EBS d.a.c.

Directors' Report and Annual Financial Statements
for the financial year ended 31 December 2021

Contents

Presentation of information
The information contained in this Directors' Report and Annual Financial Statements is that of EBS d.a.c. and its subsidiaries EBS Mortgage Finance and Haven Mortgages Limited. 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 Company and its subsidiaries. "AIB Group" refers to AIB Group plc and 'AIB' refers to Allied Irish Banks, p.l.c. the ultimate parent and immediate parent of EBS d.a.c. respectively.

This copy of the statutory annual report of EBS, d.a.c. for the year ended 31 December 2021 is not presented in the ESEF-format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815).

Directors and other information

Directors	Mr Bryan O'Connor	Group Non-Executive Director
	Mr Paul Butler	Managing Director
	Mr Gerry Gaffney	Executive Director
	Mr Tom Foley	Independent Non-Executive Director
	Mr Paul Owens	Independent Non-Executive Director
	Ms Yvonne Hill	Independent Non-Executive Director
Company secretary	Ms Diane Lumsden	
Registered office	2 Burlington Road Dublin 4	
Registered number	500748	
Independent auditor	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2	
Banker	Allied Irish Banks, p.l.c. 7/12 Dame Street Dublin 2	

Directors' report

The Directors of EBS d.a.c. ('EBS') present their Directors' Report (the 'Report') and audited financial statements for the financial year ended 31 December 2021. The Statement of Directors' responsibilities in relation to the financial statements is on page 59.

Principal activities
EBS d.a.c., formerly EBS Limited, a designated activity company, registered and domiciled in Ireland, is a wholly owned subsidiary of AIB plc which is a wholly owned subsidiary of AIB Group plc. EBS operates as a separately branded subsidiary with its own distribution network. EBS 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 68 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 ('Haven'), a wholly owned subsidiary, through mortgage intermediaries authorised by the Central Bank of Ireland ('CBI').

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

Results for the financial year
EBS is reporting a profit before taxation for 2021 of €125m (2020: Loss before tax of €77m), as set out in the income statement on page 72.

The principal driver for the €202m increase in profitability was a decrease in net credit impairment cost of €228m, higher income of €21m, offset by higher costs of €47m.

Net credit impairment writeback was €57m in 2021 compared to a €171m charge in 2020, a decrease of €228m. The net credit impairment writeback of €57m in 2021 reflects a more favourable economic environment with improved credit quality and updated macro economic assumptions.

The net credit impairment writeback for 2021 reflected a net remeasurement of expected credit loss ("ECL") allowance release of €50m and recoveries of amounts previously written-off of €7m.

There was a net credit impairment charge of €171m in 2020 comprising of a €187m charge on loans and advances to customers, offset by recoveries of amounts previously written-off of €16m.

For further information see pages 33 and 34 in the risk management section.

Net interest income decreased to €243m for 2021, from €258m in 2020. The decrease is driven by reduction in loan balances and migration of the loan book to lower fixed rate products, offset by lower funding costs.

Other income increased by €36m to €48m in 2021 primarily driven by income receivable from AIB to compensate EBS for the financial impact of implementing the AIB Group Property Strategy in 2021 and a gain on the sale of non-performing loan portfolios.

Total operating expenses increased to €223m in 2021, from €176m in 2020 driven by higher amounts payable to AIB as determined by the implementation of the pricing agreement between AIB and EBS subsidiaries, together with an increase in customer restitution costs and impairment of property assets due to implementation of the AIB Group Property Strategy.

Business review
The global economy rebounded strongly in 2021 following the large contraction in output seen in 2020 as a result of the COVID-19 pandemic. The strong rebound was very much aided by the rollout of vaccines that proved quite effective in countering the coronavirus and allowing economies to reopen – many economies went back into lockdown in the early part of the year before vaccines become widely available. The vaccines, though, have not proved fully effective in reducing the transmissibility of the virus, and a number of countries re-imposed some restrictions late in the year as COVID-19 case numbers rose again.

The Irish economy also recovered well in 2021, despite being in lockdown for the first four months of the year, with both exports and the domestic economy performing strongly. GDP growth, though, continued to be inflated by trade related flows in the multi-national sector.

Business review (continued)
The recession in the domestic economy in 2020 saw employment contract and unemployment rise, but the labour market recovered strongly in 2021. By end of 2021, the level of employment had recovered to 6.3% its pre-pandemic levels. Meanwhile, the unemployment rate fell sharply over the course of the year. By end 2021, the pandemic adjusted jobless rate had fallen to 7.4%, having stood at 27% earlier in the year when the economy was back in lockdown.

House prices in Ireland, as elsewhere, rose very strongly in 2021. The latest Central Statistics Office ('CSO') data show prices rose by 14.4% year-on-year in December. House building activity held up in 2021, despite the lockdown earlier in the year, with CSO data putting house completions at 20,500, broadly unchanged on the levels in 2020 and 2019.

Meanwhile, official government data show housing commencements picked up sharply during 2021, rising to over 30,700. This points to a likely rise in housing completions over the next couple of years.

A notable feature of the pandemic has been a very sharp increase in private sector savings in many economies, including Ireland. This manifested itself in a further rise in levels of Irish banking deposits in 2021. These rose to €286.5bn by December from €255bn at the start of the year.

Mortgage lending in Ireland rebounded in 2021, increasing by 25% having fallen to €8.4bn in 2020.

The impact of the above factors on EBS's financial performance, together with disposal of non-performing loan portfolios, resulted in a significant decrease in EBS's expected credit loss estimates reflecting a more favourable economic environment and improved credit quality, partially offset by post model adjustments.

All the main official international and domestic forecasters are projecting a continuation of the strong global economic recovery in 2022, helped by an ongoing supportive stance to macro-economic policy and with scope for a rundown of the large build-up of private sector savings seen during 2020-2021. Both these factors are very much in evidence in Ireland and should be supportive of continuing strong growth in activity here during 2022. However, forecasters also warn of risks to the economic outlook, in particular with regard to the future path of the coronavirus, impact of the withdrawal of government Covid supports, ongoing disruptions and bottlenecks in supply chains, geopolitical tensions as well as elevated inflationary pressures.

EBS continues to provide competitive home loans in the Irish market, offering a range of fixed and variable rates and channel options including Branch and Intermediary. In addition EBS also offers 3% cash back on new loans drawn down in 2021. 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. Haven launched a Green mortgage product in July 2021 further enhancing customer choice. During 2021, EBS's priorities have been to continue to support customers, maintain a strong capital position and improve operational resilience.

On 2 February 2021, following an application by EBS Mortgage Finance u.c. ("EBSMF") to its regulators to revoke its banking licence and designated mortgage credit institution status ('DCMI'), EBSMF received confirmation from the European Central Bank ('ECB') and the CBI that its banking licence and DCMI status were withdrawn. On 31 March 2021, EBSMF completed a capital reduction and made a distribution of €143m to its sole shareholder EBS d.a.c.. EBSMF is expected to be wound up during 2022.

Asset quality
The EBS loan portfolio before loss allowance decreased by 6.6% during 2021 to €10,508m as at 31 December 2021 (2020: €11,258m) as non-performing loan portfolio sales, repayments, loan restructures, including write-offs, exceeded loans granted by €750m during the year (2020: decrease of 2.2%).

EBS's mortgage portfolio comprises €10,343m owner-occupier (2020: €11,068m), €109m buy-to-let mortgages (2020: €127m) and commercial mortgages €56m (2020: €62m).

Non-performing loans decreased from €1,048m at 31 December 2020 to €483m at 31 December 2021. This reduction was achieved through the sale of non-performing loans of €516m and redemptions and repayments from customers of €49m. Non-performing loans as a percentage of gross loans and advances to customers decreased from 9.4% at 31 December 2020 to 4.6% at 31 December 2021, principally driven by loan sale transactions, further information is included in note 8 to the consolidated financial statements.

ECLs are €185m (2020: €447m). The significant reduction in EBS's ECL level in 2021 is due to the disposal of non-performing loan portfolios together with an improved economic environment and underlying credit quality resulting in ECL write-back in 2021.

Asset quality (continued)
EBS has outsourced the management and servicing of its mortgage portfolio to AIB. 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 credit impaired loans including sales and strategic initiatives.

Funding activities
EBS is funded by customer deposits and a funding facility provided by AIB.

Customer funding
EBS continued to have a presence in the retail deposit market and at 31 December 2021 had total customer accounts of €5,603m (2020: €5,389m).

Given the current lower for longer interest rate environment, EBS simplified its deposit product suite by removing fixed term products which no longer met customers' needs. The revised product offering maintains customer choice by providing products that deliver flexibility, while eliminating complexity.

Deposits by banks
Deposits by Banks at 31 December 2021 were €1,955m (2020: €1,781m).The increase of €174m is largely due to the repayment of subordinated loans during 2021. Deposit by Banks are provided by EBS's parent AIB. There was no direct European Central Bank ('ECB') funding in 2021 or 2020.

Securities financing
Securities Financing decreased by €359m to €2,382m in 2021 (2020: €2,741m), due to the amortisation of the securities available for use in sale and repurchase transactions with AIB.

Subordinated debt
At 31 December 2021 total subordinated liabilities stands at nil (2020: €300m). EBS exercised its call option to repay the subordinated loans on 28 November 2021 to AIB plc.

Share capital
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 33 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. Details on the management of capital adequacy risk can be found in the Risk management report on page 51.

EBS's capital requirement at 31 December 2021 and 31 December 2020 were a minimum Common Equity Tier 1 ('CET1') of 10.5%, comprised of a Pillar 1 requirement of 8.0% and a Capital Conservation Buffer ("CCB") of 2.5%. The CBI is the authority responsible for setting the Irish Countercyclical Capital Buffer ("CCyB") in Ireland. No change to the current 0% CCyB has been announced by the CBI and this position is reviewed every 3 months. It is anticipated that a phase-in period will be provided to any re-introduction of the buffer.

At 31 December 2021, the fully loaded CET1 and total capital ratio was 29.4% (2020: 22.1%).

At 31 December 2021, the transitional CET1 ratio and total capital ratio was 31.4% (2020: 24.5%).

Minimum Requirement for Own Funds and Eligible Liabilities ('MREL')
At 31 December 2021 EBS has an MREL ratio of 10.0% based on the leverage exposure measure.

The Single Resolution Board ("SRB") has set the intermediate binding MREL target for EBS d.a.c. under the Bank Recover and Resolution Directive ('BRRD II') legislative framework to be complied with by 1 January 2022. The intermediate binding target is 5.91% of the leverage exposure measure.

Leverage ratio
The leverage ratio at 31 December 2021 was 9.4% (2020: 8.8%) on a fully loaded basis and 10.5% (2020: 9.4%) on a transitional basis. The regulatory requirement at 31 December 2021 is 3%.

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. EBS has adapted its credit risk management operating model, including its underlying credit processes, in response to COVID-19. 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 12 to 58 and is incorporated into this Directors' report by means of this cross reference.

Outlook for 2022
Though COVID-related restrictions remained in place for much of the year, it is a measure of the underlying strength of the Irish economy that it could rebound so strongly in 2021 across all sectors including manufacturing, services, construction, and retail. Housing starts picked up sharply during 2021, with the strongest level of commencement activity seen since 2007.

Forecasters are projecting another year of strong economic growth, with the global economy expected to perform well and scope for a rundown of the large build-up of private sector savings seen during the pandemic. However, there are still risks to the economic recovery, including how well businesses will cope with a withdrawal of government COVID-19 supports as well as the marked rise in inflationary pressures over the past year, which is expected to see central banks move onto a policy-tightening path in 2022. The crisis in Ukraine adds further uncertainty to the economic outlook, but any impact on growth in the Irish market is expected to be modest at this point.

In the rapidly changing banking environment, EBS continues to invest in its digital capability, distribution network and customer proposition in order to support a growing number of customers seeking to buy a home.

EBS continues to build out on its mortgage product offering to include an EBS Green Mortgage in February 2022. This offering is available to new and existing customers whose property has a Building Energy Rating (BER) of between A1-B3 inclusively.

Further sales of portfolios of non-performing loans in 2022 are expected to improve the overall credit quality of EBS's loan book.

Sustainability and climate change
EBS recognises that climate change risk continues to evolve rapidly. At 31 December 2021 Climate change risk remains under ongoing consideration. EBS, as a subsidiary of AIB, has committed to support AIB to be a leader in the necessary transition to a low-carbon economy and continues to integrate climate risk into its overall risk management approach and broader sustainability strategy. AIB maintains oversight of climate-related metrics on the AIB Group Scorecard and is committed to ensuring operations will be carbon neutral by 2030. EBS is committed to supporting customers transition to a low carbon economy by offering green products, propositions and support. EBS launched a Green Mortgage in February 2022, while Haven launched a Green Mortgage in July 2021. Haven's Green Mortgage balance at 31 December 2021 was €71m (2020: nil).

Going concern
The financial statements for the financial year ended 31 December 2021 have been prepared on a going concern basis as Directors are satisfied, having considered the principal 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.

EBS 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 their assessment, the Directors of AIB considered a wide range of information relating to present and future conditions. This includes capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that the Group has committed to. The scenarios include the potential prolonged impacts of COVID-19 and the continuing impacts of Brexit.

In addition, the Directors of EBS considered the principal risks and uncertainties which could materially affect EBS's future business performance and profitability and which are outlined on pages 12 to 58.

There is no intention to liquidate the company or cease trading and EBS is not aware of any material uncertainties related to conditions or events that may cast significant doubt upon the company's ability to continue as a going concern. In addition, EBS's parent AIB has provided a letter of financial support to EBS.

Going concern (continued)
On the basis of the continued availability of funding from AIB to EBS, the EBS Board approved financial plans in base and alternative scenarios, including the ongoing impact of COVID-19 and Brexit, 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, pursuant to Section 267 and 329 of the Companies Act 2014.

Shares held by the Directors in the ultimate parent company, AIB Group plc, were below 1% and not disclosable, pursuant to Section 260 of 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 2021. 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 2021 and 2 March 2022.

Directors' remuneration
Details of total remuneration of the Directors in office during 2021 and 2020 are shown in the Remuneration table in note 40.

Dividend
There was no interim dividend paid to the shareholder during 2021 and the Board is not recommending the payment of a final dividend for 2021 (2020: nil).

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.

Corporate governance
The Corporate Governance Report on pages 9 to 11 form part of the Directors' report.

In accordance with Section 1097 and 1551 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee’s membership and activities are shown on page 10.

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 2021.

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 ensuring that AIB allocate adequate resources with appropriate expertise to the financial function under the Managed Services Agreement for the provision of accounting and other financial services to EBS. The Directors monitor AIB's performance against agreed service levels through receipt of regular reports covering the services provided. The accounting records of EBS are maintained at the registered office of its ultimate parent at AIB Group plc, 10 Molesworth Street, Dublin 2, Ireland.

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.

Non-adjusting events after the reporting period

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

Statement of relevant audit information

Each of the Persons who is a Director at the date of approval of this Report confirms that, as far as they are aware:

(a) there is no relevant audit information of which EBS's Auditor is unaware; and

(b) the Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that EBS's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

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, their continued appointment is subject to approval by the shareholder. Subject to this approval by the shareholder, Deloitte will step down as auditor following the conclusion of the 2022 financial year end process, having at that point served as statutory auditor for the maximum legally permitted unbroken tenure in office as EBS's statutory auditor of 10 years.

On behalf of the Board,

Bryan O'Connor
Chairman

Paul Owens
Independent Non-Executive Director

Date: 2 March 2022

Corporate governance report

Corporate Governance

A key objective of the EBS's governance framework is to ensure compliance with applicable legal and regulatory requirements.

Corporate governance requirements

EBS is subject to the provisions of the Central Bank of Ireland Corporate Governance Requirements for Credit Institutions 2015 (“the Requirements”), which imposes minimum core standards upon all credit institutions licensed or authorised by the Central Bank of Ireland ("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;
- Derogation granted from the requirement for cross committee membership on the basis that EBS has only one sub-committee; and
- EBS has received approval from the CBI that the Chief Risk Officer ('CRO') of AIB Group acts as the CRO of EBS on an outsourced basis and a Designated Risk Representative ('DRR') has been appointed for EBS 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.

Compliance with the requirements

- EBS is non-compliant with Requirement 7.1 of the Requirements to have a minimum of seven directors appointed to the Board. The Company has approved the appointment of two appropriate candidates to join the Board and are in the process of submitting applications through the Regulatory Fitness & Probity approval process with the Joint Supervisory Team of the Central bank of Ireland and European Central Bank. These appointments will ensure EBS returns to compliance with Requirement 7.1.
- EBS was non-compliant with Requirement 8.1 of the Requirements, to have a Chairman appointed to the Board for the period 1 January 2021 to 11 January 2021. Mr Bryan O'Connor was appointed as Chairman on 12 January 2021.
- The CBI was duly notified of all occurrences of non-compliance with the Requirements within the required time frame. Interim governance arrangements for the Chair were put in place, and during the period since then, there has been no known negative impact on the governance and financial position of EBS nor was there deemed to be any poor outcomes for its customers. While EBS’s operations were not materially impacted by the above mentioned instances of non-compliance with the Requirements, it commits to and is actively engaged in ensuring compliance with the CBI’s licence requirements.
- Following a robust review and challenge in regards to the adequateness of the mitigants established in respect of non-compliance with Requirements 7.1 and 8.1 which included advice provided by Corporate Governance, Compliance and Legal, the Board collectively deemed EBS to be materially compliant with the provisions of the Requirements throughout 2021.

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 and is responsible for financial performance to its shareholder and ultimate parent AIB Group.

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 ('RAS') and approves the EBS annual financial plans. EBS 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 through a formal MSA, 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 with the risk management and internal control framework and that appropriate action would be taken to address any material failings or weaknesses identified through its operation.

Compliance with the requirements (continued)
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.

Audit committee
In accordance with section 1551 of the Companies Act 2014 the Directors confirm that an Audit Committee ("the Committee") is 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.

Mr Paul Owens (Chair), Mr Tom Foley and Ms Yvonne Hill are all Independent Non-Executive Directors and they each possess the requisite degree of independence so as to be able to contribute effectively to the Committee's functions. Mr Foley stepped down as Chair of the Committee on 18 February 2022 and was replaced by Mr Owens. However, Mr. Foley remains a member of the Committee. Mr Bryan O'Connor, was deemed to be a Non-Executive Director by virtue of the role he fulfils in an area of AIB unrelated to the operations of EBS. Mr O'Connor stepped down as Audit Committee member following his appointment as Chair of the Board on 12 January 2021.

During 2021, 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, Risk and Compliance. The Committee reviewed EBS's annual financial statements at two separate Audit Committee meetings, prior to approval by the Board, including EBS's accounting policies and practices.

The Committee met formally on four occasions during 2021, 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 MSA; and the findings, conclusions and recommendations of the Auditor and Internal Auditor. The Committee satisfied itself through regular reports from Internal Audit, 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.

Audit committee (continued)

The Audit Committee Chair engaged with the AIB Group Board Audit Committee, and attended the July 2021 Group Board Audit Committee meeting to provide an update on the key themes and discussions at the Audit Committee meetings for the period January 2021 to July 2021. The Chair of the Group Board Audit Committee attended the EBS Audit Committee meeting in September 2021.

Directors attendance at Board Meetings during 2021

	Eligible to attend	Attended
Paul Butler - Managing Director	6	6
Tom Foley- Independent Non-Executive Director	6	6
Gerry Gaffney - Executive Director	6	6
Bryan O'Connor - Group Non-Executive Director	6	6
Paul Owens- Independent Non-Executive Director	6	6
Yvonne Hill - Independent Non-Executive Director	6	6

Members' attendance at Audit Committee Meetings during 2021

	Eligible to attend	Attended
Yvonne Hill - Independent Non-Executive Director	4	4
Tom Foley- Independent Non-Executive Director	4	4
Paul Owens- Independent Non-Executive Director	4	4

Mr Bryan O'Connor stepped down as Audit Committee member on 12 January 2021, on his appointment as Chair of the Board . There were no other changes to the Board or Committee in 2021.

During the year, the Committee participated in the AIB Group process for the selection of a new external Auditor. Following a competitive and transparent tender process, the Committee recommended to the Board the appointment of PwC as Auditor, in 2023. This appointment will be subject to approval by the shareholder in due course. The Committee look forward to working with the current Auditor, Deloitte, and PwC on the smooth and effective transition of the audit ahead of the 2023 year end.

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.

AIB Group is monitoring closely the rapidly developing situation in Ukraine and the potential impact it may have on all its business. EBS has no direct credit exposure to Ukraine, Russia or Belarus and is closely monitoring events. An initial risk assessment of the key impacts on AIB Group has identified the key risks as being operationalising complex sanctions regime, potential for increase in cyberattacks and financial and market risks arising from volatility in asset values, interest rates or foreign exchange markets. Regular updates on the changing situation will be provided to EBS Board as appropriate.

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 9 to 11 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 Liquidity and funding 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.

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 borrowers' 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
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 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 credit risk profile of EBS including any changes in credit risk profile and emerging or horizon risks; and
– Mitigate potential credit risk arising from new or amended products or activities.

Credit risk management response to COVID-19
EBS continued to adapt its credit risk management operating model, including its underlying credit processes, in response to COVID-19 to ensure proactive and appropriate management of the heightened credit risk in the portfolio, particularly for those sectors believed to be most impacted by COVID-19. In adapting its credit operating model, EBS also enabled the introduction and implementation of a number of customer support measures in a streamlined, agile and risk appropriate manner.

In 2021, EBS's focus continued to be on supporting its existing customers and ensuring they were provided with appropriate measures taking account of the expected financial impact and recovery outlook. As part of EBS's credit risk management response to COVID-19, a range of actions were taken to ensure the appropriate measurement, classification, and reporting of its credit risk exposures during the year. These included:
– The continued use of additional guidance documents to support credit risk assessment and management activities, such as credit grading, staging, unlikely-to-pay testing, and taking account of COVID-19 sector risk and expected recovery outlook. This guidance supplements the Group's existing credit risk policies and frameworks.
– Enhanced scope and frequency of portfolio asset quality monitoring as a result of COVID-19.

Moving forward as the economy reopens, EBS will continue to proactively review borrowers particularly where reliefs such as government supports are withdrawn. This has been considered as part of the Governance process and was an explicit consideration as part of year end and ECL appropriateness. Where an appropriate ECL has been taken to reflect any potential latent risk this is outlined in the Management adjustments section "COVID-19 government supports post model adjustments".

3.1 Credit risk

Credit risk management consideration of ESG risks

EBS continues to adapt its credit risk management processes and policies to capture environmental, social, and governance ("ESG") risks. Key additional steps taken during the year included:

– The property valuation process was updated to obtain BER ratings where applicable, which will be captured in collateral valuations and recorded on the Group's systems going forward.
– A new Sustainable Lending Framework was introduced which categorises relevant lending activities as green/ transition for internal tracking and external disclosure purposes.

These enhancements are important building blocks in achieving our sustainability ambition of 70% of AIB Group's new lending to be green/transition lending by 2030, and also in increasingly understanding AIB Group's exposure to ESG risk.

EBS Risk Appetite Statement ('RAS')

EBS has its own RAS which is fully aligned with the AIB RAS. EBS's RAS sets the amount and types of risks that EBS is willing to take, accept, or tolerate in pursuit of its business objectives and strategy. 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.

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 RAS;
– 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.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Credit risk organisation and structure

EBS'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.

Internal credit ratings*

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which EBS is exposed through the initial credit approval and ongoing review process. All relevant exposures are assigned to a rating model and within that to an internal risk grade (rating). A grade is assigned on the basis of rating criteria within each rating model from which estimates of probability of default (PD) are derived.

Internal credit grades are fundamental in assessing the credit quality of loan exposures, and for assessing capital requirements for portfolios where prior regulatory approval has been received. Internal credit grades are key to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures. Changes in the objective information are reflected in the credit grade of the borrower/loan with the resultant grade influencing the management of individual loans. In line with EBS's credit management lifecycle, heightened credit management and special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/defaulted loans which are defined below.

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 AIB's Forbearance and Definition of Default and Credit Impairment policies.

Masterscale grades are driven by grading model appropriate PDs combined with other asset quality indicators such as default, forbearance and arrears in order to provide EBS 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. Pages 36 and 37 sets out the profile of EBS's loan portfolio under each of the above grade categories.

In addition to the internal credit ratings, 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 20 to 31.

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 or equal to 0.99% 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)*

Non-performing/default

EBS's definition of default is 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) which are no longer classified as credit impaired but continue to be classified as non-performing and in default. This alignment ensures consistency with EBS's internal credit risk management and assessment practices.

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 borrower to be unlikely to pay their loans in full without realisation of collateral, regardless of the existence of any past-due amount; or
– The borrower is 90 days or more past due on any material loan. Day count starts when any material amount of principal, interest or fee has not been paid by a borrower on the due date.

EBS's definition of financial distress and forbearance are included in the AIB's Forbearance policy. Identification of non-performing exposures ('NPEs') and unlikeliness to pay are included in AIB's Definition of Default and Credit Impairment policy.

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 by stage and expected credit loss P&L drivers.

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.

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. Further details on forbearance are set out on page 47.

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 and/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.

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit exposure
Credit risk mitigants* *(continued)*
Collateral
Credit risk mitigation may include a requirement to obtain collateral as set out in AIB'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. AIB maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are:
– Mortgage / legal charge 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
Details on the methodologies applied and processes used to assess the value of property assets taken as collateral are described in AIB's Property Valuation Policy and Property Valuation Guidance. Both documents were reviewed and updated in 2021 due to changes required under the EBA Guidelines on Loan Origination and Monitoring which came into effect on 1 July 2021. Due to the COVID-19 pandemic AIB has updated property valuation guidance policies to assist case managers in determining market values given current COVID-19 related market uncertainty on impacted sectors.

