above or the modification is of any other type (e.g. a decrease in scope from the original contract), EBS must modify the initially recognised components of the lease contract.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.14. Leases *(continued)*

Lease modifications
The accounting treatment required for lease modifications that are not accounted for as separate leases is as follows:
Decrease in scope:
(a) Re-measure lease liability using revised discount rate*;
(b) Decrease right-of-use asset by its relative scope compared to the original lease; and
(c) Difference between (a) and (b) recognised as gain or loss in the income statement in 'Profit on disposal of leases'.

All other lease modifications:
(a) Re-measure lease liability using the revised discount rate*; and
(b) Re-measure right-of-use asset by same amount.

* The interest rate implicit in the lease for the remainder of the lease term is used. If this cannot be readily determined, the incremental borrowing rate at the effective date of the modification is used.

Sublease accounting
Where EBS sub-leases an asset (intermediate lessor) which it has leased from another lessor (the 'head lessor' who ultimately owns the asset from a legal perspective), EBS, assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset being leased, not the actual underlying asset.

Statement of financial position
EBS presents right-of-use assets in 'Property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

Practical expedients
EBS has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short-term leases i.e. leases that have a lease term of 12 months or less and for leases of low-value assets (i.e. leases where the value of the underlying asset when new is less than €5,000. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term. The election to adopt the recognition exemption for short-term leases is made by class of underlying asset to which the right of use relates.

EBS has elected to apply the practical expedient, as allowed by IFRS 16, to apply the Standard to a portfolio of leases with similar characteristics when it expects that the effects on the financial statements of applying the Standard to the portfolio would not differ materially from applying this Standard to the individual leases within the portfolio. On this basis, EBS has made estimates and assumptions that reflect the size and composition of the portfolio.

Under IAS 17
Until 31 December 2018, under the requirements of IAS 17, EBS's policy for operating leases for the comparative period for the year ended 31 December 2018 was as follows: Operating lease rentals payable were recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

1.15. 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 has access at that date. EBS 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 determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.15. Determination of fair value of financial instruments *(continued)*

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’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 considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

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

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

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

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

EBS 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.15. Determination of fair value of financial instruments *(continued)*

Valuation techniques
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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

1.16. 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. 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 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.

1.17. Derivatives and hedge accounting
Derivatives, such as interest rate swaps are used for risk management purposes.

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

Hedging
EBS 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 designates certain derivatives as either:
– hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
– hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge');

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.17. Derivatives and hedge accounting *(continued)*

Hedging
To the extent that the changes in the fair value of the hedging derivative differ from changes in 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 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 reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

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

1.18. Derecognition
Financial assets
EBS derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which EBS neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. However, the amount held in investment securities reserves is transferred to revenue reserves on derecognition. Any interest in transferred financial assets that qualify for derecognition that is created or retained by EBS is recognised as a separate asset or liability.

EBS enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.18. Derecognition *(continued)*
In transactions in which EBS neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, EBS continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, EBS retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written-off, and the portion written-off comprises specifically identified cash flows, this will constitute a derecognition event for that part written-off.

1.19. Impairment of financial assets
EBS 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.

Investments in equity instruments are recognised at fair value, accordingly, expected credit losses are not recognised separately for equity instruments.

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 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'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 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.

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 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.

1. ACCOUNTING POLICIES

1.19. Impairment of financial assets *(continued)*

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 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 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 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.

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.19. Impairment of financial assets *(continued)*

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 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 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.

Once a financial asset is written-off either partially or fully, the amount written-off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written-off that income is recognised in the income statement as a 'recovery of bad debt previously written-off'.

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

1.20. Collateral and netting

EBS 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 obtains collateral in respect of customer advances where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives EBS 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 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 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 on 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.21. Property, plant and equipment *(continued)*

EBS 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 depreciates right-of-use assets arising under lease obligations from the commencement date of a lease to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, EBS uses the lease term as determined in the initial recognition calculation.

EBS reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that EBS 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 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 EBS policy not to revalue its property, plant and equipment.

[1]Subject to the maximum remaining life of the lease.

1.22. Intangible assets

Computer software and other intangible assets 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, 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 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 the asset or cash generating unit and its value in use. 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.24. 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. However, 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.

1.25. 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 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 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 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 with little realistic alternative but to settle the obligation and EBS 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.

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.

Share issue costs

Incremental costs directly attributable to the issue of new shares are charged, net of tax, to equity.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.26. Shareholders' equity *(continued)*

Dividends and distributions
Dividends on ordinary shares are recognised in equity in the period in which they are approved by EBS''s shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

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

Investment 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.

On disposal of equity securities which had been designated at FVOCI on initial recognition, any amounts held in the investment securities reserves account is transferred directly to revenue reserves without recycling through profit or loss.

Cash flow hedging reserves
Cash flow hedging 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.

Revenue reserves
Revenue reserves represent retained earnings of the parent company and subsidiary undertakings. They also include amounts arising from the capital reduction undertaken by EBS in June 2019.

1.27. Cash and cash equivalents

For the purposes of the cash flow statements, cash comprises cash on hand 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 the date of acquisition.

1.28. Prospective accounting changes

The following amendments to IFRS 3 which have been approved by the IASB, but not early adopted by EBS, may impact EBS's financial reporting in future periods. However, their impact can only be assessed as a situation arises.

Amendments to IFRS 3 Business Combinations
The amendments to IFRS 3 Business Combinations, which were issued in October 2018, clarify the definition of a business through the following changes:
- To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process;
- They narrow the definitions of a business and outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

Effective date: Business combinations where the acquisition date is on or after annual reporting periods beginning on or after 1 January 2020.

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'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.

Significant judgments

The significant judgements made by EBS in applying its accounting policies are set out below. The application of these judgements also necessarily involves estimations, apart from that relating to retirement benefit obligations, which are discussed separately.

- Deferred taxation;
- Impairment of financial assets;
- Retirement benefit obligations;
- Provisions for liabilities and commitments: and
- Determination of fair value of financial instruments.

Deferred taxation

EBS's accounting policy for deferred tax is set out in accounting policy 1.11 in note 1. Details of EBS's deferred tax assets and liabilities are set out in note 24.

A key judgement in relation to the recoverability of deferred tax assets is that it is probable that there will be sufficient future taxable profits against which the losses can be used.

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 assets 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, 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 tax losses;
- the turnaround evident in the financial performance over the past five 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 introduction of the bank resolution framework under the BRRD and the establishment in 2017 of AIB Group plc as the new holding company of AIB Group provides greater confidence in relation to the future viability of EBS, 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'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.

Notes to the consolidated financial statements

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Deferred taxation
Profitability and growth has been reaffirmed in the annual planning exercise covering the period 2020 to 2022 undertaken by EBS in the second half of 2019. Growth assumptions and profitability levels underpinning the plan are within market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, EBS further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish group companies against which to use the tax losses. In this regard, EBS has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario. Using EBS's financial plan 2020 to 2022 as a base and a profit growth rate of 3% from 2022, it was assessed that it will take in excess of 22 years for the deferred tax asset (€224 million) to be utilised. Furthermore, under this scenario, it is expected that 39% of the deferred tax asset will be utilised within 10 years (2018: 45%) and 63% utilised within 15 years (2018: 75%). If the growth rate assumption was decreased by 1%, then the utilisation period increases by a further 4 years. EBS's analysis of this and other scenarios examined would not alter the basis of recognition or the current carrying value. In 2018, EBS reported that it expected that it would take 19 years for the deferred tax asset to be utilised.

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'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.

Impairment of financial assets
EBS's accounting policy for impairment of financial assets is set out in accounting policy 1.19 in note 1. The expected credit loss ('ECL') allowance for financial assets at 31 December 2019 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

The calculation of the ECL allowance is complex and therefore, an entity must consider large amounts of information in their determination. This process requires significant use of a number of accounting judgements, estimates and assumptions, some of which, by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. Changes in the ECL allowance can materially affect net income.

The most significant judgements applied by EBS in estimating the ECL allowance are as follows:
- *determining the criteria for a significant increase in credit risk and for being classified as credit impaired;*
- *definition of default;*
- *choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD and the parameters to be included within the models;*
- *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 uncertainty;*
- *determining post-model adjustments using an appropriate methodology; and*
- *assessing the impact of forbearance strategies on cash flows and therefore, the ECL allowance for restructured loans.*

The management process for the calculation of the ECL allowance is underpinned by independent tiers of review. The Group assesses and approves the ECL allowance and its adequacy on a quarterly basis. The ECL allowance is, in turn, reviewed and approved by the AIB Group Credit Committee on a quarterly basis with final AIB Group levels being approved by the AIB Board Audit Committee. Further detail on the ECL governance process is set out on page 27.

Credit quality and ECL provisioning are independently monitored by credit and risk management on a regular basis. On an ongoing 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.

The significant accounting judgements noted above and made by Management in estimating the ECL allowance are outlined on pages 31 to 35 in the Risk management section of this report.

Notes to the consolidated financial statements

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Retirement benefit obligations
EBS's accounting policy for retirement benefit schemes is set out in accounting policy 1.10 in note 1.

The significant judgement is that a constructive obligation has not been created, notwithstanding the decision by EBS in the recent past, following an annual process, to fund discretionary increases in pensions in payment.

In 2017, AIB, having taken actuarial and external legal advice, determined that the funding of discretionary increases in pensions in payment is a decision to be made by the AIB Board annually for AIB Group's main Irish schemes. A process, taking account of all relevant interests and factors has been implemented by the AIB Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; AIB Group's financial circumstances and ability to pay; the views of the Trustees; AIB Group's commercial interests and any competing obligations to the State.

In early 2017, the AIB Board implemented this process which has continued to date. While increases to pensions in payment are specifically subject to the consent of EBS, EBS has aligned itself to the position taken by AIB in terms of increases to pensions in payment. AIB Group completed the same process early in 2020 taking account of all relevant factors and decided that funding of discretionary increases to pensions in payment was not appropriate for 2020.

The above process is a formal annual process that is carried out on a standalone basis. Therefore, no constructive obligation is being created on behalf of scheme members with regard to future funding by AIB Group of increases in pensions in payment. Accordingly, the assumption for long term rate of increases in pensions in payment is nil. This does not reflect the ability of the Trustee to grant increases at any point in the future when the financial position of the scheme would enable such an increase at that point in time.

Provisions for liabilities and commitments
EBS's accounting policy for provisions for liabilities and commitments is set out in accounting policy number 1.25 'Non-credit risk provisions' in note 1.

EBS 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 EBS's liabilities and commitments are shown in note 31 to the consolidated financial statements.

Significant management judgement is involved in this process which, of its nature, may require revisions to earlier judgements and estimates as matters progress towards resolution, particularly, in establishing provisions and the range of reasonably possible losses.

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. 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.

The judgements employed in estimating potential losses will change over time and the actual losses may vary significantly.

Determination of fair value of financial instruments
EBS's accounting policy for the determination of fair value of financial instruments is set out in accounting policy 1.15 in note 1.

The best evidence of fair value is quoted prices in an active market but in the absence of quoted prices increased reliance is placed on valuation techniques.

Significant judgement is required in the estimation of fair value in the absence of quoted prices. 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.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Determination of fair value of financial instruments *(continued)*
Valuation techniques that rely to a greater extent on non-observable data than those based wholly on observable data require a higher level of subjective management judgement relating to the applicability and functionality of internal valuation models, the significance of inputs to the valuation of an instrument and the degree of illiquidity in certain markets to calculate a fair value. Financial instruments which are classified under the fair value hierarchy as level 3 require a higher level of management judgement in their valuation.

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

A sensitivity analysis to possible changes in key variables of the fair value of financial instruments classified under the fair value hierarchy as level 3 is set out in note 39.

Critical accounting estimates
The accounting estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year were in relation to:
- ECL allowance;
- Retirement benefit obligations;
- Provisions for liabilities and commitments; and
- Impairment of investments in subsidiaries in the separate financial statements.

ECL allowance
ECL allowances at 31 December 2019 amounted to €287 million (2018: €324 million). As noted above, there are significant judgements involved in estimating ECL allowances. Certain of these estimates together with estimates which do not involve accounting judgements may have a significant risk of material adjustment to carrying amounts of assets within the next financial year.

The macroeconomic variables used in models to calculate ECL allowance are based on assumptions, forecasts and estimates. These are subject to change as the economic landscape changes. Accordingly, changes in local and international factors could have a material bearing on the ECL allowance within the next financial year. EBS's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on pages 22 to 24 of the Risk Management section of this report.

Retirement benefit obligations
EBS's accounting policy for retirement benefit obligations is set out in accounting policy 1.10 in note 1.

Details of the assumptions adopted by EBS in calculating the schemes' liabilities are set out in note 33 to the consolidated financial statements.

The actuarial valuation of the schemes' liabilities is dependent upon a number of financial and demographic assumptions which are inherently uncertain. Changes to those assumptions could materially impact the reported amount for schemes' liabilities and the actuarial gains/losses reported in equity. A sensitivity analysis for the principal assumptions used to measure the schemes' liabilities is set out in note 33 to the financial statements.

Provisions for liabilities and commitments
Provisions for liabilities and commitments are set out in note 31 to the consolidated financial statements and their recognition involves a significant degree of estimation. The overall provision amounting to €39 million comprising: €15 million in respect of CBI penalties; €4 million residual provision for tracker mortgages in respect of previous settlements and related matters; and a number of separate provisions, the majority of which are not individually significant and are not expected to result in a material adjustment in the next financial year.
At 31 December 2019, a provision amounting to €4.0m is held against, what is considered to be, the practical completion of the 'customer redress and compensation" of all impacted accounts and other related costs. In determining this provision, EBS assessed other possible redress scenarios and concluded that the possibility of a further outflow of economic resources was remote.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Provisions for liabilities and commitments *(continued)*

As detailed in notes 31 and 37, EBS was advised in 2018 by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. In this regard, EBS created a provision of €15 million for the impact of monetary penalties that are expected to be imposed by the CBI being its best estimate based on external developments in the industry at 31 December 2019. This matter is still considered to be at a relatively early stage, and the amount provided for is subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation. Accordingly, this is a critical accounting estimate which could result in a material adjustment in the next financial year but it is difficult to quantify a range of outcomes.

Other than as outlined above, there is no individually significant provision that is expected to result in a material adjustment in the next financial year.

