EBS MORTGAGE FINANCE

DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2014

CONTENTS

DIRECTORS' AND OTHER INFORMATION

DIRECTORS

Denis Holland	Independent Non-Executive Director and Chairman
William Cunningham	Independent Non-Executive Director
Fidelma Clarke	Group Non-Executive Director
Gerry Gaffney	Executive Director
Owen Purcell	Executive Director (Managing Director)

SECRETARY	Catherine Kelly
REGISTERED OFFICE	2 Burlington Road Dublin 4 Ireland
REGISTERED NUMBER	463791
REGISTERED AUDITOR	Deloitte & Touche Chartered Accountants & Statutory Audit Firm Hardwicke House Hatch Street Dublin 2 Ireland
BANKERS	EBS Limited 2 Burlington Road Dublin 4 Ireland BNP Paribas Ireland 5 George's Dock International Financial Services Centre Dublin 1 Ireland
COVER-ASSETS MONITOR	Mazars Harcourt Centre Block 3 Harcourt Road Dublin 2 Ireland

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the year ended 31 December 2014. The statement of Directors' responsibilities in relation to the financial statements appears on page 8.

Principal activities

EBS Mortgage Finance ('the Bank' or 'EBSMF'), a public unlimited company, obtained an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and was registered as a designated mortgage credit institution under the Asset Covered Securities Act, 2001 on 30 October 2008. The Bank is a wholly owned subsidiary of EBS Limited ('EBS' or 'Parent') and a member of EBS Group (the 'Group'). EBS is a wholly owned subsidiary of Allied Irish Banks p.l.c., ('AIB p.l.c.' or 'AIB Group'). AIB Group and its subsidiaries, including EBSMF, came under the direct supervision of, and are deemed to be authorised by the European Central Bank ('ECB') since the introduction on 4 November 2014 of the Single Supervisory Mechanism ('SSM'). The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB and its subsidiaries. The Bank continues to be supervised by the Central Bank of Ireland for non-prudential matters, including, consumer protection and the combat of money laundering.

The purpose of the Bank is to issue mortgage covered securities for the purpose of financing mortgage loans secured on residential property in accordance with the Asset Covered Securities Act, 2001 and the Asset Covered Securities (Amendment) Act 2007 ('the Asset Covered Securities Acts'). The Bank does not sell mortgage loans directly to the public. It has an origination agreement with EBS whereby EBS continues to sell mortgage loans directly to the public and subsequently transfers loan portfolios to the Bank for an appropriate consideration.

The Bank was incorporated on 30 October 2008 and commenced trading on 1 December 2008. During the period from that date to the end 2011, EBS sold €8.3bn of residential loans to the Bank and in turn the Bank issued a series of covered bonds. The Bank did not purchase any loans from EBS since 2011.

During 2014, the Bank repurchased €400m of the Series 10 bonds in June 2014 and €500m of the Series 7 bonds in November (shortly before they were both due to mature), both held by EBS. In addition €50m of the Series 4 bonds subscribed for by external bondholders matured in December 2014. At the end of 2014, the total nominal value of covered bonds issued was €1.85bn subscribed for in full by EBS.

The Bank's business activities are restricted, under the Asset Covered Securities Acts, to dealing in, and holding, mortgage credit assets and limited classes of other assets, engaging in activities connected with the financing and refinancing of such assets, entering into certain hedging contracts and engaging in other activities which are incidental to, or ancillary to, the above activities. In accordance with the Asset Covered Securities Acts, the Cover-Assets Monitor, Mazars monitors compliance with the Acts and reports independently to the Central Bank.

The Bank's activities are financed through the issuance of mortgage covered securities with the balance of funding being provided by AIB Group. The Bank is also party to the Mortgage-Backed Promissory Note Framework agreements with the Central Bank, however this type of funding has not been utilised since 2011.

Most of the Bank's operational and support activities are outsourced to AIB under a Managed Services Agreement. AIB, as Service Agent for the Bank services the mortgage loans, and provides treasury services in connection with financing as well as a range of other support services.

Corporate governance statement

The Bank is subject to the provisions of the Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the Central Bank Code") (which is available on www.centralbank.ie), which imposes minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank. The Bank is not required to comply with the additional requirements of the Central Bank Code for major institutions.

The Bank's corporate governance practices are designed to ensure compliance with applicable legal and regulatory requirements including, Irish company law and the Listing Rules of the Main Securities Market of the Irish Stock Exchange.

The Bank believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent, and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal controls, including sound administrative and accounting procedures, IT systems and controls.

The Board of Directors

The EBSMF Board is responsible for corporate governance encompassing leadership, direction and control of the Bank and is responsible for financial performance to its ultimate parent AIB. Governance is exercised through a Board of Directors ("the Board") and a senior management team. The conditions of the Bank's Central Bank licence require that there should be a minimum of two Non-Executive Directors who are independent of the parent company. Throughout 2014, there were two independent Non-Executive Directors on the Board of the Bank. The Board also includes two Executive Directors, both of whom are directly involved in the operation of EBS Mortgage Finance, and one other Director who, while also an employee of AIB, is deemed to be a Non-Executive Director by virtue of her role in an area of AIB Group unrelated to the operations of EBS Mortgage Finance.

The Board is responsible for ensuring that appropriate systems of internal controls and risk management are maintained, specifically the Board sets the Risk Appetite Statement, approves the Risk Framework and approves the annual financial plans. The Board receives regular updates on the Bank's risk profile through the Quarterly Risk report. The Board held 5 scheduled meetings during 2014 and 2 additional out of course meetings or briefings.

The Board also has responsibility for:
- the quality and integrity of the Bank's accounting policies, financial statements and disclosure practices;
- compliance with relevant laws, regulations, codes of conduct and "conduct of business" rules;
- the independence and performance of the External Auditor ("the Auditor") and Internal Audit; and
- the adequacy and performance of systems of internal control and the management of financial and non-financial risks.

These responsibilities are discharged through management including Finance, Internal Audit, Risk and Compliance. During 2014 the Board reviewed the Bank's annual financial statements prior to approval, including the Bank's accounting policies and practices; reports on compliance; effectiveness of internal controls; and the findings, conclusions and recommendations of the Auditor and Internal Auditor.

The Board satisfied itself through regular reports from Internal Audit, Finance, Risk, Compliance and the Auditor that the system of internal controls over financial reporting were effective. The Board ensure that appropriate measures are taken to consider and address any control issues identified by Internal Audit and the Auditor.

DIRECTORS' REPORT (continued)

Business review

The Irish economy improved during 2014 including a decreasing unemployment rate standing at 10.6% at the end of December 2014 against a peak of over 15% in 2013 (Source: Central Statistics Office) and decreasing mortgage arrears.

The CSO Residential Property Price Index showed an increase in prices nationally of 16.3% in the 12 months to December 2014 (6.4% in 2013). This was particularly evident in Dublin where the 2014 annual increase was 22.3%. Property prices outside of Dublin increased in the 12 month period by 10.2% (reduction of 0.4% in 2013). The national fall from peak property prices (February 2007) was 37.6% at December 2014 (46.5% at December 2013).

Total market mortgage drawdowns in Ireland were €3.9bn in 2014 compared with €2.5bn in 2013. The Bank's loan portfolio before provisions decreased by 6% during 2014 to € 6.0bn as at 31 December 2014 (2013: 5% decrease) principally because of customer repayments and forbearance strategies (see below).

EBS Mortgage Finance's residential mortgage portfolio comprises €5.94bn owner occupier (2013: €6.34bn) and €0.02bn buy to let mortgages (2013: €0.02bn). The owner occupier portfolio is comprised of 22% ECB tracker (2013: 22%), 72% variable interest rate (2013: 71%) and 6% fixed rate mortgage loans (2013: 7%). Interest only loans represent 3% of the owner occupier portfolio (2013: 3%).

The Bank's impaired balances increased to €1.3bn, or 21.5% of total loans (2013: €1.2bn or 19.5%) by Dec 2014. The rate of new impaired loans has reduced over the year as result of improved economic conditions, however impaired balances must remain impaired for a 12 month period post restructure.

Mortgage arrears resolution strategy

EBS has developed a Mortgage Arrears Resolution Strategy ('MARS') which builds on and formalises AIB Group's Mortgage Arrears Resolution Process, to implement the Codes of Conduct as set out by the Central Bank, for dealing in a professional and timely manner with mortgage customers in difficulty or likely to be in difficulty. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long-term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing primary residential mortgage customers in difficulty.