As residential and commercial mortgage loans comprise of all 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 employs 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. 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 CSO Residential Property Price index in the Republic of Ireland may be used.

* Forms an integral part of the audited financial statements

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 Property Valuation Policy, has resulted in an appropriate 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.

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 32.

Loans and advances to customers - residential mortgages

The following tables show the estimated fair value of collateral held for residential mortgages at 31 December 2021 and 2020:

					2021
	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%	4,143	240	183	26	4,592
50% - 70%	3,344	221	113	31	3,709
71% - 80%	1,432	69	38	12	1,551
81% - 90%	380	31	23	8	442
91% - 100%	56	11	31	1	99
	9,355	572	388	78	10,393
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	23	8	6	—	37
Total collateral value	9,378	580	394	78	10,430
Gross residential mortgages	9,392	583	395	82	10,452
ECL allowance	(16)	(22)	(108)	(23)	(169)
Carrying value residential mortgages	9,376	561	287	59	10,283

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

* Forms an integral part of the audited financial statements

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

					2020
	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%	3,154	178	353	21	3,706
50% - 70%	3,210	251	215	45	3,721
71% - 80%	1,387	99	93	25	1,604
81% - 90%	1,333	70	57	22	1,482
91% - 100%	343	49	73	17	482
	9,427	647	791	130	10,995
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	66	26	66	7	165
Total collateral value	9,493	673	857	137	11,160
Gross residential mortgages	9,504	677	873	142	11,196
ECL allowance	(14)	(35)	(326)	(53)	(428)
Carrying value residential mortgages	9,490	642	547	89	10,768

[1] The value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at 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 2021 and 2020 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 2021 amounted to €19m (2020: €1m) and those with a negative fair value are reported as liabilities which at 31 December 2021 amounted to €7m (2020: €21m).

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements*

Introduction

AIB Group has set out the methodologies used and judgements exercised in determining its ECL allowance for the year to 31 December 2021.

AIB Group, in estimating its ECL allowance does so in line with the expected credit loss impairment model as set out by the International Financial Reporting Standard 9 *Financial Instruments* ('the standard'). This model requires a timely recognition of ECL across AIB Group. The standard does not prescribe specific approaches to be used in estimating ECL allowance, 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 and forward looking – 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 Purchased and Originated Credit Impaired ("POCI"); and
- 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 the standard as the weighted average of credit losses across multiple macroeconomic scenarios, with weights assigned based on the probability of each scenario occurring 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 impact on credit risk parameters.

Measurement bases

Under the standard, 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 ('CRAO')

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 irrevocable 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 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

AIB 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 origination lifetime probability of default ('LTPD') (see 'Credit risk at origination') to its current estimated 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. EBS has determined that an account had met the quantitative measure if the average residual LTPD at the reporting date was at least double the average residual LTPD at origination, and the difference between the LTPDs was at least 85bps. The appropriateness of this threshold is kept under review by EBS.

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. As a result of COVID-19 a suite of additional guidance documents to support identification of significant increase in credit risk have been applied by EBS. This guidance supplements AIB's existing credit risk policies and frameworks.

The qualitative 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 loans 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 borrowers (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 borrower exits Stage 3 subject to probation period in line with regulatory requirements.

The key criteria resulting in a classification of default are:

- Where EBS considers a borrower to be unlikely to pay their loans in full without realisation of collateral, regardless of the existence of any past-due amount; or
- The borrower is 90 days or more past due on any material loan (count starts when any amount of principal, interest or fee has not been paid by a borrower at the date it was due).

Identification of non-performing exposures and unlikeliness to pay are included in AIB's Definition of Default and Credit Impairment policy.

* Forms an integral part of the audited financial statements

3.1 Credit risk
Measurement, methodologies and judgements* ***(continued)***
Purchased or originated credit impaired ('POCI')
POCIs are assets originated credit impaired that have a discount of more than or equal to 5% of the contractual value when measured at fair value. 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. EBS's IFRS 9 models have been developed and approved in line with AIB's Model Risk Management 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 any relevant 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 2021 year end ECL estimates are outlined on pages 30 to 31.

Effective interest rate ('EIR')
The ECL must incorporate the time value of money discounted to the reporting date using the 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 debt securities investment 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 allocated to as Stage 2.

Credit risk models
Probability of default ('PD')
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 15, along with key factors such as 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 ('LGD')
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 relevant costs expected to be incurred in the recovery process. If an account returns to performing from default (excluding 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 ('EAD')
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 macroeconomic 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 may 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. When the following criteria exist, the loan can be subject to a partial or full write-off:

– A decision has been taken to enforce on a loan, due to no agreement with the customer for a restructure / settlement, all Customer engagement with EBS regarding their loan agreement has ceased.
– Inception of formal insolvency proceedings or receivership/other formal recovery action.
– Receivership or other formal recovery action (e.g. where expectation of recovery of collateral is expected through enforcement activity but no additional recoveries above the collateral value are anticipated) has commenced or is about to commence; and
– A loan is substantially provided for or no material repayments have been received for a period of time (minimum 12 months) and all customer engagement with EBS regarding their loan agreement has ceased.

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 page 47 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 45 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 macroeconomic scenarios used by EBS for ECL allowance calculations are subject to EBS’s governance process covering the development and approval of macroeconomic scenarios for planning and stress testing. The economic scenarios and attached probabilities are reviewed by the AIB Group Asset and Liability Committee ('ALCo') regularly, and such reviews took place frequently during 2021 in response to economic developments. The scenarios are then reviewed and approved by the EBS Board and approved for use by the AIB Board. The scenario probabilities are approved by the EBS Audit Committee and by AIB Board Audit Committee ('BAC'). The parameters used within EBS’s ECL models include macroeconomic factors which are established as drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each scenario based on a combination of these identified macroeconomic factors. The 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.

Macroeconomic scenarios:

The COVID-19 pandemic is the main risk to the short-term economic outlook during the reporting period. The Irish economy was more robust than expected in 2021, supported by a strong vaccine roll-out campaign. However, the emergence of new variants of the virus during 2021 continue to have negative impacts on economic activity and employment levels. As part of the process of preparing the ECL calculation, a number of plausible scenarios were considered, as at the reporting date, which reflected a reasonable range of prevailing risks and uncertainties including inter alia possible trajectories for the public health crisis as well as for inflation that might trigger a future economic downturn. In total, four scenarios have been used in the ECL calculation. These four scenarios consist of a Base case scenario, along with three alternative scenarios (comprising one upside, one relatively mild downside scenario that considers unexpected prevalence of the virus and a more severe downside arising from persistently high inflation) with the consequent economic impacts. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

AIB's Economic Research Unit ('ERU') provide the scenario forecasts over five years. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the AIB Group Risk function. The Base case is benchmarked against the outlook available from official sources (e.g. ECB, Central Bank of Ireland, Department of Finance, ESRI, IMF, etc.) to ensure it is appropriate. Upside and downside scenarios, relative to the Base case, are provided to ensure a reasonable range of possible outcomes is available for the IFRS 9 process. These scenarios are benchmarked to alternative scenarios from official sources, where possible. The longer-term economic projections beyond five years are sourced from a reputable external provider with the internal 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 kept under review by the AIB Group ALCo and approved by the AIB Group Board.

The scenarios used for the year end process are described below and reflect the views of EBS at the reporting date.

Base case: The scenario assumes that, with the rapid and successful roll-out of Covid vaccines and the supportive role of fiscal and monetary policies, the outlook for the global economy improves.

Very strong growth in economic activity is anticipated in most economies, including Ireland, during 2022. The surge in GDP growth in Ireland reverts to a more normal pace from 2023 onwards. In this scenario, Irish economic activity (as measured by modified domestic demand) returns to pre-pandemic levels of activity by the second half of 2021.

The rise in unemployment has been mitigated by government income supports and furlough arrangements (i.e. the Pandemic Unemployment Payments and Employment Wage Subsidy Scheme). Our projection for the unemployment rate estimates what this rate would be in the absence of such support measures. This estimate is conservative relative to the range provided by the traditional unemployment rate and the Covid-adjusted unemployment rate (which includes recipients of temporary pandemic unemployment payments) published by the Central Statistics Office. In this scenario, unemployment remains relatively high only reverting to a pre-pandemic 'norm' by the first quarter of 2024.

House prices performed much better than expected in 2021 in Ireland with supply shortages in the housing market exacerbated by the pandemic. Prices are forecast to rise by an average 8% in 2022.

Downside 1 ('Lower growth in 2022'): This scenario assumes that the speed of vaccine production and deployment does not prove fast enough to stop transmission of the virus and emergence of new vaccine resistant variants. Economic activity is slower to recover as a result of the re-introduction of some containment measures during 2022 with business and consumer confidence impacted as uncertainty remains high. Economic growth, as measured by GDP, is two percentage points lower in 2022 and the additional scarring effects from this results in economic activity being 2.3% lower relative to the Base case over the 2022-2026 period.

Irish unemployment rises from 9% at end 2021 to 12% in the first quarter of 2023, before starting to decline. The average rate of unemployment, however, is assumed to be 2.5 percentage points higher than in the Base case in 2026.

House prices in Ireland are c.7% lower than in the base case by end 2026.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

Downside 2 ('High persistent inflation'): In this scenario, we assume that the rise in inflation in 2021 does not prove temporary with wage inflation picking up sharply, the rate of increase in the consumer price index remains elevated in 2022, with growing risks to price stability over the medium-term. Central banks are required to tighten policy aggressively during 2022, bringing to an end Quantitative Easing and hiking official rates significantly. This has very negative consequences for financial markets and the global economy. The policy stance begins to loosen in 2023 as inflation eases somewhat. This results in a marked deceleration in GDP growth over 2022-2024, with cumulative Irish GDP growth over 2022-2026 being 5.7% lower than in the Base case.

Irish unemployment rises sharply to 14.5% by Q1 2023 and remains high over the forecast period, still averaging in excess of 11% in 2025 and 9.5% in 2026., The average rate of unemployment over the 2022 to 2026 scenario horizon is 6.2 percentage points higher than in the Base case. With the Irish economy in recession, there is a very large fall in residential property prices (by c.18%) between 2022 to 2024 and values are 23% lower than the base by end 2026.

Upside ('Quick economic recovery'): This scenario reflects a much quicker economic recovery than outlined in the Base case. The key trigger for this are advances in therapeutic measures against the virus, including a rapid and successful roll out of a vaccine. While unemployment remains elevated relative to pre-Covid levels in the short term, in 2024 it averages 4.4% (well below the pre-pandemic 2019 average of 5%). Under this scenario, house prices also return more quickly as demand continues to be robust. By end-2026, house prices are c.10.5% higher than in the Base case.

The table below sets out the 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 1, (iii) Downside 2 and (iv) Upside scenarios at 31 December 2021 (average over 2022-2026) and at 31 December 2020 (average over 2021-2025).

	December 2021 5 year (2022-2026) average forecast				December 2020 5 year average forecast			
Macroeconomic factor (%)	**Base**	**Downside ('Lower growth in 2022')**	**Downside ('Persistent high inflation')**	**Upside ('Quick economic recovery')**	Base	Downside ('Lower growth in 2021')	Downside ('Extended high un-employment')	Upside ('Quick economic recovery')
Republic of Ireland								
GDP growth	**3.8**	**3.4**	**2.6**	**4.5**	3.7	3.0	2.0	4.4
Residential property price growth	**2.9**	**1.4**	**(2.1)**	**5.0**	1.7	0.8	(3.6)	3.4
Unemployment rate	**5.7**	**9.7**	**11.9**	**4.8**	7.2	8.9	11.9	6.6
Employment growth	**2.6**	**2.0**	**1.4**	**2.9**	2.3	1.9	1.0	2.5
Average disposable income growth	**3.5**	**2.6**	**1.8**	**3.8**	1.8	1.4	1.3	2.5
Inflation	**1.7**	**1.3**	**2.4**	**2.2**	1.1	1.0	0.9	1.4

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, as at 31 December 2021. This is because, due to the increased variability as a result of COVID-19, the average for the five years 2022 -2026 above does not provide additional insight for each factor across the impacted years.

	Estimate	Base					Downside 1 ('Lower growth in 2022')				
Macroeconomic factor	2021 %	2022 %	2023 %	2024 %	2025 %	2026 %	2022 %	2023 %	2024 %	2025 %	2026 %
Republic of Ireland											
GDP growth	14.0	6.0	4.0	3.4	3.0	2.8	4.0	2.3	3.0	3.5	4.0
Residential property price growth	12.0	4.0	3.0	3.0	2.5	2.0	(3.5)	—	5.0	3.0	2.5
Unemployment rate	10.4	7.2	6.0	5.3	5.0	4.8	11.2	11.4	9.8	8.6	7.3
Employment growth	1.1	4.9	2.6	2.2	1.8	1.7	1.0	1.0	2.9	2.6	2.7
Average disposable income growth	2.5	2.0	3.5	4.0	4.0	4.0	—	2.5	3.0	3.5	4.0
Inflation	2.2	2.7	1.5	1.5	1.5	1.5	1.5	1.2	1.2	1.3	1.4

	Downside 2 ('Persistent high inflation')					Upside 1 ('Quick economic recovery')				
Macroeconomic factor	2022 %	2023 %	2024 %	2025 %	2026 %	2022 %	2023 %	2024 %	2025 %	2026 %
Republic of Ireland										
GDP growth	2.5	1.0	2.4	3.3	4.0	7.5	5.0	4.0	3.0	2.8
Residential property price growth	(6.0)	(12.5)	—	4.0	4.0	7.0	6.0	5.0	4.0	3.0
Unemployment rate	12.5	14.0	12.6	11.1	9.5	6.7	5.2	4.4	4.0	3.9
Employment growth	(0.7)	(0.8)	2.7	2.8	3.0	5.4	3.0	2.4	2.0	1.8
Average disposable income growth	1.0	(0.5)	2.0	2.8	3.5	2.7	3.7	4.1	4.3	4.1
Inflation	4.0	3.2	2.0	1.4	1.2	3.2	2.0	2.0	2.0	2.0

The key changes to the scenario forecasts in the reporting period are driven by the COVID-19 pandemic. The extent of contagion and the wider economic impact of COVID-19 gave rise to elevated uncertainty regarding the outlook and possible outcomes at the previous reporting period (31 December 2020). The disruption to economic activity brought about by a series of public health measures designed to limit social mobility, and subsequent recoveries following the lifting of these restrictions, also resulted in a significant re-assessment of the outlook and balance of risks during 2021.

The four scenarios detailed above are used to reflect a representative sample of possible outcomes. The ECL allowance reflects a weighted average of the credit loss estimates under the four scenarios.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the ERU, with a review and challenge from the AIB Group Risk function. These are reviewed regularly at AIB ALCo and are subject to approval at AIB BAC. 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 where possible. Given the unprecedented nature and impact of COVID-19, the standard quantitative approaches (such as statistical distribution analysis of Irish GDP growth over different time horizons informed by historic patterns in the economic data) used to assess scenario likelihoods are less useful than normal in this environment. As a result, they have not been a key driver of the weightings at the reporting date

These weightings are reviewed regularly by AIB ALCo and adjusted where required. The key drivers of the weightings at the reporting date are:

- The higher weighting on the downside scenarios (versus the upside scenario) reflects AIB Group's view that risks remain skewed to the downside due to rising Covid cases and the spread of a new variant which was a cause for concern; rising inflationary pressures, continuing disruptions to supply chains and labour shortages that impede the pace of activity and raise the potential for greater than expected economic scarring. Additionally, other risks remain which also support AIB Group's view that risks have become somewhat tilted to the downside. These include the risk that government supports to businesses and households may be delaying, but not preventing, future defaults and bankruptcies. There are also rising tensions between the UK and the EU relating to Brexit and the Northern Ireland protocol. In addition, excess savings built up during the pandemic may be retained for precautionary motives, rather than spent, impacting on economic growth.
- The weightings also consider the fact that unemployment is trending lower than expected in many economies, with little evidence yet of major scarring in labour markets from the pandemic. House prices are performing better than anticipated. Meanwhile, a much greater than expected rundown of private sector savings in the next couple of years could fuel stronger than anticipated growth, especially given the extent of pent-up consumer demand.
- Risks were adjudged to be evenly balanced at June 2021 (the weighting assigned to downside risks was 25% while the upside scenario weight was also 25%). In the final quarter of 2021, however, the AIB Group view was that the balance of risks had tilted more to the downside due to the above mentioned developments.

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

Scenario	Weighting 31 December 2021		Weighting 31 December 2020
Base	**50%**	Base	50%
Downside 1 ('Lower growth in 2022')	**25%**	Downside 1 ('Lower growth in 2021')	25%
Downside 2 ('Persistent high inflation')	**5%**	Downside 2 ('Extended high unemployment')	5%
Upside ('Quick economic recovery')	**20%**	Upside ('Quick economic recovery')	20%

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 that include changes in model parameters and quantitative 'significant increase in credit risk' ("SICR") staging assignment.

* 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 'Lower growth in 2022' and 'persistent high inflation' scenario, the ECL allowance increases by 4% and 13% respectively. In the 100% upside scenario, the ECL allowance declines by 1%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2021, a 100% downside 'Lower growth in 2022 and 'persistent high inflation' scenarios sees a higher ECL allowance sensitivity of €7m and €23m respectively compared to base (€5m and €21m respectively compared to reported).

	ECL allowance at 31 December 2021				
	Reported	**100% Base**	**100% Downside Scenario ('Lower growth in 2022')**	**100% Downside Scenario ('Persistent high inflation')**	**100% Upside Scenario ('Quick economic recovery')**
	Total	**Total**	**Total**	**Total**	**Total**
Loans and advances to customers	**€m**	**€m**	**€m**	**€m**	**€m**
Residential mortgages	**169**	**167**	**174**	**189**	**165**
Property and construction	**16**	**16**	**16**	**17**	**16**
Total	**185**	**183**	**190**	**206**	**181**
Off-balance sheet loan commitments	**—**	**—**	**—**	**—**	**—**
	185	**183**	**190**	**206**	**181**

	ECL allowance at 31 December 2020				
	Reported	100% Base	100% Downside Scenario ('Lower growth in 2021')	100% Downside Scenario ('Extended high unemployment')	100% Upside Scenario ('Quick economic recovery')
	Total	Total	Total	Total	Total
Loans and advances to customers	€m	€m	€m	€m	€m
Residential mortgages	428	424	439	488	413
Property and construction	19	19	19	20	18
Total	447	443	458	508	431
Off-balance sheet loan commitments	—	—	—	—	—
	447	443	458	508	431

* Forms an integral part of the audited financial statements

3.1 Credit risk

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

Management judgements

Post model adjustments (PMAs) are applied where management believe that they are necessary to ensure an adequate level of overall ECL provision and to address known model limitations and/or emerging trends. All PMAs are approved under the ECL governance process through which, the completeness and accuracy of post model adjustments are considered against the backdrop of the risk profile of the loan book, recent loss history, changes in underlying resolution strategies not captured in the models, and where key uncertainties exist such as COVID-19.

The PMAs approved for year end 2021 (and 2020 comparison), are set out below and categorised as follows:

- NPE resolution strategy – ECL adjustments where the model does not take into account alternative strategies such as portfolio sales.
- Uncertainty due to the impact of COVID-19 – ECL adjustments are required as the modelled probability of default did not reflect the uncertainties associated with the impact of COVID-19. Management determined that increased ECL was required, until further information on the impact of COVID-19 became known, particularly in relation to the withdrawal of government support programmes.
- Macroeconomic factors – ECL adjustments reflecting the changed impact of certain macroeconomic factors primarily as a result of the alternative recovery strategies now being adopted.
- Other – ECL adjustments where it was judged that amendment to the modelled ECL was required.

			2021
	Residential mortgages	**Commercial mortgages**	**Total**
Management Judgements	**€m**	**€m**	**€m**
NPE resolution strategy	**86**	**4**	**90**
Uncertainty due to the impact of COVID-19	**8**	**—**	**8**
Macroeconomic factors	**14**	**—**	**14**
Other	**1**	**—**	**1**
	109	**4**	**113**

			2020
	Residential mortgages	Commercial mortgages	Total
Management Judgements	€m	€m	€m
NPE resolution strategy	247	—	247
Uncertainty due to the impact of COVID-19	5	—	5
Macroeconomic factors	—	—	—
Other	5	—	5
	257	—	257

NPE resolution strategy

Similar to 2020, an ECL adjustment exists for those assets where it is expected that a portfolio sale or other alternative strategies may be adopted and which are not included within the current IFRS 9 models. LGD models are based on empirical internal data assuming business as usual resolution. Given that the models do not account for portfolio sale outcomes, post model adjustments have been applied to reflect the potential outcomes, pending model redevelopment.

This post model adjustment relates to mortgages which have been classified as non-performing for a considerable length of time. In the second half of 2021, an additional cohort of unresolved longer-dated non-performing mortgages have also been included in scope for potential portfolio sales.

The ECL PMA stock has reduced from €247m at 31 December 2020 to €90m at 31 December 2021 primarily reflecting portfolio sales during 2021, however a new ECL PMA of €8m was required for additional exposures identified in the second half of 2021 as requiring increases to the LGD component of the modelled outcome to reflect the expected resolution strategy. The PMA is underpinned by an independent external benchmark exercise and a range of outcomes specific to collateral values underpinning the loans, market conditions and prior loan sale outcomes.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Management judgements

Uncertainty due to the impact of COVID-19

Similar to 2020, an €8m ECL adjustment has been taken in 2021 to reflect the risk of COVID-19 particularly where the borrower is either in receipt of ongoing government supports or the supports have been withdrawn for less than 3 months. The post model adjustment ensures a Stage 2 ECL cover is applied for these Stage 1 borrowers in recognition of the increased risk.

Macroeconomic factors

An ECL adjustment has been applied to reflect limitations within the mortgage model relating to two parameters, the house price index (HPI) growth and employment growth. This is to ensure that the ECL remains appropriate for the underlying portfolio acknowledging the limitations within the model.

The HPI index parameter, which assumes growth over the long term, has reduced the LGD arising in business as usual resolution strategies impacting ECL cover on Stage 1, Stage 2 and Stage 3 loans (not covered by NPE resolution strategy adjustment above). An adjustment has been made to reflect the Group's potential alternative recovery strategies for the impacted loans that are or become credit impaired.

Furthermore, due to the impact COVID-19, the employment growth rate parameter within the model had a temporary spike resulting in a reduction of the ECL allowance. This is expected to be a temporary event due to COVID-19 and the ECL was adjusted to reflect a more appropriate level of expected loss outcome. These adjustments amount to €14m (Stage 1 €4m, Stage 2 €4m and Stage 3 €6m).

Other

This relates to a cohort of non-defaulted lifetime interest only mortgages which were identified for individual assessment to confirm likeliness to pay. At 31 December 2021, the assessment for €34m of this cohort is pending and as a result these have been allocated to Stage 2 reflecting management's qualitative judgement of a significant increase in credit risk given the additional end of term risk not fully incorporated into the modelled outcomes. This adjustment amounted to €1m.

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 2021 were:
- Model Risk Committee;
- Assets and Liabilities Committee;
- Business level ECL Committees;
- Group Credit Committee; and
- Board Audit Committee.

For ECL governance, EBS's 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 reclassification approaches described above, coupled with internal and external data provided on both short term and long-term economic outlook. Business segments and EBS 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 and subsidiaries is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then subject to approval at individual business unit level (ECL Committee), which also includes subsidiaries, prior to onward submission to the GCC. GCC reviews and challenges ECL levels prior to recommendation to the Board Audit Committee as the final approval authority.

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

* Forms an integral part of the audited financial statements

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 2021 and 2020:

			2021			2020
	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	**448**	**—**	**448**	347	—	347
Derivative financial instruments	**—**	**19**	**19**	—	1	1
Loans and advances to banks	**345**	**—**	**345**	152	—	152
Loans and advances to customers	**10,323**	**—**	**10,323**	10,811	—	10,811
Included elsewhere:						
Accrued interest	**1**	**—**	**1**	1	—	1
Other assets	**124**	**—**	**124**	15	—	15
	11,241	**19**	**11,260**	11,326	1	11,327
Off balance sheet loan commitments [(3)]	**392**	**—**	**392**	228	—	228
Maximum exposure to credit risk	**11,633**	**19**	**11,652**	11,554	1	11,555

[(1)]All amortised cost items are loans and advances 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 2021 and 2020:

	2021*				2020*			
	Statement of financial position			Income statement	Statement of financial position			Income statement
	Exposure	ECL allowance	Carrying amount	Net credit impairment writeback/ (charge)	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to banks	**345**	**—**	**345**	**—**	152	—	152	—
Loans and advances to customers:	**10,508**	**(185)**	**10,323**	**57**	11,258	(447)	10,811	(171)
Loan commitments	**392**	**—**	**392**	**—**	228	—	228	—
Total				**57**				(171)

There was a €57m net credit impairment writeback in the year (2020: €171m charge). This comprised of a €57m writeback on loans and advances to customers (net remeasurement of ECL allowance writeback of €50m and recoveries of amounts previously written-off of €7m) and an immaterial amount for off-balance sheet exposures. (2020: €171m charge, (net remeasurement €187m offset by recoveries of €16m) and an immaterial amount for off-balance sheet exposures).

There were two key components which contributed to the net remeasurement of ECL allowance writeback of €50m.