Impairment of investments in subsidiaries in the separate financial statements

EBS's accounting policy for the impairment of investments in subsidiaries is set out in accounting policy 1.4 in note 1 and in note i to EBS Company's financial statements.

Investments in subsidiaries in the separate financial statements of EBS Company are reviewed for impairment when there are indications that impairment losses may have occurred. If any such indications exist, EBS undertakes an impairment review by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount with any shortfall being reported as an impairment charge in the Company's financial statements. The estimated recoverable amount is based on value-in-use (VIU) calculations.

Testing for impairment inherently involves both significant estimations which involve a high degree of uncertainty (cash flow projections during the period of the financial plan) and judgements (choice of appropriate discount and growth rates).

Given the uncertainties and the high level of subjectivity involved in the estimation process, it is possible that the outcomes in the next financial year could differ from the expectations on which Company's estimates are based resulting in the recognition and measurement of material different amounts from those estimated in these financial statements.

3. TRANSITION TO IFRS 16

(a) Summary

On 1 January 2019, EBS implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced 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.

Details of EBS's accounting policy for lessee accounting are set out in note 1.14 to these financial statements.

The information set out below provides details relevant to understanding the impact of IFRS 16 on EBS's financial position at 1 January 2019.

(b) Principal impacts of IFRS 16

As permitted by IFRS 16, EBS transitioned to the standard in accordance with the modified retrospective approach, and accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. There was no impact on retained earnings arising from the adoption of IFRS 16 on 1 January 2019.

As a lessee

On initial application of IFRS 16 for operating leases, right-of-use assets were generally measured at the amount of the lease liability, using EBS's incremental borrowing rate at the time of initial application. The weighted average rate applied was c. 3.0%. For the measurement of the right-of-use assets at the date of initial application, initial direct costs were not taken into account in accordance with IFRS 16 C10 (d).

EBS elected to apply the practical expedient that allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics and a similar remaining lease term. EBS applied single discount rates to its leases of motor vehicles.

EBS also elected to apply the practical expedient where the lease term ends within 12 months of the date of initial application to account for such leases as short-term leases with the associated lease payments being recognised as an expense for short-term leases.

In addition, EBS elected to apply the practical expedient that allows an entity to rely on its assessment of whether leases were onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. This resulted in right-of-use assets being reduced by €0.4m on initial application (note 31).

Contracts that qualified as leases as defined by IFRS 16 related primarily to property, motor vehicles and ATM locations. On initial application of IFRS 16, EBS recognised assets and liabilities for its leases previously classified as operating leases under IAS 17, resulting in an increase in total assets under property, plant and equipment and total liabilities at 1 January 2019. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of €47m (includes €2m for future dilapidation provisions (note 31)) and lease liabilities of €45m.

Comparative data in these financial statements has been prepared under IAS 17 *Leases* as allowed in IFRS 16.

As a lessor

EBS was not required to make any adjustment on transition to IFRS 16 for leases where it is a lessor, except for subleases.

At the date of initial application, EBS reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. EBS concluded that the subleases in existence require classification as finance leases under IFRS 16 and as a result €0.4m was recognised as finance leases in 'Other assets'.

Notes to the consolidated financial statements

3. TRANSITION TO IFRS 16 *(continued)*

(c) Financial statement impacts at 1 January 2019

Opening statement of financial position

The following table reconciles the statement of financial position under IAS 17 at 31 December 2018 to that under IFRS 16 at 1 January 2019.

	31 December 2018 (IAS 17)	IFRS 16 Impact	1 January 2019 (IFRS 16)
	€m	€m	€m
Assets			
Cash and balances at central banks	48	—	48
Non-current assets held for sale	5	—	5
Derivative financial instruments	1	—	1
Loans and advances to banks	137	—	137
Loans and advances to customers	11,404	—	11,404
Investment securities	21	—	21
Intangible assets and goodwill	15	—	15
Property, plant and equipment	25	47	72
Other assets	3	—	3
Deferred taxation	230	—	230
Prepayments and accrued income	5	—	5
Total assets	11,894	47	11,941
Liabilities			
Deposits by banks	4,833	—	4,833
Customer accounts	5,374	—	5,374
Lease liabilities	—	45	45
Derivative financial instruments	16	—	16
Other liabilities	35	—	35
Current taxation	2	—	2
Deferred taxation	10	—	10
Accruals and deferred income	28	—	28
Provisions for liabilities and commitments	19	2	21
Retirement Benefit Liabilities	29	—	29
Total liabilities	10,346	47	10,393
Shareholders' equity	1,548	—	1,548
Total liabilities and shareholders' equity	11,894	47	11,941

(d) Reconciliation of operating lease obligations

The following table reconciles EBS's operating lease obligations at 31 December 2018, as previously disclosed in the consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019:

	2019
	€m
Operating lease commitments at 31 December 2018	48
Extension options reasonably certain to be exercised - gross	2
	50
Discounting effect - using the incremental borrowing rate at 1 January 2019	(5)
Recognition exemption for short-term/other	—
Lease obligation recognised at 1 January 2019	45

Notes to the consolidated financial statements

4. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2019 €m	2018 €m
Interest on loans and advances to customers at amortised cost	**320**	337
Interest received from Parent company	**—**	1
Other interest income	**—**	(1)
	320	337

All interest income is calculated using the effective interest method.

5. INTEREST AND SIMILAR EXPENSE

	2019 €m	2018 €m
Interest on customer accounts	**26**	32
Interest on lease liabilities	**1**	—
Interest payable to AIB	**29**	26
	56	58

6. DIVIDEND INCOME

Dividend income received on NAMA subordinated bonds amounted to €1m at 31 December 2019 (2018: €1m)

7. NET FEE AND COMMISSION INCOME

	2019 €m	2018 €m
Fees and commissions receivable	**17**	17
Fees and commission payable	**(5)**	(7)
	12	10

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

8. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2019 €m	2018 €m
Loans and advances to customers	**6**	4
	6	4

The fair value gain on loans and advances to customers measured at FVTPL was €6m in 2019 (2018: €4m)

Notes to the consolidated financial statements

9. NET (LOSS)/GAIN ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

	2019			
	Carrying value at derecognition	**Gain on derecognition[1]**	**Loss on derecognition[1]**	**Net loss on derecognition**
Loans and advances to customers	**46**	**7**	**(21)**	**(14)**

	2018			
	Carrying value at derecognition	Gain on derecognition[1]	Loss on derecognition[1]	Net gain on derecognition
Loans and advances to customers	8	3	—	3

[1] The gain/loss on derecognition has been based on the proceeds of sale, net of costs, computed at a customer connection level.

Loans and advances to customers were derecognised due mainly to the sale of distressed loan portfolios.

10. OTHER OPERATING INCOME

	2019 €m	2018 €m
Miscellaneous operating income	**1**	1
	1	1

11. ADMINISTRATIVE EXPENSES

	2019 €m	2018 €m
Personnel expenses:		
Wages and salaries	**—**	—
Termination expenses	**—**	—
Retirement benefits	**1**	1
Social insurance costs	**—**	—
Other personnel expenses	**—**	—
	1	1
Staff costs capitalised	**—**	—
Personnel expenses	**1**	1
General and administrative expenses:		
Amounts payable to AIB	**77**	96
Other administrative expenses	**87**	89
Total general and administrative expenses	**164**	185
	165	186

Amounts payable to AIB are determined by the pricing arrangements between AIB and the Bank reflecting OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. The arrangements attribute a defined Return on Equity to the Bank and for 2019 this required a net payment by EBS to AIB.

In 2019 Amounts payable to AIB were €77m (2018: €96m), a reduction of €19m. The reduction is driven by the impact of updates to the inputs to the ROE transfer pricing methodology calculation.

Notes to the consolidated financial statements

11. ADMINISTRATIVE EXPENSES (continued)

Other administrative expenses includes a charge of €33m (2018: €35m debit) for potential monetary penalties that are expected to be imposed by the CBI, relating to the Tracker Mortgage Examination and provisions for customer redress. See note 31. Provisions for liabilities and commitments for further information on provisions.

For the financial year ended 31 December 2019 the monthly average number of employees was 1 (2018: 1). As at 31 December 2019, EBS had 1 employee (2018: 1).

In addition a small number of AIB employees maintain a parallel employment relationship with EBS, 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.

Details of Directors' remuneration are disclosed in note 41. Related party transactions.

12. AUDITOR'S FEES

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

	2019	2018
	€'000	€'000
Auditor's fees (excluding VAT)		
Statutory audit of entity financial statements	**280**	260
Other assurance services	**25**	8
Tax advisory services	**—**	—
Other non-audit services	**—**	—
	305	268

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

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

13. NET CREDIT IMPAIRMENT (CHARGE)/WRITEBACK

The following table analyses the income statement net credit impairment (charge)/writeback on financial instruments for the years ended 31 December 2019 and 2018:

		2019		2018
	Measured at amortised cost	**Total**	Measured at amortised cost	Total
Credit impairment (charge)/writeback on financial instruments	**€m**	**€m**	€m	€m
Net measurement of loss allowance:				
Loans and advances to customers	**(108)**	**(108)**	2	2
Credit impairment (charge)/writeback	**(108)**	**(108)**	2	2
Recoveries of amounts previously written off	**17**	**17**	9	9
Net credit impairment (charge)/writeback	**(91)**	**(91)**	11	11

Notes to the consolidated financial statements

14. TAXATION

	2019 €m	2018 €m
Current taxation		
Current tax on income for the financial year	**(7)**	(11)
Adjustments in respect of prior years	**1**	—
	(6)	(11)
Deferred taxation		
Origination and reversal of temporary timing differences	**1**	(6)
Adjustments in respect of prior years	**2**	—
	3	(6)
Total tax charge for the financial year	**(3)**	(17)
Effective income tax rate	**73.1%**	14.2%

Factors affecting the effective tax rate
The following table sets out the difference between the tax charge that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2019		2018	
	€ m	%	€ m	%
Operating profit before taxation	**4**		120	
Corporation tax charge (12.5%)	**(1)**	**12.5**	(15)	12.5
Effects of:				
Tax exempted income	**—**	**(8.2)**	—	—
Non-deductible expenses	**(4)**	**112.7**	(2)	1.7
Income taxed at higher tax rates	**—**	**8.5**	—	—
Adjustments to recoverable amounts of deferred tax assets	**1**	**(34.2)**	—	—
Other Timing differences	**(2)**	**57.4**	—	—
Adjustments to tax charge in respect of prior years	**3**	**(75.6)**	—	—
Tax Charge	**(3)**	**73.1**	(17)	14.2

Analysis of selected other comprehensive income

	2019			2018		
	Before tax	**Tax benefit (expense)**	**Net of tax**	Before tax	Tax benefit (expense)	Net of tax
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Net movement in cash flow hedge reserve	**(4)**	**—**	**(4)**	(7)	1	(6)
Net actuarial gain/(loss) on retirement benefits	**(6)**	**1**	**(5)**	(3)	—	(3)
	(10)	**1**	**(9)**	(10)	1	(9)

* Forms an integral part of the audited financial statements

Notes to the consolidated financial statements

15. CASH AND BALANCES AT CENTRAL BANKS

	2019	2018
	€m	€m
Cash in hand	**6**	6
Balances with Central Bank of Ireland[1]	**339**	42
	345	48

[1]Excludes mandatory reserve deposits

16. NON-CURRENT ASSETS HELD FOR SALE

	2019	2018
	€m	€m
Repossessed assets	**13**	5
	13	5

Repossessed assets are expected to be disposed of within one year.

17. DERIVATIVE FINANCIAL INSTRUMENTS

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.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. AIB is the counterparty to all derivative contracts noted below.

Notes to the consolidated financial statements

17. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2019 and 2018. A description of how the fair values of derivatives are determined is set out in note 39.

	2019			2018		
	Contract/ Notional Amount	**Fair Value Asset**	**Fair Value Liability**	Contract/ Notional Amount	Fair Value Asset	Fair Value Liability
	€m	**€m**	**€ m**	€m	€m	€m
Derivatives classified as cash flow hedges						
Interest rate swaps	**3,943**	**5**	**(22)**	3,546	1	(16)
Total derivatives	**3,943**	**5**	**(22)**	3,546	1	(16)

The following table analyses the notional principal amount of interest rate derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

				2019				2018
	Less than 1 year	**1 to 5 years**	**5 years +**	**Total**	Less than 1 year	1 to 5 years	5 years +	Total
Residual maturity	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m
Notional principle amount	**1,281**	**2,662**	**—**	**3,943**	1,483	2,057	6	3,546
Positive fair value	**—**	**5**	**—**	**5**	—	1	—	1

Nominal values and average interest rates by residual maturity

At 31 December 2019 and 2018, EBS held the following hedging instruments of interest rate risk in fair value hedges:

						2019
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**5 years +**	**Total**
Cash flow hedges - Interest rate swaps						
Hedges of financial assets						
Nominal principal amount (€m)	**100**	**175**	**770**	**170**	**—**	**1,215**
Average interest rate (%)	**0.32**	**0.34**	**0.18**	**0.99**	**—**	**0.33**
Hedges of financial liabilities						
Nominal principal amount (€m)	**56**	**27**	**153**	**2,492**	**—**	**2,728**
Average interest rate (%)	**0.19**	**0.68**	**0.58**	**0.38**	**—**	**0.40**

Notes to the consolidated financial statements

17. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

						2018
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Cash flow hedges - Interest rate swaps						
Hedges of financial 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
Hedges of financial 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

17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in cash flow hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2019 and 2018:

2019

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value of hedging instrument used for calculating hedge ineffectiveness in the year	Change in the value of the hedging instrument recognised in OCI in the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	€m	€m	€m		€m	€m	€m		€m	€m	
Interest rate swaps											
Derivative assets	1,215	5	—	Derivative financial instruments	4	(1)	—	Net trading income	—	—	Interest income
Derivative liabilities	2,728	—	(22)	Derivative financial instruments	(6)	(4)	—	Net trading income	—	—	Interest expense

2019

	Line item in SOFP* in which hedged item is included	Change in fair value used for calculating hedge ineffectiveness for the year	Amount in the cash flow hedging reserves for continuing hedges pre tax	Amount in the cash flow hedging reserves for continuing hedges post tax	Amounts remaining in cash flow hedging reserves from any hedging relationships for which hedge accounting is no longer applied pre tax	Amounts remaining in cash flow hedging reserves from any hedging relationships for which hedge accounting is no longer applied post tax
(b) Hedged items		€m	€m	€m	€m	€m
Interest rate risk	Loans and advances to customers	(4)	—	—	—	—
Interest rate risk	Customer accounts	6	16	(14)	(2)	(2)

*Statement of financial position

17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

2018

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value of hedging instrument used for calculating hedge ineffectiveness in the year	Change in the value of the hedging instrument recognised in OCI in the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	€m	€m	€m		€m	€m	€m		€m	€m	
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 expense

2018

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

*Statement of financial position

18. LOANS AND ADVANCES TO BANKS

	2019 €m	2018 €m
Funds placed with banks	**11**	73
Funds placed with Group undertaking	**57**	64
	68	**137**
Analysed by remaining maturity:		
Repayable on Demand	**68**	137
	68	137

19. LOANS AND ADVANCES TO CUSTOMERS

	2019 €m	2018 €m
At amortised cost		
Loans and advances to customers	**11,511**	11,728
	11,511	11,728
Expected credit loss allowance	**(287)**	(324)
	11,224	11,404

	2019 €m	2018 €m
Analysed by remaining maturity:		
Repayable on Demand	**590**	780
3 months or less	**4**	3
1 year or less but over 3 months	**13**	26
5 years or less but over 1 year	**202**	203
Over 5 years	**10,702**	10,716
Gross carrying amount	**11,511**	11,728
Expected credit loss allowance	**(287)**	(324)
	11,224	11,404

Included in loans and advances to customers is €3,988m (2018: €4,440m) of loans in the covered bond bank, EBS Mortgage Finance, €2,251m (2018: €2,159m) of loans in Haven Mortgages and nil (2018: €1,727m) loans held through securitisation vehicles, Emerald Mortgages No.5 d.a.c. and Mespil 1 RMBS d.a.c., due to the liquidation of these securitisation vehicles during 2019. Unencumbered loans available as collateral for repurchase agreements, as at 31 December 2019, were nil (2018: nil).