At 31 December 2014, the Bank had forbearance solutions in place on circa 8k accounts with loan balances of €1.0bn (2013: circa 5k accounts and €0.6bn in balances). During 2014 the main drivers for the increase in forbearance balances were arrears capitalisations increasing by €0.3m (additional 2,513 accounts) and a split mortgage balances increasing by €0.1m (additional 1,485 accounts). This increase is driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Results for the year

EBS Mortgage Finance generated a profit before taxation for 2014 amounting to €109m, compared to a loss of €5m in 2013. Return to profitability is mainly due to a reduction in provisions for impaired loans charged against the income statement. Profit after tax of €95m was added to Shareholder Equity in 2014 compared to a loss after tax of €4m being a reduction in Shareholders Equity in 2013.

The Bank's particular focus is on Net Interest Margin. Net Interest Income is up €1m or 1% for the year to €139m (2013:€138m) generating a net interest margin of 235bps (2013: 217bps).

Total interest income amounted to €274m in 2014 (2013: €275m). Interest income mainly comprises of interest income from mortgage assets of €230m (2013: €251m) which decreased by 8% from 2013. This is mainly due to a reduction in the loans and balances to customers over the last year and reductions in tracker rates following the ECB refinancing rate cuts in June 2014 and September 2014 and out of course rate reductions on the variable and fixed books in Q4 2014. Interest income also includes income derived as a result of amortisation of fair value discount to loans and advances to customers of €44m (2013; €24m).

Total interest expense amounted to €135m (2013: €137m). Interest expense consists of interest on inter-company funding from EBS of €26m (2013: €26m) and interest on debt securities of €109m (2013: €111m) which slightly decreased as a result of the lower market interest rates and lower average balances of debt securities in issue during the year.

Administrative expenses decreased by €1m to €8m during the year due to lower professional and consultancy fees in 2014.

Overall provision charges for 2014 of €22m compare to provision charges of €129m in 2013, a reduction in provision charge of €107m. Specific impairment provision charges have reduced by €115m resulting in a specific impairment charge of €12m, reflecting a substantial reduction in the level of newly impaired loans, an improvement in asset values and the impact of arrears management activities.

The Incurred but Not Reported ("IBNR") charge in 2014 at €10m compares to a charge of €2m in the comparative period. This increase in charge reflects an increase in the emergence period resulting in an increase in the IBNR stock.

Specific provision stock amounts to €280m (2013: €335m) and IBNR provisions stand at €56m (2013: €46m) as at 31 December 2014. Specific Provisions as % of impaired loans covered decreased to 21.9% (2013: 27.1%) as at 31 December 2014.

DIRECTORS' REPORT (continued)

Funding activities

The covered bond market performed strongly over the course of 2014, supported by the low interest rate environment, ongoing liquidity provision by monetary authorities and favourable regulatory liquidity treatment. The ECB cut the main Refinancing Rate from 0.25% to 0.15% in June 2014 and to 0.05% in September 2014, while the deposit rate, which ECB reward banks for putting the money on deposit with ECB, moved into negative territory.

The ECB also introduced a number of measures with the goal of stimulating growth in the Eurozone economy. These measures included a new Targeted Long Term Refinancing Operation (TLTRO), aimed at providing banks with very competitively priced long term funding for a period up to four years based on achieving certain lending targets.

A Covered Bond Purchase Programme (CBPP3) and an Asset Backed Securities Purchase Programme were also introduced. These programmes had combined purchases of circa €40bn in assets by 23 January 2015, largely through purchases in the covered bond primary and secondary markets.

In January 2015, the ECB announced an expanded asset purchase programme targeting €60bn per month in Euro denominated investment grade securities including government bonds and state agency bonds, inclusive of CBPP3 and the ABS programme. The purchases will begin in March 2015 and run through to September 2016, and will in any case be conducted until there is a sustained adjustment in the path of inflation consistent with the ECB's aim of achieving inflation rates below, but close to, 2% over the medium term. The combined effect of these measures was to further boost demand for covered bonds, which had already benefitted from a supply/demand imbalance and demand from bank treasuries seeking high quality liquid assets.

AIB Group has 2 covered bond bank subsidiaries. In this regard AIB Treasury has determined that in the interests of efficiently engaging with wholesale markets AIB Mortgage Bank should focus on issuance in the public market and EBSMF focus on the provision of contingency liquidity via the issue of ECB repo eligible collateral thus supporting the AIB Group liquidity buffer.

The business strategy for 2015 is anticipated to continue to entail the provision of liquidity to AIB p.l.c. via the issue of suitably rated ECB repo eligible collateral, and maximise efficient use of mortgage collateral, subject to requirement of the Bank's cover pool management, ACS Act and rating agency requirements. The ongoing amortization of the cover pool, with all other things being equal, will result in declining nominal and regulatory OC levels, however given the extent of the surplus OC available with respect to current bond outstanding there will be no requirement to repurchase and cancel outstanding bonds.

At 31 December 2014, the total amount of principal outstanding in respect of mortgage covered securities issued was €1.8bn (31 December 2013: €2.7bn) subscribed for in full by EBS Limited.

EBS Mortgage Finance was upgraded by Moody's from Baa1 to A3 in December 2014, following an earlier upgrade from Baa3 to Baa1 in March.

The ratings as at 10 March 2015, for the Bank's Covered Bond Programme, AIB Group, and Ireland are shown below:

Rating Agency	EBS Mortgage Finance Covered Bond Programme	Allied Irish Banks p.l.c Issuer default rating	Ireland (Sovereign)
Fitch	A	BBB	A-
Moody's	A3	Ba2	Baa1

Share capital

The share capital of the Bank is €552m (2013: €552m), comprised of ordinary shares of €1 each.

Capital resources and regulatory capital ratios

The table below shows the components of the EBS Mortgage Finance's Common equity Tier 1 and Total capital ratios as at 31 December 2014 and 31 December 2013.

Basel II as reported 31 December 2013 €m		CRD IV Transitional basis 31 December 2014 €m	CRD IV Transitional basis Pro-forma 1 January 2014 €m
422	**Core tier 1/common equity tier 1 capital**	**519**	421
40	**Total Tier 2 capital**	**29**	32
462	**Total capital**	**548**	453
3,276	**Risk Weighted Assets**	**3,044**	3,259
12.9%	**Core tier 1/common equity tier 1 ratio**	**17.0%**	13.0%
14.1%	**Total capital ratio**	**18.0%**	13.9%

Under the fully loaded CRDIV capital basis the Total Capital ratio is reduced by 1.3% at 31 December 2014.

DIRECTORS' REPORT (continued)

Risk Management
The risk management framework provides a firm-wide definition of risk and lays down principles of how risk is to be identified, assessed, measured, monitored and controlled / mitigated, and the associated allocation of capital against same. Further information in relation to the Risk Management are set out in the Risk Management Report on pages 9 to 35.

Going concern
The financial statements for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Bank, that it has the ability to continue in business for the period of assessment.

EBS Mortgage Finance is dependent on its Ultimate Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Ultimate Parent.

The financial statements of Allied Irish Bank p.l.c for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the AIB Group Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the AIB Group Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. There have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the AIB Group Directors have considered the commitment of support provided to AIB by the Irish Government.

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

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

In relation to liquidity and funding, the AIB Group Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the Group during the period of assessment.

On the basis of a commitment from AIB p.l.c to continue to make available funding and capital to EBS Mortgage Finance, the Directors of the Bank believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the its ability to continue as a going concern over the period of assessment.

Directors' and Secretary's interests in shares
The beneficial interests of the Directors and the Secretary in office at 31 December 2014 and of their spouses and minor children in the shares of AIB Group companies are set out below. The shares referred to are €0.0025 ordinary shares in Allied Irish Banks, p.l.c., the parent company.

	31 December 2014	1 January* 2014
Ordinary shares		
Directors:		
Denis Holland	**Nil**	Nil
Fidelma Clarke	**Nil**	Nil
William Cunningham	**Nil**	Nil
Gerry Gaffney	**Nil**	Nil
Owen Purcell	**Nil**	Nil
Secretary		
Sarah McLaughlin	**377**	377

*or date of appointment, if later

DIRECTORS' REPORT (continued)

Directors' and Secretary's interests in shares (continued)
Details of the Directors' and the Secretary's options to subscribe for ordinary shares in Allied Irish Banks, p.l.c., are given below. The vesting of these options to the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met by AIB. Subject thereto, the options outstanding at 31 December 2014 are exercisable up to 26 April 2015, however as these options are deeply out of the money, there is no expectation that they will be exercised. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the Bank's registered office.