There was a €27m writeback comprising of a €36m ECL writeback occurring within stage driven by improvements in credit quality, offset by a charge of €10m due to net stage movements arising from credit deteriorations and flows to Stage 3 default. The residual €1m writeback is driven by the ECL releases from full redemptions.

Updated macroeconomic scenarios and weightings applied during 2021 resulted in a €23m writeback, which was due to improvements in the macroeconomic outlook. The ECL allowance movements are outlined on pages 44 and 45.

Recoveries of amounts previously written-off amounted to €7m in 2021 (2020: €16m).

Further details on the net credit impairment charge in the year to 31 December 2021 are set out on page 107.

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio

The following table analyses the loan portfolio by ECL staging at 31 December 2021 and 2020:

Amortised cost			**2021**			2020
	Residential mortgages	**Commercial mortgages**	**Total**	Residential mortgages	Commercial mortgages	Total
Gross loans and advances to customers	**€m**	**€m**	**€m**	€m	€m	€m
Total gross carrying amount	**10,452**	**56**	**10,508**	11,196	62	11,258
Analysed as to ECL staging						
Stage 1	**9,392**	**9**	**9,401**	9,504	13	9,517
Stage 2	**583**	**16**	**599**	677	10	687
Stage 3	**395**	**31**	**426**	873	38	911
POCI	**82**	**—**	**82**	142	1	143
Total	**10,452**	**56**	**10,508**	11,196	62	11,258
ECL allowance - statement of financial position	**€m**	**€m**	**€m**	€m	€m	€m
Stage 1	**(16)**	**—**	**(16)**	(14)	—	(14)
Stage 2	**(22)**	**—**	**(22)**	(35)	—	(35)
Stage 3	**(108)**	**(16)**	**(124)**	(326)	(19)	(345)
POCI	**(23)**	**—**	**(23)**	(53)	—	(53)
Total ECL allowance	**(169)**	**(16)**	**(185)**	(428)	(19)	(447)
Carrying amount loans and advances	**10,283**	**40**	**10,323**	10,768	43	10,811
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**0.2**	**1.2**	**0.2**	0.1	—	0.2
Stage 2	**3.7**	**3.3**	**3.7**	5.2	—	5.1
Stage 3	**27.5**	**50.3**	**29.1**	37.3	46.8	37.8
POCI	**28.7**	**—**	**28.7**	37.3	—	37.5
Income statement	**€m**	**€m**	**€m**	€m	€m	€m
Net remeasurement of ECL allowance	**(52)**	**2**	**(50)**	180	7	187
Recoveries of amounts previously written-off	**(6)**	**(1)**	**(7)**	(16)	—	(16)
Net credit impairment charge/(writeback)	**(58)**	**1**	**(57)**	164	7	171
	%	**%**	**%**	%	%	%
Net credit impairment charge/(writeback) on average loans	**(0.54)**	**2.79**	**(0.53)**	1.45	11.78	1.50

3.1 Credit risk - Credit profile of the loan portfolio

Gross loans and advances to customers

Gross loans and advances to customers reduced by €750m in the year to 31 December 2021. The reduction was driven by redemptions net of interest credited of €1,252m, disposals of €516m, and write-offs / restructures of €13m. These reductions were offset against other miscellaneous movements of €55m and new lending activity of €975m in 2021 which was €157m higher than 2020.

Stage 3 loans decreased by €485m to €426m. The reduction was a result of disposals of €460m, write-offs / restructures of €12m, and redemptions/repayments of €68m.

ECL allowance

The ECL allowance on loans and advances to customers decreased by €262m to €185m in the year. €200m of this ECL reduction results from the sale of non-performing loan portfolios, with the residual €62m release primarily driven by a net income statement writeback of €50m and €13m from write-offs in the period. The ECL cover rate decreased from 4.0% at 31 December 2020 to 1.8% at 31 December 2021.

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 at 31 December 2021 and 2020:

Amortised cost					**2021***
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Total	**€m**	**€m**	**€m**	**€m**	**€m**
Strong	8,407	59	—	4	8,470
Satisfactory	834	84	—	1	919
Total	9,241	143	—	5	9,389
Criticised Watch	157	263	—	1	421
Criticised Recovery	2	193	—	20	215
Total	159	456	—	21	636
Non Performing	1	—	426	56	483
Gross carrying amount	9,401	599	426	82	10,508
ECL allowance	(16)	(22)	(124)	(23)	(185)
Total carrying amount	9,385	577	302	59	10,323

Analysis by asset class

Residential mortgages					
Strong	8,407	59	—	4	8,470
Satisfactory	834	74	—	1	909
Total	9,241	133	—	5	9,379
Criticised Watch	148	259	—	1	408
Criticised Recovery	2	191	—	20	213
Total	150	450	—	21	621
Non Performing	1	—	395	56	452
Gross carrying amount	9,392	583	395	82	10,452
ECL allowance	(16)	(22)	(108)	(23)	(169)
Total carrying amount	9,376	561	287	59	10,283

Commercial mortgages					
Strong	—	—	—	—	—
Satisfactory	—	10	—	—	10
Total	—	10	—	—	10
Criticised Watch	9	4	—	—	13
Criticised Recovery	—	2	—	—	2
Total	9	6	—	—	15
Non Performing	—	—	31	—	31
Gross carrying amount	9	16	31	—	56
ECL allowance	—	—	(16)	—	(16)
Total carrying amount	9	16	15	—	40

* 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)*

Amortised cost					2020*
	Stage 1	Stage 2	Stage 3	POCI	Total
Total	€m	€m	€m	€m	€m
Strong	8,314	55	—	2	8,371
Satisfactory	985	86	—	1	1,072
Total	9,299	141	—	3	9,443
Criticised Watch	213	342	—	1	556
Criticised Recovery	5	204	—	2	211
Total	218	546	—	3	767
Non Performing	—	—	911	137	1,048
Gross carrying amount	9,517	687	911	143	11,258
ECL allowance	(14)	(35)	(345)	(53)	(447)
Total carrying amount	9,503	652	566	90	10,811

Analysis by asset class

Residential mortgages					
Strong	8,314	55	—	2	8,371
Satisfactory	985	85	—	1	1,071
Total	9,299	140	—	3	9,442
Criticised Watch	201	335	—	1	537
Criticised Recovery	4	202	—	2	208
Total	205	537	—	3	745
Non Performing	—	—	873	136	1,009
Gross carrying amount	9,504	677	873	142	11,196
ECL allowance	(14)	(35)	(326)	(53)	(428)
Total carrying amount	9,490	642	547	89	10,768

Commercial mortgages					
Strong	—	—	—	—	—
Satisfactory	—	1	—	—	1
Total	—	1	—	—	1
Criticised Watch	12	7	—	—	19
Criticised Recovery	1	2	—	—	3
Total	13	9	—	—	22
Non Performing	—	—	38	1	39
Gross carrying amount	13	10	38	1	62
ECL allowance	—	—	(19)	—	(19)
Total carrying amount	13	10	19	1	43

Of the total loans to customers of €10,508m, €9,389m or 89% are rated as either ‘strong’ or ‘satisfactory’ which is an reduction of €54m (2020: €9,443m or 84%). The ‘criticised’ classification includes ‘criticised watch’ of €421m and ‘criticised recovery’ of €215m, the total of which has decreased by €131m. Overall, the total performing book has reduced by €185m to €10,025m or 95% of gross loans and advances to customers (2020: €10,210m and 91%).

* 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 (€56m). Non-performing loans have reduced by €565m to €483m or 5% of gross loans and advances to customers (2020: €1,048m and 9%). This reduction reflects net underlying flow to non-performing loans of €76m during the year which was offset by €99m in net repayments.

Residential mortgages non-performing loans decreased from €1,009m at 31 December 2019 to €452m at 31 December 2020.

Commercial mortgages non-performing loans decreased by €8m to €31m at 31 December 2021.

Non-performing exposures ("NPE") to customers

The table below analyses non-performing loans and advances to customers by asset class and by time in default at 31 December 2021 and 2020:

			2021
	Residential mortgages	**Commercial mortgages**	**Total**
Non-performing loans	**€m**	**€m**	**€m**
Total non-performing loans and advances to customers at amortised cost	**452**	**31**	**483**
Non-performing loans as a % of total loans and advances to customers	**4.3 %**	**54.8 %**	**4.6 %**
ECL allowance as a % of total loans and advances to customers carried at amortised cost	**1.2 %**	**27.5 %**	**1.3 %**
Split of non-performing loans and advances by time in default			
Legacy / Pre 31 December 2018	***188***	***14***	***202***
Non Legacy / Post 31 December 2018	***264***	***17***	***281***
	452	***31***	***483***

			2020
	Residential mortgages	Commercial mortgages	Total
Non-performing loans	€m	€m	€m
Total non-performing loans and advances to customers at amortised cost	1,009	39	1,048
Non-performing loans as % of total loans and advances to customers	9.0 %	62.9 %	9.4 %
ECL allowance as a % of total loans and advances to customers carried at amortised cost	3.4 %	29.0 %	3.5 %

* Forms an integral part of the audited financial statements

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 2021 and 2020:

			2021*			2020*
	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	10,343	109	10,452	11,069	127	11,196
Analysed as to ECL staging						
Stage 1	9,344	48	9,392	9,450	54	9,504
Stage 2	558	25	583	644	33	677
Stage 3	361	34	395	833	40	873
POCI	80	2	82	141	1	142
Total	10,343	109	10,452	11,068	128	11,196
ECL allowance - statement of financial position	€m	€m	€m	€m	€m	€m
Stage 1	(16)	—	(16)	(14)	—	(14)
Stage 2	(21)	(1)	(22)	(30)	(5)	(35)
Stage 3	(95)	(13)	(108)	(309)	(17)	(326)
POCI	(22)	(1)	(23)	(53)	(1)	(54)
Total ECL allowance	(154)	(15)	(169)	(406)	(23)	(429)
Residential mortgages	10,189	94	10,283	10,662	105	10,767
ECL allowance cover percentage	%	%	%	%	%	%
Stage 1	0.2	0.2	0.2	0.1	—	0.1
Stage 2	3.7	4.1	3.8	4.7	15.2	5.2
Stage 3	26.5	37.6	27.6	37.1	42.5	37.3
POCI	28.1	54.9	28.7	37.6	100.0	37.0
Income statement	€m	€m	€m	€m	€m	€m
Net remeasurement of ECL allowance	(45)	(7)	(52)	162	18	180
Recoveries of amounts previously written-off	(5)	(1)	(6)	(15)	(1)	(16)
Net credit impairment charge/ (writeback)	(50)	(8)	(58)	147	17	164
	%	%	%	%	%	%
Net credit impairment charge/ (writeback) on average loans	(0.47)	(6.55)	(0.54)	1.32	11.71	1.45

* Forms an integral part of the audited financial statements

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 €10,452m at 31 December 2021 compared to €11,196m at 31 December 2020. 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 2021 were €975m. New lending in the 12 months to 31 December 2021 increased by 19% on the comparable period in 2020 driven by the favourable macroeconomic conditions.

Income statement
There was a net credit impairment writeback of €58m to the income statement for the year to 31 December 2021 compared to a net credit impairment charge of €164m for 2020. The ECL allowance cover level at 31 December 2021 is 2% (2020: 4%). For the Stage 3 element of the portfolio, €108m of ECLs are held providing cover of 28% (2020: €326m and 37% respectively).

Residential mortgage arrears
Total loans in arrears (including non-performing loans) by value decreased by 61% during the year to 31 December 2021, a decrease of 60% in the owner-occupier portfolio and an increase of 74% in the buy-to-let portfolio. The decrease in the buy-to-let arrears was driven by the portfolio sale of distressed loans.

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 2021 and 2020:

					2021*					2020*
	At amortised cost					At amortised cost				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Overall Total**	Stage 1	Stage 2	Stage 3	POCI	Overall Total
	€m	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m	€m
Less than 80%	**8,919**	**530**	**334**	**69**	**9,852**	7,752	528	661	91	9,032
81% - 100%	**437**	**42**	**53**	**10**	**542**	1,675	119	129	39	1,962
100% - 120%	**11**	**5**	**5**	**—**	**21**	59	24	47	7	137
Greater than 120%	**25**	**5**	**2**	**—**	**32**	18	5	31	1	55
Total LTVs	**9,392**	**582**	**394**	**79**	**10,447**	9,504	676	868	138	11,186
Unsecured	**—**	**1**	**1**	**3**	**5**		1	5	4	10
Total	**9,392**	**583**	**395**	**82**	**10,452**	9,504	677	873	142	11,196
Of which:										
Owner occupier										
Less than 80%	**8,874**	**511**	**321**	**69**	**9,775**	7,706	507	646	91	8,950
81-100%	**434**	**39**	**32**	**10**	**515**	1,667	113	106	39	1,925
100-120%	**11**	**3**	**5**	**—**	**19**	59	19	47	6	131
Greater than 120%	**25**	**5**	**2**	**—**	**32**	18	5	30	1	54
Total LTVs	**9,344**	**558**	**360**	**79**	**10,341**	9,450	644	829	137	11,060
Unsecured	**—**	**—**	**1**	**1**	**2**	—	—	4	4	8
Total	**9,344**	**558**	**361**	**80**	**10,343**	9,450	644	833	141	11,068

* 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 2021 and 2020 is set out below:

	2021		2020	
	Stock	**Balance outstanding €m**	Stock	Balance outstanding €m
Owner-occupier	**71**	**13**	330	80
Buy-to-let	**1**	**3**	3	1
Total	**72**	**16**	333	81

The stock of residential properties in possession decreased by 261 properties in 2021. This decrease relates to the disposal of 37 properties (2020: 65 properties) which were offset by the addition of 4 properties (2020: 26 properties), the majority of which were voluntary surrenders or abandonments. In addition, a further 228 properties were removed from the stock in 2021, mainly due to the sale of a portfolio of loans.

The disposal of 37 residential properties in the Republic of Ireland resulted in a total loss on disposal of €2m at 31 December 2021 (before ECL allowance) and compares to 2020 when 65 residential properties were disposed of resulting in a total loss of €8m. COVID-19 impacted the closing of sales in 2021. 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 2021 and 2020:

					2021
	Number of disposals	**Outstanding balance at repossession date**	**Gross sales proceeds on disposal**	**Costs to sell**	**Loss on sale [(1)]**
	€m	**€m**	**€m**	**€m**	**€m**
Owner-occupier	**37**	**8**	**7**	**1**	**2**

					2020
	Number of disposals	Outstanding balance at repossession date	Gross sales proceeds on disposal	Costs to sell	Loss on sale [(1)]
	€m	€m	€m	€m	€m
Owner-occupier	65	16	10	2	8

[(1)]Before ECL allowance.

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

Loans and advances to customers - Commercial mortgages

The following table analyses commercial property lending by ECL staging at 31 December 2021 and 2020:

	2021*	2020*
	Total	Total
Gross loans and advances to customers	**€m**	€m
Total gross carrying amount	**56**	62
Analysed as to ECL staging		
Stage 1	**9**	13
Stage 2	**16**	10
Stage 3	**31**	38
POCI	**—**	1
Total	**56**	62
ECL allowance - statement of financial position	**€m**	€m
Stage 1	**—**	—
Stage 2	**—**	—
Stage 3	**(16)**	(19)
POCI	**—**	—
Total ECL allowance	**(16)**	(19)
Commercial property	**40**	43
ECL allowance cover percentage	**%**	%
Stage 1	**1**	—
Stage 2	**3**	—
Stage 3	**50**	47
POCI	**—**	—
Income statement	**€m**	€m
Net remeasurement of ECL allowance	**1**	7
Recoveries of amounts previously written-off	**(1)**	—
Net credit impairment charge	**—**	7
	%	%
Net credit impairment charge on average loans	**2.79**	11.78

The portfolio reduced by €6m or 10% during the year to 31 December 2021.

There was a net credit impairment charge of nil to the income statement for the year to 31 December 2021.

The portfolio held €16m of ECL allowances which provide ECL allowance cover of 29%. For the Stage 3 portfolio, the ECL allowance cover is 50% (2020: €19m, 31% and 47% respectively).

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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 2021 and 2020.

Amounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 21) 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

					2021*
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**9,517**	**687**	**911**	**143**	**11,258**
Transferred from Stage 1 to Stage 2	**(483)**	**483**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**499**	**(499)**	**—**	**—**	**—**
Transferred to Stage 3	**(17)**	**(104)**	**121**	**—**	**—**
Transferred from Stage 3	**11**	**68**	**(79)**	**—**	**—**
New loans originated/top-ups	**975**	**—**	**—**	**—**	**975**
Redemptions/repayments	**(1,364)**	**(85)**	**(68)**	**(11)**	**(1,528)**
Interest credited	**248**	**16**	**9**	**4**	**277**
Write-offs	**—**	**—**	**(12)**	**(1)**	**(13)**
Derecognised due to disposals	**—**	**(1)**	**(460)**	**(55)**	**(516)**
Exchange translation adjustments	**—**	**—**	**2**	**—**	**2**
Other movements	**15**	**34**	**2**	**2**	**53**
At 31 December	**9,401**	**599**	**426**	**82**	**10,508**

					2020*
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	9,596	838	929	148	11,511
Transferred from Stage 1 to Stage 2	(745)	745	—	—	—
Transferred from Stage 2 to Stage 1	768	(768)	—	—	—
Transferred to Stage 3	(10)	(168)	178	—	—
Transferred from Stage 3	14	89	(103)	—	—
New loans originated/top-ups	818	—	—	—	818
Redemptions/repayments	(1,201)	(80)	(85)	(11)	(1,377)
Interest credited	252	23	18	7	300
Write-offs	—	—	(25)	(2)	(27)
Exchange translation adjustments	—	(2)	—	—	(2)
Other movements	25	10	(1)	1	35
At 31 December	9,517	687	911	143	11,258

[(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

					2021*
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**14**	**35**	**345**	**53**	**447**
Transferred from Stage 1 to Stage 2	**(2)**	**17**	**—**	**—**	**15**
Transferred from Stage 2 to Stage 1	**3**	**(12)**	**—**	**—**	**(9)**
Transferred to Stage 3	**—**	**(6)**	**18**	**—**	**12**
Transferred from Stage 3	**1**	**4**	**(13)**	**—**	**(8)**
Net re-measurement	**(4)**	**(5)**	**(28)**	**1**	**(36)**
New loans originated/top-ups	**1**	**—**	**—**	**—**	**1**
Redemptions/repayments	**(1)**	**(1)**	**—**	**—**	**(2)**
Impact of model and overlay changes	**8**	**(3)**	**4**	**(9)**	**—**
Impact of credit or economic risk parameters	**(4)**	**(7)**	**(12)**	**—**	**(23)**
Income statement credit impairment charge	**2**	**(13)**	**(31)**	**(8)**	**(50)**
Write-offs	**—**	**—**	**(12)**	**(1)**	**(13)**
Derecognised due to disposals	**—**	**—**	**(179)**	**(21)**	**(200)**
Exchange translation adjustments	**—**	**—**	**1**	**—**	**1**
At 31 December	**16**	**22**	**124**	**23**	**185**

					2020*
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	4	30	229	24	287
Transferred from Stage 1 to Stage 2	(9)	35	—	—	26
Transferred from Stage 2 to Stage 1	12	(28)	—	—	(16)
Transferred to Stage 3	—	(15)	39	—	24
Transferred from Stage 3	1	5	(15)	—	(9)
Net re-measurement	(11)	(22)	3	—	(30)
Redemptions/repayments	(1)	(1)	—	—	(2)
Impact of model and overlay changes	3	4	91	26	124
Impact of credit or economic risk parameters	15	26	24	5	70
Income statement credit impairment charge	10	4	142	31	187
Write-offs	—	—	(25)	(2)	(27)
Other movements	—	1	(1)	—	—
At 31 December	14	35	345	53	447

Total exposures to which an ECL applies decreased during the year by €750m from €11,258m at 1 January 2021 to €10,508m at 31 December 2021.

* 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)*

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 €483m 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 85bps (50bps for the non-mortgage portfolio).

Similarly, transfers from Stage 2 to Stage 1 of €499m represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

Transfers from Stage 2 to Stage 3 of €104m represent those loans that defaulted during the year. These arose in cases where it was determined that the customers were unlikely to pay their loans 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 borrowers that are 90 days or more past due on a material obligation.

Transfers from Stage 3 to Stage 2 of €68m 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 €11m primarily reflect curing events from default where no forbearance measure was required.

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 €1m (2020: €4m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2021 amounted to €56m (2020: €376m).*

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

Stage 1 loans decreased by €116m in 2021 with an ECL of €16m and resulting cover of 0.20%. This reduction was primarily due to redemptions/repayments partially offset by an increase in new lending.

Stage 2 loans decreased by €88m in 2021 with an ECL of €22m and resulting cover of 3.70%. 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 €485m in 2021 with the ECL cover reducing from 37.80%% to 29.10%. The reduction is primarily due to disposals of €460m following the sales of non-performing mortgage portfolios completed in the year. The reduction in cover is again reflective of the sale of the higher cover non-performing loans with some underlying reduction in cover also arising due to improving macroeconomics.

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

Large Exposures

At 31 December 2021, EBS's top 50 exposures amounted to €93m, and accounted for 1% (€98m and 1% at 31 December 2020) of the on-balance sheet total gross loans and advances to customers. No single customer exposure exceeded regulatory limits which would require disclosure.

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.

			2021
	Cash and balances with Central Bank of Ireland	**Loans and advances to banks**	**Off balance sheet commitments**
	€m	**€m**	**€m**
Balance	**448**	**345**	**392**
	%	**%**	**%**
Aaa	**—**	**—**	**—**
Aa3 to Aa1	**—**	**—**	**—**
A3 to A1	**100**	**100**	**—**
Lower then A3	**—**	**—**	**—**
Unrated	**—**	**—**	**100**

			2020
	Cash and balances with Central Bank of Ireland	Loans and advances to banks	Off balance sheet commitments
	€m	€m	€m
Balance	347	152	228
	%	%	%
Aaa	—	—	—
Aa3 to Aa1	—	—	—
A3 to A1	100	100	—
Lower then A3	—	—	—
Unrated	—	—	100

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

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

EBS transacts derivatives for the purpose of reducing or eliminating Interest Rate Risk in the Banking Book ('IRRBB'). EBS uses interest rate swaps for this purpose. Treasury Assets are monitored on a daily basis.

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

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

Forbearance*

Forbearance occurs when a customer 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 customer. This also includes a total or partial refinancing of existing debt due to a customer availing of an embedded forbearance clause(s) in their contract. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to meet their loans to EBS in compliance with the existing agreed contracted terms and conditions. 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 AIB'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 customer's willingness to resolve such difficulties, and all relevant legal and regulatory obligations to ensure sustainable measures are put in place as appropriate.

AIB's 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 customers 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 an appropriate probation period has passed. Under the definition of forbearance, which complies with that prescribed by the European Banking Authority, facilities subject to forbearance measures remain in forbearance stock for a minimum period of two years from the date forbearance is granted regardless of the forbearance type.

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

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 ('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 temporary measures (such as interest only and capital and interest moratorium), this includes permanent forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty. This process may result in debt write-off, where appropriate. The types of existing permanent forbearance solutions currently include; arrears capitalisation, term extension, split mortgages, negative equity trade down and voluntary sale for loss.

Residential mortgages subject to forbearance measures decreased by €424m from €995m at 31 December 2020 to €571m at 31 December 2021. The decrease in the residential mortgages forbearance portfolio was due to the sales of non-performing mortgage portfolios completed during the year. EBS continues to closely monitor the residential mortgage portfolio for potential latent risk as the expiry of government support measures to support customers during COVID-19, may be delaying the realisation of forbearance and affordability issues.

* Forms an integral part of the audited financial statements

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 2021 and 2020:

	2021			2020		
	Residential mortgages	**Commercial mortgages**	**Total**	Residential mortgages	Commercial mortgages	Total
	€m	**€m**	**€m**	€m	€m	€m
Analysed by Forbearance type						
Temporary forbearance	**251**	**8**	**259** [1]	368	7	375 [1]
Permanent forbearance	**320**	**14**	**334** [2]	627	19	646 [2]
Total	**571**	**22**	**593**	995	26	1,021
Strong	**—**	**—**	**—**	—	—	—
Satisfactory	**—**	**—**	**—**	—	—	—
Total	**—**	**—**	**—**	—	—	—
Criticised Watch	**—**	**—**	**—**	—	—	—
Criticised Recovery	**214**	**2**	**216**	209	4	213
Total	**214**	**2**	**216**	209	4	213
Non-performing	**357**	**20**	**377**	786	22	808
Gross carrying amount	**571**	**22**	**593**	995	26	1,021
Analysed by ECL staging						
Stage 1	**3**	**—**	**3**	4	1	5
Stage 2	**192**	**2**	**194**	203	3	206
Stage 3	**300**	**20**	**320**	650	21	671
POCI	**76**	**—**	**76**	138	1	139
Total	**571**	**22**	**593**	995	26	1,021
Total gross carrying amount of loans and advances to customers	**10,452**	**56**	**10,508**	11,196	62	11,258

[1] Of which: interest only €243m (2020: €354m).
[2] Of which: arrears capitalisation and term extension €229m (2020: €424m) and low fixed interest rate €52m (2020: €109m).

3.2 Liquidity and funding 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, corporate or retail.

EBS's liquidity risk is managed as part of the overall AIB Group 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 Group liquidity risk management process. Under this centralised approach the management of liquidity and related activities for EBS is integrated with its parent, AIB, which is a wholly owned subsidiary of AIB Group

The means by which these liquidity management activities are performed, and the procedures by which AIB ensures EBS complies with the AIB Group Funding and Liquidity Risk Policy are managed through an MSA.