Notes to the consolidated financial statements

19. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

Loss allowance on financial assets

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

	2019	2018
	€m	€m
Opening Balance	**324**	787
Transition to IFRS 9	**—**	(57)
Net remeasurement of loss allowance - customers	**108**	(2)
Changes in loss allowance due to write-offs	**(128)**	(396)
Changes in loss allowance due to disposals	**(16)**	(8)
Other movement	**(1)**	—
At 31 December 2019	**287**	324
Amounts include loss allowance on:		
Loans and advances to customers measured at amortised cost	**287**	324

Continuing Involvement in Securitised Assets

In 2019 the EBS Group terminated the non-recourse funding arrangements, secured on portfolios of loans, with Emerald Mortgages No.5 d.a.c. and Mespil 1 RMBS d.a.c.. In 2018 these loans, which were not 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.

Under the terms of the securitisation, the rights of the providers of the related funds were 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. The carrying amount of transferred secured loans that EBS Group continues to recognise at 31 December 2019 is Nil (2018: €1,072m). The fair value of these loans at 31 December 2019 is Nil (2018: €987m).

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

The Emerald 5 mortgage portfolio was re-purchased on 31 July 2019 and the outstanding bonds were redeemed on 15 August 2019. The liquidator was appointed to Emerald 5 on 11th December 2019.

Mespil 1 RMBS d.a.c.

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

The total carrying amount of transferred secured loans that EBS Group continues to recognise as at 31 December 2019 is Nil (2018: €661m) in relation to the transfers from EBS and Haven Mortgages Limited. The fair value of these of these loans at 31 December 2019 is Nil (2018: €633m).

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

The Mespil mortgage portfolio was re-purchased on 31 October 2019 and the outstanding bonds were redeemed on 22 November 2019. The liquidator was appointed to Mespil on 5 December 2019.

Notes to the consolidated financial statements

20. INVESTMENT SECURITIES

	2019	2018
	€m	€m
Equity securities		
Equity instruments at FVOCI - NAMA subordinated bonds[1]	**21**	21
	21	21

[1]NAMA subordinated bonds were repaid in March 2020

The following table sets out at 31 December 2019 and 2018, the carrying value (fair value) of investment securities by major classifications together with the unrealised gains and losses:

				2019
	Fair value	**Unrealised gross gains**	**Unrealised gross losses**	**Net unrealised gains/(losses)**
	€m	**€m**	**€m**	**€m**
Equity investments at FVOCI				
Equity securities - NAMA subordinated bonds	**21**	**19**	**(2)**	**17**
	21	**19**	**(2)**	**17**

				2018
	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/(losses)
	€m	€m	€m	€m
Equity investments at FVOCI				
Equity securities - NAMA subordinated bonds	21	19	(2)	17
	21	19	(2)	17

21. INTANGIBLE ASSETS

	2019	2018
	€m	€m
Computer software (and development costs)		
Cost		
At 1 January	**48**	41
Additions - internally generated	**11**	7
Disposals	**—**	—
Amounts written-off	**—**	—
At 31 December	**59**	48
Amortisation		
At 1 January	**33**	31
Impairment for financial year	**—**	—
Charge for financial year	**2**	2
Disposals	**—**	—
At 31 December	**35**	33
Carrying value at 31 December	**24**	15

Notes to the consolidated financial statements

22. PROPERTY, PLANT AND EQUIPMENT

							2019
	Owned assets				Leased assets		Total
	Property			Equipment	Right-of-use assets		
	Freehold	Long leasehold	Leasehold under 50 years		Property	Other	
	€m	€m	€m	€m	€m	€m	€m
Cost							
At 31 December 2018	**27**	**8**	**15**	**14**	**—**	**—**	**64**
Transition to IFRS 16	**—**	**—**	**—**	**—**	**47**	**—**	**47**
At 1 January	**27**	**8**	**15**	**14**	**47**	**—**	**111**
Additions	**—**	**—**	**1**	**6**	**—**	**—**	**7**
Held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Disposals	**(3)**	**(4)**	**(13)**	**(7)**	**—**	**—**	**(27)**
At 31 December	**24**	**4**	**3**	**13**	**47**	**—**	**91**
Depreciation and impairment							
At 1 January	**10**	**4**	**14**	**11**	**—**	**—**	**39**
Depreciation charge for the year	**1**	**—**	**—**	**—**	**6**	**—**	**7**
Impairment for financial year	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Disposals	**(3)**	**(4)**	**(13)**	**(7)**	**—**	**—**	**(27)**
At 31 December	**8**	**1**	**1**	**4**	**6**	**—**	**20**
Carrying value at 31 December	**16**	**3**	**2**	**9**	**41**	**—**	**71**

					2018
	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€m	€m	€m	€m	€m
Cost					
At 31 December 2018	27	8	15	11	61
Additions	—	—	—	3	3
Disposals	—	—	—	—	—
At 31 December	27	8	15	14	64
Depreciation and impairment					
At 1 January	9	4	14	11	38
Depreciation charge for the year	1	—	—	—	1
At 31 December	10	4	14	11	39
Carrying value at 31 December	17	4	1	3	25

The carrying value of property occupied by EBS for its own activities was €21m (2018: €22m) in relation to owned assets and €41m in relation to right-of-use assets.

Notes to the consolidated financial statements

22. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Property
EBS leases property for its offices and retail branch outlets. The property lease portfolio consists of 36 leases, made up of 1 head office location and 35 branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Both head office property and retail branch lease terms are typically for periods of 10 to 20 years. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where EBS is likely to exercise these options, this has been taken into account in determining the lease liability and likewise, the right-of-use asset.

The minimum lease terms remaining on the most significant lease is 7 years for Burlington Road.

Motor vehicles
The Company leases motor vehicles mainly for its sales staff throughout the branch network. The average lease term for motor vehicles is 3 years.

Lease liabilities
A maturity analysis of lease liabilities is shown in note 28.

Amounts recognised in income statement	2019 €m
Interest on lease liabilities	1
Depreciation expense on right-of-use assets	6
Expense relating to short term leases[1]	—
	7

[1]Included in 'General and administrative expenses' in note 11.

Amounts recognised in statement of cash flows	2019 €m
Total cash outflow for leases during the year[1]	9

[1] Includes interest expense on lease liabilities of €1m and principal repayments on lease liabilities of €8m.

23. OTHER ASSETS

	2019 €m	2018 €m
Items in transit - debit	2	3
Proceeds due from disposal of loan portfolio[1]	12	—
	14	3

[1]ECL is Nil

Notes to the consolidated financial statements

24. DEFERRED TAXATION

	2019 €m	2018 €m
Deferred tax assets		
Transition to IFRS 9	**1**	2
Retirement benefits	**5**	4
Unutilised tax losses	**222**	224
Total gross deferred tax assets	**228**	230
Deferred tax liabilities:		
Transition to IFRS 9	**(4)**	(9)
Investment securities*	**—**	(1)
Total gross deferred tax liabilities	**(4)**	(10)
Net deferred tax assets	**224**	220
Represented on the statement of financial position as follows:		
Deferred tax assets	**228**	230
Deferred tax liabilities	**(4)**	(10)
	224	220

*Represented as deferred tax liability. In 2018, was presented as a negative deferred tax asset.

Analysis of movements in deferred taxation	2019 € m	2018 € m
Opening balance	**220**	233
Transition to IFRS 9	**—**	(9)
At 1 January	**220**	224
Income statement (note 14)	**3**	(6)
Deferred tax through equity	**1**	2
At 31 December	**224**	220

At 31 December 2019, deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €224m (2018: €220m) for Group.

The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits. EBS returned to profitability in 2014 and the Directors believe that it will continue to generate profits in the foreseeable future. In the absence of any expiry date for tax losses in Ireland, EBS therefore believes that it is more likely than not that there will be future profits against which to use the tax losses. EBS has carried out an exercise to determine the likely number of years required to utilise the deferred tax, which indicates the deferred tax asset will be fully utilised within the next 22 years.

25. PREPAYMENTS AND ACCRUED INCOME

	2019 €m	2018 €m
Accrued interest	**1**	**2**
Other accrued income	**2**	**—**
Prepaid expenses	**3**	**3**
	6	**5**

Notes to the consolidated financial statements

26. DEPOSITS BY BANKS

	2019 €m	2018 €m
Due to Allied Irish Banks, p.l.c.	**3,027**	2,490
Repurchase agreements with Allied Irish Banks, p.l.c.	**2,189**	2,343
	5,216	4,833

Analysed by remaining maturity	2019 €m	2018 €m
Repayable on Demand	**3,027**	5
3 months or less	**2,189**	4,828
	5,216	4,833

Financial assets pledged
Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2019 € m	2018 € m
Total carrying value of financial assets pledged	**2,417**	3,094
Of which:		
Asset backed securities (own issue)	**2,417**	3,094

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 AIB as part of sale and repurchase (repo) agreements.

These financial assets are ECB eligible assets in the form of asset backed securities (own issue Emerald Mortgages No.5 and Mespil, 2018 only) and covered bonds issued by EBS Mortgage Finance. Market counterparty pledged collateral are financial assets pledged as collateral as part of a sale and 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 had €20m (2018: €20m) of unencumbered contingent collateral available at 31 December 2019, comprising residential mortgage assets of €nil (2018: nil) and debt securities of €20m (2018: €20m).

27. CUSTOMER ACCOUNTS

Analysed by sector	2019 €m	2018 €m
Retail	**5,243**	5,299
Corporate	**7**	75
	5,250	5,374

27. CUSTOMER ACCOUNTS *(continued)*

	2019 €m	2018 €m
Analysed by remaining maturity:		
Repayable on Demand	**2,392**	2,256
3 months or less	**683**	667
1 year or less but over 3 months	**1,503**	1,653
5 years or less but over 1 year	**672**	798
	5,250	5,374

28. LEASE LIABILITIES

	2019 €m	2018 €m
At 31 December	**38**	—
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**5**	—
Later than one year and not later than five years	**19**	—
Later than five years	**14**	—
Total undiscounted lease liabilities at end of year	**38**	—

Analysis of movements in lease liabilities	2019 €m
At 1 January	**45**
Payments	**(9)**
Interest expense	**1**
Additions	**1**
Remeasurement	**—**
Foreign exchange translation adjustments	**—**
At 31 December	**38**

28. LEASE LIABILITIES *(continued)*

On 1 January 2019, EBS implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced IAS 17. Under IFRS 16, the lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. Under IAS 17, leases classified as operating leases were not recognised in EBS's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. The total of future minimum lease payments under non-cancellable operating leases at 31 December 2018 is set out in the following table:

	2018 € 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
Between one and five years	23
After five years	19
	48

29. OTHER LIABILITIES

	2019 **€m**	2018 €m
Items in transit	**24**	31
Sundry creditors	**6**	—
Other liabilities	**4**	4
	34	35

30. ACCRUALS AND DEFERRED INCOME

	2019 **€m**	2018 €m
Accrued interest	**12**	16
Other accrued expense	**29**	12
	41	28

31. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	2019 **€m**	**2018** **€m**
At 1 January 2019	**19**	21
Amounts charged to income statement	**33**	35
Amounts written back to income statement	**(3)**	(2)
Provisions utilised	**(10)**	(35)
At 31 December 2019[1]	**39**	19

[1] The total provisions for liabilities and commitments expected to be settled within one year amount to €31m (2018: €15m).

31. PROVISIONS FOR LIABILITIES AND COMMITMENTS *(continued)*

Provisions for customer redress and other costs
Tracker Mortgage Examination
The provision at 31 December 2019 for Customer Redress and Compensation and other costs amounted to €4.1m (2018: €3.6m)

Provisions amounting to €72.3m were created in the period 2015 to 31 December 2019 for customer redress and compensation, including payments on appeals. (€5.4m in the year to 31 December 2019), Over €70m of these provisions have now been utilised (€5m in the year to 31 December 2019).

Provisions amounting to €43m were created in the period 2015 to 31 December 2019 for 'other costs' (Nil in the year to 31 December 2019). Over €41m of these provisions have now been utilised (€2m in the year to 31 December 2019).

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, EBS created a provision of €15m for the impact of potential monetary penalties that is expected to be imposed by the CBI being its best estimate at this time. However, this matter is ongoing and the amount provided for is subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation.