	31 December 2014	1 January 2014	Options lapsed during 2014	Weighted Average subscriptions price of options outstanding at 31 December 2014 €
Directors:				
Fidelma Clarke	Nil	Nil	Nil	Nil
Gerry Gaffney	Nil	Nil	Nil	Nil
Owen Purcell	Nil	Nil	Nil	Nil
Secretary:				
Sarah McLaughlin	Nil	Nil	Nil	Nil

Share options
Independent Non-Executive directors do not participate in share option plans. No options were granted or exercised during the year.

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 2014. Independent Non-Executive Directors do not participate in long term incentive plans. Apart from the interests set out above, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2014 and 26 March 2015.

Directors and Secretary
The following Board changes occurred with effect from the dates shown:

Ms Sarah McLaughlin resigned as Secretary on 26 March 2015;
Ms Catherine Kelly was appointed Secretary on 26 March 2015.

There were no other changes to the Board during 2014.

Books of account
The measures taken by the Directors to secure compliance with the Bank's obligation to keep proper books of account are the use of appropriate systems and procedures and the employment of competent persons, which is performed under an outsourcing and agency agreement by Allied Irish Banks, p.l.c. The books of account of the Bank are kept at the registered office of AIB p.l.c at Bankcentre, Ballsbridge, Dublin 4, Ireland.

Events since the year end
In the Directors' view, there have been no events since the year end that have had a material effect on the financial position of the Bank. See note 21: Subsequent events.

Independent auditor
The auditors, Deloitte & Touche, Chartered Accountants and Statutory Audit Firm, has expressed their willingness to continue in office under Section 160 (2) of the Companies Act, 1963.

On behalf of the Board

Chairman: Denis Holland

Managing Director: Owen Purcell

Date: 26/3/15 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for preparing the Annual Report and financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and as applied in accordance with the provisions of the Companies Acts, 1963 to 2013.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the company; the Companies Acts, 1963 to 2013 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the 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 IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of company and to prevent and detect fraud and other irregularities.

Each of the Directors confirm, to the best of their knowledge and belief, that:

- they have complied with the above requirements in preparing the financial statements;
- the Company's financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- the Directors' report, Business review and Risk management section, contained in the Directors Report and Annual Financial Statements includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks faced by the Company.

On behalf of the Board

Director:

Director:

Director:

Date: 26/3/15

RISK MANAGEMENT REPORT

1. Introduction

All of the Bank's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed on an AIB Group wide basis. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the AIB Group's risk management framework

2. Risk framework

The Bank relies on this AIB Group framework and its supporting policies, processes and governance. For more information on the operation of the Board of EBS Mortgage Finance see page 3 of this report. The AIB Group risk governance and management framework is described on pages 57 to 59 of the AIB Group's Annual Financial Report 2014.

3 Individual risk types

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the AIB Group risk assessment process and which are relevant to EBS Mortgage Finance:

3.1 Credit risk
3.2 Liquidity risk
3.3 Operational risk
3.4 Regulatory compliance risk
3.5 Non-trading interest rate risk

The 5 applicable risk types are discussed overleaf.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk

Credit risk is the risk that the Bank will incur losses as a result of either a customer or counterparty being unable or unwilling to meet a commitment that it has entered into and that pledged collateral does not fully cover amounts due to the Bank. The most significant credit risks assumed by the Bank arise from mortgage lending activities to customers in Ireland. Credit risk also arises on funds placed with other banks and in respect of derivatives relating to interest rate risk management.

Credit risk management objectives are to:

- Establish and maintain a control framework to ensure credit risk taking is based on sound credit management principles;
- Control and plan credit risk taking in line with external stakeholder expectations;
- Identify, assess and measure credit risk clearly and accurately across the Bank, from the level of individual facilities up to the total portfolio; and
- Monitor credit risk and adherence to agreed controls.

The table below sets out the maximum exposure to credit risk that arises within the Bank. The table distinguishes between those assets that are carried in the Statement of Financial Position at amortised cost and those carried at fair value. The most significant credit risks arise from lending activities to customers and banks and derivatives relating to interest rate risk management. The credit risks arising from balances at Central Bank are deemed to be negligible based on their maturity and counterparty status.

Maximum exposure to credit risk*

	Amortised Cost	**Fair Value**	**2014 Total**	Amortised Cost	Fair Value	2013 Total
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivative financial instruments	**-**	**22**	**22**	-	33	33
Loans and receivables to banks	**77**	**-**	**77**	89	-	89
Loans and receivables to customers	**5,623**	**-**	**5,623**	5,983	-	5,983
Included elsewhere:						
Accrued interest	**-**	**-**	**-**	-	-	-
Other assets	**-**	**-**	**-**	-	-	-
Maximum exposure to credit risk	**5,700**	**22**	**5,722**	6,072	33	6,105

Credit risk organisation and structure

AIB Group's credit risk management systems operate through a hierarchy of lending authorities. The Bank relies on the AIB Group credit framework and its supporting policies, processes and governance.

The role of the AIB Group Credit Risk function is to provide direction, oversight and challenge of credit risk-taking. The AIB Group's Risk Appetite Statements ("RAS") is a blend of qualitative statements and qualitative limits and triggers linked to the Group's strategic objectives. The AIB Group RAS is reviewed and approved by the AIB Group Board at least annually or more often if required, and is aligned with the annual business and financial planning process, and is described, reported and monitored through a suite of metrics, supported by credit risk policies, concentration limits to manage risk and exposure within the AIB Group's approved risk appetite. The AIB Group's risk appetite for credit risk is reviewed and approved annually.

*Forms an integral part of the audited financial statements

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Measurement of credit risk
One of the objectives of credit risk management is to accurately quantify the level of credit risk to which AIB Group is exposed. The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures.

The primary model measures used are:

- Probability of default ("PD") – the likelihood that a borrower is unable to repay his obligations;
- Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his obligations at the point of default;
- Loss given default ("LGD") – the loss associated with a defaulted loan or borrower, and;
- Expected loss ("EL") – the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

To calculate PD, AIB Group assesses the credit quality of borrowers and other counterparties and assigns a score to these.

Credit scoring systems facilitate the early identification and management of any deterioration in loan quality. Special attention is paid to lower quality performing loans or 'criticised' loans.

In AIB Group, criticised loans include 'watch', 'vulnerable' and 'impaired' loans which are defined as follows:

Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows;
Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources; and
Impaired: A loan is impaired if there is objective evidence of impairment as a result of one or more event(s) that occurred after the initial recognition of the asset (a 'loss event') and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

The AIB Group's criticised portfolio which noted above includes impaired loans is subject to a more intense assessment and review because of the increased risk associated with them. This assessment and review is undertaken by the AIB Group Arrears Support Unit. Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review in order to ensure that the Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

The amount of incurred credit losses provided for in the financial statements differs from the amount determined from the expected loss models. For reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the balance sheet date based on objective evidence of impairment.

Risk assessment management and mitigation
Credit risk management in EBSMF is supported by an appropriate governance structure at AIB Group level with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring.

The AIB Group Executive Risk Committee ("ERC") is responsible for reviewing appropriate credit risk management structures, forbearance strategies and policies in line with the credit risk appetite of the AIB Group and for monitoring the performance of the book.

All customer requests for credit are subject to a credit assessment process, which is exercised by an independent credit function.

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

The AIB Risk Analytics team is responsible for the development and on-going validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the loan assets.

The AIB Credit Review team assesses the application of credit policies, processes and procedures across all areas of EBS.

The Group, including EBSMF relies on the AIB Group to conduct both regular and ad-hoc credit risk stress testing to assess on an ongoing basis the ability of the Group to withstand various idiosyncratic and systemic stress scenarios. Credit contingency plans are developed and updated on a continual basis reflecting the results of the stress tests.

Given the economic environment, the AIB Group conducts a quarterly assessment of impairment provisions, assisted by the Risk Analytics and Credit divisions and evaluated by the AIB Group Credit Committee ("GCC").