Identification and assessment

Liquidity and funding risk is identified and assessed by the EBS Material Risk Assessment ("MRA") process in support of the AIB Group Internal Liquidity Adequacy Assessment Process ("ILAAP"). The MRA process is a 'Top-Down' Assessment performed on at least an annual basis and identifies the key material risks to EBS, taking into account its strategic objectives, in addition to internal and external risk information.

The ILAAP is fully integrated and embedded in the strategic, financial and risk management processes of AIB Group. Embedding of the ILAAP is facilitated through the setting of risk appetite, liquidity and funding planning and the dynamic review thereof in light of key strategic decisions.

EBS adheres to AIB Group's comprehensive ILAAP Framework for managing liquidity risk and complying with the AIB Group and EBS Board's risk appetite as well as evolving regulatory standards. This is delivered through a combination of policy formation, governance, analysis, stress testing and limit setting and monitoring, and is part of the wider Risk Management Framework.

Management and measurement*

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. The ILAAP framework and supporting Funding and Liquidity risk policy set out the key requirements for managing the risk across AIB Group. These include:

- Adherence to both internal limits and regulatory defined liquidity ratios.
- The Group Funding and Liquidity Plan presents a multiyear projection of the Group's funding sources taking into account its baseline scenario, strategy and operational plans. The purpose of this Plan is to set out a comprehensive, forward looking liquidity and funding strategy for the Group including subsidiary companies.
- This is supplemented with the assessment of the funding plan under a range of adverse scenarios, the outcomes of which should ensure sufficient liquidity to implement a sustainable strategy even in a stressed environment.
- In addition to the Group Funding and Liquidity Plan, a Contingency Funding Plan is in place which identifies and quantifies actions which are available in deteriorating liquidity conditions and emerge from a temporary liquidity crisis as a credit worthy institution.
- A further set of triggers and liquidity options are set out in the Group Recovery Plan, which presents the actions available to restore viability in the event of extreme stress.

Monitoring, escalating and reporting

EBS's funding and liquidity position is reported on a regular basis to the EBS management team and Board. In addition, it is reported as part of the overall AIB Group position to the AIB Group Asset and Liability Committee ("ALCo"), the AIB Group Risk Committee ("GRC"), the AIB Group Executive Committee ("ExCo"), the AIB Group Board Risk Committee ("BRC") and the AIB Group Board.

On an annual basis, the AIB Group Board attests to the overall liquidity adequacy via the liquidity adequacy statement as part of ILAAP. The AIB Group's ILAAP encompasses all aspects of liquidity and funding management, including planning, analysis, stress testing, control, governance, policy and contingency planning. This document is submitted to the Joint Supervisory Team and forms the basis of their supervisory review and evaluation process.

* Forms an integral part of the audited financial statements

3.2 Liquidity and funding risk

Liquidity risk stress testing

Stress testing is a key component of AIB Group's ILAAP framework. EBS, as part of AIB Group, 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 AIB Group liquidity buffer and liquidity risk drivers. This estimates the potential impact of a range of stress scenarios on the AIB Group liquidity position including its available liquid assets and contingent liquidity. The purpose of these tests is to ensure the continued stability of the AIB Group liquidity position within pre-defined liquidity risk tolerance levels. Liquidity stress test results are reported to the AIB Group ALCo, AIB Group ExCo and AIB Group Board.

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 24% at 31 December 2021 (2020: 25%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Financial liabilities by undiscounted contractual maturity*

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2021 and 2020:

							2021
	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	**1,955**	**—**	**—**	**—**	**—**	**—**	**1,955**
Customer accounts	**5,246**	**92**	**78**	**187**	**—**	**—**	**5,603**
Securities financing	**—**	**2,382**	**—**	**—**	**—**	**—**	**2,382**
Derivative financial instruments	**—**	**—**	**—**	**—**	**—**	**7**	**7**
Other liabilities	**66**	**—**	**—**	**—**	**—**	**—**	**66**
Total	**7,267**	**2,474**	**78**	**187**	**—**	**7**	**10,013**
Off-balance sheet loan commitments	**392**	**—**	**—**	**—**	**—**	**—**	**392**

							2020
	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	1,781	—	—	—	—	—	1,781
Customer accounts	2,872	517	391	845	395	369	5,389
Securities financing	—	2,741	—	—	—	—	2,741
Derivative financial instruments	—	—	—	—	—	21	21
Subordinated liabilities	—	—	—	300	—	—	300
Other liabilities	55	—	—	—	—	—	55
Total	4,708	3,258	391	1,145	395	390	10,287
Off-balance sheet loan commitments	228	—	—	—	—	—	228

* Forms an integral part of the audited financial statements

3.2 Liquidity and funding risk

Analysis of Loans and advances to Customers by Interest Rate Sensitivity

The following table analyses gross loans to customers by interest rate sensitivity. Approximately 50% of the loan portfolio is provided on a fixed rate basis (2020: 42%). 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 within agreed policy parameters.

Group loans and advances to customers

	Fixed	Variable	Total
	€m	€m	€m
2021	**5,275**	**5,233**	**10,508**
2020	4,757	6,501	11,258

3.3 Capital adequacy risk*

Capital adequacy risk is the risk that EBS breaches or may breach regulatory capital ratios and internal targets, measured on a forward looking basis across a range of scenarios, including a severe but plausible stress.

An annual EBS material risk assessment is undertaken to determine the significant risks to which the Company is exposed, and ensure that these risks are being appropriately managed.

Capital adequacy risk for EBS is evaluated through the annual financial planning and internal capital adequacy assessment process ('ICAAP') processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the AIB Group. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using AIB Group's stress testing methodologies. The impact of changing regulatory requirements, changes in the risk profile of EBS's 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.

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 Company. Quarterly reporting of the risk profile including performance against risk appetite is presented to the EBS Board.

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 Group ALM for management, subject to review 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 Group ALM 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's strategic business plan.

IRRBB is the current or prospective risk to both the earnings and capital of EBS 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's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact EBS'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.

* Forms an integral part of the audited financial statements

3.4 Market risk

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)			
		2021		2020
		€m		€m
Banking book portfolio				
Average for the period	**- / +**	**2**	- / +	1
Maximum for the period	**- / +**	**7**	- / +	2
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 16 of the consolidated financial statements.

3.4 Market risk

Interest Rate Exposure and Sensitivity*

The net interest rate exposure of EBS at 31 December 2021 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	442	—	—	—	—	—	—	—	6	448
Loans and advances to banks	345	—	—	—	—	—	—	—	—	345
Loans and advances to customers	5,472	312	975	1,246	1,364	601	532	6	(185)	10,323
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	19	19
Other assets	—	—	—	—	—	—	—	—	409	409
Total assets	6,259	312	975	1,246	1,364	601	532	6	249	11,544
Liabilities										
Deposits by banks	1,955	—	—	—	—	—	—	—	—	1,955
Customer accounts	5,251	78	274	—	—	—	—	—	—	5,603
Securities financing	2,382	—	—	—	—	—	—	—	—	2,382
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	7	7
Retirement benefit liabilities	—	—	—	—	—	—	—	—	31	31
Other liabilities	—	—	—	—	—	—	—	—	163	163
Shareholders' equity	—	—	—	—	—	—	—	—	1,404	1,404
Total liabilities	9,588	78	274	—	—	—	—	—	1,605	11,545
Derivatives affecting interest rate sensitivity	(4,156)	100	225	1,485	1,190	676	480	—	—	—
Interest sensitivity gap	827	134	476	(239)	174	(75)	52	6	(1,356)	(1)
Cumulative interest sensitivity gap	827	961	1,437	1,198	1,372	1,297	1,349	1,355	(1)	(2)

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2021 would be circa -€14m/ €6m 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 2020 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	340	—	—	—	—	—	—	—	7	347
Loans and advances to banks	152	—	—	—	—	—	—	—	—	152
Loans and advances to customers	6,846	300	991	683	1,074	800	562	3	(448)	10,811
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	1	1
Other assets	—	—	—	—	—	—	—	—	357	357
Total assets	7,338	300	991	683	1,074	800	562	3	(83)	11,668
Liabilities										
Deposits by banks	1,781	—	—	—	—	—	—	—	—	1,781
Customer accounts	3,096	359	1,195	373	140	222	4	—	—	5,389
Securities financing	2,741	—	—	—	—	—	—	—	—	2,741
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	21	21
Retirement benefit liabilities	—	—	—	—	—	—	—	—	43	43
Subordinated liabilities	300	—	—	—	—	—	—	—	—	300
Other liabilities	—	—	—	—	—	—	—	—	133	133
Shareholders' equity	—	—	—	—	—	—	—	—	1,260	1,260
Total liabilities	7,918	359	1,195	373	140	222	4	—	1,457	11,668
Derivatives affecting interest rate sensitivity	(2,381)	(17)	25	557	795	555	466	0	—	—
Interest sensitivity gap	1,801	(42)	(229)	(247)	139	23	92	3	(1,540)	—
Cumulative interest sensitivity gap	1,801	1,759	1,530	1,283	1,422	1,445	1,537	1,540	—	—

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2020 would be circa -€1m/-€15m 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 £0.4m and USD nil foreign currency open positions at 31 December 2021 (2020: GBP £2.0m and USD $0.2m).

Interest rate benchmark reform

Authorities and regulators have been facilitating the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative Risk Free Rates (RFRs) by year ended 2021. In line with regulatory guidance and transformed market practice, SONIA (Sterling Overnight Index Average) has effectively replaced GBP LIBOR and SOFR (Secured Overnight Financing Rate) has been adopted to replace USD LIBOR in pricing new loans.

The transition not only impacted financial market participants, but also a small number of EBS's customers who had an IBOR referenced in their contract. IBORs were extensively embedded within EBS's processes, hence, the transformation had far reaching impacts in terms of pricing, operations, risk, accounting, data and technology infrastructure, along with potential conduct risk implications.

AIB established a bank-wide Interest Rate Benchmark Reform Transition Programme ("the Programme") with sponsorship from the Chief Financial Officer to manage the effort. The Programme spanned all business lines and had cross-functional support to ensure an orderly transition was achieved by the December 31 deadline. The Programme, which is formally concluding in Quarter 1 2022, oversaw the successful execution of all business readiness, technology, GBP LIBOR contract re-papering, customer communication and conduct activities.

AIB, including EBS and its subsidiaries, proactively engaged with its customer base and market counterparties to complete the repapering of substantially all LIBOR contracts by 31 December 2021, with a minimum number transitioning to synthetic LIBOR at that point. New RFR lending products have also been introduced and adopted across our key currencies. Following the conclusion of the formal Programme, residual IBOR transition activities will be undertaken by the relevant business and support functions under established procedures. EBS interest rate risk exposure is to EURIBOR and as such has no contracts or hedging in place that references LIBOR.

Details on the EBS's adoption of the "Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform" can be found in note 1 accounting policy 1.3.

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.

Operational risk is identified and assessed by the annual EBS material risk assessment which is a comprehensive annual top down process undertaken to determine the significant risks to which EBS is exposed to and ensure that these risks are being appropriately managed. Operational risk is also identified by the AIB Group's bottom up risk and control assessment, this process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and appropriate action is taken.

EBS undertakes an operational risk self-assessment which focuses on activities specific to EBS, 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 MSA. AIB Group's operational risk framework applies across all areas of AIB Group. A key focus of operational risk management in AIB 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.

Operational risk is measured through a series of EBS risk appetite metrics and key risk indicators monitored by the monthly EBS Executive Risk committee and reported quarterly to the EBS Board.

Operational risk events are identified and captured in the AIB Group's SHIELD system. These are escalated through a defined process depending on impact and severity. Root causes of events are determined, and action plans are implemented to ensure there are enhanced controls in place to keep customers and the business safe.

3.6 Regulatory compliance risk

Regulatory compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with principal laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities as outlined in its regulatory compliance universe. This includes the suite of Conduct of Business, Prudential, Data Protection and Financial Crime laws, codes and regulations.

The EBS material risk assessment and the AIB Group's risk and control assessment forms the basis for identifying the key elements of regulatory compliance risk. The AIB Group's Regulatory Compliance Risk Management Framework which applies to all entities in AIB Group, sets out the principles, roles and responsibilities, and governance arrangements and is supported by a number of key policies.

The upstream regulation team identifies and communicates new and/or amended regulations, within the regulatory compliance universe, to the relevant business area for impact assessment.

The key steps in upstream regulation risk management are:

- Upstream regulation team identifies regulatory compliance change through horizon scanning;
- Impact assessment is performed by the relevant business unit or stakeholder area to establish high level change, potential impact and timeframe for completion;
- Stakeholder engagement in the consultation process, including identification of business sponsors and communication of same to the relevant compliance relationship managers;
- If required, such as in the event of a policy or framework update as a result of impacting regulations, the regulatory gap analysis is performed and documented by the business unit;
- If required as a result of impacting regulations, a regulatory change project is established by the business unit with relevant impacted stakeholders. Impacted areas are required to review their procedures, policies and processes to ensure compliance with regulations by the implementation date;
- Regulatory compliance universe is updated as required as new regulation is launched which sits in the regulatory compliance universe. The horizon is monitored to capture any updates required.
- Regulatory interpretations are drafted and managed by the regulation/article owner, with second line review and challenge completed by the compliance advisory team.

The Regulatory and Conduct Risk Committee (RCR) is the forum that provides risk oversight of regulatory and conduct risks. AIB Group Compliance Advisory establish written guidance to staff on the appropriate implementation of relevant laws, rules and standards through relevant regulatory compliance policies and supports the business units in understanding and implementing their regulatory compliance obligations. Compliance Advisory assist the business in maintaining a positive and transparent relationship with the Regulators in respect of regulatory compliance and conduct matters. EBS's Risk Appetite is also reported to the EBS's Executive Management and Board.

3.7 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by EBS cause poor and unfair customer outcomes or negatively impact market integrity

Conduct risk is identified and assessed by the EBS material risk assessment and by the AIB Group's risk and control assessment. The risk and control assessment process provides documentary evidence of risk assessments. It determines the risk profile of the business, drives risk management and actions plans including key risk indicator development and reporting. The risk and control assessment has identified a number of key conduct risks relating to customer satisfaction, employee behaviour and clients, business and product practice.

EBS uses various approaches to help mitigate risks relating to conduct risk including AIB Group's Conduct Risk Framework and AIB Group's Conduct Policy, aligned with AIB Group's strategy, which is embedded in the organisation and provides oversight of conduct risks at Executive Committee and Board level.

The AIB Group Conduct Committee provides oversight of conduct through promoting and supporting a 'Customer First' culture. 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.

Conduct risks are assessed and monitored in line with AIB Group's risk management procedures. Significant conduct events are assessed and remedial actions implemented where necessary. These are escalated based on a materiality assessment, in line with the Conduct Risk Framework.

The Regulatory and Conduct Risk Committee (RCR) is the forum that provides risk oversight of regulatory and conduct risks. The RCR was established by, and is accountable to, the AIB Group Risk Committee to oversee regulatory and conduct risks across the Group.

3.8 People and culture risk

People and culture risk is the risk to achieving the strategic objectives as a result of an inability to recruit, retain or develop resources, or the inability to evolve the culture aligned to the Group's values and behaviours.

The majority of business activities of EBS are outsourced to AIB under an MSA.

People and culture risk was identified and assessed as part of the annual top down EBS material risk assessment and as part of the AIB Group's bottom up risk and control process, which serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. The AIB Group's risk and control assessment in 2021 has identified the key people and culture risks to be capacity, resourcing, recruitment and retention.

AIB Group have implemented the People and Culture Risk Framework which is supported by various HR policies to drive the consistent management of this risk. Key management actions include:

- 2021 has seen an acceleration in the competition for talent with expectations that the external environment is going to remain strong in terms of demand for talent. AIB Group has responded with a very strong focus on senior talent identification and has in particular generated increased internal talent mobility.
- There has been significant investment in terms of developing capabilities across AIB Group including running a number of Leadership Development and Talent Management programs during the year. Efforts are also underway to develop an internal talent repository capturing the existing skills, capabilities, knowledge and experience of the workforce enabling to scenario plan for the future.
- Enhancement of AIB Group's wellbeing, engagement, inclusion and diversity strategies which has been one of the Group's key response strategies and mitigants to the unprecedented challenges of COVID-19
- Continuing the AIB Group's Culture development journey with progress being made throughout the year. AIB Group continues to be an active member of the Irish Banking Culture Board.
- Continued embedding of the AIB Group's code of conduct, incorporating the risk culture principles, places great emphasis on the integrity of all employees and accountability for both actions taken and inaction. The code sets out how all employees are expected to behave in terms of the business, customer and employee. The code is supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'. AIB Group has a disciplinary policy which clearly lays out the consequences of inappropriate behaviours
- Further re-iteration of the Group's 'Speak up' policy through the "Speak Your Mind" week held in 2021 that encouraged employees across the Group and staff employed by EBS agents, to speak their mind, and in particular the importance of reporting wrongdoing.

People and culture risk is measured by EBS risk appetite metrics and monitored by the monthly EBS Executive Risk Committee and reported quarterly to the EBS Board.

As AIB Group deals with the extended uncertainly of COVID-19, phased based approach of the Group's return-to-work program in line with Government requirements, a number of challenges remain in the AIB Group's efforts to support the workforce to remain connected, engaged and address the mental, physical, social and financial challenges.

3.9 Business model risk

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

Business model risk was identified as part of the annual EBS material risk assessment process. EBS identifies and assesses this risk as part of its financial planning process, which encapsulates strategic, business and financial planning. Every year, EBS prepares three-year business plans based on macroeconomic and market forecasts across a range of scenarios. The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across income statement, balance sheet and targets. The plan is subject to robust review and challenge through the governance process including an independent review and challenge by the AIB Group Risk function.

EBS'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.

3.9 Business model risk

EBS 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. 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 by executive management and Board on a quarterly basis.

3.10 Model risk

Model risk is defined as the potential loss EBS 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.

Model risk is identified and assessed as part of the EBS's top down material risk assessment and also by the bottom-up process of the risk and control assessment which includes a requirement to perform a self-assessment of the risks.

AIB Group mitigates model risk by having an AIB Group Model Risk Framework and supporting policies in place to drive the consistent management of this risk. This sets out the key controls required to mitigate model risk across the model lifecycle, from initiation of a model build through to implementation, use and ongoing monitoring. Models are built by suitably qualified analytical personnel, informed by relevant business and finance functions. Models are built using the best available data, both internal and external must be used, and any data weaknesses are appropriately mitigated through the model build. The use of industry standard techniques are applied for stages in the model lifecycle, where appropriate. All models are validated by an appropriately qualified team, which is independent of the model build process. Where issues are identified, appropriate mitigants are applied. Model Risk is measured using a composite assessment of model outcomes across the lifecycle for all models.

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

Statement of Directors' responsibilities

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 distinguishing for the respective responsibilities of the Directors and of the Auditor 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 and those of its subsidiaries as at the financial year end date and of the profit or loss of the Group 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 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that EBS will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of EBS and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of EBS and to prevent and detect 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,

Bryan O'Connor

Chairman

Paul Owens

Independent Non-Executive Director

Date: 2 March 2022

Independent auditor's report

Independent auditor's report to the members of EBS d.a.c.

Report on the audit of the European Single Electronic Format financial statements (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 2021 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 Group financial statements:

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

The Company financial statements:

- the Statement of Financial Position;
- the Statement of Changes in Shareholders' Equity;
- the Statement Cash Flows; and
- the related notes a to ad, 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; • Recognition of deferred tax assets; • 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 0.7% of total Shareholders' Equity of the Group; and – the Company to be € 9 million which is approximately 0.7% 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 one other legal entity which is 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.

Independent auditor's report

Significant changes in our approach	There were no significant changes in our approach which we feel require disclosure.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included consideration of the inherent risks to the Group's and Company's business model and we analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario including the potential prolonged impacts of COVID-19 and the continuing impact of Brexit on the economy; and
- impact on regulatory capital requirements in the event of an economic slowdown or recession.

As these were risks that could potentially cast significant doubt on the Group and Company's ability to continue as a going concern, our evaluation of the Directors' assessment included:

- evaluating the design and determining the implementation of key controls over the preparation of financial plans and budgets;
- understanding the Group and Company's Capital and Liquidity process including under stressed scenarios;
- obtaining the updated financial planning exercise covering the period 2022 to 2024 undertaken by the Group in the second half of 2021;
- assessing whether the level of forecasted profits in the updated financial plan were appropriate by challenging the growth, profitability and economic assumptions;
- testing the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results;
- challenging the key assumptions used in the Directors assessment of the Company's ability to continue as a going concern;
- considering the letter of support provided by Allied Irish Banks, plc. to the Group and Company; and
- evaluating the adequacy of the relevant disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 € 185 million at 31 December 2021 (2020: € 447 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; – The definition of default; – 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 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 potential longer term impact of COVID-19 on the economy. This results in a wide range of possible outcomes. Please also refer to page 92 (Accounting Policy 1.18 – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 18 – Loans and Advances to Customers and Note 12 - Net credit impairment writeback/(charge).

Independent auditor's report

How the scope of our audit responded to the key audit matter	We tested the operating effectiveness of 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 AIB Group Board Risk Committee and AIB 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 the prolonged impacts of COVID-19. 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.

Recognition of deferred tax assets	
Key audit matter description	The key audit matter relates to the incorrect recognition or measurement of the deferred tax asset. Deferred tax assets of € 212 million (2020: € 234 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 potential longer term impacts of COVID-19 and and post-Brexit EU/UK trade deal on the economy. The Group has reassessed profitability and growth forecasts for the period 2022 to 2024. Growth assumptions and profitability levels underpinning the plan have been revised downwards compared to previous years and results in an increase in the expected deferred tax utilisation period. Please refer to page 84 (Accounting Policy 1.10 – Income tax, including deferred tax), Note 2 – Critical accounting judgements and estimates and Note 22 – 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.

Independent auditor's report

Defined benefit obligations	
Key audit matter description	The key audit matter is that the recognition and measurement of defined benefit obligations of € 215 million (2020: € 222 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 83 (Accounting Policy 1.9– Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 28 – Retirement benefits.
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 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 determined the implementation of the relevant controls for determining the actuarial assumptions and the approval of those assumptions by Management. We 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.

Independent auditor's report

Provisions for customer redress and related matters	
Key audit matter description	The calculation of provisions for customer redress and related matters, including the tracker mortgage examination and Payment Protection Insurance ('PPI') is highly judgemental and involves the use of several Management assumptions including the identification of relevant impacted customers, related redress costs and potential enforcement fines. There is also a risk that known and emerging issues may not be appropriately disclosed in the financial statements. As a result, we consider this a key audit matter. Included in Note 31 - Provisions for liabilities and commitments, in regard to the tracker mortgage examination, the Group has recorded a provision of €2.4 million (2020: €3 million) for customer redress and compensation, and €15.3 million (2020: €15.3 million) for related enforcement fines expected to be imposed. The Group has recorded a provision of €21.2 million (202: €8 million) in respect of an error in EBS's process for charging monthly premiums not aligned to PPI policy terms and conditions. Please refer to page 96 (Accounting Policy 1.24 - 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 relevant regulatory and legal correspondence. We challenged the reasonableness of assumptions used by Management and tested the underlying data and assumptions used in the determination of the provisions recorded. We reviewed the basis for recording and retaining a provision taking into consideration the information available and the requirements of IAS 37. Given the inherent uncertainty in the calculation of the provision and its judgemental nature, we evaluated the adequacy of disclosures made in the financial statements. We challenged Management on the disclosures, in particular, whether they are sufficiently clear in highlighting the exposures that remain, the 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 measurement of the provisions for customer redress and related matters are within a range we consider to be reasonable.

Independent auditor's report

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.. 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.

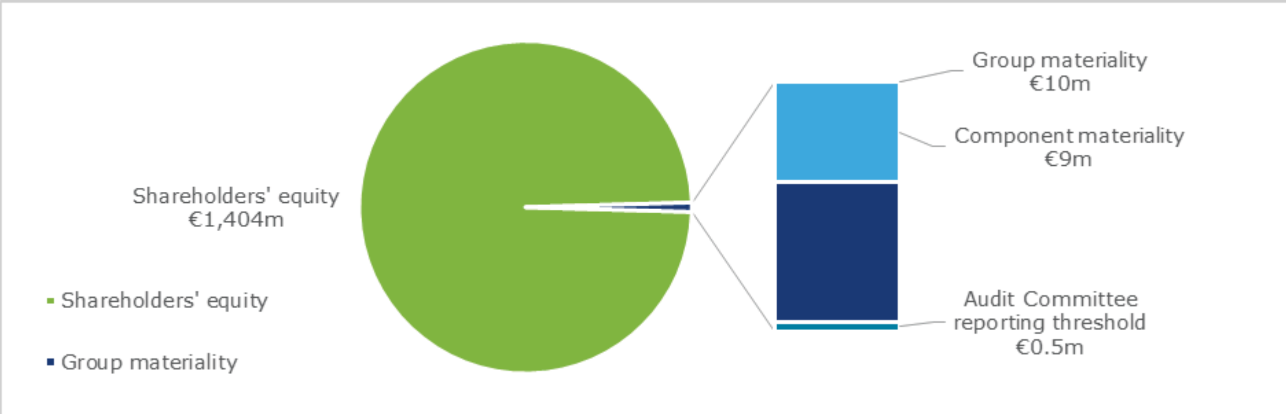
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, 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 0.7% of Shareholders' equity. We have considered Shareholders' equity to be the critical component for determining materiality. We used this benchmark taking into consideration the nature of the Group's operations as being primarily for funding purposes. We have considered quantitative and qualitative factors such as understanding the entity and its environment, its history of misstatements, the complexity of the Group and the reliability of control environment.