32. SUBORDINATED LIABILITIES

	2019	2018
	€m	€m
Subordinated loans	**100**	—
	100	—

On 28 November 2019 the EBS d.a.c. borrowed €100m from its parent company, AIB p.l.c. in the form of senior non-preferred debt, with a fixed maturity date of 28 November 2022. The loan bears interest at a rate of 1 month Euribor plus 105 basis points and interest is payable monthly in arrears. EBS d.a.c. has the option to repay all of the loan on 28 November 2021 subject to the prior approval of the resolution authority. EBS d.a.c. may also repay the loan early for tax or regulatory reasons, subject to the approval of the resolution authority.

The loan ranks ahead of Tier 1 (including ordinary shares) and Tier 2 instruments but is subordinated to senior creditors of EBS d.a.c. other than other senior non-preferred claims with which it ranks on a pari passu basis.

Notes to the consolidated financial statements

33. RETIREMENT BENEFITS

EBS 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.

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 2020 taking account of all relevant factors and decided that the funding of discretionary increases to pensions and payments was not appropriate for 2020 (2019: 0.5%).

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 2021 in early 2021.

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.

All EBS Defined Benefit Plans were in funding proposals with the objective of satisfying the MFS and Funding Standard Reserve (FSR) by 30 June 2019. A review of the MFS and FSR positions were carried out at 31 December each year to ascertain if the Plans were on-track to achieve their objectives.

Following a review of the funding standard position of each scheme, all EBS DB Plans had achieved their objectives by 31 December 2019 and the plans are no longer in a funding proposal.

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 Group's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its funding obligations towards current and former employees
- The capital position of the Group is negatively affected as funding deficits will be fully deductible from the regulatory capital and
- There could be a negative impact on industrial relations if the funding level of the scheme was to deteriorate significantly.

While the Company has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible 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 2019 is 23 years (2018: 21 years).

33. RETIREMENT BENEFITS *(continued)*

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.

Contributions

The actuarial reports are available for inspection by members of the scheme and are not available for public inspection.

Triennial actuarial valuations are being prepared in 2020 with an effective date of 1 January 2020 for each scheme. Following completion of the valuations the Bank will engage with the trustees of each scheme to determine the level of employer contributions to be paid for 2020. The total contribution expected to be paid by the Company in 2020 is estimated to be Nil, although contributions may ultimately be required, pending discussions with the trustees of each scheme.

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the schemes at 31 December 2019 and 2018. The assumptions have been set based upon the advice of AIB Group's actuary and are in line with the assumptions made in the AIB defined benefit scheme.

	2019	2018
Financial assumptions	**%**	%
Rate of increase of pensions in payment	**0.00**	0.00
Discount rate	**1.40**	2.15
Inflation assumptions	**1.05**	1.25

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Group schemes at 31 December 2019 and 2018 are shown in the following table:

	Life expectancy - years	
	2019	2018
Retiring today age 65		
Male	**23.3**	23.2
Female	**25.2**	25.1
Retiring in 25 years' time at age 65		
Male	**25.6**	25.5
Female	**27.5**	27.4

The main post retirement mortality assumptions used at 31 December 2019 were based on the scheme actuaries best practice mortality assumptions for the pension scheme member profile.

The table shows that the life expectancy for a male pensioner aged 65 at 31 December 2019 was 23.3 years (2018: 23.2 years) and for a female pensioner aged 65 years was 25.2 years (2018: 25.1 years). The table also shows that, based on the assumed mortality improvements in 25 years' time, the life expectancy for a male pensioner aged 65 years will increase to 25.6 years (2018: 25.5 years) and for a female pensioner aged 65 years will increase to 27.5 years (2018: 27.4 years).

Notes to the consolidated financial statements

33. RETIREMENT BENEFITS *(continued)*

Movement in defined benefit obligation and scheme assets

The amounts recognised in the statement of financial position of EBS Group are determined as follows:

	2019 Defined benefit obligation	2019 Fair value of scheme assets	2019 Asset ceiling/ minimum funding	2019 Net defined benefit (liability) asset	2018 Defined benefit obligation	2018 Fair value of scheme assets	2018 Asset ceiling/ minimum funding	2018 Net defined benefit (liability) asset
	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January	(191)	170	(8)	(29)	(197)	178	(7)	(26)
Included in profit or loss								
Past service cost				—	—	—	—	—
Interest (cost) income	(4)	4	—	—	(4)	4	—	—
Administration costs	—	(1)	—	(1)	—	—		—
	(4)	3	—	(1)	(4)	4	—	—
Included in other comprehensive income								
Remeasurements gain (loss):								
Actuarial gain/(loss) arising from:								
Experience adjustments	5	—	—	5	1	—	—	1
Changes in demographic assumptions	—	—	—	—	—	—	—	—
Changes in financial assumptions	(29)	—	—	(29)	4	—	—	4
Return on scheme assets excluding interest income	—	17	—	17	—	(8)	—	(8)
Asset ceiling / minimum funding adjustments	—	—	1	1	—	—	(1)	(1)
	(24)	17	1	(6)	5	(8)	(1)	(4)
Other								
Employer	—	1	—	1	—	2	—	2
Benefits paid	6	(4)	—	2	5	(5)	—	—
Administrative expenses paid from plan assets	—	(2)	—	(2)	—	(1)	—	(1)
	6	(5)	—	1	5	(4)	—	1
At 31 December	(213)	185	(7)	(35)	(191)	170	(8)	(29)

	31 December 2019	31 December 2018
	€m	€m
Recognised on the statement of financial position as:		
Retirement benefit assets	—	—
Retirement benefit liabilities	(35)	(29)
Net pension deficit	(35)	(29)

Notes to the consolidated financial statements

33. RETIREMENT BENEFITS *(continued)*
Scheme assets

	2019 €m	2018 €m
Investment funds		
Equity	**64**	59
Fixed interest	**95**	86
Alternatives:		
Quoted	**25**	25
Cash	**1**	—
Fair value of scheme assets at 31 December	**185**	170

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

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. 5.7%. An increase or decrease in the inflation rate of 25 basis points would reduce or increase the scheme liabilities by c. 2.1%. The addition of a one year age offset to the mortality table in use would increase the scheme liabilities by c. 3.0%.

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.

34. ISSUED SHARE CAPITAL PRESENTED AS EQUITY

	2019		2018	
	Number of shares m	€m	Number of shares m	€m
Authorised:				
Ordinary share capital				
Ordinary shares of €0.25 each	**2,000**	**500**	—	—
Ordinary shares of €1.00 each	—	—	2,000	2,000
Issued and fully paid up:				
Ordinary share capital				
Ordinary shares of €0.25 each	**1,655**	**414**	—	—
Ordinary shares of €1.00 each	—	—	1,655	1,655

Movements in Issued share capital	2019 €m	2018 €m
At 1 January*	**1,654**	1,654
Capital reduction	**(1,241)**	—
At 31 December	**413**	1,654

*Net of costs (costs of €1.3m relating to the issuance of the special investment shares were transferred to ordinary share capital).

34. ISSUED SHARE CAPITAL PRESENTED AS EQUITY *(continued)*

Capital Reduction
In 2019, at the request of the Company's sole shareholder AIB, EBS's Board considered and approved an application to the ECB for authorization to implement a capital reduction and distribution of surplus capital to AIB.

Following receipt of ECB approval on 28th March 2019, EBS's Board recommended the capital reduction and distribution to the shareholder, which was subsequently approved by AIB.

The approved capital reduction and capital repayment involved:
a) a reduction in the par value of each of the 1,655m issued shares from €1 to €0.25, reducing issued share capital by €1,241,250,000;
b) a transfer of the reduction amount of €1,241,250,000 to revenue reserves; and
c) a capital repayment by way of dividend of €300,000,000 to AIB, resulting in a residual amount of €941,250,000 in revenue reserves.

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. All shares rank equally with regard to EBS's residual assets.

35. CAPITAL CONTRIBUTION RESERVES

	2019	2018
	€m	€m
At 1 January	**249**	249
Capital contribution	**—**	—
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. CAPITAL MANAGEMENT

Capital regulation
The Capital Requirements Directive IV ("CRD IV"), which came into force on 1 January 2014, 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
– harmonising 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 main exception to this relates to the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on capital as per Regulation (EU) 2017/2395 of the European Parliament and of the Council. 15% of the IFRS 9 impact on own funds is reflected in 2019, with the impact on capital increasing each year (30% in 2020, 50% in 2021 and 75% in 2022) with full impact recognised in 2023.

EBS d.a.c. commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 7 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV.

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

37. COMMITMENTS AND CONTINGENT LIABILITIES

(i) Off balance sheet commitments

At 31 December 2019 loan approvals that have not been drawn down as at year end, amount to €232m (2018: €287m).

Loan commitments are classified and measured in accordance with IFRS 9. EBS's accounting policy for the recognition of ECL allowances on loan commitments is set out in accounting policy number 1.19 Impairment of financial assets.

An immaterial ECL allowance was recognised on loan commitments at 31 December 2019.

(ii) Legal proceedings

EBS 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 EBS is aware, (other than as set out in the following paragraphs), pending or threatened by or against EBS 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 cash flows of EBS.

Specifically, litigation has been served on EBS 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 litigation is at, it is not practicable at this time to predict the final outcome of this litigation, nor the timing and possible impact on EBS.

(iii) Contingent liability/contingent asset - NAMA

EBS has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for EBS.

(iv) TARGET 2 - Gross settlement system

EBS participates in the TARGET 2 – Ireland system, the Irish component of TARGET 2, which is the real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to charges provided by EBS to secure its payment obligations arising from participation in TARGET 2.

On 15 February 2008, EBS executed a deed of charge pursuant to which it created a first floating charge in favour of the Central Bank of Ireland (Central Bank) over all of its right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the accounts held by EBS with any Eurosystem central bank for the purpose of participation in TARGET 2.

In addition, EBS and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations (dated 7 April 2014), which include the credit line facility for intra-day credit in TARGET 2-Ireland. In order to secure its obligations under the Framework Agreement, EBS executed a deed of charge (dated 7 April 2014). Pursuant to the deed, AIB created a first fixed charge in favour of the Central Bank over all of its right, title, interest and benefit, present and future, in and to eligible assets (as identified as such by the Central Bank) which are held in a designated collateral account.

Both deeds of charge contain provisions that during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, EBS shall not:

a. 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. otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property subject to the floating charge 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.

In addition, under the 2014 charge, EBS undertakes not to sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge or any part thereof or, in each case, 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.

38. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets in note 1.12 and financial liabilities in note 1.13, describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses at 31 December 2019 and 2018 the carrying amounts of the financial assets and financial liabilities by measurement category as defined in IFRS 9 *Financial Instruments* and by statement of financial position heading.

					2019
	At fair value through other comprehensive income		**At amortised cost**		**Total**
	Equity investments	**Cash flow hedge derivatives**	**Loans and advances**	**Other**	
	€m	**€m**	**€m**	**€m**	**€m**
Financial assets					
Cash and balances at central banks	**—**	**—**	**339**	**6**	**345**
Derivative financial instruments	**—**	**5**	**—**	**—**	**5**
Loans and advances to banks	**—**	**—**	**68**	**—**	**68**
Loans and advances to customers	**—**	**—**	**11,224**	**—**	**11,224**
Investment securities	**21**	**—**	**—**	**—**	**21**
Other financial assets	**—**	**—**	**—**	**14**	**14**
	21	**5**	**11,631**	**20**	**11,676**
Financial liabilities					
Deposits by banks	**—**	**—**	**—**	**5,216**	**5,216**
Customer accounts	**—**	**—**	**—**	**5,250**	**5,250**
Derivative financial instruments	**—**	**22**	**—**	**—**	**22**
Subordinated liabilities	**—**	**—**	**—**	**100**	**100**
Other financial liabilities	**—**	**—**	**—**	**75**	**75**
	—	**22**	**—**	**10,641**	**10,663**

38. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

					2018
	At fair value through other comprehensive income		At amortised cost		Total
	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
	€m	€m	€m	€m	€m
Financial assets					
Cash and balances at central banks	—	—	42	6	48
Derivative financial instruments	—	1	—	—	1
Loans and advances to banks	—	—	137	—	137
Loans and advances to customers	—	—	11,404	—	11,404
Investment securities	21	—	—	—	21
Other financial assets	—	—	—	1	1
	21	1	11,583	7	11,612
Financial liabilities					
Deposits by banks	—	—	—	4,833	4,833
Customer accounts	—	—	—	5,374	5,374
Derivative financial instruments	—	16	—	—	16
Other financial liabilities*	—	—	—	62	62
	—	16	—	10,269	10,284

*Restated in line with revised reporting policy for 2019.

39. 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 EBS has access at that date. EBS's accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 1.15.

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 taking into account market risk and the changes in credit quality of its borrowers.

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.

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

39. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate EBS'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 such as 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 as a going concern at 31 December 2019.

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

Financial instruments measured at fair value in the financial statements

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function within AIB. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide EBS'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 is estimated.

Counterparty credit and own credit is an input into the valuation of uncollateralised customer derivatives.

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.

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 practicably available, or rates currently offered by other financial institutions for placements with similar characteristics.

Loans and advances to customers

EBS provides lending facilities of varying rates and maturities to personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

The fair value of variable rate mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate mortgages, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2019 took account of EBSs'' expectations on credit losses over the life of the loans.

Deposits by banks

The fair value of current accounts and 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.

Debt securities in issue

The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices were 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 the carrying amount is considered representative of fair value.

39. 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 31 December 2019 and 2018:

					2019
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate swaps	5	—	5	—	5
Investment securities at FVOCI	21	—	—	21	21
	26	—	5	21	26
Financial assets not measured at fair value					
Cash and balances at central banks	345	6	339	—	345
Loans and advances to banks	68	—	—	68	68
Loans and advances to customers	11,224	—	—	11,075	11,075
Other financial assets	14	—	—	14	14
	11,651	6	339	11,157	11,502
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate swaps	22	—	22	—	22
Financial liabilities not measured at fair value					
Deposits by banks	5,216	—	—	5,216	5,216
Customer accounts	5,250	—	—	5,236	5,236
Subordinated liabilities	100	—	100	—	100
Other financial liabilities	75	—	—	75	75
	10,641	—	100	10,527	10,627

Notes to the consolidated financial statements

39. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

					2018
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate swaps	1	—	1	—	1
Investment securities at FVOCI	21	—	—	21	21
	22	—	1	21	22
Financial assets not measured at fair value					
Cash and balances at central banks	48	6	42	—	48
Loans and advances to banks	137	—	—	137	137
Loans and advances to customers	11,404	—	—	10,967	10,967
Other financial assets	1	—	—	1	1
	11,590	6	42	11,105	11,153
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate swaps	16	—	16	—	16
Financial liabilities not measured at fair value					
Deposits by banks	4,833	—	—	4,833	4,833
Customer accounts	5,374	—	—	5,353	5,353
Other financial liabilities*	62	—	—	62	62
	10,269	—	—	10,248	10,248

*Restated in line with revised reporting policy for 2019.