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Collateral
Collateral is required as a secondary source of repayment in the event of the borrower's default. Credit risk mitigation includes the requirement to obtain collateral as set out in AIB Group's policies and procedures. The AIB Group maintains guidelines on the acceptability of specific classes of collateral. The principal collateral types for mortgage loans are mortgages over residential real estate.

For residential mortgages, AIB Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. AIB Group adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 December 2014 is based on property values at origination or date of latest valuation and applying the Central Statistics Office ("CSO") Residential Property Price index (Republic of Ireland) to these values to take account of price movements in the interim.

Loan loss provisioning*
The accounting policies of loans and receivables to customers are outlined in the Accounting Policies section.

AIB Group's provisioning policy requires for impairments to be recognised promptly and consistently across the different loan portfolios. A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows that can be reliably estimated.

Impairment provisions are calculated on individual loans and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment.

Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

It is AIB Group's policy to provide for impairment promptly and consistently across the loan book. All business areas formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a quarterly basis. Forborne loans are tested for impairment on a portfolio basis and all EBSMF loans are automatically impaired when the account reaches 90 days past due. In addition, individual loans that are not 90 days past due, which required forbearance, which would result in a loss to the Bank are impaired.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:
- the bank's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigates) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain and make payments in the currency of the loan if not denominated in local currency.

Specific provisions
Specific impairment provisions arise when the recovery of a specific loan or group of loans is in doubt based on impairment triggers as outlined above and an assessment that all the expected future cash flows either from the loan itself or from the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s).

When raising specific impairment provisions, AIB Group divides its impaired portfolio into two categories, namely Individually Significant (IS) and Individually Insignificant (II).

Across the Group portfolios, the Individually Significant threshold is €750,000 by customer connection. The calculation of an impairment charge for loans below the 'Significant' threshold is undertaken on a collective basis.

Individually Significant ('IS') Mortgages
Individually significant provisions are collectively assessed using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of each credit including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken in account in estimating the future cash flows and discounting these back to present value.

*Forms an integral part of the audited financial statements

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Loan loss provisioning* (continued)

Specific provisions (continued)

Individually Insignificant ('II') Mortgages

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant.

Individually insignificant mortgage specific provisions are calculated using a collective mortgage provisioning model. This methodology is based on the calculation of three possible resolution outcomes: cure; forbearance (with and without loss); and repossession (forced and voluntary), with different loss rates associated with each. The methodology has been updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The model parameters have been refined during the year based on an additional one year dataset. Key model parameters at 31 December 2014 for owner-occupier mortgages are as follows: cure (4%); and repossession/forbearance (96%).

The corresponding buy-to-let model parameters are as follows: cure (1%); repossession/forbearance (99%). Cured loans are loans that were impaired and are no longer impaired and have performed satisfactorily for 12 months excluding any impact on forbearance.

Incurred But Not Reported Provisions (IBNR)

Loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank has incurred as a result of events occurring before the balance sheet date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Bank, those loans are assessed for a specific provision.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date and are not permitted for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date.

- historical loss experience in portfolios of similar credit risk characteristics (for example, by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (Emergence Period);
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios, which include but are not limited to non-impaired forborne mortgages.

*Forms an integral part of the audited financial statements

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Loan loss provisioning* (continued)

The table below sets out the parameters used in the calculation of IBNR provisions for the residential mortgages portfolio:

	2014		
		Total	
	Exposure	Average PD	Average LGD
Grade	€m	%	%
Good upper	3,459	1.0	19.2
Good lower	740	4.2	24.2
Watch	450	16.6	21.2
Vulnerable	134	60.0	22.3

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	91	11.5	20.1
Forborne – Not impaired	455	15.0	20.9

	2013	
	Total	
	Average PD	Average LGD
Grade	%	%
Good upper	1.1	18.7
Good lower	4.0	24.7
Watch	16.9	21.4
Vulnerable	52.8	22.0

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	20.5	20.4
Forborne – Not impaired	19.4	21.7

Average PD and LGD are based on the PDs and LGDs, weighted by the EAD for all owner-occupier and buy-to-let loans included in the collective mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR run rate provisions. Any additional IBNR provisions as determined by management judgement is applied at a portfolio level and is not included in the analysis above.

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Loan loss provisioning **(continued)***

Emergence Period
The Emergence Period is key to determining the level of IBNR provisions. Emergence periods are determined by assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan requiring a provision. Emergence periods for each portfolio are determined by taking into account current credit management practices, historic evidence of assets moving from 'good' to 'bad' and actual case studies.

Emergence periods are reflective of the characteristics of the particular portfolio. Emergence periods are estimated based on historic loan loss experience supported by back testing, and as appropriate individual case sampling.

Emergence periods are reviewed on at least an annual basis. At 31 December 2014, a change to the emergence periods was made for the mortgage portfolio (increase from 9 to 12 months). The increase has been observed as further information on the period from loss event to specific impairment has become available in 2014, particularly for the forbearance portfolio and also a continued emphasis on maintaining a conservative estimate of the unidentified incurred loss within the portfolio.

Approval process
The AIB Group operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities and referred to Area Credit Committee level, as required. These committees are chaired by the Chief Credit Officer ("CCO") or alternate specified Chair as outlined in the terms of reference for Credit Committees (approved by ERC annually), where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of the segment authorities are approved by the AIB Group Credit Committee and Board (where applicable). Segment impairments, mortgage model parameters and provisions are ultimately reviewed by the AIB Group Credit Committee as part of the quarterly process.

The valuation assumptions and approaches used in determining the impairment provisions required are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by segment and AIB Group senior management.

Write-offs
When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of security held. Partial write-offs may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The provision is written off but the remaining reduced loan balance remains on balance sheet as impaired. In addition, some write-off's may reflect restructuring activity agreed with customers who are subject to the terms of the agreement and satisfactory performance.

Reversals of impairment
If the amount of an impairment loss decreased in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision amount accordingly. The write-back is recognised in the income statement.

Impact of changes to key assumptions and estimates on the impairment provisions
Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables. The most significant judgemental area is the calculation of collective impairment provisions. They are subject to estimation uncertainty, in part because of the large number of individually insignificant loans in the portfolio.

The methods involve the use of historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors not being fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas.

Given the relative size of the mortgage portfolio, the key variables include house price fall from peak (which determines the collateral value supporting loans in the mortgage portfolio) and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status).

Sensitivity to changes in estimates and assumptions are detailed below:

A 1% favourable change in the cure rate used for the collective mortgage provisions would result in a reduction in impairment provisions of 4% (blended rate of owner-occupier/buy-to-let) of c. €5 million.

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the house price fall from peak assumption used for the collective mortgage provisions for December 2014 is estimated to result in movements in provisions of c. €6 million.

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Loan loss provisioning **(continued)**

Impact of changes to key assumptions and estimates on the impairment provisions (continued)
An increase in the assumed repossession rate of 1% for collective mortgage provisions would result in an increase in provisions of 0%(blended rate of owner-occupier/buy-to-let) of c. €0 million.

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Bank's mortgage portfolio, the emergence period is currently 12 months; a decrease of one month in the loss emergence period in respect of the loan portfolio assessed would result in a decrease of c. €4 million.

Individually impaired loans by geographic location and sector*

	2014 € m	2013 € m
Republic of Ireland		
Home Mortgages	**1,279**	1,238
	1,279	1,238

Provision cover table

	Impaired Loan Balance	Specific Provision	Specific Provision Cover %
Home mortgages – 31 December 2014	**1,279**	**280**	**22%**
Home mortgages – 31 December 2013	1,238	335	27%

The following pages provide details of:
- Credit profile analysis of the owner occupier and buy-to-let portfolios by arrears and provisions;
- Asset quality of residential mortgages;
- Fair value of residential mortgage collateral;
- Arrears profile of mortgages which were past due but not impaired;
- Arrears profile of mortgages which were impaired;
- Forbearance:
  - Owner occupier
  - Buy-to-let
  - Total;
- Possessions;
- Loan to value profile; and
- Origination profile.