We determine materiality for the Company to be € 9m which is 0.7% of Company 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.



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.

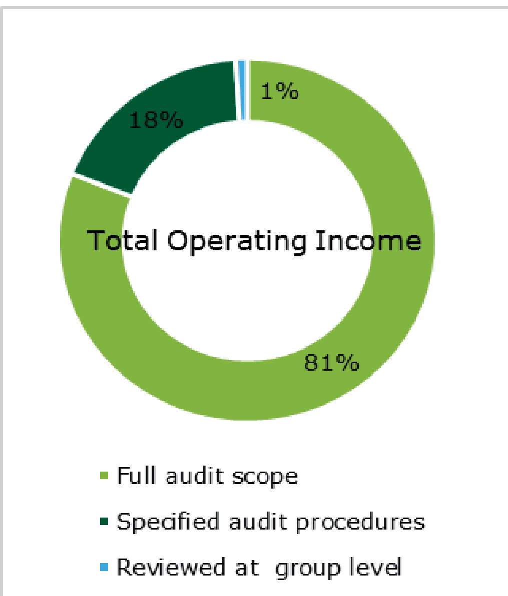
An overview of the scope of our audit

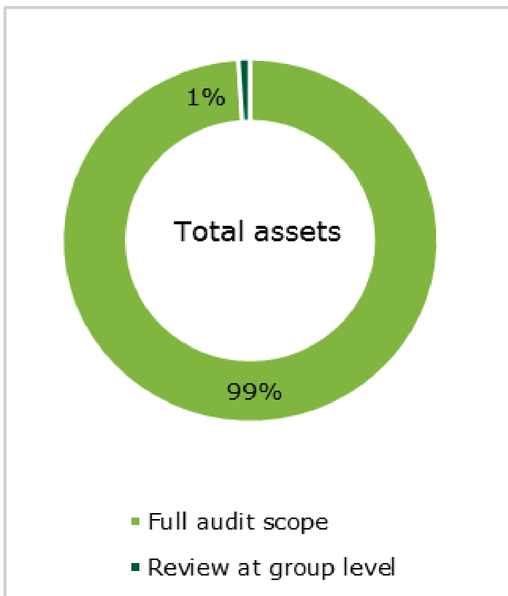
We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit work in EBS d.a.c. and one legal entity, which is disclosed in Note h – 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:





Independent auditor's report

Other information

The other information comprises the information included in the Directors' Report and Annual Financial Statements, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Directors' Report and Annual Financial Statements.

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.

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 the 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.

Independent auditor's report

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), 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.

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 9 to 11 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 Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

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

Other matters which we are required to address

Following the recommendation of the Audit Committee of EBS d.a.c., we were appointed at the Annual General Meeting on 30 June 2013 to audit the financial statements for the financial year ended 31 December 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 2013 to 2021.

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 Board Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Independent auditor's report

Use of our report

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.

John McCarroll
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 02 March 2022

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 2021

	Note	**2021 €m**	2020 €m
Interest and similar income	3	**277**	298
Interest and similar expense	4	**(34)**	(40)
Net interest income		**243**	258
Dividend income	5	**—**	1
Net fee and commission income	6	**9**	9
Net gain on other financial assets measured at FVTPL	7	**6**	3
Net gain on derecognition of financial assets measured at amortised cost	8	**11**	—
Other operating income/(expense)	9	**22**	(1)
Other Income		**48**	12
Total operating income		**291**	270
Operating expenses	10	**(194)**	(163)
Amortisation of intangible assets	19	**(7)**	(5)
Impairment and depreciation of property, plant and equipment	20	**(22)**	(8)
Total operating expenses		**(223)**	(176)
Operating profit before credit impairment charge and taxation		**68**	94
Net credit impairment writeback/(charge)	12	**57**	(171)
Operating profit/(loss) before taxation		**125**	(77)
Income tax (charge)/credit	13	**(18)**	8
Profit/(loss) for the financial year		**107**	(69)

Consolidated statement of comprehensive income

For the financial year ended 31 December 2021

	2021 **€m**	2020 €m
Profit/(loss) for the financial year	**107**	(69)
Other comprehensive income for the year		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of equity investments at FVOCI, net of tax	**—**	(1)
Remeasurement of defined benefit asset/(liability), net of tax	**11**	(7)
Total items that will not be reclassified subsequently to profit or loss	**11**	(8)
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Net change in cash flow hedges, net of tax	**26**	(3)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met	**26**	(3)
Other comprehensive income for the year, net of tax	**37**	(11)
Total comprehensive income for the year	**144**	(80)

Consolidated statement of financial position

as at 31 December 2021

	Note	2021 €m	2020 €m
Assets			
Cash and balances at central banks	14	**448**	347
Non-current assets held for sale	15	**5**	11
Derivative financial instruments	16	**19**	1
Loans and advances to banks	17	**345**	152
Loans and advances to customers	18	**10,323**	10,811
Intangible assets and goodwill	19	**24**	25
Property, plant and equipment	20	**42**	65
Other assets	21	**124**	15
Current taxation		**—**	4
Deferred tax assets	22	**212**	234
Prepayments and accrued income	23	**2**	3
Total assets		**11,544**	11,668
Liabilities			
Deposits by banks	24	**1,955**	1,781
Customer accounts	25	**5,603**	5,389
Securities financing	26	**2,382**	2,741
Derivative financial instruments	16	**7**	21
Lease liabilities	27	**28**	33
Current taxation		**1**	—
Deferred tax liabilities	22	**1**	—
Retirement benefit liabilities	28	**31**	43
Other liabilities	29	**53**	38
Accruals and deferred income	30	**13**	17
Provisions for liabilities and commitments	31	**66**	45
Subordinated liabilities	32	**—**	300
Total liabilities		**10,140**	10,408
Shareholders' equity			
Share capital	33	**413**	413
Capital reserves	34	**349**	349
Reserves		**642**	498
Total shareholders' equity		**1,404**	1,260
Total liabilities and shareholders' equity		**11,544**	11,668

Bryan O'Connor

Chairman
2 March 2022

Paul Owens

Independent Non-Executive Director

Diane Lumsden
Company Secretary
Date: 6 March 2023

Gerry Gaffney
Executive Director

Consolidated statement of changes in shareholders' equity

For the financial year ended 31 December 2021

	Share capital	Capital reserves	Investment securities reserves	Cash flow hedge reserves	Revenue reserves	Total shareholders' equity
	€m	€m	€m	€m	€m	€m
At 1 January 2021	**413**	**349**	**—**	**(18)**	**516**	**1,260**
Total comprehensive income for the year						
Profit for the year	—	—	—	—	**107**	**107**
Other comprehensive income	—	—	—	**26**	**11**	**37**
At 31 December 2021	**413**	**349**	**—**	**8**	**634**	**1,404**

At 1 January 2020	413	249	17	(15)	576	1,240
Total comprehensive income for the year						
Loss for the year	—	—	—	—	(69)	(69)
Other comprehensive income	—	—	(1)	(3)	(7)	(11)
Realised gains on equity shares held at fair value through other comprehensive income	—	—	(16)	—	16	—
Capital contribution	—	100	—	—	—	100
At 31 December 2020	413	349	—	(18)	516	1,260

Consolidated statement of cash flows

For the financial year ended 31 December 2021

	Note	2021 €m	2020 €m	
Cash flows from operating activities				
Profit/(loss) before taxation for the year		**125**	(77)	
Adjustments for:				
Net credit impairment charge	12	**(50)**	187	*
Retirement benefits - defined benefit expense	28	**1**	1	
Depreciation, amortisation and impairment	19/20	**29**	13	
Net gain on other financial assets measured at FVTPL	7	**6**	3	
Change in provisions for liabilities and commitments	31	**28**	6	
Interest paid on subordinated liabilities		**3**	2	
		142	135	
Changes in operating assets and liabilities				
Change in non-current assets held for sale		**6**	2	
Change in derivative financial instruments		**(7)**	3	
Change in loans and advances to banks		**(193)**	(84)	
Change in loans and advances to customers		**539**	238	*
Change in other assets		**(109)**	(1)	
Change in prepayments and accrued income		**1**	(3)	
Change in customer accounts		**214**	139	
Change in securities financing (liability)		**(359)**	2,741	
Change in other liabilities		**15**	4	
Change in accruals and deferred income		**(4)**	(24)	
Net cash flows from operating activities before taxation		**245**	3,150	
Taxation paid		**(4)**	(4)	
Net cash flows from operating activities		**241**	3,146	
Cash flows from investing activities				
Additions to intangible assets	19	**(6)**	(6)	
Disposal of intangible assets		**—**	4	
Additions to property, plant and equipment	20	**—**	(2)	
Disposal of property, plant and equipment		**—**	1	
Net cash flows from investing activities		**(6)**	(3)	
Cash flows from financing activities				
Change in deposits by banks	24	**174**	(3,438)	
Change in hedging items		**—**	(5)	
Proceeds on issue of subordinated liabilities		**—**	200	
Interest paid on subordinated liabilities		**(3)**	(2)	
Repayment of subordinated liabilities		**(300)**	—	
Repayment of lease liabilities		**(5)**	(7)	
Capital contribution		**—**	100	
Net cash flows from financing activities		**(134)**	(3,152)	
Change in cash and cash equivalents		**101**	(9)	
Cash and cash equivalents at 1 January		**347**	356	
Cash and cash equivalents at 31 December	39	**448**	347	

*Represented. The 2020 ‘Net credit impairment charge’ is increased by €16m and the ‘Change in loans and advances to customers’ is reduced by €16m to align with the 2021 presentation of ‘Recoveries of bad debts previously written-off’.

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 2021 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 2021. The financial statements also comply with the Companies Act 2014 applicable to companies reporting under IFRSs 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, *Financial Instruments: Disclosures* and IAS 1, *Presentation of Financials Statements*, 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.

Voluntary change in accounting policy - presentation of securities financing

EBS has voluntarily changed its accounting policy for the presentation of certain financial instruments relating to securities financing. A new line item and a related note (note 26) 'Securities Financing' was introduced for liabilities in the consolidated statement of financial position and assets and liabilities in the company statement of financial position. In previous years, securities borrowings were reported in 'Deposits by banks'. The comparatives for 2020 have been restated accordingly. This approach was adopted following a change in AIB Group presentation. EBS believes this accounting policy changes provides reliable and more relevant information as it provides greater transparency of the level of securities financing activity by EBS.

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 may involve 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 judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. A description of these judgements and estimates is set out in note 2: 'Critical accounting judgements and estimates' on pages 99 to 104.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.3. Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2021 have been prepared on a going concern basis as Directors are satisfied, having considered the principal 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.

EBS 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 their assessment, the Directors of AIB considered a wide range of information relating to present and future conditions. This includes capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that the Group has committed to. The scenarios include the potential prolonged impacts of COVID-19 and the continuing impacts of Brexit.

In addition, the Directors of EBS considered the principal risks and uncertainties which could materially affect EBS's future business performance and profitability and which are outlined on pages 12 to 58.

There is no intention to liquidate the company or cease trading and EBS is not aware of any material uncertainties related to conditions or events that may cast significant doubt upon the company's ability to continue as a going concern. In addition, EBS's parent AIB has provided a letter of financial support to EBS.

Conclusion

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

Adoption of new accounting standards/amendments to standards

During the financial year 31 December 2021, EBS adopted the following amendments to standards and interpretations which had an insignificant impact on these annual financial statements:

– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ('RFR'). The amendments include a number of practical expedients. These amendments had no material impact on the consolidated financial statements of the Group.

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.

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:

– derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts the date control is lost;
– 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);
– recognises the fair value of any consideration received and any distribution of shares of the subsidiary;
– recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
– 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*.

1. ACCOUNTING POLICIES

1.4. Basis of consolidation *(continued)*

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.

Common control transactions

EBS accounts for the acquisition of businesses and investments in subsidiary undertakings between members of EBS at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by EBS of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution. On impairment of the subsidiary in the parent company's separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves.

The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

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 rate 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 rate basis;
– Interest on investment debt securities measured at FVOCI calculated on an effective interest rate 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. ACCOUNTING POLICIES

1.7. Dividend income

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

1.8. Fee and commission income

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

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

– Identify the contract(s) with a customer;
– Identify the performance obligations in the contract;
– Determine the transaction price;
– Allocate the transaction price to the performance obligations in the contract; and
– Recognise revenue when or as EBS satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, either at a‘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.

1.9. 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.

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.

1. ACCOUNTING POLICIES

1.9. 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.

1.10. 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 it is probable 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.

1.11. 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. In a situation where EBS commits to purchase financial assets under a contract which is not considered a regular-way transaction, the assets to be acquired are not recognised until the acquisition contract is settled. In this case, the contract to acquire the financial asset is a derivative that is measured at FVTPL in the period between the trade date and the settlement date.

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.

1. ACCOUNTING POLICIES

1.11. 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 rate method and is adjusted on each measurement date by the ECL 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.

1. ACCOUNTING POLICIES

1.11. 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.

1.12. 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.13. 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.

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

Lease rentals payables 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 EBS has the right to direct the use of the asset.

This policy is applied to all of EBS's contracts that meet the definition of a lease.

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 EBS is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if EBS 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

The right-of-use asset is 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 asset or restoring the site on which the asset is 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 the right-of-use asset and depreciated over the asset’s estimated useful life on a straight-line basis.

1. ACCOUNTING POLICIES

1.13. Leases *(continued)*

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 (1.22) '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.

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.

The lease payments include fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate and amounts expected to be payable by EBS under a residual value guarantee. The lease payments also include 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.

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 rate 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 allocate the consideration in the modified contract to the lease components, determine the lease term of the modified lease and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

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 by reference to the right-of-use asset being leased, not the actual underlying asset.

1. ACCOUNTING POLICIES

1.14. 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.

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.

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. 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.

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.

1. ACCOUNTING POLICIES

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

Valuation techniques *(continued)*

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.

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.

1.15. Sale and repurchase agreements (including securities 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 rate 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.

1.16. 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 *Financial Instruments*.

1. ACCOUNTING POLICIES

1.16. Derivatives and hedge accounting *(continued)*

Hedging

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

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.

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 accoun*ting*

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

1. ACCOUNTING POLICIES

1.17. 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.

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.

1.18. 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.

1. ACCOUNTING POLICIES

1.18. Impairment of financial assets *(continued)*

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 ('POCI')

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 financial 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.

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.

1. ACCOUNTING POLICIES

1.18. Impairment of financial assets *(continued)*

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.

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.

1.19. 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.19. Collateral and netting *(continued)*

EBS also receives collateral in the form of cash or securities in respect of other credit instruments, such as securities 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.

1.20. Property, plant and equipment

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

EBS 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.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.21. 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 9 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.

1.22. 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.

1.23. 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.

1.24. 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 rate interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. These are reported within Provisions for liabilities and commitments in the statement of financial position

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

1.24. Non-credit risk provisions *(continued)*

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.

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.

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.

1.25. 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.

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.

1.26. 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. ACCOUNTING POLICIES

1.27. Prospective accounting changes

The following amendments to existing standards which have been approved by the IASB, but not early adopted by EBS, may impact EBS's financial reporting in future periods. EBS will consider the impact of these amendments as the situation requires. The amendments which are most relevant to EBS are detailed below.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
– what is meant by a right to defer settlement;
– that a right to defer must exist at the end of the reporting period;
– that classification is unaffected by the likelihood that an entity will exercise its deferral right; and;
– that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments to IAS 1 and IFRS Practice Statement 2 regarding disclosure of accounting policies which were issued in February 2021, amends IAS 1 in the following way:
– Disclosure of material accounting policy information is now required instead of significant accounting policies.
– Amendments have been included to clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial and if users of an entity's financial statements would need it to understand other material information in the financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments to IAS 8 regarding accounting policies, changes in accounting estimates and errors were issued in February 2021 to help entities to distinguish between accounting policies and accounting estimates. The changes relate entirely to accounting estimates and clarify the following:
– The definition of a change in accounting estimates is replaced with a definition of accounting estimates.
– Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
– A change in accounting estimate that result from new information or new developments is not the correction of an error.
– A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to IAS 12 regarding deferred taxes related to assets and liabilities arising from a single transaction which were issued in May 2021, require the following change:
– an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24.
– Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Other

The IASB has published a number of minor amendments to IFRSs through standalone amendments. None of the other amendments are expected to have a significant impact on reported results or disclosures.

Notes to the consolidated financial statements

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 judgements that are deemed critical to EBS's results and financial position, in terms of the materiality of the items to which the judgements are applied and the estimates that have a significant risk of material adjustment in the next year are also discussed

Significant judgements

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; and
- Provisions for liabilities and commitments; and

Deferred taxation

EBS's accounting policy for deferred tax is set out in accounting policy 1.10 in note 1. Details of EBS's deferred tax assets and liabilities are set out in note 22.

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.
– *The estimated utilisation period for such losses in Ireland is within the timeframe that taxable profits are considered more likely than not.*

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 these 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 changing banking landscape in Ireland following the commitment by KBC and Ulster Bank to exit the Irish market;
- the turnaround evident in the financial performance over the years 2014 - 2019 and 2021 including the growth in the Irish economy in this period;
- external forecasts for Ireland which indicate a return to 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 the 2009-2013 prior years.

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

- The onset of COVID-19 in 2020 and 2021 with its severe impact on the economy and the resultant impairment charge taken in 2020 which resulted in a loss in that year;
- 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 potential longer term impacts of COVID-19 and post-Brexit EU/UK trade deal on the Irish economy;

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Deferred taxation (continued)

- potential instability in the eurozone and global economies over an extended period; and
- taxation changes (including Organisation for Economic Co-operation and Development ("OECD") tax reform, Bank Levy and the utilisation of deferred tax assets) and the likelihood of future developments and their impact on profitability and utilisation

Profitability and growth were reassessed in the annual planning exercise covering the period 2022 to 2024 undertaken by EBS in the second half of 2021. Growth assumptions and profitability levels underpinning the plan have been revised upwards compared to previous years reflecting the revised macroeconomic outlook, however, these are within current 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, 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 2022 to 2024 as a base and a profit growth rate of 2% from 2025, it was assessed that it will take 23 years for the deferred tax asset (€211m) to be utilised. Furthermore, under this scenario, it is expected that 36% of the deferred tax asset will be utilised within 10 years (2020: 41%) and 58% utilised within 15 years (2020: 67%). If the growth rate assumption was decreased by 1%, then the utilisation period increases by a further 2 years. EBS’s analysis of this and other scenarios examined would not alter the basis of recognition or the current carrying value. In 2020, EBS reported that it expected that it would take 21 years for the deferred tax asset to be utilised.

The amount of recognised deferred tax assets arising from unused tax losses amounts to €207m (2020: €225m).

IAS 12 *Income Tax* 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 1.18 in note 1.

The calculation of the ECL allowance is complex and requires the use of a number of accounting judgements.

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;* • *Applying the definition of default policy for classifying financial assets as credit impaired;* • *Choosing the appropriate models for measuring ECL; and* • *Determine an appropriate methodology for post-model adjustments.*

The significant management judgements and the governance process, relating to ECL, are set out on page 30 to 31 in the Risk Management section.

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 1.9 in note 1.

The most significant judgement is that a constructive obligation has not been created, notwithstanding decisions 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.

Under this annual process, AIB Group decided in February 2021, that the funding of discretionary increases was not appropriate which was subsequently agreed by EBS. In February 2022, the AIB Group Board decided to approve the funding of a 2.5% discretionary increase in relation to the three EBS defined benefit schemes and this was subsequently considered and approved by the EBS Board.

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.

Provisions for liabilities and commitments
EBS's accounting policy for provisions for liabilities and commitments is set out in accounting policy number 1.24 'Non-credit risk provisions' in note 1. Details of EBS's liabilities and commitments are shown in note 31 to the consolidated financial statements.

Significant management judgement is required to determine whether EBS has a present obligation as a result of a past event and whether it is probable an outflow of resources will be required to settle the obligation.

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.

Judgement is required in determining whether EBS has a present obligation and whether it is probable that an outflow of economic benefits will be required to settle this obligation. This judgement is applied to information available at the time of determining the provision including, but not limited to, judgements around interpretations of legislation, regulations and case law depending on the nature of the provision.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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:
– Impairment of financial assets;
– Retirement benefit obligations;
– Provisions for liabilities and commitments; and
– Determination of fair value of financial instruments

Impairment of financial assets
EBS's accounting policy for impairment of financial assets is set out in accounting policy 1.19 in note 1. Details of the EBS's expected credit loss ("ECL") allowance are set out in note 18.

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 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.

ECL allowance for Loans and advances to customers at 31 December 2021 amounted to €185m (2020:€447m).The ECL for financial assets represents management's best estimate of the expected credit losses at the respective reporting dates.

The most significant sources of estimation uncertainty in relation to ECL allowances are as follows:
• *Establishing the number and relative weightings for forward looking scenarios for each asset class and ECL;* • *The assumptions for measuring ECL (e.g. PD, LGD and EAD and the parameters to be included within the models); and* • *The estimation of post model adjustments where required.*

Certain of these estimates 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 against a backdrop of the COVID-19 pandemic and the economic landscape which are continuously evolving. Accordingly, developments with regard to the pandemic and 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 28 to 29 of the Risk Management section of this report.

EBS has developed a standard approach for the measurement of ECL for the majority of EBS's exposures where each ECL input parameter (e.g. PD, LGD and EAD) is developed in line with standard modelling methodology. These are discussed further on page 23 of the Risk Management section. In addition, 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 may consider it appropriate for an adjustment to ECL. These are referred to as post model adjustments and are set out in detail on pages 30 and 31.

On an ongoing basis, the various 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 management process for the calculation of ECL allowance is underpinned by second-line levels of review. The ECL allowance is, in turn, reviewed and approved by the Group Credit Committee on a quarterly basis with final EBS levels being approved by the Board Audit Committee. Further detail on the ECL governance process is set out on page 31.

Notes to the consolidated financial statements

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Retirement benefit obligations
EBS's accounting policy for retirement benefit obligations is set out in accounting policy 1.9 in note 1. Details of the EBS's retirement benefit obligations are set out in note 28.

The key estimates and assumptions that have been used in determining the retirement benefit obligation are as follows:
• *Increases to pensions and payment subject to annual consideration and approval by the Board and the trustees of the pension schemes have no discretion in this regard; and* • *The significant actuarial assumptions used to determine the present value of the retirement benefit obligation.*

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. Under this annual process, EBS decided in February 2022 and in February 2021 that the funding of discretionary increases was not appropriate in either year.

Taking this decision by the company into consideration, the long term assumption for future increases in pension in payment reflect that a constructive obligation to grant discretionary increases to pensions and payment does not exist at 31 December 2021 and therefore the long term assumptions for future increases in pension and payment has been assessed at 0.00% per annum (2020: 0.00%)

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. Details of the assumptions adopted by EBS in calculating the schemes' liabilities are set out in note 28 to the financial statements. A sensitivity analysis for the principal assumptions used to measure the schemes' liabilities is set out in note 28 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 most significant source of estimation uncertainty, in relation to provisions, is the assumptions that EBS makes about future events affecting different classes of provisions including the future outcome of litigation and regulatory proceedings as well as the outcome of restitution activities.

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 estimated potential losses will change over time and the actual losses may vary significantly.

The overall provision amounting to €66m comprising: €21m in respect of the anticipated cost of 'customer redress and compensation' and other related costs for a Payment Protection Insurance ('PPI') review, €15m in respect of CBI penalties; €6m 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 do not have significant risk of a material adjustment in the next financial year.

At 31 December 2021, a provision amounting to €21m is held in respect of an error in EBS's process for charging monthly premiums which was not aligned to the PPI policy terms & conditions. The provision is in relation to the cost of customer redress and other related costs. The anticipated cost of redress and other related costs are subject to uncertainty, with a range of possible outcomes, with the final outcome being higher or lower depending on finalisation of such issues.

At 31 December 2021, a provision amounting to €6m 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 for the Tracker Mortgage Examination. 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 35, 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 €15m 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 2021. This matter is progressing 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 not practicable to quantify a range of outcomes.

Other than the above, there is no individually significant provision where there is a significant risk of a material adjustment in the next financial year.

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.

The key estimates and assumptions that the Directors have used, in determining the fair value of the financial instruments, are as follows:
• The estimation of expected cash flows for the instruments; • The assumption of an appropriate risk free rate; and • The assumption of an appropriate credit spread.

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 particular 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 38.

Notes to the consolidated financial statements

3. INTEREST AND SIMILAR INCOME

	2021 €m	2020 €m
Interest on loans and advances to customers at amortised cost	277	298
Interest income calculated using the effective interest method	**277**	298

4. INTEREST AND SIMILAR EXPENSE

	2021 €m	2020 €m
Interest on customer accounts	18	19
Interest on lease liabilities	1	1
Interest payable to AIB	15	20
Interest expense calculated using the effective interest method	**34**	40

5. DIVIDEND INCOME

Dividend income received on NAMA subordinated bonds was nil at 31 December 2021 (2020: €1m). NAMA subordinated bonds were redeemed in 2020.

6. NET FEE AND COMMISSION INCOME

	2021 €m	2020 €m
Fees and commissions receivable	14	14
Fees and commission payable	(5)	(5)
	9	9

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

7. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2021 €m	2020 €m
Loans and advances to customers	6	3
	6	3

The fair value gain on loans and advances to customers measured at FVTPL was €6m in 2021 (2020: €3m).