Significant transfers between Level 1 and Level 2 of the fair value hierarchy
There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2019 and 2018.

Notes to the consolidated financial statements

39. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy
The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

						2019
	Financial assets				**Financial liabilities**	
	Derivatives	**Investment securities**		**Total**	**Derivatives**	**Total**
		Debt	**Equities at FVOCI**			
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
At 1 January	—	—	21	21	—	—
Total gains or (losses) in:						
Profit or loss - net change in FVTPL	—	—	—	—	—	—
Other comprehensive income - net change in fair value of investment securities	—	—	—	—	—	—
At 31 December	—	—	21	21	—	—

						2018
	Financial assets				Financial liabilities	
	Derivatives	Investment securities		Total	Derivatives	Total
		Debt	Equities at FVOCI			
	€m	€m	€m	€m	€m	€m
At 1 January	—	—	21	21	—	—
Total gains or (losses) in:						
Profit or loss - net change in FVTPL	—	—	—	—	—	—
Other comprehensive income - net change in fair value of investment securities	—	—	—	—	—	—
At 31 December	—	—	21	21	—	—

Significant unobservable inputs
The table below sets out information about significant unobservable inputs used for the years ended 31 December 2019 and 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair value				**Range of estimates**	
Financial instrument		**31 December 2019**	31 December 2018	**Valuation technique**	**Significant unobservable input**	**31 December 2019**	31 December 2018
NAMA subordinated bond	Asset	**21**	21	Discounted cash flows	Discount rate	**1% - 4% (Base 1.94%)**	1% - 5% (Base 2.49%)

Notes to the consolidated financial statements

39. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Sensitivity of Level 3 measurements
The implementation of valuation techniques involves a considerable degree of judgement. While EBS believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2019 and 2018:

	2019			
	Level 3			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable	**Unfavourable**	**Favourable**	**Unfavourable**
	€m	**€m**	**€m**	**€m**
Classes of financial assets				
Equity securities at FVOCI	**—**	**—**	**0.1**	**(0.1)**

	2018			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	€m	€m	€m	€m
Classes of financial assets				
Equity securities at FVOCI	—	—	0.4	(0.6)

Notes to the consolidated financial statements

40. STATEMENT OF CASH FLOWS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019 €m	2018 €m
Cash and balances at central banks	**345**	48
Loans and advances to banks (note 18)	**11**	73
	356	121

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 EBS is included in note 18. Loans and advances to banks.

41. RELATED PARTY TRANSACTIONS

(a) Transactions with AIB
EBS is a subsidiary of AIB. Banking transactions are entered into between EBS and AIB in the normal course of business. These include loans, deposits and derivatives on an arm's length basis. Interest paid to AIB and interest received from AIB is disclosed in note 4 and note 5 to the consolidated financial statements.

	2019 €m	2018 €m
Included in the statement of financial position		
Loans and advances to banks	**57**	64
Deposits by central banks and banks	**5,216**	4,833
Derivative financial instruments		
Interest rate swaps		
Assets (Fair value)	**5**	1
Liabilities (Fair value)	**(22)**	(16)
Included in the income statement		
Interest income	**—**	1
Interest expense	**(29)**	(26)
Administrative expenses	**(77)**	(96)

(b) 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, Non-Executive Directors and Senior Executive Officers. As at 31 December 2019 the Bank has 10 KMP (2018: 10 KMP).

(i) Compensation of Key Management Personnel ("KMP")
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 the Bank under the Master Services Agreement.

Total compensation to KMP is as follows

	2019 €'000	2018 €'000
Short-term compensation*	**381**	370
Post-employment benefits	**—**	—
Termination benefits	**—**	—
	381	370

* 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.

Notes to the consolidated financial statements

41. RELATED PARTY TRANSACTIONS *(continued)*

(b) IAS 24 Related Party Disclosures (continued)

(i) Compensation of Key Management Personnel ("KMP") (continued)

Directors' remuneration
The remuneration of the Independent Non-Executive Directors in office during 2019 is as follows:

	2019	2018
	€'000	€'000
Tom Foley	10.00	10.00
Jim O'Hara	13.26	10.00
Catherine Woods	13.26	10.00
Total Directors' fees	36.52	30.00

At 31 December 2019, the Board of Directors is comprised of Denis O'Callaghan, Bryan O'Connor, Tom Foley, Gerry Gaffney, Jim O'Hara and Desmond Fitzgerald. Catherine Woods resigned as a Director on 31 December 2019.

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 by EBS d.a.c. (2018: nil) to persons connected with a director of the entity in accordance with Section 306(1) of the Companies Act 2014.

(ii) Transactions with Key Management Personnel ("KMP")
Loans to KMP and their close family members are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with EBS, 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:

	2019	2018
Loans outstanding	€'000	€'000
At 1 January	575	595
Loans issued during the year	—	—
Loan repayments during the year/change of KMP/other	(21)	(20)
At 31 December	554	575

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.

(c) 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 (2018:1). The Director who availed of credit facilities had balances outstanding at 31 December 2019 (2018: 1).

41. RELATED PARTY TRANSACTIONS *(continued)*

(c) Companies Act 2014 disclosures (continued)

Details of transactions with Directors for the year ended 31 December 2019 are as follows:

	Balance at 31 December 2018	Amounts advanced during 2019	Amounts repaid during 2019	**Balance at 31 December 2019**
	€'000	€'000	€'000	**€'000**
Gerry Gaffney:				
Loans	**61**	**—**	**6**	**55**
Interest charged during the year				**3**
Maximum debit balance during the year**				**61**

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

As required by IFRS 9, an expected credit loss allowance (ECL) is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2019. All facilities are performing to their terms and conditions.

Desmond Fitzgerald, Bryan O'Connor, Tom Foley, Denis O'Callaghan, Jim O'Hara and Catherine Woods had no facilities with EBS during 2019.

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

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

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

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.

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 2019, as defined in Section 220 of the Companies Act 2014, are disclosed below (aggregate of 2 persons, one of which is jointly held with a Director, and thus balances disclosed above; 2018: 2 persons, one of which is jointly held with a Director, and thus balances disclosed above). 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 2019	Balance at 31 December 2018
	€'000	€'000
Loan	**135**	141
Interest Charged during the year	**1**	2
Maximum debit balance during year**	**141**	148

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

Notes to the consolidated financial statements

41. RELATED PARTY TRANSACTIONS *(continued)*

(c) Companies Act 2014 disclosures (continued)

(ii) Connected persons (continued)
As required by IFRS 9, an expected credit loss allowance (ECL) is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2019. All facilities are performing to their terms and conditions.

(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 2019 represents less than 0.02% of the net assets of the EBS Group (2018: 0.02%).

(d) Summary of relationship with the Irish Government
EBS Group 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 2019, the State held 71.12% of the ordinary shares of AIB Group plc (31 December 2018: 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.

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 (31 December 2018: €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.

There were no balances outstanding to these financial institutions at 31 December 2019 (2018: Nil).

42. CAPITAL COMMITMENTS

There was Nil (2018: Nil) capital expenditure contracted or authorised.

43. REGULATORY COMPLIANCE

During 2019, EBS and its regulated subsidiaries complied with their externally imposed capital ratios.

Notes to the consolidated financial statements

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 2019:

i. The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2019 was €2.5bn (2018: €2.5bn) of which Nil (2018: Nil) was held by third parties and €2.5bn (2018: €2.5bn) by EBS.
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 2019 in issue is €3.3bn (2018: €3.4bn).

45. PARENT COMPANY

EBS is a wholly owned subsidiary of AIB. The ultimate parent company of EBS and AIB is AIB Group plc. . 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.aib.ie/investorrelations.

46. EVENTS AFTER REPORTING PERIOD

Coronavirus outbreak

The recent coronavirus outbreak (COVID-19) is an emerging risk that EBS and AIB are monitoring closely. The outbreak is expected to impact the economies or markets to which EBS or our customers are exposed, and potentially impact on EBS's performance. AIB has established a monitoring group to assess the range of possible impacts and will continue to respond to the situation as it evolves. Any impact will depend on future developments, which are highly uncertain. A priority of EBS will be to support mortgage customers who may experience short term financial difficulty as a result of COVID-19 with short term modifications to repayment arrangements.

Burlington Mortgages No. 1 DAC ("Burlington")

In March 2020 EBS securitised €4bn of residential mortgages originated by EBS d.a.c. and its subsidiary Haven Mortgages Limited ("Haven") through Burlington. All bonds issued by Burlington were subscribed for by EBS d.a.c and Haven.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 19 March 2020.

EBS d.a.c. company financial statements and notes

Company statement of financial position

As at 31 December 2019

	Notes	2019 €m	2018 €m
Assets			
Cash and balances at central banks	c	**345**	48
Non-current assets held for sale	d	**8**	3
Derivative financial instruments	e	**26**	24
Loans and advances to banks	f	**658**	731
Loans and advances to customers	g	**7,583**	7,129
Investment securities	h	**2,437**	2,614
Investment in Group undertakings	i	**151**	594
Intangible assets and goodwill	j	**24**	15
Property, plant and equipment	k	**71**	25
Other assets	l	**33**	31
Deferred taxation	m	**242**	243
Prepayments and accrued income	n	**5**	15
Total assets		11,583	11,472
Liabilities			
Deposits by banks	o	**5,251**	4,862
Customer accounts	p	**5,250**	5,374
Lease liabilities	q	**38**	—
Derivative financial instruments	e	**44**	39
Other liabilities	r	**33**	67
Accruals and deferred income	s	**24**	22
Provisions for liabilities and commitments	t	**39**	19
Subordinated liabilities	u	**100**	—
Retirement Benefit Liabilities	v	35	29
Total liabilities		**10,814**	10,412
Shareholders' equity			
Issued share capital presented as equity	w	**413**	1,654
Capital contribution reserves	x	**249**	249
Reserves		**107**	(843)
Shareholders' equity		769	1,060
Total liabilities and shareholders' equity		11,583	**11,472**

The notes on pages 142 to 172 are an integral part of these financial statements

Denis O'Callaghan
Chairman

Tom Foley
Independent Non-Executive Director

Date: 19 March 2020

Diane Lumsden
Company Secretary

Gerry Gaffney
Executive Director

Date: 6 March 2023

Company statement of cash flows

For the financial year ended 31 December 2019

	Note	2019 €m	2018 €m
Cash flows from operating activities			
Operating profit for the year before taxation		**14**	44
Adjustments for:			
Writeback for impairment of loans and advances to customers		**45**	(18)
Retirement benefits - defined benefit expense/(income)		**1**	(1)
Depreciation, amortisation and impairment		**10**	3
Net gain on equity investments measured at FVTPL		**4**	2
Change in provisions for liabilities and commitments	t	**20**	—
Contributions to defined benefit pension schemes		**—**	(2)
		94	28
Changes in operating assets and liabilities			
Change in customer accounts	p	**(124)**	(300)
Change in loans and advances to customers	g	**(504)**	(352)
Change in loans and advances to banks	f	**(3)**	5
Change in prepayments and accrued income	n	**10**	1
Change in accruals and deferred income	s	**2**	(25)
Change in derivative financial instruments	e	**3**	7
Change in non-current assets held for sale	d	**(5)**	—
Change in other assets	l	**(2)**	(3)
Change in other liabilities	r	**(34)**	26
Net cash flows from operations before taxation		**(563)**	(613)
Taxation (paid)/refund		**—**	(9)
Net cash flows from operations		**(563)**	(622)
Cash flows from investing activities			
Proceeds from sales and maturity of investment securities		**176**	(451)
Additions to intangible assets	j	**(11)**	(7)
Additions to property, plant and equipment	k	**(7)**	(3)
Net cash flows from investing activities		**158**	(461)
Cash flows from financing activities			
Change in deposits by banks	o	**389**	(138)
Change in hedging items		**—**	(5)
Net proceeds on issue of Subordinated Liabilities	u	**100**	—
Change in investment in Group Undertakings	i	**443**	—
Repayment of capital	w	**(300)**	—
Repayment of lease liabilities	q	**(8)**	—
Net cash flows from financing activities		**624**	(143)
Net increase/(decrease) in cash and cash equivalents		**219**	(1,226)
Cash and cash equivalents at 1 January		**779**	2,005
Cash and cash equivalents at 31 December	ab	**998**	779

The notes on pages 142 to 172 are an integral part of these financial statements.

Company statement of changes in shareholders' equity

For the financial year ended 31 December 2019

	Ordinary Share Capital €m	Capital Reserves €m	Cash flow hedge reserve €m	Investment securities reserve €m	Revenue Reserves €m	Total Shareholders' Equity €m
At 1 January 2019	**1,654**	**249**	**(13)**	**(87)**	**(743)**	**1,060**
Total comprehensive income for the year						
Profit for the year	**—**	**—**	**—**	**—**	**14**	**14**
Other comprehensive income	**—**	**—**	**(4)**	**4**	**(5)**	**(5)**
Issue of ordinary shares	**—**	**—**	**—**	**—**	**—**	**—**
Capital reduction[1]	**(1,241)**	**—**	**—**	**—**	**1,241**	**—**
Capital repayment by way of dividend[1]	**—**	**—**	**—**		**(300)**	**(300)**
At 31 December 2019	**413**	**249**	**(17)**	**(83)**	**207**	**769**
At 31 December 2017	1,654	249	(7)	(52)	(762)	1,082
Impact of adopting IFRS 9 at 1 January 2018	—	—	—	—	(15)	(15)
Restated balance at 1 January 2018	1,654	249	(7)	(52)	(777)	1,067
Total comprehensive income for the year						
Profit for the year	—	—	—	—	37	37
Other comprehensive income	—	—	(6)	(35)	(3)	(44)
At 31 December 2018	1,654	249	(13)	(87)	(743)	1,060

[1]For details in relation to the capital reduction transaction see note w. Share capital.

The notes on pages 142 to 172 are an integral part of these financial statements.