*Forms an integral part of the audited financial statements

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

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

Statement of financial position*

	2014 Owner-Occupier € m	2014 Buy-to-Let € m	2014 Total € m	2013 Owner-Occupier € m	2013 Buy-to-Let € m	2013 Total € m
Total gross residential mortgages	5,940	19	5,959	6,345	19	6,364
In arrears (>30 days past due)(1)	1,360	11	1,371	1,441	10	1,451
In arrears (>90 days past due)(1)	1,268	11	1,279	1,255	10	1,265
Of which impaired	1,268	11	1,279	1,228	10	1,238
Statement of financial position specific provisions	276	4	280	331	4	335
Statement of financial position IBNR provisions	56	-	56	45	1	46

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

Provision cover percentage*

	2014 Owner-Occupier %	2014 Buy-to-Let %	2014 Total %	2013 Owner-Occupier %	2013 Buy-to-Let %	2013 Total %
Specific provisions as a % of impaired loans cover	21.8	36.4	21.9	27.0	40.0	27.1

Income statement (2)

	2014 Owner-Occupier €m	2014 Buy-to-Let €m	2014 Total €m	2013 Owner-Occupier €m	2013 Buy-to-Let €m	2013 Total €m
Income statement specific provisions	15	-	15	121	6	127
Income statement IBNR provisions	7	-	7	3	(1)	2
Total impairment provisions	22	-	22	124	5	129

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

Asset quality of residential mortgages*

The following table shows criticised loans for the total residential mortgages portfolio analysed between owner-occupier and buy-to-let. Criticised loans include watch, vulnerable and impaired loans.

	2014 Owner-Occupier € m	2014 Buy-to-Let € m	2014 Total € m	2013 Owner-Occupier € m	2013 Buy-to-Let € m	2013 Total € m
Satisfactory	4,109	7	4,116	4,369	8	4,377
Watch	440	1	441	510	1	511
Vulnerable	123	-	123	238	-	238
Impaired	1,268	11	1,279	1,228	10	1,238
Criticised	1,831	12	1,843	1,976	11	1,987
Gross mortgages	5,940	19	5,959	6,345	19	6,364
	%	%	%	%	%	%
Criticised loans as % of total mortgages	30.8	63.2	30.9	31.1	57.9	31.2
Impaired loans as % of total mortgages	21.3	57.9	21.5	19.4	52.6	19.5

*Forms an integral part of the audited financial statements

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Collateral and other credit enhancements
While Group considers a borrower's repayment capacity to be paramount in granting any loan, Group also takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property which is acceptable as collateral and the loan to property value relationship. Collateral valuations are required at the time of origination of each residential mortgage. The fair value at December 2014 of residential mortgages collateral is based on the property values at origination and applying the CSO (Ireland) index to these values to take account of price movements in the interim. The collateral values above include all loans regardless of balances outstanding.

Loans and receivables to customers – residential mortgages*
The following tables show the fair value (FV) of collateral held for residential mortgages at 31 December 2014 and 31 December 2013:

				2014
Fully collateralised	**Neither past due nor impaired €m**	**Past due but not impaired €m**	**Impaired €m**	**Total €m**
Loan-to-value ratio:				
Less than 50%	822	32	99	953
50%-70%	775	37	148	960
71%-80%	439	23	88	550
81%-90%	456	24	106	586
91%-100%	418	27	104	549
	2,910	143	545	3,598
Partially collateralised				
Collateral value relating to loans over 100% LTV	1,267	87	540	1,894
Total collateral value	4,177	230	1,085	5,492
Gross residential mortgages	4,430	250	1,279	5,959
Statement of financial position specific provisions			(280)	(280)
Statement of financial position IBNR provisions				(56)
Net residential mortgages			999	5,623

				2013
Fully collateralised	**Neither past due nor impaired €m**	**Past due but not impaired €m**	**Impaired €m**	**Total €m**
Loan-to-value ratio:				
Less than 50%	647	39	71	757
50%-70%	597	44	83	724
71%-80%	362	27	57	446
81%-90%	347	35	56	438
91%-100%	402	45	80	527
	2,355	190	347	2,892
Partially collateralised				
Collateral value relating to loans over 100% LTV	1,816	227	627	2,670
Total collateral value	4,171	417	974	5,562
Gross residential mortgages	4,639	487	1,238	6,364
Statement of financial position specific provisions			(335)	(335)
Statement of financial position IBNR provisions				(46)
Net residential mortgages			903	5,983

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

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Arrears profile of mortgages which were past due but not impaired*

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

The following tables profile the residential mortgage portfolio that was past due but not impaired at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
1 - 30 days	**158**	**-**	**158**
31 - 60 days	**60**	**-**	**60**
61 - 90 days	**32**	**-**	**32**
91 - 180 days	**-**	**-**	**-**
181 - 365 days	**-**	**-**	**-**
Over 365 days	**-**	**-**	**-**
Total past due but not impaired	**250**	**-**	**250**

			2013
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
1 - 30 days	274	-	274
31 - 60 days	108	-	108
61 - 90 days	78	-	78
91 - 180 days	27	-	27
181 - 365 days	-	-	-
Over 365 days	-	-	-
Total past due but not impaired	487	-	487

Arrears profile of mortgages which were impaired*

The following tables profile the residential mortgage portfolio that was impaired at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Not past due	**296**	**1**	**297**
1 - 30 days	**83**	**-**	**83**
31 - 60 days	**34**	**-**	**34**
61 - 90 days	**26**	**-**	**26**
91 - 180 days	**92**	**1**	**93**
181 - 365 days	**155**	**1**	**156**
Over 365 days	**582**	**8**	**590**
Total impaired	**1,268**	**11**	**1,279**

			2013
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Not past due	102	-	102
1 - 30 days	34	-	34
31 - 60 days	26	-	26
61 - 90 days	41	-	41
91 - 180 days	189	1	190
181 - 365 days	259	2	261
Over 365 days	577	7	584
Total impaired	1,228	10	1,238

Impaired loans increased by €41m in 2014. However, the pace of increase in impaired loans slowed significantly in 2014 in comparison to 2013, driven by an improved economic environment, including an increase in private rents and increases in residential property values. Of the residential mortgage portfolio that was impaired at 31 December 2014, €297m or 23% was not past due (31 December 2013: €102m or 8%), of which €248m (31 December 2013:€44m) was subject to forbearance measures at 31 December 2014.

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The AIB Group uses a range of tools and treatment strategies to support customers The AIB Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis against their current and likely future financial circumstances and their willingness to resolve these difficulties, taking into account legal and regulatory obligations. Key principles include providing support for viable SMEs, and the objective of supporting customers to remain in a family home whenever possible. The AIB Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty as set out by the Central Bank of Ireland ensuring these customers are dealt with in a professional and timely manner.

The effectiveness of the forbearance measures over the lifetime of those arrangements will be measured and reviewed. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for the Group and the borrower.

Mortgage portfolio

The AIB Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty. This builds on and formalises the AIB Group's Mortgage Arrears Resolution Process.

The strategy is built on three key factors:
i) Segmentation – identifying customers in difficulty;
ii) Sustainability – customer assessment; and
iii) Suitable Treatment – identifying solutions.

The core objectives are to ensure that arrears solutions are sustainable in the long term and they comply with the spirit and the letter of all regulatory requirements. MARS includes the following new longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

Positive equity sustainable solution – This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as Split loans due to positive equity.

Low fixed interest rate sustainable solution – This solution is to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest on their mortgage based on their current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to the prevailing variable rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay full capital and interest throughout.

Split mortgages – a split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest, and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date, this may also include an element of debt write-off;

Negative equity trade down – This allows a customer to sell their house and subsequently purchase a new property and transfer the negative equity portion to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his/her current financial and other circumstances;

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to sell the property and put an appropriate agreement in place to repay any residual debt this may also include an element of debt-write off.

Credit policies are in place which outlines the principles and processes underpinning the AIB Group's approach to forbearance which EBS has adopted.