Notes to the consolidated financial statements

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

		2021
	Carrying value of derecognised financial assets measured at amortised cost	**Gain from derecognition**
Loans and advances to customers	**315**	**11**

		2020
	Carrying value of derecognised financial assets measured at amortised cost	Gain from derecognition
Loans and advances to customers	—	—

The gain on derecognition was based on the sales proceeds, net of costs, computed at a customer connection level. Settlements in the current year relating to prior year portfolio sales are reported on a net basis. Derecognition in 2021 arose from the sale of individual loans from a specific loan portfolio. The loans were disposed of for credit management purposes after credit deterioration had occurred.

9. OTHER OPERATING INCOME/(EXPENSE)

	2021	2020
	€m	€m
Miscellaneous operating income/(expense)	**22**	(1)
	22	(1)

Miscellaneous operating income/(expense) comprises a receivable of €23m (2020: nil) from AIB to compensate EBS for the implementation of the Group Property Strategy on the value of the Burlington Road premises, realised loss on cash flow hedge swaps of €1m (€3m in 2020) offset by miscellaneous income of €1m (€2m in 2020) including fair value released of €0.7m (€1.6m in 2020).

10. OPERATING EXPENSES

	2021	2020
	€m	€m
Personnel expenses:		
Wages and salaries	**—**	—
Termination benefits	**—**	—
Retirement benefits	**1**	1
Social security costs	**—**	—
Other personnel expenses	**—**	—
	1	1
Less: staff costs capitalised	**—**	—
Personnel expenses	**1**	1
General and administrative expenses:		
Amounts payable to AIB	**103**	72
Other administrative expenses	**90**	90
Administrative expenses	**193**	162
Operating expenses	**194**	163

Notes to the consolidated financial statements

10. OPERATING EXPENSES (continued)

Amounts payable to AIB are determined by the implementation of the pricing agreement between AIB and EBS subsidiaries, that reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. Amounts payable to AIB in 2021 were €103m (2020: €72m). The increase is driven by the impact to the transfer pricing methodology calculation with EBS and Haven.

Other administrative expenses includes a charge of €31m (2020: €27m) relating to provisions for customer redress including the Tracker Mortgage Examination. See note 31. Provisions for liabilities and commitments for further information.

For the financial year ended 31 December 2021 the monthly average number of employees was nil (2020: nil). As at 31 December 2021, EBS had no employees (2020: nil).

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 Managed Services 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 40. Related party transactions.

11. AUDITOR'S REMUNERATION

The disclosure of Auditor's remuneration is in accordance with Section 322 of the Companies Act 2014 which mandates disclosure of remuneration paid/payable to the EBS Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of EBS Group and relevant subsidiary financial statements in the categories set out below. Other assurance services include remuneration for additional assurance issued by the firm outside of the audit of the statutory financial statements of EBS Group and subsidiaries. This remuneration includes assignments where the auditor provides assurance to third parties.

	2021 **€'000**	2020 €'000
Auditor's remuneration (excluding VAT)		
Audit of EBS Group financial statements	**328**	320
Other assurance services	**27**	34
Other non-audit services	**—**	—
Tax advisory services	**—**	—
	355	354

The Board and Audit Committee reviews, the level of non-audit service remuneration and is satisfied that it has not affected the independence of the Auditor. All the above amounts were paid to the EBS Group Auditor for services provided to EBS Group and it's subsidiaries. 2021 Audit: EBS d.a.c. €308k and Haven Mortgages €20k. (2020 Audit: EBS d.a.c. €280k, EBSMF €20k and Haven Mortgages €20k).

12. NET CREDIT IMPAIRMENT WRITEBACK/(CHARGE)

The following table analyses the income statement net credit impairment writeback/(charge) on financial instruments for the years ended 31 December 2021 and 2020:

		2021		2020
	Measured at amortised cost	**Total**	Measured at amortised cost	Total
Credit impairment writeback/(charge) on financial instruments	**€m**	**€m**	€m	€m
Net measurement of loss allowance:				
Loans and advances to customers	**50**	**50**	(187)	(187)
Credit impairment writeback/(charge)	**50**	**50**	(187)	(187)
Recoveries of amounts previously written-off	**7**	**7**	16	16
Net credit impairment writeback/(charge)	**57**	**57**	(171)	(171)

Notes to the consolidated financial statements

13. TAXATION

	2021 €m	2020 €m
Current taxation		
Current tax on income for the financial year	**1**	—
Adjustments in respect of prior years	**(1)**	—
	—	—
Deferred taxation		
Origination and reversal of temporary timing differences	**(17)**	8
Adjustments in respect of prior years	**(1)**	—
	(18)	8
Total tax (charge)/credit for the financial year	**(18)**	8
Effective income tax rate	**14.4 %**	9.9 %

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:

	2021		2020	
	€m	%	€m	%
Operating profit/(loss) before taxation	**125**		(77)	
Corporation tax charge (12.5%)	**(16)**	**12.5**	10	12.5
Effects of:				
Expenses not deductible for tax purposes	**(3)**	**2.4**	(2)	(2.6)
Exempted income, income at reduced tax rates and tax credits	**1**	**(0.8)**	—	—
Tax (charge)/credit	**(18)**	**14.4**	8	9.9

Analysis of selected other comprehensive income

	2021			2020		
	Gross €m	Tax €m	Net €m	Gross €m	Tax €m	Net €m
Net movement in cash flow hedge reserve	**30**	**(4)**	**26**	(3)	—	(3)
Net movement in investment securities reserve	**—**	**—**	**—**	(1)	—	(1)
Net actuarial gain/(loss) on retirement benefits	**12**	**(1)**	**11**	(7)	—	(7)
	42	**(5)**	**37**	(11)	—	(11)

14. CASH AND BALANCES AT CENTRAL BANKS

	2021 €m	2020 €m
Cash in hand	6	8
Balances with Central Bank of Ireland	442	339
	448	347

15. NON-CURRENT ASSETS HELD FOR SALE

	2021 €m	2020 €m
Repossessed assets	5	11
	5	11

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

16. DERIVATIVE FINANCIAL INSTRUMENTS

EBS operations are exposed to the risk of interest rate fluctuations to the extent that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives allow EBS to modify the re-pricing characteristics of assets and liabilities in a cost efficient manner. This flexibility helps EBS 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 uses a combination of derivative financial instruments, particularly interest rate swaps. EBS only engages in derivative activity for hedging purposes, all derivatives are in a cash flow hedging relationship.

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.

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2021 and 2020. A description of how the fair values of derivatives are determined is set out in note 38.

	2021			2020		
	Contract/ Notional Amount €m	Fair Value Asset €m	Fair Value Liability €m	Contract/ Notional Amount €m	Fair Value Asset €m	Fair Value Liability €m
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	4,306	19	(7)	2,422	1	(21)
Total derivative financial instruments	4,306	19	(7)	2,422	1	(21)

Notes to the consolidated financial statements

16. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

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:

	2021				2020			
	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 principal amount	**475**	**3,831**	**—**	**4,306**	—	2,422	—	2,422
Positive fair value	**—**	**19**	**—**	**19**	—	1	—	1

Nominal values and average interest rates by residual maturity

At 31 December 2021 and 2020, EBS held the following hedging instruments of interest rate risk:

						2021
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**5 years +**	**Total**
<u>Cash flow hedges - Interest rate swaps</u>						
Hedges of financial assets						
Nominal principal amount (€m)	**—**	**—**	**—**	**—**	**—**	**—**
Average interest rate (%)	**—**	**—**	**—**	**—**	**—**	**—**
Hedges of financial liabilities						
Nominal principal amount (€m)	**—**	**—**	**475**	**3,831**	**—**	**4,306**
Average interest rate (%)	**—**	**—**	**(0.53)**	**(0.28)**	**—**	**(0.31)**

						2020
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
<u>Cash flow hedges - Interest rate swaps</u>						
Hedges of financial assets						
Nominal principal amount (€m)	—	20	—	—	—	20
Average interest rate (%)	—	(0.17)	—	—	—	(0.17)
Hedges of financial liabilities						
Nominal principal amount (€m)	1	3	25	2,373	—	2,402
Average interest rate (%)	2.15	2.15	0.35	(0.24)	—	(0.23)

16. 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 2021 and 2020:

											2021
		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	—	—	—	Derivative financial instruments	(1)	—	—	Net trading income	—	—	Interest income using the effective interest rate method
Derivative liabilities	4,306	19	(7)	Derivative financial instruments	33	29	—	Net trading income	—	(8)	Interest and similar expense

						2021
	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	1	—	—	—	—
Interest rate risk	Customer accounts	(33)	8	7	(1)	(1)

*Statement of financial position

16. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

2020

(a) Hedging instruments	Nominal amount	Carrying amount: Assets	Carrying amount: Liabilities	Carrying amount: Line item in SOFP* where the hedging instrument is included	Carrying amount: Change in fair value of hedging instrument used for calculating hedge ineffectiveness in the year	Carrying amount: Change in the value of the hedging instrument recognised in OCI in the year	Hedge ineffectiveness: Hedge ineffectiveness recognised in the income statement	Hedge ineffectiveness: Line item in the income statement that includes hedge ineffectiveness	Amounts reclassified from cash flow hedging reserves to the income statement: Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts reclassified from cash flow hedging reserves to the income statement: Amounts that have been transferred because the hedged item has affected the income statement	Amounts reclassified from cash flow hedging reserves to the income statement: Line item in the income statement affected by the reclassification
	€m	€m	€m		€m	€m	€m		€m	€m	
Interest rate swaps											
Derivative assets	20	1	—	Derivative financial instruments	(4)	—	—	Net trading income	—	—	Interest income using the effective interest rate method
Derivative liabilities	2,402	—	(21)	Derivative financial instruments	2	(5)	—	Net trading income	—	(8)	Interest and similar expense

2020

(b) Hedged items	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
		€m	€m	€m	€m	€m
Interest rate risk	Loans and advances to customers	4	—	—	—	—
Interest rate risk	Customer accounts	(2)	(21)	(18)	(1)	(1)

*Statement of financial position

Notes to the consolidated financial statements

17. LOANS AND ADVANCES TO BANKS

	2021 €m	2020 €m
At amortised cost		
Funds placed with Group undertaking	**345**	152
ECL allowance	**—**	—
	345	152
Analysed by remaining maturity:		
Repayable on demand	**345**	152
	345	152

18. LOANS AND ADVANCES TO CUSTOMERS

	2021 €m	2020 €m
Loans and advances to customers	**10,508**	11,258
Expected credit loss allowance	**(185)**	(447)
	10,323	10,811

	2021 €m	2020 €m
Analysed by remaining maturity:		
Repayable on demand	**207**	550
3 months or less	**14**	11
1 year or less but over 3 months	**9**	16
5 years or less but over 1 year	**208**	213
Over 5 years	**10,070**	10,468
Gross carrying amount	**10,508**	11,258
Expected credit loss allowance	**(185)**	(447)
	10,323	10,811

Included in loans and advances to customers is €2,290m (2020: €2,274m) of loans in Haven Mortgages and €3,206m (2020: €3,670m) loans held through the securitisation vehicle Burlington Mortgages No.1 d.a.c.

Notes to the consolidated financial statements

18. 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.

	2021 €m	2020 €m
At 1 January	**447**	287
Exchange translation adjustments	**1**	—
Net remeasurement of loss allowance - customers	**(50)**	187
Changes in loss allowance due to write-offs	**(13)**	(27)
Changes in loss allowance due to disposals	**(200)**	—
At 31 December	**185**	447
Amounts include loss allowance on:		
Loans and advances to customers measured at amortised cost	**185**	447

Continuing Involvement in securitised assets
In 2020, EBS securitised c.€4bn of its residential mortgage portfolio held in EBS d.a.c.and Haven Mortgages Limited. These mortgages were transferred to a securitisation vehicle, Burlington Mortgages No. 1 d.a.c., "Burlington". In order to fund the acquired mortgages, Burlington issued twelve classes of notes to EBS d.a.c. and Haven in the same proportion as the mortgages securitised. The transferred mortgages have not been derecognised as EBS retains substantially all the risks and rewards of ownership and continue to be reported in EBS's financial statements. Burlington is consolidated into EBS's financial statements with all notes being eliminated on consolidation.

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.

19. INTANGIBLE ASSETS

	2021 €m	2020 €m
Computer software (and development costs)		
Cost		
At 1 January	**63**	61
Additions-internally generated	**6**	6
Amounts written-off	**(20)**	(4)
At 31 December	**49**	63
Amortisation		
At 1 January	**38**	37
Charge for financial year	**7**	5
Amounts written-off	**(20)**	(4)
At 31 December	**25**	38
Carrying value at 31 December	**24**	25

Notes to the consolidated financial statements

20. PROPERTY, PLANT AND EQUIPMENT

	Owned assets				Leased assets	2021
	Property			Equipment	Right-of-use assets	Total
	Freehold	Long leasehold	Leasehold under 50		Property	
	€m	€m	€m	€m	€m	€m
Cost						
At 1 January	**26**	**3**	**5**	**10**	**48**	**92**
Transfers in/(out)	**1**	**—**	**—**	**(1)**	**—**	**—**
Disposals	**—**	**—**	**(1)**	**(3)**	**(1)**	**(5)**
At 31 December	**27**	**3**	**4**	**6**	**47**	**87**
Depreciation/impairment						
At 1 January	**9**	**—**	**2**	**4**	**12**	**27**
Depreciation charge for the year	**1**	**—**	**—**	**1**	**2**	**4**
Impairment charge for the year	**—**	**—**	**1**	**1**	**16**	**18**
Disposals	**—**	**—**	**(1)**	**(3)**	**—**	**(4)**
At 31 December	**10**	**—**	**2**	**3**	**30**	**45**
Carrying value at 31 December	**17**	**3**	**2**	**3**	**17**	**42**

	Owned assets				Leased assets	2020
	Property			Equipment	Right-of-use assets	Total
	Freehold	Long leasehold	Leasehold under 50 years		Property	
	€m	€m	€m	€m	€m	€m
Cost						
At 1 January	24	4	3	13	47	91
Transfers in/(out)	2	—	2	(4)	—	—
Additions	—	—	—	1	1	2
Disposals	—	(1)	—	—	—	(1)
At 31 December	26	3	5	10	48	92
Depreciation/impairment						
At 1 January	8	1	1	4	6	20
Depreciation charge for the year	1	—	1	—	6	8
Disposals	—	(1)	—	—	—	(1)
At 31 December	9	—	2	4	12	27
Carrying value at 31 December	17	3	3	6	36	65

Notes to the consolidated financial statements

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

The carrying value of property occupied by EBS for its own activities was €22m (2020: €23m) in relation to owned assets and €17m (2020: €36m) in relation to right-of-use assets.

Property
EBS leases property for its offices and retail branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. 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 the right-of-use asset.

Lease liabilities
A maturity analysis of lease liabilities is shown in note 27.

	2021	2020
Amounts recognised in income statement	**€m**	€m
Interest on lease liabilities	**1**	1
Depreciation expense on right-of-use assets	**2**	6
	3	7

	2021	2020
Amounts recognised in statement of cash flows	**€m**	€m
Total cash outflow for leases during the year[1]	**6**	7

[1]Includes interest expense on lease liabilities of €1m (2020: €1m) and principal repayments on lease liabilities of €6m (2020: €8m).

21. OTHER ASSETS

	2021	2020
	€m	€m
Items in transit - debit	**5**	4
Proceeds due from disposal of loan portfolio[1]	**119**	—
Sundry debtors	**—**	11
	124	15

[1]ECL is immaterial

22. DEFERRED TAXATION

	2021 €m	2020 €m
Deferred tax assets:		
Transition to IFRS 9	**1**	1
Investment securities	**—**	3
Retirement benefits	**4**	5
Unutilised tax losses	**207**	225
Total gross deferred tax assets	**212**	234
Deferred tax liabilities:		
Investment securities	**(1)**	—
Total gross deferred tax liabilities	**(1)**	—
Net deferred tax assets	**211**	234
Represented on the statement of financial position as follows:		
Deferred tax assets	**212**	234
Deferred tax liabilities	**(1)**	—
	211	234

Analysis of movements in deferred taxation	2021 €m	2020 €m
At 1 January	**234**	224
Deferred tax through other comprehensive income	**(5)**	—
Income statement (note 13)	**(18)**	8
Deferred tax through equity	**—**	2
At 31 December	**211**	234

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 'Critical accounting judgements and estimates' on pages 99 to 100.

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 2021, despite incurring a loss in 2020 driven by the impact of COVID-19 and the Directors believe having considered the risks and uncertainties facing the business 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 23 years (2020: 21 years).

At 31 December 2021, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €211m (2020: €234m). The amount of recognised deferred tax assets arising from unused tax losses amounts to €207m (2020: €225m) relates to Irish tax losses.

Net deferred tax assets at 31 December 2021 of €207m (2020: €229m) are expected to be recovered after more than 12 months.

The Irish government agreed to the statement on new international tax rules issued in October 2021 by the OECD/G20 Inclusive Framework. This included the proposal for a new global minimum effective tax rate of 15% on multinationals from 2023. In December 2021, the OECD published “model rules” for the minimum effective tax rate, and the European Commission published a draft Directive which is broadly aligned with the model rules. It is expected that EBS will be within the scope of the new rules. During 2022 EBS will review the expected guidance from the OECD, as well as any legislation introduced in Ireland. It is not possible at this time to estimate the impact, if any, on EBS’s deferred tax assets and liabilities.

Notes to the consolidated financial statements

23. PREPAYMENTS AND ACCRUED INCOME

	2021 €m	2020 €m
Accrued interest	**1**	1
Other accrued income	**—**	1
Prepaid expenses	**1**	1
	2	3

24. DEPOSITS BY BANKS

	2021 €m	2020 €m
Due to AIB	**1,955**	1,781
	1,955	1,781

Analysed by remaining maturity	2021 €m	2020 €m
Repayable on demand	**1,955**	1,781
	1,955	1,781

25. CUSTOMER ACCOUNTS

Analysed by sector	2021 €m	2020 €m
Retail	**5,601**	5,387
Corporate	**2**	2
	5,603	5,389

	2021 €m	2020 €m
Analysed by remaining maturity:		
Repayable on demand	**5,246**	2,872
3 months or less	**92**	517
1 year or less but over 3 months	**265**	1,236
5 years or less but over 1 year	**—**	764
	5,603	5,389

26. SECURITIES FINANCING

Securities financing consists of sale and repurchase transactions.

Sale and repurchase transactions involve purchases (or sales) of investments with agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price. These are referred to as reverse repurchase agreements and securities sold under agreements to repurchase.

As set out in note 1.3, EBS has elected to voluntarily change its accounting policy for the presentation of financial instruments relating to securities financing. Following consideration of the scale of securities sold under sale and repurchase transactions by EBS a decision was taken to introduce this new line item 'Securities financing' for liabilities in the consolidated statement of financial position. The comparatives for 2020 have been restated accordingly.

			2021			2020
	Banks €m	**Customers €m**	**Total €m**	Banks €m	Customers €m	Total €m
Liabilities						
Securities sold under agreements to repurchase	**2,382**	**—**	**2,382**	2,741	—	2,741
	2,382	**—**	**2,382**	2,741	—	2,741

Securities sold under agreements to repurchase mature within six months and are secured by funds received from AIB. At 31 December 2021 in relation to securities sold under agreements to repurchase, EBS had pledged collateral with a fair value of €2,382m (2020: €2,741m). These transactions were conducted subject to the normal market agreements for standard repurchase transactions.

Notes to the consolidated financial statements

27. LEASE LIABILITIES

	2021 €m	2020 €m
At 31 December	**28**	33
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**6**	6
Later than one year and not later than five years	**22**	23
Later than five years	**3**	11
Total undiscounted lease liabilities at end of year	**31**	40

Analysis of movements in lease liabilities	2021 €m	2020 €m
At 1 January	**33**	38
Lease payments[1]	**(6)**	(7)
Interest expense	**1**	1
Remeasurement	**—**	1
At 31 December	**28**	33

[1]Repayment of principal portion of the lease liabilities amounted to €5m (2020: €6m), i.e. lease payments net of interest expense.

Notes to the consolidated financial statements

28. RETIREMENT BENEFITS

EBS has operated three funded defined benefit pension schemes, as well as two defined contribution schemes. 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 Group in terms of increases to pensions in payment. The AIB Group Board has determined that the funding of the discretionary increases to pensions in payment is a decision to be made each year. A process, taking account of all relevant interests and factors has been implemented by the AIB Group Board. These interests and factors include advice of the Actuary; the interests of the members of the schemes; the interests of the employees; financial circumstances and ability to pay; the views of the Trustees; commercial interests and any competing obligations to the State. Under this annual process, AIB Group decided in February 2021, that the funding of discretionary increases was not appropriate which was subsequently agreed by EBS. In February 2022, the AIB Group Board decided to approve the funding of a 2.5% discretionary increase in relation to the three EBS defined benefit schemes and this was subsequently considered and approved by the EBS Board.

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.

All EBS Defined Benefit Plans have achieved their objectives 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 AIB 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 AIB Group is negatively affected as funding deficits will be fully deductible from regulatory capital; and
- There could be a negative impact on industrial relations if the funding level of a scheme was to deteriorate significantly.

Each scheme has a separate trustee board and AIB Group previously agreed funding plans to deal with deficits in each scheme. As part of each funding agreement, AIB Group would engage with each trustee regarding an appropriate investment strategy to reduce the risk in each scheme. The ability of the pension schemes to meet the projected pension payments is managed by the trustees through the active management of the investment portfolios. Although AIB Group has interaction with the trustees, it cannot direct the investment strategy of the schemes.

Irish schemes that are deemed to have a deficit under the MFS must prepare funding plans to address this situation in a timely manner and submit them to the Pensions Authority for approval.

Pension risk is monitored and controlled in line with the requirements of the AIB's pension risk framework and policy.

Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation at 31 December 2021 is 22 years (2020: 22 years).

Notes to the consolidated financial statements

28. 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 were prepared in 2020 with an effective date of 1 January 2020 for each scheme. During 2020 AIB Group engaged with the trustees of each scheme to discuss the valuation results and it was determined that no employer contributions were required at that time.

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 2021 and 2020. 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 Irish defined benefit scheme.

	2021	2020
Financial assumptions	**%**	%
Rate of increase of pensions in payment	**0.00**	0.00
Discount rate	**1.38**	1.10
Inflation assumptions	**2.00**	0.95

Mortality assumptions
The life expectancies underlying the value of the scheme liabilities for AIB Group schemes at 31 December 2021 and 2020 are shown in the following table:

	Life expectancy - years	
	2021	2020*
Retiring today age 63		
Male	**24.9**	25.3
Female	**26.7**	27.2
Retiring in 10 years' time at age 63		
Male	**25.5**	26.1
Female	**27.5**	28.2

*2020 mortality assumptions updated to align to the basis reported by AIB Group

The main post retirement mortality assumptions used at 31 December 2021 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 63 at 31 December 2021 was 24.9 (2020: 25.3 years) and for a female pensioner aged 63 years was 26.7 years (2020: 27.2 years). The table also shows that, based on the assumed mortality improvements in 10 years' time, the life expectancy for a male pensioner aged 63 years will increase to 25.5 years (2020: 26.1 years) and for a female pensioner aged 63 years will increase to 27.5 years (2020: 28.2 years).

Notes to the consolidated financial statements

28. RETIREMENT BENEFITS *(continued)*

Movement in defined benefit obligation and scheme assets
The amounts recognised in the statement of financial position of EBS are determined as follows:

	2021				2020			
	Defined benefit obligation	**Fair value of scheme assets**	**Asset ceiling/ minimum funding**	**Net defined benefit (liability) asset**	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding	Net defined benefit (liability) asset
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
At 1 January	**(222)**	**186**	**(7)**	**(43)**	(213)	185	(7)	(35)
Included in profit or loss								
Interest (cost)/income	**(2)**	**2**	**—**	**—**	(3)	3	—	—
Administration costs	**—**	**(1)**	**—**	**(1)**	—	(1)	—	(1)
	(2)	**1**	**—**	**(1)**	(3)	2	—	(1)
Included in other comprehensive income								
Remeasurements gain (loss):								
Actuarial gain/(loss) arising from:								
Experience adjustments	**—**	**—**	**—**	**—**	1	—	—	1
Changes in demographic assumptions	**5**	**—**	**—**	**5**	—	—	—	—
Changes in financial assumptions	**(4)**	**—**	**—**	**(4)**	(12)	—	—	(12)
Return on scheme assets excluding interest income	**—**	**13**	**—**	**13**	—	4	—	4
Asset ceiling / minimum funding adjustments	**—**	**—**	**(1)**	**(1)**	—	—	—	—
	1	**13**	**(1)**	**13**	(11)	4	—	(7)
Other								
Employer	**—**	**—**	**—**	**—**	—	—	—	—
Benefits paid	**8**	**(8)**	**—**	**—**	5	(5)	—	—
Administrative expenses paid from plan assets	**—**	**—**	**—**	**—**	—	—	—	—
	8	**(8)**	**—**	**—**	5	(5)	—	—
At 31 December	**(215)**	**192**	**(8)**	**(31)**	(222)	186	(7)	(43)

	31 December 2021	31 December 2020
	€m	€m
Recognised on the statement of financial position as:		
Retirement benefit liabilities	**(31)**	(43)
Net pension deficit	**(31)**	(43)

28. RETIREMENT BENEFITS *(continued)*

Scheme assets

	2021 €m	2020 €m
Investment funds		
Equity	**72**	65
Fixed interest	**96**	95
Alternatives:		
Quoted	**23**	25
Cash	**1**	1
Fair value of scheme assets at 31 December	**192**	186

None of the pension plan assets are invested in the Company's or EBS'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% (2020: 5.7%). An increase or decrease in the inflation rate of 25 basis points would increase or reduce the scheme liabilities by c.2.0% (2020: 2.0%). The addition of a one year age offset to the mortality table in use would increase the scheme liabilities by c.2.9% (2020: 2.9%)

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

29. OTHER LIABILITIES

	2021 €m	2020 €m
Items in transit	**5**	22
Sundry creditors	**44**	11
Other	**4**	5
	53	38

30. ACCRUALS AND DEFERRED INCOME

	2021 €m	2020 €m
Accrued interest	**—**	5
Other accrued expense	**13**	12
	13	17

31. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	2021 Total €m	2020 Total €m
At 1 January	**45**	39
Amounts charged to income statement	**31**	27
Amounts written back to income statement	**(3)**	(1)
Provisions utilised	**(7)**	(20)
At 31 December[1]	**66**	45

[1]The total provisions for liabilities and commitments expected to be settled within one year amount to €50m (2020: €38m).