Notes to the company financial statements

a. Accounting policies
Where applicable, the accounting policies adopted by EBS d.a.c. ('the parent company' or 'the Company') are the same as those of EBS as set out in note 1 to the consolidated financial statements on pages 74 to 93 and are consistent with the previous year, apart from policies adopted as a result of the implementation of IFRS 16 *Leases* which is noted below.

The parent company financial statements and related notes set out on pages 138 to 172 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as adopted by the EU and applicable for the financial year ended 31 December 2019. They also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations 2015.

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.

First time adoption of new accounting standards
On 1 January 2019, the Company implemented the requirements of IFRS 16 *Leases* for the first time. As permitted by IFRS 16, the Company did not restate the prior year on their initial application. Accordingly, comparative data for 2018 has been prepared under the previous standard IAS 17 *Leases*.

Further details on the impact of adopting IFRS 16 at 1 January 2019 are set out in note b to these financial statements. The accounting policies relating to financial instruments are set out in note 1 to the consolidated financial statements.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 94 to 98.

Parent Company Income statement
In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting; and from filing them with the Registrar of Companies. The parent company's profit after tax for the financial year ended 31 December 2018 is €14 million.

b. Transition to IFRS 16

(a) Summary

On 1 January 2019, the Company implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced 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.

Details of the Company's accounting policy for lessee accounting are set out in note 1.14 to the consolidated financial statements.

The information set out below provides details relevant to understanding the impact of IFRS 16 on the Company's financial position at 1 January 2019.

(b) Principal impacts of IFRS 16

As permitted by IFRS 16, the Company transitioned to the standard in accordance with the modified retrospective approach, and accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. There was no impact on retained earnings arising from the adoption of IFRS 16 on 1 January 2019.

As a lessee

On initial application of IFRS 16 for operating leases, right-of-use assets were generally measured at the amount of the lease liability, using the Company's incremental borrowing rate at the time of initial application. The weighted average rate applied was c. 3.0%. For the measurement of the right-of-use assets at the date of initial application, initial direct costs were not taken into account in accordance with IFRS 16 C10 (d).

The Company elected to apply the practical expedient that allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics and a similar remaining lease term. The Company applied single discount rates to its leases of motor vehicles.

The Company also elected to apply the practical expedient where the lease term ends within 12 months of the date of initial application to account for such leases as short-term leases with the associated lease payments being recognised as an expense for short-term leases.

In addition, the Company elected to apply the practical expedient that allows an entity to rely on its assessment of whether leases were onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. This resulted in right-of-use assets being reduced by €0.4 million on initial application (note t).

Contracts that qualified as leases as defined by IFRS 16 related primarily to property and motor vehicles. On initial application of IFRS 16, the Company recognised assets and liabilities for its leases previously classified as operating leases under IAS 17, resulting in an increase in total assets under property, plant and equipment and total liabilities at 1 January 2019. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of €47 million (includes €2 million for future dilapidation provisions (note t)) and lease liabilities of €45 million.

Comparative data in these financial statements has been prepared under IAS 17 *Leases* as allowed in IFRS 16.

As a lessor

The Company was not required to make any adjustment on transition to IFRS 16 for leases where it is a lessor, except for subleases.

At the date of initial application, the Company reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. The Company concluded that the subleases in existence require classification as finance leases under IFRS 16 and as a result €0.4m was recognised as finance leases in 'Other assets'.

Notes to the company financial statements

b. Transition to IFRS 16 *(continued)*

(c) Financial statement impacts at 1 January 2019
Opening statement of financial position
The following table reconciles the statement of financial position under IAS 17 at 31 December 2018 to that under IFRS 16 at 1 January 2019.

	31 December 2018 (IAS 17)	IFRS 16 Impact	1 January 2019 (IFRS 16)
	€m	€m	€m
Assets			
Cash and balances at central banks	48	—	48
Non-current assets held for sale	3	—	3
Derivative financial instruments	24	—	24
Loans and advances to banks	731	—	731
Loans and advances to customers	7,129	—	7,129
Investment securities	2,614	—	2,614
Intangible assets and goodwill	594	—	594
Property, plant and equipment	15	47	62
Other assets	31	—	31
Deferred taxation	243	—	243
Prepayments and accrued income	15	—	15
Total assets	**11,472**	**47**	**11,519**
Liabilities			
Deposits by banks	4,862	—	4,862
Customer accounts	5,374	—	5,374
Lease liabilities	—	45	45
Derivative financial instruments	39	—	39
Other liabilities	67	—	67
Accruals and deferred income	22	—	22
Provisions for liabilities and commitments	19	2	21
Retirement Benefit Liabilities	29	—	29
Total liabilities	**10,412**	**47**	**10,459**
Shareholders' equity	**1,060**	**—**	**1,060**
Total liabilities and shareholders' equity	**11,472**	**47**	**11,519**

(d) Reconciliation of operating lease obligations
The following table reconciles the Company's operating lease obligations at 31 December 2018, as previously disclosed in the consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019:

	2019
	€m
Operating lease commitments at 31 December 2018	48
Extension options reasonably certain to be exercised - gross	2
	50
Discounting effect - using the incremental borrowing rate at 1 January 2019	(5)
Recognition exemption for short-term/other	—
Lease obligation recognised at 1 January 2019	**45**

c. Cash and balances at central banks

	2019 €m	2018 €m
Cash in hand	**6**	6
Balances with Central Bank of Ireland other than mandatory reserve deposits	**339**	42
	345	48

d. Non-current assets held for sale

	2019 €m	2018 €m
Repossessed assets	**8**	3
	8	3

Repossessed assets are expected to be disposed of within one year.

e. Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 17 to the consolidated financial statements.

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2019 and 2018. A description of how the fair values of derivatives are determined is set out in note 39 to the consolidated financial statements.

	2019			2018		
	Contract/ Notional Amount	Fair Value Assets	Fair Value Liabilities	Contract/ Notional Amount	Fair Value Assets	Fair Value Liabilities
	€m	€m	€ m	€m	€m	€m
Derivatives held for trading						
Interest rate swaps	**3,964**	**21**	**(22)**	4,404	23	(23)
Derivatives classified as cash flow hedges						
Interest rate swaps	**3,943**	**5**	**(22)**	3,546	1	(16)
Total derivatives	**7,907**	**26**	**(44)**	7,950	24	(39)

The following table analyses the notional principal amount of interest rate derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	2019				2018			
	Less than 1 year	1 to 5 years	5 years +	Total	Less than 1 year	1 to 5 years	5 years +	Total
Residual maturity	€m	€m	€m	€m	€m	€m	€m	€m
Notional principle amount	**1,281**	**3,501**	**3,125**	**7,907**	1,483	2,694	3,773	7,950
Positive fair value	**—**	**15**	**11**	**26**	—	12	12	24

Notes to the company financial statements

e. Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity
At 31 December 2019 and 2018, the Company held the following hedging instruments of interest rate risk in fair value hedges:

2019	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**5 years +**	**Total**
Cash flow hedges - Interest rate swaps						
Hedges of financial assets						
Nominal principal amount (€m)	**100**	**175**	**770**	**170**	**—**	**1,215**
Average interest rate (%)	**0.32**	**0.34**	**0.18**	**0.99**	**—**	**0.33**
Hedges of financial liabilities						
Nominal principal amount (€m)	**56**	**27**	**153**	**2,492**	**—**	**2,728**
Average interest rate (%)	**0.19**	**0.68**	**0.58**	**0.38**	**—**	**0.40**

2018	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Cash flow hedges - Interest rate swaps						
Hedges of financial 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
Hedges of financial 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

Notes to the company financial statements

e. Derivative financial instruments *(continued)*

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in cash flow hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2019 and 2018:

											2019
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in SOFP where the hedging instrument is included	Change in fair value of hedging instrument used for calculating hedge ineffectiveness in the year	Change in the value of the hedging instrument recognised in OCI in the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	€m	€m	€m		€m	€m	€m		€m	€m	
Interest rate swaps											
Derivative assets	1,215	5	—	Derivative financial instruments	4	(1)	—	Net trading income	—	—	Interest income
Derivative liabilities	2,728	—	(22)	Derivative financial instruments	(6)	(4)	—	Net trading income	—	—	Interest expense

						2019
	Line item in SOFP in which hedged item is included	Change in fair value used for calculating hedge ineffectiveness for the year	Amount in the cash flow hedging reserves for continuing hedges pre tax	Amount in the cash flow hedging reserves for continuing hedges post tax	Amounts remaining in cash flow hedging reserves from any hedging relationships for which hedge accounting is no longer applied pre tax	Amounts remaining in cash flow hedging reserves from any hedging relationships for which hedge accounting is no longer applied post tax
(b) Hedged items		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	(4)	—	—	—	—
Interest rate risk	Customer accounts	6	16	(14)	(2)	(2)

*Statement of financial position

Notes to the company financial statements

e. Derivative financial instruments *(continued)*

											2018
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in SOFP where the hedging instrument is included	Change in fair value of hedging instrument used for calculating hedge ineffectiveness in the year	Change in the value of the hedging instrument recognised in OCI in the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	€m	€m	€m		€m	€m	€m		€m	€m	
Interest rate swaps											
Derivative assets	1,815	1	—	Derivative financial instruments	(2)	—	—	Net trading income	0	0	Interest income
Derivative liabilities	1,731	—	(16)	Derivative financial instruments	—	(6)	—	Net trading income	0	0	Interest expense

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

*Statement of financial position

Notes to the company financial statements

f. Loans and advances to banks

	2019 €m	2018 €m
Funds placed with banks	—	2
Funds placed with subsidiary undertaking	605	672
Accrued Interest on funds place with Subsidiary Undertaking	3	—
Funds placed with AIB	50	57
	658	731
Analysed by remaining maturity:		
Repayable on Demand	658	731
	658	731

At 31 December 2019 loans between the Company and AIB are €50m (2018: €57m). At 31 December 2019 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €608m (2018: €672 m)

g. Loans and advances to customers

	2019 €m	2018 €m
Loans and advances to customers	5,566	5,421
Loans to subsidiaries and special purpose vehicles	2,160	1,879
	7,726	7,300
Expected credit loss allowance	(143)	(171)
	7,583	7,129

	2019 €m	2018 €m
Analysed by remaining maturity:		
Repayable on Demand	2,461	2,295
3 months or less	2	3
1 year or less but over 3 months	9	22
5 years or less but over 1 year	101	108
Over 5 years	5,153	4,872
Gross carrying amount	7,726	7,300
Expected credit loss allowance	(143)	(171)
	7,583	7,129

Included in loans and advances to customers is €3,988m (2018: €4,440m) of loans in the covered bond bank, EBS Mortgage Finance, €2,261m (2018: €2,159m) of loans in Haven Mortgages and nil (2018: €1,727m) loans held through securitisation vehicles, Emerald Mortgages No.5 d.a.c. and Mespil 1 RMBS d.a.c., due to the liquidation of these securitisation vehicles during 2019. Unencumbered loans available as collateral for repurchase agreements, as at 31 December 2019, were nil (2018: nil).

Notes to the company financial statements

g. Loans and advances to customers *(continued)*

Loss allowance on financial assets

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

	2019	2018
	€ m	€ m
Opening Balance	**171**	436
Transition to IFRS 9	**—**	(1)
Net remeasurement of loss allowance - customers	**55**	(13)
Changes in loss allowance due to write-offs	**(67)**	(244)
Changes in loss allowance due to disposals	**(15)**	(7)
Other movement	**(1)**	—
At 31 December	**143**	171
Amounts include loss allowance on:		
Loans and advances to customers measured at amortised cost	**143**	171

Continuing Involvement in Securitised Assets

In 2019 the EBS Group terminated the non-recourse funding arrangements, secured on portfolios of loans, with Emerald Mortgages No.5 d.a.c. and Mespil 1 RMBS d.a.c.. In 2018 these loans, which were not derecognised, are shown within loans and advances to customers and the non-recourse funding is shown within debt securities in issue within EBS Group.

Under the terms of the securitisation, the rights of the providers of the related funds were 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. The carrying amount of transferred secured loans that EBS Group continues to recognise at 31 December 2019 is Nil (2018: €1,072m). The fair value of these loans at 31 December 2019 is Nil (2018: €987m).

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

The Emerald 5 mortgage portfolio was re-purchased on 31 July 2019 and the outstanding bonds were redeemed on 15 August 2019. The liquidator was appointed to Emerald 5 on 11 December 2019.

Mespil 1 RMBS d.a.c.

The total carrying amount of the original residential property loans transferred by EBS d.a.c. to Mespil 1 RMBS d.a.c. ('Mespil') as part of the securitisation amounted to €290m.

The total carrying amount of transferred secured loans that EBS continues to recognise as at 31 December 2019 is Nil (2018: €661m) in relation to the transfers from EBS. The fair value of these loans at 31 December 2019 is Nil (2018: €633m).

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

The Mespil mortgage portfolio was re-purchased on 31 October 2019 and the outstanding bonds were redeemed on 22 November 2019. The liquidator was appointed to Mespil on 5 December 2019.

Notes to the company financial statements

h. Investment securities

	2019	2018
	€m	€m
Debt securities at FVOCI		
Euro Bank securities[(1)]	**2,416**	2,593
Equity securities		
Equity instruments at FVOCI - NAMA subordinated bonds[(2)]	**21**	21
	2,437	2,614

[(1)]ECL allowance of Nil included in carrying value (2018: Nil).
[(2)]NAMA subordinated bonds were repaid in March 2020.

The following table sets out at 31 December 2019 and 2018, the carrying value (fair value) of investment securities by major classifications together with the unrealised gains and losses:

				2019
	Fair value	**Unrealised gross gains**	**Unrealised gross losses**	**Net unrealised gains/(losses)**
	€m	**€m**	**€m**	**€m**
Debt securities				
Euro Bank securities	**2,416**	**—**	**—**	**—**
Equity securities				
Equity instruments at FVOCI - NAMA subordinated bonds	**21**	**19**	**(2)**	**17**
Total investment securities	**2,437**	**19**	**(2)**	**17**

				2018
	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/(losses)
	€m	€m	€m	€m
Debt securities				
Euro Bank securities	2,593	—	—	—
Equity securities				
Equity instruments at FVOCI - NAMA subordinated bonds	21	19	(2)	17
Total investment securities	2,614	19	(2)	17

Notes to the company financial statements

i. Investments in group undertakings

	2019 €m	2018 €m
Equity		
At 1 January	**594**	594
Emerald Mortgages No. 5 d.a.c. Liquidation	**(32)**	—
Mespil 1 RMBS d.a.c. Liquidation	**(11)**	—
EBS Mortgage Finance Capital reduction	**(400)**	—
At 31 December	**151**	594

The following table sets out at 31 December 2019 and 2018, the carrying value of shares in group undertakings.