The following table analyses the movement in stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages at 31 December 2014 and 31 December 2013:

Residential owner-occupier mortgages – subject to forbearance*

	2014		2013	
	Number	**Balance €m**	Number	Balance €m
At 1 January	**4,914**	**578**	5,439	720
Additions	**4,986**	**536**	1,938	237
Expired arrangements	**(880)**	**(112)**	(2,340)	(366)
Payments	**-**	**(48)**	-	(32)
Interest	**-**	**29**	-	22
Closed accounts (1)	**(212)**	**(10)**	(122)	(3)
Other movements	**-**	**(23)**	(1)	-
At 31 December	**8,808**	**950**	4,914	578

(1) Accounts closed during the year due primarily to customer repayments and redemptions.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Forbearance (continued)

Buy-to-let mortgages – subject to forbearance*

	2014 Number	2014 Balance €m	2013 Number	2013 Balance €m
At 1 January	18	2	21	3
Additions	6	1	6	1
Expired arrangements	(4)	(1)	(10)	(2)
Payments	-	-	-	-
Interest	-	-	-	-
Closed accounts [(1)]	-	-	-	-
Other movements	-	-	1	-
At 31 December	20	2	18	2

Total mortgage portfolio – subject to forbearance*

	2014 Number	2014 Balance €m	2013 Number	2013 Balance €m
At 1 January	4,932	580	5,460	723
Additions	4,992	537	1,944	238
Expired arrangements	(884)	(113)	(2,350)	(368)
Payments	-	(48)	-	(32)
Interest	-	29	-	22
Closed accounts [(1)]	(212)	(10)	(122)	(3)
Other movements	-	(23)	-	-
At 31 December	8,828	952	4,932	580

[(1)] Accounts closed during the year due primarily to customer repayments and redemptions.

The stock of loans subject to forbearance measures increased by €372m in 2014 (2013: decrease of €130m), mainly due to the increase in arrears capitalisations and split mortgages. This increase is driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

The following tables further analyse by type of forbearance, (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures at 31 December 2014 and 31 December 2013:

Residential owner-occupier mortgages*

2014	Total		Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,152	164	583	86	569	78
Reduced payment (greater than interest only)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low fixed interest rate	160	24	116	18	44	6
Arrears capitalisation	4,263	493	2,185	251	2,078	242
Term extension	1,507	127	153	13	1,354	114
Split mortgage	1,563	128	783	128	780	-
Sale for loss	88	6	61	5	27	1
Positive equity solution	70	7	52	5	18	2
Other	5	1	2	-	3	1
Total	8,808	950	3,935	506	4,873	444

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Forbearance (continued)

Residential owner-occupier mortgages (continued)*

2013

	Total		Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,120	165	355	56	765	109
Reduced payment (greater than interest only)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low fixed interest rate	-	-	-	-	-	-
Arrears capitalisation	1,756	229	901	113	855	116
Term extension	1,940	169	320	30	1,620	139
Split mortgage	78	12	53	7	25	5
Sale for loss	15	1	13	1	2	-
Positive equity solution	-	-	-	-	-	-
Other	5	2	1	-	4	2
Total	4,914	578	1,643	207	3,271	371

Buy-to-let mortgages*

2014

	Total		**Loans >90 days in arrears and/or impaired**		**Loans neither >90 days in arrears nor impaired**	
	Number	**Balance € m**	**Number**	**Balance € m**	**Number**	**Balance € m**
Interest only	**2**	**-**	**2**	**-**	**-**	**-**
Reduced payment (greater than interest only)	**-**	**-**	**-**	**-**	**-**	**-**
Payment moratorium	**-**	**-**	**-**	**-**	**-**	**-**
Low fixed interest rate	**-**	**-**	**-**	**-**	**-**	**-**
Arrears capitalisation	**6**	**-**	**5**	**-**	**1**	**-**
Term extension	**7**	**1**	**-**	**-**	**7**	**1**
Split mortgage	**-**	**-**	**-**	**-**	**-**	**-**
Sale for loss	**5**	**1**	**5**	**1**	**-**	**-**
Positive equity solution	**-**	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Total	**20**	**2**	**12**	**1**	**8**	**1**

2013

	Total		Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	7	1	4	-	3	1
Reduced payment (greater than interest only)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low fixed interest rate	-	-	-	-	-	-
Arrears capitalisation	-	-	-	-	-	-
Term extension	8	1	-	-	8	1
Split mortgage	-	-	-	-	-	-
Sale for loss	3	-	3	-	-	-
Positive equity solution	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	18	2	7	-	11	2

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Forbearance (continued)

Total mortgage portfolio*

2014

	Total		Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,154	164	585	86	569	78
Reduced payment (greater than interest only)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low fixed interest rate	160	24	116	18	44	6
Arrears capitalisation	4,269	493	2,190	251	2,079	242
Term extension	1,514	128	153	13	1,361	115
Split mortgage	1,563	128	783	128	780	-
Sale for loss	93	7	66	6	27	1
Positive equity solution	70	7	52	5	18	2
Other	5	1	2	-	3	1
Total	**8,828**	**952**	**3,947**	**507**	**4,881**	**445**

2013

	Total		Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,127	166	359	56	768	110
Reduced payment (greater than interest only)	-	-	-	-	-	-
Payment moratorium	-	-	-	-	-	-
Low fixed interest rate	-	-	-	-	-	-
Arrears capitalisation	1,756	229	901	113	855	116
Term extension	1,948	170	320	30	1,628	140
Split mortgage	78	12	53	7	25	5
Sale for loss	18	1	16	1	2	-
Positive equity solution	-	-	-	-	-	-
Other	5	2	1	-	4	2
Total	4,932	580	1,650	207	3,282	373

48% of the loans subject to forbearance measures at 31 December 2014 are loans on which arrears have been capitalised. These loans, along with Term Extensions, remain within the stock of forbearance for a period of 5 years. The increase in the stock of loans on arrears capitalisation in 2014 includes some customers whose interest only arrangement had expired during 2014 but who received a capitalisation of arrears at some time over the last 5 years.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Forbearance (continued)

Credit profile of residential mortgages in forbearance

Forbearance stock - past due but not impaired*

The following table profiles the residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier €m	**Buy-to-Let €m**	**Total €m**
1 - 30 days	**50**	**-**	**50**
31 - 60 days	**22**	**-**	**22**
61 - 90 days	**13**	**-**	**13**
91 - 180 days	**-**	**-**	**-**
181 - 365 days	**-**	**-**	**-**
Over 365 days	**-**	**-**	**-**
Total past due but not impaired	**85**	**-**	**85**

			2013
	Owner – Occupier €m	Buy-to-Let €m	Total €m
1 - 30 days	58	-	58
31 - 60 days	19	-	19
61 - 90 days	13	-	13
91 - 180 days	6	-	6
181 - 365 days	1	-	1
Over 365 days	-	-	-
Total past due but not impaired	97	-	97

9% of the residential mortgage portfolio that was subject to forbearance measures was past due but not impaired at 31 December 2014 (31 December 2013: 17%).

Forbearance stock – impaired*

The following table profiles the residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier €m	**Buy-to-Let €m**	**Total €m**
Not past due	**248**	**-**	**248**
1 - 30 days	**74**	**-**	**74**
31 - 60 days	**26**	**-**	**26**
61 - 90 days	**14**	**-**	**14**
91 - 180 days	**35**	**-**	**35**
181 - 365 days	**42**	**-**	**42**
Over 365 days	**67**	**1**	**68**
Total impaired	**506**	**1**	**507**

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Forbearance (continued)

Credit profile of residential mortgages in forbearance (continued)

Forbearance stock – impaired (continued)*

	Owner – Occupier €m	Buy-to-Let €m	2013 Total €m
Not past due	44	-	44
1 - 30 days	19	-	19
31 - 60 days	15	-	15
61 - 90 days	12	-	12
91 - 180 days	36	-	36
181 - 365 days	32	-	32
Over 365 days	43	1	44
Total impaired	201	1	202

The proportion of forbearance that is impaired increased from 35% at 31 December 2013 to 54% at 31 December 2014. This is mainly due to accounts remaining impaired for a period of 12 months after forbearance arrangements are put in place. The proportion of forborne impaired loans that were not past due increased from 22% at 31 December 2013 to 49% at 31 December 2014.

Analysis by Loan-to-value ('LTV') of residential mortgages in forbearance*

The following table profiles the residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to value ratios at 31 December 2014 and 31 December 2013:

	Owner – Occupier €m	**Buy-to-Let €m**	**2014 Total €m**
Less than 50%	**124**	**-**	**124**
50% - 70%	**156**	**-**	**156**
71% - 80%	**93**	**-**	**93**
81% - 90%	**100**	**-**	**100**
91% - 100%	**89**	**-**	**89**
101% -120%	**141**	**1**	**142**
121% - 150%	**206**	**-**	**206**
Greater than 150%	**34**	**-**	**34**
Unsecured (Zero Collateral)	**7**	**1**	**8**
Total forbearance	**950**	**2**	**952**

	Owner – Occupier €m	Buy-to-Let €m	2013 Total €m
Less than 50%	64	1	65
50% - 70%	64	-	64
71% - 80%	41	-	41
81% - 90%	46	-	46
91% - 100%	47	-	47
101% -120%	90	-	90
121% - 150%	114	1	115
Greater than 150%	112	-	112
Total forbearance	578	2	580

The degree of negative equity in the residential mortgage portfolio that was subject to forbearance measures at 31 December 2014 has reduced to 41% of total mortgages compared to 55% at 31 December 2013, due primarily to increases in property prices in 2014. The unsecured loans above are residual debt remaining following a sale of property voluntarily by the customer.