Provisions for customer redress and other costs
Tracker Mortgage Examination
In respect of customer redress and compensation a provision of €2.4m is held at 31 December 2021 for identified impacted accounts under the Tracker Mortgage Examination and the ongoing appeals process (2020: €3m).

The provision at 31 December 2021 for 'Other costs' amounted to €4m (2020: €4m).

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

In this regard, EBS previously created a provision of €15.3m in 2019 for the impact of monetary penalties that is expected to be imposed on EBS by the CBI. However, this matter is still ongoing, and EBS has retained the provision of €15.3m, as it remains EBS's best estimate. This 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.

Payment Protection Insurance
At 31 December 2021, a provision amounting to €21.2m (2020: €8m) is held in respect of an error in EBS's process for charging monthly premiums was not aligned to the PPI policy terms & conditions. The provision is in relation to anticipated cost of customer redress and other related costs. The anticipated cost of redress and other related costs are subject to uncertainty, with a range of possible outcomes, with the final outcome being higher or lower depending on finalisation of such issues.

Other Provisions
EBS also holds additional provisions to cover other matters including other customer restitutions, onerous contracts and legal claims amounting to €23m (2020: €15m). €8m of these provisions are due to be settled within one year (2020: €6m).

32. SUBORDINATED LIABILITIES

	2021 €m	2020 €m
Subordinated loans	—	300
	—	300

On 28 November 2019, 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.

On 29 June 2020, EBS d.a.c. borrowed an additional €200m from its parent company, AIB p.l.c. in the form of senior non-preferred debt, also with a fixed maturity date of 28 November 2022. The loan bears interest at a rate of 1 month Euribor plus 190 basis points and interest is payable monthly in arrears.

32. SUBORDINATED LIABILITIES (continued)

On 28 November 2021, EBS d.a.c. exercised its call options to repay both loans.

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

33. SHARE CAPITAL

	2021		2020	
	Number of shares		Number of shares	
	m	**€m**	m	€m
Authorised:				
Ordinary share capital				
Ordinary shares of €0.25 each	**2,000**	**500**	2,000	500
Issued and fully paid up:				
Ordinary share capital				
Ordinary shares of €0.25 each	**1,655**	**414**	1,655	414

	2021	2020
Movements in issued share capital	**€m**	€m
At 1 January	**413**	413
At 31 December	**413**	413

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.

34. CAPITAL RESERVES

	2021	2020
	€m	€m
At 1 January	**349**	249
Capital contribution	**—**	100
At 31 December	**349**	349

The capital reserves represents non refundable cash contribution received from EBS's shareholder and the capital provided by the Minister for Finance on behalf of the Irish State on 17 June 2010.

A capital contribution of €100m was received in 2020 from AIB to ensure EBS maintained adequate capital buffers following the loan transfer from EBSMF.

35. CONTINGENT LIABILITIES AND COMMITMENTS

(i) Off balance sheet commitments
At 31 December 2021 loan approvals that have not been drawn down as at year end, amount to €392m (2020: €228m).

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 1.18 Impairment of financial assets.

The loan commitments were assessed for an ECL at 31 December 2021, it was determined that the ECL was immaterial (2020: nil).

Notes to the consolidated financial statements

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(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 mortgages. Further cases may be served in the future in relation to 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.

In early 2020, the NAMA subordinated bonds were fully redeemed.

(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 or CBI) 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, EBS 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.

36. CAPITAL COMMITMENTS
At 31 December 2021 there was €1m capital expenditure authorised (2020: nil).

Notes to the consolidated financial statements

37. 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 1.11 and financial liabilities in note 1.12, 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 2021 and 2020 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.

			2021
	At fair value through other comprehensive income	**At amortised cost**	**Total**
	Cash flow hedge derivatives		
	€m	**€m**	**€m**
Financial assets			
Cash and balances at central banks	**—**	**448**	**448**
Derivative financial instruments	**19**	**—**	**19**
Loans and advances to banks	**—**	**345**	**345**
Loans and advances to customers	**—**	**10,323**	**10,323**
Other financial assets	**—**	**124**	**124**
	19	**11,240**	**11,259**
Financial liabilities			
Deposits by banks	**—**	**1,955**	**1,955**
Customer accounts	**—**	**5,603**	**5,603**
Securities financing	**—**	**2,382**	**2,382**
Derivative financial instruments	**7**	**—**	**7**
Other financial liabilities	**—**	**66**	**66**
	7	**10,006**	**10,013**

			2020
	At fair value through other comprehensive income	At amortised cost	Total
	Cash flow hedge derivatives		
	€m	€m	€m
Financial assets			
Cash and balances at central banks	—	347	347
Derivative financial instruments	1	—	1
Loans and advances to banks	—	152	152
Loans and advances to customers	—	10,811	10,811
Other financial assets	—	15	15
	1	11,325	11,326
Financial liabilities			
Deposits by banks	—	1,781	1,781
Customer accounts	—	5,389	5,389
Securities financing	—	2,741	2,741
Derivative financial instruments	21	—	21
Subordinated liabilities	—	300	300
Other financial liabilities	—	55	55
	21	10,266	10,287

Notes to the consolidated financial statements

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

The term ‘financial instruments’ includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which 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 1.14.

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.

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 2021.

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.

Notes to the consolidated financial statements

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

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and 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 2021 took account of EBS's expectations on credit losses over the life of the loans.

Securities financing

The fair value of securities financing assets and liabilities approximates to their carrying amount as these balances are generally short-dated and fully collateralised.

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.

38. 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 2021 and 2020:

					2021
	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	19	—	19	—	19
	19	—	19	—	19
Financial assets not measured at fair value					
Cash and balances at central banks	448	6	442	—	448
Loans and advances to banks	345	—	—	345	345
Loans and advances to customers	10,323	—	—	9,569	9,569
Other financial assets	124	—	—	124	124
	11,240	6	442	10,038	10,486
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate swaps	7	—	7	—	7
	7	—	7	—	7
Financial liabilities not measured at fair value					
Deposits by banks	1,955	—	—	1,955	1,955
Customer accounts	5,603	—	—	5,602	5,602
Securities financing	2,382	—	—	2,382	2,382
Other financial liabilities	66	—	—	66	66
	10,006	—	—	10,005	10,005

Notes to the consolidated financial statements

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

					2020
	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
	1	—	1	—	1
Financial assets not measured at fair value					
Cash and balances at central banks	347	8	339	—	347
Loans and advances to banks	152	—	—	152	152
Loans and advances to customers	10,811	—	—	10,881	10,881
Other financial assets	15	—	—	15	15
	11,325	8	339	11,048	11,395
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate swaps	21	—	21	—	21
	21	—	21	—	21
Financial liabilities not measured at fair value					
Deposits by banks	1,781	—	—	1,781	1,781
Customer accounts	5,389	—	—	5,372	5,372
Subordinated liabilities	300	—	299	—	299
Other financial liabilities	55	—	—	55	55
	10,266	—	299	9,949	10,248

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 2021 and 2020.

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

Reconciliation of balances in Level 3 of the fair value hierarchy

There were no level 3 financial assets or liabilities carried at fair value on the statement of financial position for the year ended 31 December 2021.

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 for 2020.

	2020					
	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	—	—	(1)	(1)	—	—
Sales/disposals	—	—	(20)	(20)	—	—
At 31 December	—	—	—	—	—	—

Notes to the consolidated financial statements

39. STATEMENT OF CASH FLOWS

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

	2021	2020
	€m	€m
Cash and balances at central banks	**448**	347
	448	347

Cash and cash equivalents include balances with original maturities of less than 3 months and balances with CBI exclude the mandatory reserve deposits.

40. 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 3 and note 4 to the consolidated financial statements.

	2021	2020
	€m	€m
Included in the statement of financial position		
Loans and advances to banks	**345**	152
Deposits by central banks and banks	**1,955**	1,781
Derivative financial instruments		
Interest rate swaps		
Assets (Fair value)	**19**	1
Liabilities (Fair value)	**(7)**	(21)
Securities financing		
Liability	**2,382**	2,741
Included in the income statement		
Interest expense	**(15)**	(20)
Operating expenses	**(103)**	(72)

(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 2021 EBS has 8 KMP (2020: 8 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 EBS under the Master Services Agreement.

Total compensation to KMP is as follows

	2021	2020
	€'000	€'000
Short-term compensation*	—	317
Termination benefits	—	217
	—	534

*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

40. RELATED PARTY TRANSACTIONS

Directors' remuneration
The remuneration of the Independent Non-Executive Directors in office during 2021 is as follows:

	2021	2020
	€'000	€'000
Total Directors' fees	**91**	99

At 31 December 2021, the Board of Directors comprised of Mr Paul Butler, Ms Yvonne Hill, Mr Tom Foley, Mr Gerry Gaffney, Mr Bryan O'Connor and Mr Paul Owens.

The remuneration of AIB Group Non-Executive Directors (Mr Bryan O'Connor) and the Executive Directors (Mr Paul Butler and Mr 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 (2020: 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:

	2021	2020
Loans outstanding	**€'000**	€'000
At 1 January	**493**	554
Loan repayments during the year/change of KMP/other	**(56)**	(61)
At 31 December	**437**	493

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.

(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 6 Directors in office during the year, 1 of whom availed of credit facilities (2020: 1). The Director who availed of credit facilities had balances outstanding at 31 December 2021 (2020: 1).

40. RELATED PARTY TRANSACTIONS

Details of transactions with Directors for the year ended 31 December 2021 are as follows:

	Balance at 31 December 2020	Amounts advanced during 2021	Amounts repaid during 2021	**Balance at 31 December 2021**
	€'000	€'000	€'000	**€'000**
Gerry Gaffney:				
Loans	49	**—**	**43**	**6**
Interest charged during the year	—	**—**	**—**	**1**
Maximum debit balance during the year**	—	**—**	**—**	**49**

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

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2021. All facilities are performing to their terms and conditions.

Mr Paul Butler, Ms Yvonne Hill, Mr Bryan O'Connor, Mr Tom Foley and Mr Paul Owens had no facilities with EBS during 2021.

Details of transactions with Directors for the year ended 31 December 2020 are as follows:

	Balance at 31 December 2019	Amounts advanced during 2020	Amounts repaid during 2020	Balance at 31 December 2020
	€'000	€'000	€'000	€'000
Gerry Gaffney:				
Loans	55	—	6	49
Interest charged during the year	—	—	—	2
Maximum debit balance during the year**	—	—	—	55

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

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2020. All facilities are performing to their terms and conditions.

Mr Desmond Fitzgerald, Mr Bryan O'Connor, Mr Tom Foley, Mr Denis O'Callaghan, Mr Paul Owens, Mr Paul Butler, Ms Yvonne Hill and Mr Jim O'Hara had no facilities with EBS during 2020.

(ii) Connected persons

The aggregate of loans to connected persons of Directors in office at 31 December 2021, as defined in Section 220 of the Companies Act 2014, are disclosed below (aggregate of 3 persons, one of which is jointly held with a Director, and thus balances disclosed above; 2020: 3 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 2021	Balance at 31 December 2020
	€'000	€'000
Loan	**433**	461
Interest charged during the year	**3**	3
Maximum debit balance during year**	**461**	488

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

40. RELATED PARTY TRANSACTIONS

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2021. 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 2021 represents less than 0.03% of the net assets of EBS. (2020: 0.05%).

(d) Summary of relationship with the Irish Government
The Irish Government is recognised as a related party under IAS 24 Related Party Disclosures as it is in a position to exercise control over AIB Group.

Ordinary Shares
At 31 December 2021, the State held 71.12% of the ordinary shares of AIB Group plc (31 December 2020: 71.12%). Subsequent to the year end, the State's shareholding reduced to 70.97% as at 2 March 2022 as part of a pre-arranged trading plan that was previously announced.

Guarantee Schemes
European Communities (Deposit Guarantee Scheme) Regulations 2015
Eligible deposits (including credit balances in current accounts, demand deposit accounts and term deposit accounts) of up to €100,000 per depositor per credit institution are covered under this scheme. The scheme is administered by the CBI and is funded by the credit institutions covered by the scheme.

41. REGULATORY COMPLIANCE
During 2021, the Company complied with their externally imposed capital ratios.

42. ULTIMATE PARENT COMPANY
EBS is a wholly owned subsidiary of AIB. The ultimate parent company of EBS and AIB is AIB Group plc., a company registered in the Republic of Ireland.

The ultimate parent company is the largest group of which EBS is a member, for which consolidated accounts are prepared. The financial statements of AIB and AIB Group plc are available from its registered office AIB Group plc, 10 Molesworth Street, Dublin 2, Ireland. Alternatively, information can be viewed by accessing AIB's website at www.aib.ie/investorrelations.

43. NON-ADJUSTING EVENTS AFTER THE REPORTING DATE
There have been no significant events affecting EBS since the reporting date which require disclosure or amendment to the financial statements.

44. APPROVAL OF FINANCIAL STATEMENTS
The financial statements were approved by the Board of Directors on 2 March 2022.

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

Company statement of financial position

As at 31 December 2021

	Note	2021 €m	2020 €m
Assets			
Cash and balances at central banks	b	**448**	347
Non-current assets held for sale	c	**4**	10
Derivative financial instruments	d	**19**	1
Loans and advances to banks	e	**253**	52
Loans and advances to customers	f	**9,551**	9,916
Securities financing	g	**832**	957
Investments in Group undertakings	h	**—**	138
Intangible assets and goodwill	i	**24**	25
Property, plant and equipment	j	**42**	65
Other assets	k	**108**	11
Current taxation		**—**	4
Deferred tax assets	l	**212**	234
Prepayments and accrued income	m	**2**	2
Total assets		**11,495**	11,762
Liabilities			
Deposits by banks	n	**1,953**	1,928
Customer accounts	o	**5,603**	5,389
Securities financing	g	**2,382**	2,741
Derivative financial instruments	d	**7**	21
Lease liabilities	p	**28**	33
Current taxation		**1**	—
Deferred tax liabilities	l	**1**	—
Retirement benefit liabilities	q	**31**	43
Other liabilities	r	**53**	39
Accruals and deferred income	s	**12**	12
Provisions for liabilities and commitments	t	**66**	45
Subordinated liabilities	u	**—**	300
Total liabilities		**10,137**	10,551
Shareholders' equity			
Issued share capital presented as equity	v	**413**	413
Capital contribution reserves	w	**349**	349
Reserves		**596**	449
Total shareholders' equity		**1,358**	1,211
Total liabilities and shareholders' equity		**11,495**	11,762

The Company recorded a profit after taxation of €110m for the year ended 31 December 2021 (2020: €253m).

Bryan O'Connor
Chairman
2 March 2022

Paul Owens
Independent Non-Executive Director

Diane Lumsden
Company Secretary
Date: 6 March 2023

Gerry Gaffney
Executive Director

Company statement of changes in shareholders' equity

For the financial year ended 31 December 2021

	Share capital	Capital reserves	Investment securities reserve	Cash flow hedge reserve	Revenue reserve	Total shareholders' equity
	€m	€m	€m	€m	€m	€m
At 1 January 2021	**413**	**349**	**—**	**(20)**	**469**	**1,211**
Total comprehensive income for the year						
Profit for the year	**—**	**—**	**—**	**—**	**110**	**110**
Other comprehensive income	**—**	**—**	**—**	**26**	**11**	**37**
At 31 December 2021	**413**	**349**	**—**	**6**	**590**	**1,358**
At 1 January 2020	413	249	(83)	(17)	207	769
Total comprehensive income for the year						
Profit for the year	—	—	—	—	253	253
Other comprehensive income	—	—	99	(3)	(7)	89
Capital contribution	—	100	—	—	—	100
Realised gains on equity shares held at fair value through other comprehensive income	—	—	(16)	—	16	—
At 31 December 2020	413	349	—	(20)	469	1,211

Company statement of cash flows

For the financial year ended 31 December 2021

	Note	2021 €m	2020 €m	
Cash flows from operating activities				
Operating profit for the year before taxation		**128**	245	
Adjustments for:				
Net credit impairment charge		**(41)**	117	*
Retirement benefits - defined benefit expense/(income)		**1**	1	
Depreciation, amortisation and impairment	i/j	**29**	13	
Dividends received from equity investments		**(6)**	(327)	
Net gain on other financial assets measured at FVTPL		**6**	2	
Gain on disposal of investment securities		**—**	(13)	
Change in provisions for liabilities and commitments	t	**27**	6	
Interest paid on subordinated liabilities		**3**	2	
		147	46	
Changes in operating assets and liabilities				
Change in non-current assets held for sale		**6**	(2)	
Change in derivative financial instruments		**(7)**	2	
Change in loans and advances to banks		**(2)**	3	
Change in loans and advances to customers		**406**	(2,438)	*
Change in securities financing (asset)		**125**	(956)	
Change in other assets		**(97)**	22	
Change in prepayments and accrued income		**—**	3	
Change in customer accounts		**214**	139	
Change in securities financing (liability)		**(359)**	2,741	
Change in other liabilities		**14**	6	
Change in accruals and deferred income		**—**	(25)	
Net cash flows from operating activities before taxation		**447**	(459)	
Taxation (paid)/refund		**—**	—	
Net cash flows from operations		**447**	(459)	
Cash flows from investing activities				
Proceeds from sales and maturity of investment securities		**—**	2,543	
Additions to intangible assets	i	**(6)**	(6)	
Disposal of intangible assets	i	**—**	4	
Additions to property, plant and equipment	j	**—**	(2)	
Disposal of property, plant and equipment	j	**—**	1	
Investment in Group undertakings	h	**—**	13	
Disposal of investment in Group undertakings		**138**	—	
Dividends received from Group undertakings		**6**	327	
Net cash flows from investing activities		**138**	2,880	
Cash flows from financing activities				
Change in deposits by banks		**25**	(3,311)	
Proceeds on issue of subordinated liabilities	u	**—**	200	
Interest paid on subordinated liabilities		**(3)**	(2)	
Repayment of subordinated liabilities		**(300)**	—	
Repayment of lease liabilities	p	**(5)**	(7)	
Capital contribution		**—**	100	
Net cash flows from financing activities		**(283)**	(3,020)	
Change in cash and cash equivalents		**302**	(599)	
Cash and cash equivalents at 1 January		**399**	998	
Cash and cash equivalents at 31 December	aa	**701**	399	

*Represented. The 2020 ‘Net credit impairment charge’ is increased by €12m and the ‘Change in loans and advances to customers’ is reduced by €12m to align with the 2021 presentation of ‘Recoveries of bad debts previously written-off’.

Notes to the company financial statements

Background
EBS d.a.c. is a company domiciled in Ireland with its Registered Office address at The EBS Building, 2 Burlington Road, Dublin 4. EBS d.a.c. is registered under the Companies Act 2014 as a public limited company under the company number 500748 and is the holding company EBS.

a. Accounting policies
Where applicable, the accounting policies adopted by EBS d.a.c are the same as those of EBS as set out in note 1 to the consolidated financial statements on pages 79 to 98.

The parent company financial statements and related notes set out on pages 139 to 167 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial year ended 31 December 2021. They also comply with those parts of the Companies Act 2014 and with the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS.

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.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 99 to 104.

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.

Notes to the company financial statements

b. Cash and balances at central banks

	2021 €m	2020 €m
Cash in hand	**6**	8
Balances with the Central Bank other than mandatory reserve deposits	**442**	339
	448	347

c. Non-current assets held for sale

	2021 €m	2020 €m
Repossessed assets	**4**	10
	4	10

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

d. Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 16 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 2021 and 2020. A description of how the fair values of derivatives are determined is set out in note 38 to the consolidated financial statements.

	2021			2020		
	Contract/ Notional Amount	**Fair Values**		Contract/ Notional Amount	Fair Values	
		Assets	**Liabilities**		Assets	Liabilities
	€m	**€m**	**€m**	€m	€m	€m
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**4,306**	**19**	**(7)**	2,422	1	(21)
Total derivative financial instruments	**4,306**	**19**	**(7)**	2,422	1	(21)

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:

	2021				2020			
	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	**475**	**3,831**	**—**	**4,306**	—	2,422	—	2,422
Positive fair value	**—**	**19**	**—**	**19**	—	1	—	1

Notes to the company financial statements

d. Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity
At 31 December 2021 and 2020, the Company held the following hedging instruments of interest rate risk in fair value hedges:

						2021
	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 liabilities						
Nominal principal amount (€m)	**—**	**—**	**475**	**3,831**	**—**	**4,306**
Average interest rate (%)	**—**	**—**	**(0.53)**	**(0.28)**	**—**	**(0.31)**

						2020
	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)	—	20	—	—	—	20
Average interest rate (%)	—	(0.17)	—	—	—	(0.17)
Hedges of financial liabilities						
Nominal principal amount (€m)	1	3	25	2,373	—	2,402
Average interest rate (%)	2.15	2.15	0.35	(0.24)	—	0.23

Notes to the company financial statements

d. 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 2021 and 2020:

2021

		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	—	—	—	Derivative financial instruments	(1)	—	—	Net trading income	—	—	Interest income using the effective interest rate method
Derivative liabilities	4,306	19	(7)	Derivative financial instruments	33	29	—	Net trading income	—	(8)	Interest and similar expense

2021

	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	1	—	—	—	—
Interest rate risk	Customer accounts	(33)	8	7	(1)	(1)

Notes to the company financial statements

d. Derivative financial instruments *(continued)*

2020

		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	20	1	—	Derivative financial instruments	(4)	—	—	Net trading income	—	—	Interest income using the effective interest rate method
Derivative liabilities	2,402	—	(21)	Derivative financial instruments	2	(5)	—	Net trading income	—	—	Interest and similar expense

2020

	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	(2)	(21)	(18)	(1)	(1)

*Statement of financial position

e. Loans and advances to banks

	2021	2020
	€m	€m
Funds placed with AIB	**253**	52
	253	52
Analysed by remaining maturity:		
Repayable on demand	**253**	52
	253	52

f. Loans and advances to customers

	2021	2020
	€m	€m
Loans and advances to customers	**8,232**	9,028
Loans to subsidiaries and special purpose vehicles	**1,489**	1,294
	9,721	10,322
Expected credit loss allowance	**(170)**	(406)
	9,551	9,916

	2021	2020
	€m	€m
Analysed by remaining maturity:		
Repayable on demand	**1,680**	1,798
3 months or less	**2**	—
1 year or less but over 3 months	**9**	15
5 years or less but over 1 year	**196**	203
Over 5 years	**7,834**	8,306
Gross carrying amount	**9,721**	10,322
Expected credit loss allowance	**(170)**	(406)
	9,551	9,916

Included in loans and advances to customers is €2,075m (2020: €2,386m) loans held through the securitisation vehicle Burlington Mortgages No.1 d.a.c.

Notes to the company financial statements

f. 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.

	2021 €m	2020 €m
Opening balance	**406**	143
Net remeasurement of loss allowance - customers	**(41)**	117
Changes in loss allowance due to write-offs	**(14)**	(19)
Other movement	**—**	165
At 31 December	**170**	406
Amounts include loss allowance on:		
Loans and advances to customers measured at amortised cost	**170**	406

Continuing Involvement in securitised assets
In 2020, the Company securitised c. €2.6bn of its residential mortgage portfolio held in EBS d.a.c. These mortgages were transferred to a securitisation vehicle, Burlington Mortgages No. 1 d.a.c., ("Burlington"). In order to fund the acquired mortgages, Burlington issued twelve classes of notes to the Company. The transferred mortgages have not been derecognised as the Company retains substantially all the risks and rewards of ownership and continue to be reported in the Company's financial statements. Burlington is consolidated into the Company's financial statements with all notes being eliminated on consolidation.

Under the terms of the securitisation, the rights of the providers of the related funds were limited to the loans in the securitised portfolio and any related income generated by the portfolio, without recourse to the Company.

g. Securities financing

Sale and repurchase transactions involve purchases (or sales) of investments with agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price. These are referred to as reverse repurchase agreements and securities sold under agreements to repurchase.

As set out in note 1.3, EBS has elected to voluntarily change its accounting policy for the presentation of financial instruments relating to securities financing. Following consideration of the scale of securities borrowing and repurchase transactions by EBS a decision was taken to introduce this new line item 'Securities financing' for both assets and liabilities in the company statement of financial position. The comparatives for 2020 have been restated accordingly.

	2021			2020		
	Banks €m	**Customers €m**	**Total €m**	Banks €m	Customers €m	Total €m
Assets						
Reverse repurchase agreements	**832**	**—**	**832**	957	—	957
Total	**832**	**—**	**832**	957	—	957
Liabilities						
Securities sold under agreements to repurchase	**2,382**	**—**	**2,382**	2,741	—	2,741
	2,382	**—**	**2,382**	2,741	—	2,741

Securities sold under agreements to repurchase mature within six months and are secured by funds received from AIB. At 31 December 2021 in relation to securities sold under agreements to repurchase, EBS had pledged collateral with a fair value of €2,382m (2020: €2,741m). These transactions were conducted subject to the normal market agreements for standard repurchase transactions.