Investment in Group undertakings	2019 €m	2018 €m
EBS Mortgage Finance	**151**	552
Emerald Mortgages No. 5 d.a.c.[1]	**—**	31
Mespil 1 RMBS d.a.c.[1]	**—**	11
	151	594

[1]A liquidator was appointed to both securitisation vehicles in December 2019.

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

EBS Mortgage Finance
The Company holds 551,540,000 (2018: 551,540,000) €0.25 (2018: €1.00) ordinary shares (100%) in EBS Mortgage Finance ("EBSMF") 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 the Company, whereby the Company 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 EBS Mortgage Finance is 2 Burlington Road, Dublin 4.

In 2019, EBSMF received approval from the regulator to implement a capital reorganisation, including the payment of excess capital to EBS. This exercise was completed in June 2019 and involved a reduction in the par value of each of the 552m issued shares from €1 to €0.25, thereby reducing EBSMF's issued share capital by €414m, a payment of €400m to EBS and a transfer of the residual reduction amount of €14m to reserves. This resulted in a reduction in EBS's investment in EBSMF of €400m in the year to 31 December 2019.

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.

In 2019 AIB as the ultimate parent of EBSMF, reviewed the role of the EBSMF within the wider AIB Group and concluded that the Bank should commence planning to transfer all assets and liabilities back to EBS. A project is underway with a view to completing this activity in 2020,

Haven Mortgages Limited
The Company holds 1 (2018: 1) €1 ordinary share (100%) in Haven Mortgages Limited ("Haven"), incorporated in the Republic of Ireland. Haven trades as a mortgage lender. The registered address of Haven is 2 Burlington Road, Dublin 4.

Impairment of equity shares
The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

Notes to the company financial statements

i. Investments in group undertakings *(continued)*

An impairment review of the equity investments in EBS Mortgage Finance and Haven Mortgages Limited were not undertaken as there were no indications that impairment had occurred at 31 December 2019.

j. Intangible assets

	2019	2018
	€m	€m
Computer Software (and development costs)		
Cost		
At 1 January	**48**	41
Additions - internally generated	**11**	7
Disposals		—
Amounts written-off	**—**	—
At 31 December	**59**	48
Amortisation		
At 1 January	**33**	31
Impairment for financial year		—
Charge for financial year	**2**	2
Disposals	**—**	—
At 31 December	**35**	33
Carrying value at 31 December	**24**	15

k. Property, plant and equipment

							2019
	Owned assets				**Leased assets**		**Total**
	Property			**Equipment**	**Right-of-use assets**		
	Freehold	**Long leasehold**	**Leasehold under 50 years**		**Property**	**Other**	
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Cost							
At 31 December 2018	**27**	**8**	**15**	**14**	**—**	**—**	**64**
Transition to IFRS 16	**—**	**—**	**—**	**—**	**47**	**—**	**47**
At 1 January	**27**	**8**	**15**	**14**	**47**	**—**	**111**
Additions	**—**	**—**	**1**	**6**	**—**	**—**	**7**
Disposals	**(3)**	**(4)**	**(13)**	**(7)**	**—**	**—**	**(27)**
At 31 December	**24**	**4**	**3**	**13**	**47**	**—**	**91**
Depreciation and impairment							
At 1 January	**10**	**4**	**14**	**11**	**—**	**—**	**39**
Depreciation charge for the year	**1**	**—**	**—**	**—**	**6**		**7**
Impairment for financial year	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Disposals	**(3)**	**(4)**	**(13)**	**(7)**	**—**	**—**	**(27)**
At 31 December	**8**	**1**	**1**	**4**	**6**	**—**	**20**
Carrying value at 31 December	**16**	**3**	**2**	**9**	**41**	**—**	**71**

Notes to the company financial statements

k. Property, plant and equipment *(continued)*

	Property			Equipment	Total
					2018
	Freehold	Long leasehold	Leasehold under 50 years		
	€m	€m	€m	€m	€m
Cost					
At 1 January	27	8	15	11	61
Additions	—	—	—	3	3
At 31 December	27	8	15	14	64
Depreciation and impairment					
At 1 January	9	4	14	11	38
Depreciation charge for the year	1	—	—	—	1
At 31 December	10	4	14	11	39
Carrying value at 31 December	17	4	1	3	25

The carrying value of property occupied by the Company for its own activities was €21m (2018: €22m) in relation to owned assets and €41m in relation to right-of-use assets.

Leased assets
Property
The Company leases property for its offices and retail branch outlets. The property lease portfolio consists of 36 leases, made up of 1 head office locations and 35 branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Both head office properties and retail branch lease terms are typically for periods of 10 to 20 years. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where the Company is likely to exercise these options, this has been taken into account in determining the lease liability and likewise, the right-of-use asset.

The minimum lease terms remaining on the most significant lease is 7 years for Burlington Road.

The most significant lease entered into in 2019 was for EBS Maynooth in February 2019 with a lease term of 10 years.

Motor vehicles
The Company leases motor vehicles mainly for its sales staff throughout the branch network. The average lease term for motor vehicles is 3 years.

Lease liabilities
A maturity analysis of lease liabilities is shown in note q.

Amounts recognised in income statement	**2019** €m
Interest on lease liabilities	**1**
Depreciation expense on right-of-use assets	**6**
Expense relating to short term leases	**—**
	7

Amounts recognised in statement of cash flows	**2019** €m
Total cash outflow for leases during the year(1)	**9**

(1) Includes interest expense on lease liabilities of €1m and principal repayments on lease liabilities of €8m.

Notes to the company financial statements

l. Other assets

	2019 €m	2018 €m
Proceeds due from disposal of loan portfolio[1]	**12**	—
Sundry debtors	**21**	31
	33	31

[1] ECL is nil

m. Deferred taxation

	2019 €m	2018 €m
Deferred tax assets		
Transition to IFRS 9	**1**	2
Investment securities	**14**	14
Retirement benefits	**5**	4
Unutilised tax losses	**222**	223
Total gross deferred tax assets	**242**	243
Deferred tax liabilities:		
Total gross deferred tax liabilities	**—**	—
Net deferred tax assets	**242**	243
Represented on the statement of financial position as follows:		
Deferred tax assets	**242**	243
Deferred tax liabilities	**—**	—
	242	243

Analysis of movements in deferred taxation	2019 €m	2018 €m
Opening balance	**243**	241
Transition to IFRS 9	**—**	2
At 1 January	**243**	243
Other adjustments	**—**	—
Income statement	**(1)**	(6)
Deferred tax through equity	**—**	6
At 31 December	**242**	243

At 31 December 2019, deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €242m (2018: €243m) for Company. The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits.

Notes to the company financial statements

n. Prepayments and accrued income

	2019	2018
	€m	€m
Accrued interest	**1**	**12**
Other accrued income	**1**	**—**
Prepaid expenses	**3**	**3**
	5	**15**

o. Deposits by banks

	2019	2018
	€m	€m
Due to Group undertaking	**—**	29
Due to Allied Irish Banks, p.l.c.	**3,062**	2,490
Repurchase agreements with Allied Irish Banks, p.l.c.	**2,189**	2,343
	5,251	4,862

	2019	2018
Analysed by remaining maturity	**€m**	€m
Repayable on Demand	**3,062**	34
3 months or less	**2,189**	4,828
	5,251	4,862

Financial assets pledged
Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2019	2018
	€ m	€ m
Total carrying value of financial assets pledged	**2,417**	3,094
Of which:		
Asset backed securities (own issue)	**2,417**	3,094

p. Customer accounts

	2019	2018
Analysed by sector	**€ m**	€ m
Retail	**5,243**	5,299
Corporate	**7**	75
	5,250	5,374

Notes to the company financial statements

p. Customer accounts *(continued)*

	2019	2018
	€ m	€ m
Analysed by remaining maturity:		
Repayable on Demand	**2,392**	2,256
3 months or less	**683**	667
1 year or less but over 3 months	**1,503**	1,653
5 years or less but over 1 year	**672**	798
	5,250	5,374

q. Lease liabilities

	2019	**2018**
	€m	€m
At the end of year	**38**	—
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**5**	—
Later than one year and not later than five years	**19**	—
Later than five years	**14**	—
Total undiscounted lease liabilities at end of year	**38**	—

	2019
Analysis of movements in lease liabilities	**€m**
At 1 January	**45**
Payments	**(9)**
Interest expense	**1**
Additions	**1**
At 31 December	**38**

On 1 January 2019, the Company implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced IAS 17. Under IFRS 16, the lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. Under IAS 17, leases classified as operating leases were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. The total of future minimum lease payments under non-cancellable operating leases at 31 December 2018 is set out in the following table:

	2018
	€ 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
Between one and five years	23
After five years	19
	48

r. Other liabilities

	2019	2018
	€m	€m
Items in transit	**24**	31
Sundry creditors	**6**	32
Other liabilities	**3**	4
	33	67

s. Accruals and deferred income

	2019	2018
	€m	€m
Accrued interest	**12**	16
Other accrued expense	**12**	6
	24	22

t. Provisions for liabilities and commitments

	2019	**2018**
	€m	**€m**
At 1 January 2019	**19**	20
Amounts charged to income statement	**33**	25
Amounts written back to income statement	**(3)**	(2)
Provisions utilised	**(10)**	(24)
At 31 December 2019[1]	**39**	19

[1] The total provisions for liabilities and commitments expected to be settled within one year amount to €31m (2018: €15m).

u. Subordinated liabilities
All outstanding subordinated liabilities and other capital instruments of the Company are issued by EBS and are detailed in note 32 to the consolidated financial statements.

v. Retirement benefits
The retirement benefit schemes operated by EBS are detailed in note 33 to the consolidated financial statements, all of which relate to EBS d.a.c..

w. Share capital
The share capital of EBS d.a.c. is detailed in note 34 to the consolidated financial statements, all of which relates to EBS d.a.c..

x. Capital contribution reserves
All capital contribution reserves are held in EBS d.a.c. and are detailed in note 35 to the consolidated financial statements.

y. Commitments and contingent liabilities
Off balance sheet commitments
At 31 December 2019 loan approvals that have not been drawn down as at year end, amount to €175m (2018: €190m).

Loan commitments are classified and measured in accordance with IFRS 9. EBS's accounting policy for the recognition of ECL allowances on loan commitments is set out in accounting policy number 1.19 Impairment of financial assets in note 1 to the consolidated financial statements.

An immaterial ECL allowance was recognised on loan commitments at 31 December 2019.

Notes to the company financial statements

y. Commitments and contingent liabilities *(continued)*
The commentary on Legal proceedings, Contingent liability/contingent assets and Participation in TARGET 2 – Ireland, as set out in note 37 to the consolidated financial statements, applies also to EBS d.a.c..

z. Classification and measurement of financial assets and financial liabilities
Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets in note 1.12 to the consolidated financial statements and financial liabilities in note 1.13 to the consolidated financial statements describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses at 31 December 2019 and 2018 the carrying amounts of the financial assets and financial liabilities by measurement category as defined in IFRS 9 *Financial Instruments* and by statement of financial position heading.

							2019
	At fair value through profit or loss	At fair value through other comprehensive income			At amortised cost		Total
	Mandatorily	Debt investments	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
	€m	€m	€m	€m	€m	€m	€m
Financial assets							
Cash and balances at central banks	—	—	—	—	339	6	345
Derivative financial instruments	21	—	—	5	—	—	26
Loans and advances to banks	—	—	—	—	658	—	658
Loans and advances to customers	—	—	—	—	7,583	—	7,583
Investment securities	—	2,416	21	—	—	—	2,437
Other financial assets	—	—	—	—	—	33	33
	21	2,416	21	5	8,580	39	11,082
Financial liabilities							
Deposits by banks	—	—	—	—	—	5,251	5,251
Customer accounts	—	—	—	—	—	5,250	5,250
Derivative financial instruments	22	—	—	22	—	—	44
Subordinated liabilities	—	—	—	—	—	100	100
Other financial liabilities	—	—	—	—	—	57	57
	22	—	—	22	—	10,658	10,702

z. Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit or loss	At fair value through other comprehensive income			At amortised cost		2018 Total
	Mandatorily	Debt investments	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
	€m	€m	€m	€m	€m	€m	€m
Financial assets							
Cash and balances at central banks	—	—	—	—	42	6	48
Derivative financial instruments	23	—	—	1	—	—	24
Loans and advances to banks	—	—	—	—	731	—	731
Loans and advances to customers	—	—	—	—	7,129	—	7,129
Investment securities	—	2,593	21	—	—	—	2,614
Other financial assets	—	—	—	—	—	11	11
	23	—	21	1	7,902	17	10,557
Financial liabilities							
Deposits by banks	—	—	—	—	—	4,862	4,862
Customer accounts	—	—	—	—	—	5,374	5,374
Derivative financial instruments	23	—	—	16	—	—	39
Other financial liabilities*	—	—	—	—	—	87	87
	23	—	—	16	—	10,322	10,361

*Restated in line with revised reporting policy for 2019.

aa. Fair value of financial instruments

The methods used by EBS in calculating the fair value of financial instruments are set out in note 39 to the consolidated financial statements and apply equally to the Company.

The tables on the following pages set out the carrying amount in the statement of financial position of financial assets and financial liabilities distinguishing between those measured at fair value and those measured at amortised cost. In addition, the fair value of all financial assets and financial liabilities is shown setting out the fair value hierarchy as described below into which the fair value measurement is categorised:

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.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the financial position of EBS d.a.c. or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Company as a going concern at 31 December 2019.