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Properties in possession*

AIB Group manages properties in possession on behalf of the Bank. AIB Group seeks to avoid repossession through working with customers, but where agreement cannot be reached, AIB Group proceeds to repossession of the property or the appointment of a fixed asset receiver, using external agents to realise the maximum value as soon as is practicable. Where AIB Group believes that the sale proceeds of a repossessed 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 in the statement of financial position.

For the purpose of the following table, a residential property is considered to be in AIB Group's possession when AIB Group has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property. This is a change from repossessions reported prior to 2014. Accordingly, the stock of residential properties in possession at 31 December 2013 has been restated to include 80 properties which were in AIB Group's possession through abandonment, but where the Bank had not secured legal title. AIB Group intends to dispose of all such properties in the foreseeable future.

The number (stock) of repossessions as at 31 December 2014 and 31 December 2013 is set out below:

	2014		2013	
	Stock	**Balance Outstanding €m**	Stock	Balance Outstanding €m
Owner-occupier	**147**	**36**	91	24
Buy-to-let	**4**	**1**	5	1
Total	**151**	**37**	96	25

The increase in the stock of properties in 2014 relates to 70 properties repossessed offset by 15 disposals.

The following tables analyse the disposals of repossessed properties during the years 31 December 2014 and 31 December 2013:

2014

	Number of Disposals	**Balance outstanding at repossession date € m**	**Gross sales proceeds € m**	**Costs to sell € m**	**Loss on sale[(1)] € m**	**Average LTV at sale Price %**
Owner-occupier	**13**	**3**	**1**	**-**	**2**	**240%**
Buy-to-let	**2**	**-**	**-**	**-**	**-**	**309%**
Total residential	**15**	**3**	**1**	**-**	**2**	**246%**

2013

	Number of Disposals	Balance outstanding at repossession date € m	Gross sales proceeds € m	Costs to sell € m	Loss on sale[(1)] € m	Average LTV at sale Price %
Owner-occupier	16	4	2	-	3	280%
Buy-to-let	1	1	-	-	-	135%
Total residential	17	5	2	-	3	245%

[(1)]Before specific impairment provisions.
The figures in the tables above do not cross total due to rounding.

Losses on the sale of properties in possession are recognised in the Income Statement as part of the specific provision charge.

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

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

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index. The CSO Residential Property Price Index for November 2014 reported that national residential property prices were 38% lower than their highest level in early 2007 and reported an annual rise in residential property prices of 16% in the year to 30 November 2014.

Actual and average LTV across mortgage portfolios*

The following tables profile the residential mortgage portfolio by the indexed loan-to-value ('LTV') ratios and the weighted average indexed LTV ratios at 31 December 2014 and 31 December 2013:

			2014
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Less than 50%	**952**	**1**	**953**
50% - 70%	**959**	**1**	**960**
71% - 80%	**549**	**1**	**550**
81% - 90%	**584**	**2**	**586**
91% - 100%	**549**	**1**	**550**
101% -120%	**947**	**4**	**951**
121% - 150%	**1,121**	**6**	**1,127**
Greater than 150%	**263**	**2**	**265**
Unsecured (Zero Collateral)	**16**	**1**	**17**
Total	**5,940**	**19**	**5,959**
Weighted average indexed LTV			
Stock of residential mortgages at year end	**90%**	**108%**	**90%**
New residential mortgages during year	**-**	**-**	**-**
Impaired mortgages	**109%**	**117%**	**109%**

			2013
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Less than 50%	755	2	757
50% - 70%	723	1	724
71% - 80%	445	1	446
81% - 90%	438	-	438
91% - 100%	526	1	527
101% -120%	1,108	2	1,110
121% - 150%	1,238	8	1,246
Greater than 150%	1,112	4	1,116
Total	6,345	19	6,364
Weighted average indexed LTV (1)			
Stock of residential mortgages at year end	105%	122%	105%
New residential mortgages during year	-	-	-
Impaired mortgages	128%	134%	128%

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

40% of the total owner-occupier and 68% of the total buy-to-let mortgages were in negative equity at 31 December 2014, compared to 54% and 74% respectively at 31 December 2013. The weighted average indexed loan-to-value for the total residential mortgage book was 90% at 31 December 2014 compared to 105% at 31 December 2013, with the reduction driven primarily by the increase in property prices in 2014, coupled with amortisation of the loan book.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Actual and average LTV across mortgage portfolios (continued)

Neither past due nor impaired*
The following tables profile the residential mortgage portfolio that was neither past due nor impaired by the indexed loan to value ratios at 31 December 2014 and 31 December 2013.

	Owner – Occupier €m	Buy-to-Let €m	2014 Total €m
Less than 50%	**821**	**1**	**822**
50% - 70%	**774**	**1**	**775**
71% - 80%	**439**	**1**	**440**
81% - 90%	**455**	**1**	**456**
91% - 100%	**418**	**-**	**418**
101% -120%	**721**	**2**	**723**
121% - 150%	**755**	**2**	**757**
Greater than 150%	**38**	**-**	**38**
Unsecured (Zero Collateral)	**1**	**-**	**1**
Total	**4,422**	**8**	**4,430**

	Owner – Occupier €m	Buy-to-Let €m	2013 Total €m
Less than 50%	646	1	647
50% - 70%	596	1	597
71% - 80%	361	1	362
81% - 90%	347	-	347
91% - 100%	401	1	402
101% -120%	853	1	854
121% - 150%	863	3	866
Greater than 150%	563	1	564
Total	4,630	9	4,639

The proportion of residential mortgages that were neither past due nor impaired and in negative equity at 31 December 2014 decreased in comparison to 31 December 2013, reflecting the increases in residential property prices in the period, coupled with amortisation of the loan book. 34% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2014 compared to 49% at 31 December 2013.

Past due but not impaired*
The following tables profile the residential mortgage portfolio that was past due but not impaired at 31 December 2014 and 31 December 2013:

	Owner – Occupier €m	Buy-to-Let €m	2014 Total €m
Less than 50%	**32**	**-**	**32**
50% - 70%	**37**	**-**	**37**
71% - 80%	**23**	**-**	**23**
81% - 90%	**24**	**-**	**24**
91% - 100%	**27**	**-**	**27**
101% -120%	**43**	**-**	**43**
121% - 150%	**58**	**-**	**58**
Greater than 150%	**6**	**-**	**6**
Unsecured (Zero Collateral)	**-**	**-**	**-**
Total	**250**	**-**	**250**

	Owner – Occupier €m	Buy-to-Let €m	2013 Total €m
Less than 50%	38	-	38
50% - 70%	44	-	44
71% - 80%	27	-	27
81% - 90%	35	-	35
91% - 100%	46	-	46
101% - 120%	90	-	90
121% - 150%	108	-	108
Greater than 150%	99	-	99
Total	487	-	487

Of the residential mortgages that were past due but not impaired at 31 December 2014, 43% were in negative equity at 31 December 2014 compared to 61% at 31 December 2013.
*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Actual and average LTV across mortgage portfolios (continued)

Greater than 90 days past due and/or impaired*

The following tables profile the residential mortgage portfolio that was greater than 90 days past due and/or impaired by the indexed LTV ratios at 31 December 2014 and 31 December 2013:

2014	Owner – Occupier € m	Buy-to-Let € m	Total € m
Less than 50%	99	1	100
50% - 70%	148	-	148
71% - 80%	87	-	87
81% - 90%	105	1	106
91% - 100%	104	-	104
101% -120%	183	2	185
121% - 150%	308	4	312
Greater than 150%	219	2	221
Unsecured (Zero Collateral)	15	1	16
Total	**1,268**	**11**	**1,279**

2013	Owner – Occupier € m	Buy-to-Let € m	Total € m
Less than 50%	71	1	72
50% - 70%	85	-	85
71% - 80%	58	-	58
81% - 90%	57	-	57
91% - 100%	82	-	82
101% -120%	171	1	172
121% - 150%	272	5	277
Greater than 150%	459	3	462
Total	1,255	10	1,265

The proportion of residential mortgages that were greater than 90 days past due and/or impaired and in negative equity at 31 December 2014 (57%) decreased in comparison to 31 December 2013 (72%), reflecting the increases in residential property prices in the period.