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Notes to the company financial statements

h. Investments in Group undertakings

	2021	2020
	€m	€m
Equity		
At 1 January	**138**	151
EBS Mortgage Finance capital reduction	**(138)**	(13)
At 31 December	**—**	138

The following table sets out at 31 December 2021 and 2020, the carrying value of shares in Group undertakings.

	2021	2020
Investment in Group undertakings	**€m**	€m
EBS Mortgage Finance	**—**	138
	—	138

Following the capital reduction on 31 March 2021 the issued share capital of EBSMF was reduced from €137,885,000 to €2.

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

EBS Mortgage Finance
The Company holds 8 (2020: 551,540,000) €0.25 (2020: €0.25) ordinary shares, 100% (2020: 100%) in EBS Mortgage Finance ('EBSMF') which was incorporated in the Republic of Ireland on 30 October 2008 and was regulated as a designated credit institution. The registered address of the EBS Mortgage Finance is 2 Burlington Road, Dublin 4.

On 2 February 2021, following an application by EBS Mortgage Finance u.c. ('EBSMF') to its regulators to revoke its banking licence and designated mortgage credit institution status (‘DCMI’), EBSMF received confirmation from the ECB and CBI that its banking licence and DCMI status were withdrawn. On 31 March 2021, EBSMF completed a capital reduction and made a distribution of €143.4m to its sole shareholder, EBS d.a.c. EBSMF is expected to be wound up during 2022.

In 2020, EBSMF made a distribution from distributable reserves amounting to €339m of which €13m was taken as a reduction of the Company's investment and €326m to 'Other income'.

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

Haven Mortgages Limited
The Company holds 2 (2020: 2) €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.

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 2021.

Notes to the company financial statements

i. Intangible assets

	2021 Total €m	2020 Total €m
Cost		
At 1 January	**60**	58
Additions	**6**	6
Amounts written-off	**(20)**	(4)
At 31 December	**46**	60
Amortisation		
At 1 January	**35**	34
Charge for financial year	**7**	5
Amounts written-off	**(20)**	(4)
At 31 December	**22**	35
Carrying value at 31 December	**24**	25

j. Property, plant and equipment

	Owned assets				Leased assets	2021
	Property			Equipment	Right-of-use assets	Total
	Freehold	Long leasehold	Leasehold under 50 years		Property	
	€m	€m	€m	€m	€m	€m
Cost						
At 1 January	**26**	**3**	**5**	**10**	**48**	**92**
Transfers in/(out)	**1**	**—**	**—**	**(1)**	**—**	**—**
Disposals	**—**	**—**	**(1)**	**(3)**	**(1)**	**(5)**
At 31 December	**27**	**3**	**4**	**6**	**47**	**87**
Depreciation/impairment						
At 1 January	**9**	**—**	**2**	**4**	**12**	**27**
Depreciation charge for the year	**1**	**—**	**—**	**1**	**2**	**4**
Impairment charge for the year	**—**	**—**	**1**	**1**	**16**	**18**
Disposals	**—**	**—**	**(1)**	**(3)**	**—**	**(4)**
At 31 December	**10**	**—**	**2**	**3**	**30**	**45**
Carrying value at 31 December	**17**	**3**	**2**	**3**	**17**	**42**

Notes to the company financial statements

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

	Property			Equipment	Right-of-use assets	Total
	Freehold	Long leasehold	Leasehold under 50 years		Property	
2020	€m	€m	€m	€m	€m	€m
Cost						
At 1 January	24	4	3	13	47	91
Transfers in/(out)	2	—	2	(4)	—	—
Additions	—	—	—	1	1	2
Disposals	—	(1)	—	—	—	(1)
At 31 December	26	3	5	10	48	92
Depreciation/impairment						
At 1 January	8	1	1	4	6	20
Depreciation charge for the year	1	—	1	—	6	8
Disposals	—	(1)	—		—	(1)
At 31 December	9	—	2	4	12	27
Carrying value at 31 December	17	3	3	6	36	65

The carrying value of property occupied by the Company for its own activities was €22m (2020: €23m) in relation to owned assets and €17m (2020:€36m) in relation to right-of-use assets

Leased assets
Property
The Company leases property for its offices and retail 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 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.

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

	2021	2020
Amounts recognised in income statement	**€m**	€m
Interest on lease liabilities	**1**	1
Depreciation expense on right-of-use assets	**2**	6
	3	7

	2021	2020
Amounts recognised in statement of cash flows	**€m**	€m
Total cash outflow for leases during the year	**6**	7

(1) Includes interest expense on lease liabilities of €1m (2020: €1m) and principal repayments on lease liabilities of €6m (2020: €8m).

Notes to the company financial statements

k. Other assets

	2021 €m	2020 €m
Items in transit - debit	**2**	—
Proceeds due from disposal of loan portfolio[1]	**106**	—
Sundry debtors	**—**	11
	108	11

[1]ECL is immaterial

l. Deferred taxation

	2021 €m	2020 €m
Deferred tax assets		
Transition to IFRS 9	**1**	1
Investment securities	**—**	3
Retirement benefits	**4**	5
Unutilised tax losses	**207**	225
Total gross deferred tax assets	**212**	234
Deferred tax liabilities:		
Investment securities	**(1)**	—
Total gross deferred tax liabilities	**(1)**	—
Net deferred tax assets	**211**	234
Represented on the statement of financial position as follows:		
Deferred tax assets	**212**	234
Deferred tax liabilities	**(1)**	—
	211	234

Analysis of movements in deferred taxation	2021 €m	2020 €m
At 1 January	**234**	242
Other adjustments	**—**	(11)
Deferred tax through other comprehensive income	**(5)**	—
Income statement	**(18)**	5
Deferred tax through equity	**—**	(2)
At 31 December	**211**	234

At 31 December 2021, deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €211m (2020: €234m). 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

m. Prepayments and accrued income

	2021 €m	2020 €m
Accrued interest	**1**	1
Prepaid expenses	**1**	1
	2	2

n. Deposits by banks

	2021 €m	2020 €m
Due to Group undertaking	**6**	148
Due to AIB	**1,947**	1,780
	1,953	1,928

Analysed by remaining maturity	2021 €m	2020 €m
Repayable on demand	**1,953**	1,928
	1,953	1,928

o. Customer accounts

Analysed by sector	2021 €m	2020 €m
Retail	**5,601**	5,387
Corporate	**2**	2
	5,603	5,389

	2021 €m	2020 €m
Analysed by remaining maturity:		
Repayable on demand	**5,246**	2,872
3 months or less	**92**	517
1 year or less but over 3 months	**265**	1,236
5 years or less but over 1 year	**—**	764
	5,603	5,389

Notes to the company financial statements

p. Lease liabilities

	2021	2020
	€m	€m
At the end of year	**28**	33
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**6**	6
Later than one year and not later than five years	**22**	23
Later than five years	**3**	11
Total undiscounted lease liabilities at end of year	**31**	40

	2021	2020
Analysis of movements in lease liabilities	€m	€m
At 1 January	**33**	38
Lease payments[1]	**(6)**	(7)
Interest expense	**1**	1
Remeasurement	**—**	1
At 31 December	**28**	33

[1]Repayment of principal portion of the lease liabilities amounted to €5m (2020: €6m), i.e. lease payments net of interest expense.

q. Retirement benefits

The retirement benefit schemes operated by EBS are detailed in note 28 to the consolidated financial statements, all of which relate to EBS d.a.c..

r. Other liabilities

	2021	2020
	€m	€m
Items in transit	**5**	23
Deferred compensation on sale of loan book	**—**	1
Sundry creditors	**45**	11
Fair value of hedged liability positions	**—**	(1)
Other liabilities	**3**	5
	53	39

s. Accruals and deferred income

	2021	2020
	€m	€m
Accrued interest	**—**	5
Other accrued expense	**12**	7
	12	12

Notes to the company financial statements

t. Provisions for liabilities and commitments

	2021	2020
	€m	€m
At 1 January	45	39
Amounts charged to income statement	30	27
Amounts written back to income statement	(3)	(1)
Provisions utilised	(6)	(20)
At 31 December [1]	66	45

[1]The total provisions for liabilities and commitments expected to be settled within one year amount to €50m (2020: €38m).

Details outlined in Note 31 Provisions for liabilities and commitments to the consolidated financial statements

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. Share capital

The share capital of EBS d.a.c. is detailed in note 33 to the consolidated financial statements, all of which relates to EBS d.a.c..

w. Capital contribution reserves

All capital contribution reserves are held in EBS d.a.c. and are detailed in note 34 to the consolidated financial statements.

x. Contingent liabilities and commitments

Off balance sheet commitments

At 31 December 2021 loan approvals that have not been drawn down as at year end, amount to €261m (2020: €177m).

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 1.18 Impairment of financial assets in note 1 to the consolidated financial statements.

The loan commitments were assessed for an ECL at 31 December 2021, it was determined that the ECL was immaterial (2020: nil).

The commentary on legal proceedings, contingent liability/contingent assets and participation in TARGET 2 – Ireland, as set out in note 35 to the consolidated financial statements, applies also to EBS d.a.c..

Notes to the company financial statements

y. 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 1.11 to the consolidated financial statements and financial liabilities in note 1.12 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 2021 and 2020 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.

	At fair value through other comprehensive income	At amortised cost	2021 Total
	Cash flow hedge derivatives		
	€m	€m	€m
Financial assets			
Cash and balances at central banks	—	448	448
Derivative financial instruments	19	—	19
Loans and advances to banks	—	253	253
Loans and advances to customers	—	9,551	9,551
Securities financing	—	832	832
Other financial assets	—	108	108
	19	11,192	11,211
Financial liabilities			
Deposits by banks	—	1,953	1,953
Customer accounts	—	5,603	5,603
Securities financing	—	2,382	2,382
Derivative financial instruments	7	—	7
Other financial liabilities	—	65	65
	7	10,003	10,010

	At fair value through other comprehensive income	At amortised cost	2020 Total
	Cash flow hedge derivatives		
	€m	€m	€m
Financial assets			
Cash and balances at central banks	—	347	347
Derivative financial instruments	1	—	1
Loans and advances to banks	—	52	52
Loans and advances to customers	—	9,916	9,916
Securities financing	—	957	957
Other financial assets	—	11	11
	1	11,283	11,284
Financial liabilities			
Deposits by banks	—	1,928	1,928
Customer accounts	—	5,389	5,389
Securities financing	—	2,741	2,741
Derivative financial instruments	21	—	21
Subordinated liabilities	—	300	300
Other financial liabilities	—	51	51
	21	10,079	10,430

Notes to the company financial statements

z. Fair value of financial instruments

The methods used by EBS in calculating the fair value of financial instruments are set out in note 38 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 2021.

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at 31 December 2021 and 2020:

					2021
	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	**19**	**—**	**19**	**—**	**19**
	19	**—**	**19**	**—**	**19**
Financial assets not measured at fair value					
Cash and balances at central banks	**448**	**6**	**442**	**—**	**448**
Loans and advances to banks	**253**	**—**	**—**	**253**	**253**
Loans and advances to customers	**9,551**	**—**	**—**	**8,024**	**8,024**
Securities financing	**832**	**—**	**—**	**832**	**832**
Other financial assets	**108**	**—**	**—**	**108**	**108**
	11,192	**6**	**442**	**9,217**	**9,665**
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate swaps	**7**	**—**	**7**	**—**	**7**
	7	**—**	**7**	**—**	**7**
Financial liabilities not measured at fair value					
Deposits by banks	**1,953**	**—**	**—**	**1,953**	**1,953**
Customer accounts	**5,603**	**—**	**—**	**5,602**	**5,602**
Securities financing	**2,382**	**—**	**—**	**2,382**	**2,382**
Other financial liabilities	**65**	**—**	**—**	**65**	**65**
	10,003	**—**	**—**	**10,002**	**10,002**

Notes to the company financial statements

z. Fair value of financial instruments *(continued)*

	2020				
	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
	1	—	1	—	1
Financial assets not measured at fair value					
Cash and balances at central banks	347	8	339	—	347
Loans and advances to banks	52	—	—	52	52
Loans and advances to customers	9,916	—	—	9,880	9,880
Securities financing	957	—	—	957	957
Other financial assets	11	—	—	11	11
	11,283	8	339	10,900	11,247
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate swaps	21	—	21	—	21
	21	—	21	—	21
Financial liabilities not measured at fair value					
Deposits by banks	1,928	—	—	1,928	1,928
Customer accounts	5,389	—	—	5,372	5,372
Securities financing	2,741	—	—	2,741	2,741
Subordinated liabilities	300	—	299	—	299
Other financial liabilities	51	—	—	51	51
	10,409	—	299	10,092	10,391

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 2021 and 2020.

Notes to the company financial statements

z. Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy
There were no level 3 financial assets or liabilities carried at fair value on the statement of financial position for the year ended 31 December 2021.

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 for 2020.

							2020
	Financial assets					Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI				
	€m	€m	€m	€m	€m	€m	€m
At 1 January	—	—	21	—	21	—	—
Total gains or (losses) in:							
Other comprehensive income - net change in fair value of investment securities	—	—	(1)	—	(1)	—	—
Sales/disposals	—	—	(20)	—	(20)	—	—
At 31 December	—	—	—	—	—	—	—

aa. Statement of cash flows

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

	2021	2020
	€m	€m
Cash and balances at central banks	**448**	347
Loans and advances to banks	**253**	52
Cash and cash equivalents	**701**	399

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 e. Loans and advances to banks.

Notes to the company financial statements

ab. Related party transactions

Related parties of the Company include its parent, 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 including Directors' remuneration are detailed in note 40 to the consolidated financial statements.

The following were the principal transactions during 2021 between the Company and its parent company AIB and subsidiary undertakings:

	2021	2020
	€m	€m
Included in the statement of financial position		
Loans and advances to banks	**253**	52
Loans and advances to customers	**1,489**	1,294
Deposits by central banks and banks	**1,953**	1,928
Derivative financial instruments:		
Interest rate swaps		
Assets (Fair value)	**19**	1
Liabilities (Fair value)	**(7)**	(21)
Securities financing		
Asset	**832**	957
Liability	**2,382**	2,741
Included in the income statement		
Interest income	**5**	12
Interest expense	**(18)**	(23)
Dividend income	**6**	326
Operating expenses	**111**	(83)

Notes to the company financial statements

ac. 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 2021 and 2020:

			2021			2020
	Amortised Cost	**Fair Value**	**Total**	Amortised Cost	Fair Value	Total
	€m	**€m**	**€m**	€m	€m	€m
Cash and balances at central banks	**448**	**—**	**448**	347	—	347
Derivative financial instruments	**—**	**19**	**19**	—	1	1
Loans and advances to banks	**253**	**—**	**253**	52	—	52
Loans and advances to customers	**9,551**	**—**	**9,551**	9,916	—	9,916
Securities financing	**832**	**—**	**832**	957	—	957
Included elsewhere:						
Accrued interest	**1**	**—**	**1**	1	—	1
Other assets	**22**	**—**	**22**	31	—	31
	11,107	**19**	**11,126**	11,304	1	11,305
Off balance sheet loan commitments	**261**	**—**	**261**	177	—	177
Maximum exposure to credit risk	**11,368**	**19**	**11,387**	11,481	1	11,482

ac. Credit risk information *(continued)*

Credit profile of the loan portfolio

The following table analyses the mortgage loan portfolios showing the ECL allowance at 31 December 2021 and 2020:

	2021			2020		
	Residential mortgages	**Commercial mortgages**	**Total**	Residential mortgages	Commercial mortgages	Total
Gross loans and advances	**€m**	**€m**	**€m**	€m	€m	€m
Total gross carrying amount	**8,176**	**56**	**8,232**	8,965	63	9,028
Analysed as to ECL staging						
Stage 1	**7,237**	**9**	**7,246**	7,441	13	7,454
Stage 2	**498**	**16**	**514**	593	10	603
Stage 3	**364**	**31**	**395**	798	39	837
POCI	**77**	**—**	**77**	133	1	134
Total	**8,176**	**56**	**8,232**	8,965	63	9,028
ECL allowance - statement of financial position	**€m**	**€m**	**€m**	€m	€m	€m
Stage 1	**(12)**	**—**	**(12)**	(11)	—	(11)
Stage 2	**(19)**	**—**	**(19)**	(29)	—	(29)
Stage 3	**(101)**	**(16)**	**(117)**	(297)	(19)	(316)
POCI	**(22)**	**—**	**(22)**	(50)	—	(50)
Total ECL allowance	**(154)**	**(16)**	**(170)**	(387)	(19)	(406)
Carrying amount loans and advances	**8,022**	**40**	**8,062**	8,578	44	8,622
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**—**	**1**	**—**	—	2	—
Stage 2	**4**	**3**	**4**	5	4	5
Stage 3	**28**	**51**	**30**	37	47	38
POCI	**28**	**—**	**28**	37	44	37
Income statement credit impairment charge/(writeback)	**€m**	**€m**	**€m**	€m	€m	€m
Net remeasurement of loss allowance	**(44)**	**2**	**(42)**	110	7	117
Recoveries of amounts written off in previous years	**(6)**	**1**	**(5)**	(11)	—	(11)
Net credit impairment charge/ (writeback)	**(50)**	**3**	**(47)**	99	7	106
	%	**%**	**%**	%	%	%
Net credit impairment charge/ (writeback) on average loans	**(0.59)**	**—**	**(0.58)**	1.49	9.74 %	1.58 %

Notes to the company financial statements

ac. Credit risk information *(continued)*

Internal credit grade profile by ECL staging
The table below analyses the internal credit grading profile by ECL staging for the mortgage loan portfolios at 31 December 2021 and 2020:

Amortised Cost					**2021**
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Total	**€m**	**€m**	**€m**	**€m**	**€m**
Strong	**6,438**	**47**	**—**	**3**	**6,488**
Satisfactory	**654**	**53**	**—**	**1**	**708**
Total	**7,092**	**100**	**—**	**4**	**7,196**
Criticised Watch	**151**	**242**	**—**	**1**	**394**
Criticised Recovery	**2**	**172**	**—**	**19**	**193**
Total Criticised	**153**	**414**	**—**	**20**	**587**
Non Performing	**1**	**—**	**395**	**53**	**449**
Gross carrying amount	**7,246**	**514**	**395**	**77**	**8,232**
ECL allowance	**(12)**	**(19)**	**(117)**	**(22)**	**(170)**
Total carrying amount	**7,234**	**495**	**278**	**55**	**8,062**

Amortised Cost					2020
	Stage 1	Stage 2	Stage 3	POCI	Total
Total	€m	€m	€m	€m	€m
Strong	6,494	43	—	2	6,539
Satisfactory	756	53	—	1	810
Total	7,250	96	—	3	7,349
Criticised Watch	199	323	—	1	523
Criticised Recovery	5	184	—	2	191
Total	204	507	—	3	714
Non Performing	—	—	837	128	965
Gross carrying amount	7,454	603	837	134	9,028
ECL allowance	(11)	(29)	(316)	(50)	(406)
Total carrying amount	7,443	574	521	84	8,622

ac. Credit risk information *(continued)*

Gross loans movements[1]

The following tables explain the changes in the gross carrying amount and ECL allowances for mortgage loan portfolios at amortised cost by ECL staging for the years to 31 December 2021 and 2020.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 21 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.

					2021
	Stage 1 €m	**Stage 2 €m**	**Stage 3 €m**	**POCI €m**	**Total €m**
At 1 January	**7,454**	**603**	**837**	**134**	**9,028**
Transferred from Stage 1 to Stage 2	**(431)**	**431**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**458**	**(458)**	**—**	**—**	**—**
Transferred to Stage 3	**(16)**	**(92)**	**108**	**—**	**—**
Transferred from Stage 3	**10**	**62**	**(72)**	**—**	**—**
New loans originated/top-ups	**658**	**—**	**—**	**—**	**658**
Redemptions/repayments	**(1,092)**	**(75)**	**(62)**	**(10)**	**(1,239)**
Interest credited	**192**	**14**	**9**	**3**	**218**
Write-offs	**—**	**—**	**(13)**	**(1)**	**(14)**
Derecognised due to disposals	**—**	**(1)**	**(416)**	**(51)**	**(468)**
Exchange translation adjustments	**—**	**—**	**2**	**—**	**2**
Other movements	**13**	**30**	**2**	**2**	**47**
At 31 December[2]	**7,246**	**514**	**395**	**77**	**8,232**

[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 €1,489m at 31 December 2021 are excluded (1 January 2021: €1,294m).

					2020
	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
At 1 January	4,632	402	464	67	5,565
Transferred from Stage 1 to Stage 2	(442)	442	—	—	—
Transferred from Stage 2 to Stage 1	443	(443)	—	—	—
Transferred to Stage 3	(5)	(114)	119	—	—
Transferred from Stage 3	9	51	(60)	—	—
New loans originated/top-ups	599	—	—	—	599
Redemptions/repayments	(720)	(50)	(57)	(8)	(835)
Interest credited	143	14	11	4	172
Write-offs	—	—	(17)	(1)	(18)
Exchange translation adjustments	—	(2)	—	—	(2)
Transfer from EBS MF	2,771	296	376	71	3,514
Other movements	24	7	1	1	33
At 31 December[2]	7,454	603	837	134	9,028

[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 €1,294m at 31 December 2020 are excluded (1 January 2020: €1,879m).

Notes to the company financial statements

ac. Credit risk information *(continued)*

ECL allowance movements

					2021
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**11**	**29**	**316**	**50**	**406**
Transferred from Stage 1 to Stage 2	**(2)**	**15**	**—**	**—**	**13**
Transferred from Stage 2 to Stage 1	**3**	**(11)**	**—**	**—**	**(8)**
Transferred to Stage 3	**—**	**(5)**	**17**	**—**	**12**
Transferred from Stage 3	**1**	**4**	**(11)**	**—**	**(6)**
Net remeasurement	**(3)**	**(7)**	**(26)**	**1**	**(35)**
Redemptions/repayments	**(1)**	**(2)**	**—**	**—**	**(3)**
Impact of model changes	**6**	**(1)**	**5**	**(8)**	**2**
Impact of credit or economic risk parameters	**(3)**	**(3)**	**(11)**	**—**	**(17)**
Income statement credit impairment charge	**1**	**(10)**	**(26)**	**(7)**	**(42)**
Write-offs	**—**	**—**	**(12)**	**(1)**	**(13)**
Derecognised due to disposals	**—**	**—**	**(162)**	**(20)**	**(182)**
Exchange translation adjustments	**—**	**—**	**1**	**—**	**1**
At 31 December	**12**	**19**	**117**	**22**	**170**

					2020
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	2	15	115	12	144
Transferred from Stage 1 to Stage 2	(5)	20	—	—	15
Transferred from Stage 2 to Stage 1	6	(16)	—	—	(10)
Transferred to Stage 3	—	(11)	31	—	20
Transferred from Stage 3	—	3	(10)	—	(7)
Net remeasurement	(7)	(16)	5	—	(18)
Redemptions/repayments	(1)	—	—	—	(1)
Impact of model changes	(2)	3	66	23	90
Impact of credit or economic risk parameters	6	11	7	2	26
Income statement credit impairment charge	(3)	(6)	99	25	115
Write-offs	—	—	(18)	(1)	(19)
Transfer from EBSMF	12	19	120	15	166
Other movements	—	1	—	(1)	—
At 31 December	11	29	316	50	406

Notes to the company financial statements

ac. 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's, Fitch or S&P and are sourced from Bloomberg.

			2021
	Cash and balances with Central Bank of Ireland	**Loans and advances to banks**	**Off balance sheet commitments**
	€m	**€m**	**€m**
Balance	**448**	**253**	**261**
	%	**%**	**%**
Aaa	**—**	**—**	**—**
Aa3 to Aa1	**—**	**—**	**—**
A3 to A1	**100**	**—**	**—**
Lower then A3	**—**	**100**	**—**
Unrated	**—**	**—**	**100**

			2020
	Cash and balances with Central Bank of Ireland	Loans and advances to banks	Off balance sheet commitments
	€m	€m	€m
Balance	347	52	177
	%	%	%
Aaa	—	—	—
Aa3 to Aa1	—	—	—
A3 to A1	100	—	—
Lower then A3	—	100	—
Unrated	—	—	100

Notes to the company financial statements

ad. 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 2021 and 2020:

2021	**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	**1,953**	**—**	**—**	**—**	**—**	**—**	**1,953**
Customer accounts	**5,246**	**92**	**78**	**187**			**5,603**
Securities financing	**—**	**2,382**	**—**	**—**	**—**	**—**	**2,382**
Derivative financial instruments	**—**	**—**	**—**	**—**	**—**	**7**	**7**
Other liabilities	**65**	**—**	**—**	**—**	**—**	**—**	**65**
Total	**7,264**	**2,474**	**78**	**187**	**—**	**7**	**10,010**
Off-balance sheet loan commitments	**261**	**—**	**—**	**—**	**—**	**—**	**261**

2020	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	1,928		—	—	—	—	1,928
Customer accounts	2,872	517	391	845	395	369	5,389
Securities financing	—	2,741	—	—	—	—	2,741
Derivative financial instruments	—	—	—	—	—	21	21
Subordinated liabilities	—	—	—	300	—	—	300
Other liabilities	43	—	—	—	—	—	43
Total	4,843	3,258	391	1,145	395	390	10,422
Off-balance sheet loan commitments	177	—	—	—	—	—	177