Notes to the company financial statements

aa. 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 31 December 2019 and 2018:

					2019
	Carrying amount	**Fair value**			
		Fair value hierarchy			
		Level 1	**Level 2**	**Level 3**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate swaps	**26**	**—**	**26**	**—**	**26**
Investment debt securities at FVOCI:					
Euro bank securities	**2,416**	**—**	**2,416**	**—**	**2,416**
Equity investments at FVOCI	**21**	**—**	**—**	**21**	**21**
	2,463	**—**	**2,442**	**21**	**2,463**
Financial assets not measured at fair value					
Cash and balances at central banks	**345**	**6**	**339**	**—**	**345**
Loans and advances to banks	**658**	**—**	**—**	**658**	**658**
Loans and advances to customers	**7,583**	**—**	**—**	**7,486**	**7,486**
Other financial assets	**33**	**—**	**—**	**33**	**33**
	8,618	**6**	**339**	**8,176**	**8,522**
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate swaps	**44**	**—**	**44**	**—**	**44**
Financial liabilities not measured at fair value					
Deposits by banks	**5,251**	**—**	**—**	**5,251**	**5,251**
Customer accounts	**5,250**	**—**	**—**	**5,236**	**5,236**
Subordinated liabilities	**100**	**—**	**100**	**—**	**100**
Other financial liabilities	**57**	**—**	**—**	**57**	**57**
	10,657	**—**	**100**	**10,544**	**10,644**

Notes to the company financial statements

aa. Fair value of financial instruments *(continued)*

					2018
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate swaps	24	—	24	—	24
Investment debt securities at FVOCI:					
Euro bank securities	2,593	—	2,593	—	2,593
Equity investments at FVOCI	21	—	—	21	21
	2,638	—	2,617	21	2,638
Financial assets not measured at fair value					
Cash and balances at central banks	48	6	42	—	48
Loans and advances to banks	731	—	—	731	731
Loans and advances to customers	7,129	—	—	5,147	5,147
Other financial assets	11	—	—	11	11
	7,919	6	42	5,889	5,937
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate swaps	39	—	39	—	39
Financial liabilities not measured at fair value					
Deposits by banks	4,862	—	—	4,862	4,862
Customer accounts	5,374	—	—	5,353	5,353
Other financial liabilities*	87	—	—	87	87
	10,322	—	—	10,302	10,302

*Restated in line with revised reporting policy for 2019.

Significant transfers between Level 1 and Level 2 of the fair value hierarchy
There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2019 and 2018.

Notes to the company financial statements

aa. Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

						2019
	Financial assets				**Financial liabilities**	
	Derivatives	**Investment securities**		**Total**	**Derivatives**	**Total**
		Debt	**Equities at FVOCI**			
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
At 1 January	**—**	**—**	**21**	**21**	**—**	**—**
Total gains or (losses) in:						
Profit or loss - net change in FVTPL	**—**	**—**	**—**	**—**	**—**	**—**
Other comprehensive income - net change in fair value of investment securities	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December	**—**	**—**	**21**	**21**	**—**	**—**

Reconciliation of balances in Level 3 of the fair value hierarchy

						2018
	Financial assets				Financial liabilities	
	Derivatives	Investment securities		Total	Derivatives	Total
		Debt	Equities at FVOCI			
	€m	€m	€m	€m	€m	€m
At 1 January	—	—	21	21	—	—
Total gains or (losses) in:						
Profit or loss - net change in FVTPL	—	—	—	—	—	—
Other comprehensive income - net change in fair value of investment securities	—	—	—	—	—	—
At 31 December	—	—	21	21	—	—

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2019 and 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair value				**Range of estimates**	
Financial instrument		**31 December 2019**	31 December 2018	**Valuation technique**	**Significant unobservable input**	**31 December 2019**	31 December 2018
NAMA subordinated bond	Asset	**21**	21	Discounted cash flows	Discount rate	**1% - 4% (Base 1.94%)**	1% - 5% (Base 2.49%)

Notes to the company financial statements

aa. Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Company believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2019 and 2018:

	2019			
	Level 3			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable	**Unfavourable**	**Favourable**	**Unfavourable**
	€m	**€m**	**€m**	**€m**
Classes of financial assets				
Equity securities at FVOCI			**0.1**	**(0.1)**

	2018			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	€m	€m	€m	€m
Classes of financial assets				
Equity securities at FVOCI	—	—	0.4	(0.6)

ab. Statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019	2018
	€m	€m
Cash and balances at central banks	**345**	48
Loans and advances to banks	**—**	2
Loans and advances to group undertaking	**653**	729
	998	779

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 is included in note f. Loans and advances to banks.

ac. Related party transactions

Related parties of EBS d.a.c. ('the Company') include its parent, Allied Irish Banks, p.l.c. ("AIB"), subsidiary undertakings, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB. Related party transactions are detailed in note 41 to the consolidated financial statements.

Notes to the company financial statements

ac. Related party transactions *(continued)*
The following were the principal transactions during 2019 between the Company and its parent company AIB and subsidiary undertakings:

	2019 €m	2018 €m
Included in the statement of financial position		
Loans and advances to banks	**655**	729
Loans and advances to customers	**2,160**	1,879
Deposits by central banks and banks	**5,251**	4,862
Derivative financial instruments:		
Interest rate swaps		
Assets (Fair value)	**26**	24
Liabilities (Fair value)	**(44)**	(39)
Included in the income statement		
Interest income	**25**	20
Interest expense	**(29)**	(26)
Dividend income	**40**	—
Administrative expenses	**(48)**	(32)
Net Trading Income	**—**	(2)

ad. Capital commitments
There was Nil (2018: Nil) capital expenditure contracted or authorised.

Notes to the company financial statements

ae. Credit risk information

Maximum exposure to credit risk

The following table sets out the maximum exposure to credit risk that arises within the Company 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 2019 and 2018:

			2019			2018
	Amortised Cost	**Fair Value**	**Total**	Amortised Cost	Fair Value	Total
	€m	**€m**	**€m**	€m	€m	€m
Cash and balances at central banks	**345**	**—**	**345**	48	—	48
Derivative financial instruments	**—**	**26**	**26**	—	24	24
Loans and advances to banks	**658**	**—**	**658**	731	—	731
Loans and advances to customers	**7,583**	**—**	**7,583**	7,129	—	7,129
Included elsewhere:						
Accrued interest	**1**	**—**	**1**	12	—	12
Other assets	**33**	**—**	**33**	—	—	—
	8,620	**26**	**8,646**	7,920	24	7,944
Off balance sheet loan commitments	**175**	**—**	**175**	190	—	190
Maximum exposure to credit risk	**8,795**	**26**	**8,821**	8,110	24	8,134

Notes to the company financial statements

ae. Credit risk information *(continued)*

Credit profile of the loan portfolio
The following table analyses loan portfolio showing the ECL allowance at 31 December 2019 and 2018:

	2019 Residential mortgages	2019 Commercial properties	2019 Total	2018 Residential mortgages	2018 Commercial properties	2018 Total
Gross loans and advances to customers	€m	€m	€m	€m	€m	€m
Total gross carrying amount	5,501	65	5,566	5,317	104	5,421
Analysed as to ECL staging						
Stage 1	4,608	24	4,632	4,242	41	4,283
Stage 2	388	14	402	422	17	439
Stage 3	438	27	465	568	45	613
POCI	67	—	67	85	1	86
Total	5,501	65	5,566	5,317	104	5,421
ECL allowance - statement of financial position	€m	€m	€m	€m	€m	€m
Stage 1	(2)	—	(2)	(2)	—	(2)
Stage 2	(14)	(1)	(15)	(11)	(2)	(13)
Stage 3	(103)	(11)	(114)	(132)	(13)	(145)
POCI	(12)	—	(12)	(11)	—	(11)
Total ECL allowance	(131)	(12)	(143)	(156)	(15)	(171)
Carrying amount loans and advances	5,370	53	5,423	5,161	89	5,250
ECL allowance cover percentage	%	%	%	%	%	%
Stage 1	—	1	—	—	1	—
Stage 2	4	7	4	3	9	3
Stage 3	24	41	25	23	29	24
POCI	18	—	18	13	—	12
Income statement credit impairment charge/(writeback)	€m	€m	€m	€m	€m	€m
Net remeasurement of loss allowance	51	4	55			(13)
Recoveries of amounts written off in previous years	(10)	—	(10)			(5)
Net credit impairment charge/ (writeback)	41	4	45			(18)
	%	%	%	%	%	%
Net credit impairment charge/ (writeback) on average loans	0.74	5.18	0.82			(0.25)

Notes to the company financial statements

ae. Credit risk information *(continued)*

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2019 and 2018:

Amortised cost					**2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Total	**€m**	**€m**	**€m**	**€m**	**€m**
Strong	**3,950**	**26**	**—**	**—**	**3,976**
Satisfactory	**544**	**31**	**—**	**—**	**575**
Total	**4,494**	**57**	**—**	**—**	**4,551**
Criticised watch	**134**	**195**	**—**	**—**	**329**
Criticised recovery	**4**	**150**	**—**	**3**	**157**
Total criticised	**138**	**345**	**—**	**3**	**486**
Non-performing	**—**	**—**	**465**	**64**	**529**
Gross carrying amount	**4,632**	**402**	**465**	**67**	**5,566**
ECL allowance	**(2)**	**(15)**	**(114)**	**(12)**	**(143)**
Total carrying amount	**4,630**	**387**	**351**	**55**	**5,423**

Amortised cost					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
Total	€m	€m	€m	€m	€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

Notes to the company financial statements

ae. Credit risk information *(continued)*

Gross loans movements[1]
The following tables explain the changes in the gross carrying amount and ECL allowances for loans and advances to customers at amortised cost by ECL staging for the years to 31 December 2019 and 2018.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 19 of the Risk Management Report) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2 and 'Transferred from Stage 2 to Stage 1'. The Company believes this presentation aids the understanding of the underlying credit migration.

					2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**4,283**	**439**	**613**	**86**	**5,421**
Transferred from Stage 1 to Stage 2	**(229)**	**229**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**289**	**(289)**	**—**	**—**	**—**
Transferred to Stage 3	**(17)**	**(54)**	**71**	**—**	**—**
Transferred from Stage 3	**4**	**78**	**(82)**	**—**	**—**
New loans originated/top-ups	**801**	**—**	**—**	**1**	**802**
Redemptions/repayments	**(599)**	**(44)**	**(52)**	**(7)**	**(702)**
Interest credited	**135**	**15**	**11**	**3**	**164**
Write-offs	**—**	**—**	**(65)**	**(2)**	**(67)**
Derecognised due to disposals	**(4)**	**(2)**	**(47)**	**(5)**	**(58)**
Exchange translation adjustments	**2**	**—**	**—**	**—**	**2**
Other movements	**(33)**	**30**	**16**	**(9)**	**4**
At 31 December[2]	**4,632**	**402**	**465**	**67**	**5,566**

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.
[2]Amounts due from subsidiaries and special purpose vehicles of €2,160m at 31 December 2019 are excluded (1 January 2019: €1,879m).

					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	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 exposure	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
At 31 December[2]	4,283	439	613	86	5,421

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.
[2]Amounts due from subsidiaries and special purpose vehicles of €1,879m at 31 December 2018 are excluded (1 January 2018: €1,646m).

Notes to the company financial statements

ae. Credit risk information *(continued)*

ECL allowance movements

					2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**2**	**13**	**145**	**11**	**171**
Transferred from Stage 1 to Stage 2	**(1)**	**9**	**—**	**—**	**8**
Transferred from Stage 2 to Stage 1	**1**	**(6)**	**—**	**—**	**(5)**
Transferred to Stage 3	**—**	**(2)**	**11**	**—**	**9**
Transferred from Stage 3	**—**	**2**	**(11)**	**—**	**(9)**
Net remeasurement	**—**	**(5)**	**19**	**2**	**16**
New loans originated/top-ups	**—**	**—**	**—**	**—**	**—**
Redemptions/repayments	**(1)**	**—**	**—**	**—**	**(1)**
Impact of model changes	**—**	**2**	**22**	**1**	**25**
Impact of credit or economic risk parameters	**1**	**2**	**8**	**1**	**12**
Income statement credit impairment charge	**—**	**2**	**49**	**4**	**55**
Write-offs	**—**	**—**	**(65)**	**(2)**	**(67)**
Derecognised due to disposals	**—**	**—**	**(14)**	**(1)**	**(15)**
Exchange translation adjustments	**—**	**—**	**—**	**—**	**—**
Other movements	**—**	**—**	**(1)**	**—**	**(1)**
At 31 December	**2**	**15**	**114**	**12**	**143**

					2018
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€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 income statement 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**

Notes to the company financial statements

ae. Credit risk information *(continued)*

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'fs, Fitch or S&P and are sourced from Bloomberg.

				2019
	Cash and balances with Central Bank of Ireland	**Investment securities**	**Loans and advances to banks**	**Off balance sheet commitments**
	€m	**€m**	**€m**	**€m**
Balance	**345**	**2,437**	**658**	**175**
	%	**%**	**%**	**%**
Aaa	**—**	**99**	**—**	**—**
Aa3 to Aa1	**—**	**—**	**—**	**—**
A3 to A1	**100**	**—**	**—**	**—**
Lower then A3	**—**	**—**	**100**	**—**
Unrated	**—**	**1**	**—**	**100**

				2018
	Cash and balances with Central Bank of Ireland	Investment securities	Loans and advances to banks	Off balance sheet commitments
	€m	€m	€m	€m
Balance	48	2,614	731	199
	%	%	%	%
Aaa	—	99	—	—
Aa3 to Aa1	—	—	—	—
A3 to A1	100	—	—	—
Lower then A3	—	—	100	—
Unrated	—	1	—	100

Notes to the company financial statements

af. Liquidity risk information

Financial liabilities by undiscounted contractual maturity*

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2019 and 2018:

2019	**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	**3,062**	**2,189**	**—**	**—**	**—**	**—**	**5,251**
Customer accounts	**2,488**	**597**	**498**	**1,002**	**323**	**342**	**5,250**
Derivative financial instruments	**—**	**11**	**1**	**1**	**4**	**27**	**44**
Subordinated liabilities	**—**	**—**	**—**	**—**	**—**	**100**	**100**
Other liabilities	**57**	**—**	**—**	**—**	**—**	**—**	**57**
Total	**5,606**	**2,797**	**499**	**1,003**	**327**	**469**	**10,702**
Off-balance sheet loan commitments	**175**	**—**	**—**	**—**	**—**	**—**	**175**

2018	Repayable on demand	3 months or less but not repayable	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	4,857	—	—	—	—	4,862
Customer accounts	2,515	421	568	1,072	447	351	5,374
Derivative financial instruments	—	1	1	1	3	33	39
Other liabilities*	87	—	—	—	—	—	87
Total	2,607	5,279	569	1,073	450	384	10,362
Off-balance sheet loan commitments	190	—	—	—	—	—	190

*Restated in line with revised reporting policy for 2019.