Residential Mortgages by year of origination*

The following tables profile the residential mortgage portfolio and impaired residential mortgage portfolio at 31 December 2014 and 2013 by year of origination:

2014	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance € m	Number	Balance € m
1996 and before	2,695	76	317	15
1997	944	25	94	4
1998	957	31	104	6
1999	1,080	44	143	9
2000	1,370	75	162	13
2001	1,716	121	188	17
2002	2,374	198	259	27
2003	2,683	220	389	39
2004	3,063	288	416	48
2005	4,648	467	692	97
2006	7,771	1,096	1,508	265
2007	7,486	1,119	1,949	350
2008	6,939	994	1,636	268
2009	4,362	562	590	79
2010	4,400	593	295	41
2011	409	50	3	1
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
Total	**52,897**	**5,959**	**8,745**	**1,279**

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.1 Credit risk (continued)

Residential Mortgages by year of origination (continued)*

	2013			
	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance € m	Number	Balance € m
1996 and before	3,446	94	339	16
1997	1,026	31	95	4
1998	1,064	38	109	6
1999	1,286	51	143	11
2000	1,463	84	167	14
2001	1,818	136	197	18
2002	2,504	218	252	26
2003	2,844	242	384	38
2004	3,324	312	430	52
2005	4,893	505	666	97
2006	7,920	1,166	1,391	263
2007	7,533	1,188	1,751	331
2008	7,072	1,042	1,556	263
2009	4,642	590	523	68
2010	4,553	614	223	30
2011	429	53	3	1
2012	-	-	-	-
2013	-	-	-	-
Total	55,817	6,364	8,229	1,238

The majority (€3.7bn or 62%) of the €6.0bn residential mortgage portfolio was originated between 2005 and 2008, of which 27% (€1.0bn) was impaired at 31 December 2014.

Further information on credit risk
Further information on credit risk can be found in the notes to the financial statements:

- Provisions for impairment of loans and receivables *(note 5);*
- Loans and receivables to banks *(note 8);*
- Loans and receivables to customers *(note 9).*

* Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.2 Liquidity risk*

Liquidity risk relates to the ability of the Bank to meet it's on and off balance sheet obligations in a timely manner as they fall due, without incurring excessive cost, whilst continuing to fund its assets and growth therein. As part of the terms of its bank licence approval, the Bank elected to meet its solo prudential liquidity requirements at a Group level which during 2013 was amended to be at an AIB Group Level.

The Group was acquired by the AIB Group on 1st July 2011 following instructions from the Minister for Finance on the 31st March 2011. The Bank's liquidity risk has been incorporated into the AIB centralised risk management model in line with AIB common approach to Treasury Risk management. Under this centralised approach, the management of liquidity and related activities are overseen and controlled by AIB Treasury.

In accordance with CRR requirements, the Bank has appointed AIB as its liquidity manager to fulfil daily cashflow management, oversee any changes required in liquidity management or reporting and manage the Bank's liquidity risk as part of the overall AIB Group liquidity risk management process. This means the procedures by which these liquidity management activities are performed, and the procedures by which AIB Group ensures the Bank complies with AIB Group Liquidity Policy, are managed through an Outsourcing and Agency Agreement.

The AIB Group conducts both regular and ad-hoc funding and liquidity risk stress testing to assess, on an ongoing basis, the ability of the AIB Group to withstand various idiosyncratic and systemic stress scenarios. Liquidity contingency plans are developed and updated on a continual basis reflecting the results of the stress tests. These activities are conducted in conjunction with AIB Group Asset & Liability Management.

The AIB Group applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the Central Bank in July 2007. The overall purpose of a maturity mismatch approach is to ensure that the AIB Group will have, at any given time, a pool of highly liquid assets capable of being converted into cash within four business days, sufficient to cover a certain percentage of foreseeable cash outflows for future periods of time. The AIB Group has conducted stress tests in advance of these expected changes. Funding contingency plans are continually under review.

Key measures used by the AIB Group for managing liquidity risk are the liquidity ratios, calculated and reported on a daily basis internally to the Treasury Front Office and to AIB Group, on a weekly basis for consolidation into the AIB Group Regulatory Liquidity Reports.

In October 2011, the Central Bank revoked the requirement for the Group to comply with the 'Requirements for the Management of Liquidity Risk' regulatory document under Section 9.2 of that document, whereupon the Group Liquidity Ratios would henceforth be reflected in the AIB Group Consolidated Liquidity Reports.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.2 Liquidity risk* (continued)

Financial liabilities by contractual maturity*

2014

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
Deposits by Banks	-	3,383	-	-	-	3,383
Derivative financial instruments	-	-	-	22	-	22
Debt securities in issue	-	-	432	1,375	-	1,807
Other liabilities	-	-	-	-	-	-
Total	-	3,383	432	1,397	-	5,212

2013

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
Deposits by Banks	-	2,978	-	-	-	2,978
Derivative financial instruments	-	-	-	33	-	33
Debt securities in issue (1)	-	-	525	2,169	-	2,694
Other liabilities	1	-	-	-	-	1
Total	1	2,978	525	2,202	-	5,706

(1) A revaluation has taken place to be in line with AIB Group treatment and as a result are unaudited.

3.3 Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, information technology risk, business continuity risk, outsourcing risk, health and safety risk and legal risk. It does not include strategic and business risk. As such, operational risk covers a broad range of potential sources of financial loss which the Group and the AIB Group actively seek to mitigate against.

The key people, systems and processes supporting EBSMF are provided by the Group in conjunction with the AIB Group and this relationship is governed by a Managed Services Agreement. The AIB Group operational risk framework applies across all areas of the AIB Group including the EBS Limited and the Bank and the AIB Group Operational Risk function is responsible for overseeing the management of operational risk across the AIB Group.

EBSMF undertakes an operational risk self-assessment which focuses on activities specific to the Bank. This process includes periodic assessments of relevant operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes.

3.4 Regulatory compliance risk*

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

The Bank's regulatory compliance risk is managed as part of the overall AIB Group Regulatory compliance framework. This includes risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.5 Non-trading interest rate risk*

Market risk is the risk that changes in market prices, such as interest rate, and credit spreads (funding risk) will affect the Bank's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Bank has aligned the measurement methods and reporting of its market risk exposures to the AIB Group.

The Bank is not allowed to engage in proprietary trading under the conditions of the Asset Covered Securities Act and its' license. AIB Group Treasury manages non trading Interest Rate Risk using gap and sensitivity analysis. Derivatives such as interest rate swaps are used to hedge these market risks.

Interest rate risk is the risk that changes in interest rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposures in accordance with the requirements of the Asset Covered Securities Act and internal parameters.

The Bank has outsourced the measurement and reporting management of its interest rate risk to the Group. EBS Treasury Risk in conjunction with AIB Group Treasury measures and manages these risks using gap and sensitivity analysis. Derivatives such as interest rate swaps are used by the Bank for hedging purposes (reducing risk) only. The Bank's Management team in conjunction with the AIB Group Asset & Liability function is responsible for monitoring how interest rate risk is managed and ensuring that the AIB Group policy is adhered to.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.5 Non-trading interest rate risk* (continued)

Interest Rate Sensitivity*
The net interest rate sensitivity of EBS Mortgage Finance at 31 December 2014 is illustrated in the following table;

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Rate Insensitive	Total
Assets	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Loans and receivables to customers	5,586	17	92	133	61	21	20	29	(336)	5,623
Loans and receivables to bank	77	-	-	-	-	-	-	-	-	77
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	22	22
Other assets	-	-	-	-	-	-	-	-	10	10
Total Assets	5,663	17	92	133	61	21	20	29	(304)	5,732
Liabilities										
Deposits by banks	3,383	-	-	-	-	-	-	-	-	3,383
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	22	22
Debt issued	1,807	-	-	-	-	-	-	-	-	1,807
Other liabilities	-	-	-	-	-	-	-	-	1	1
Shareholders' equity	-	-	-	-	-	-	-	-	519	519
Total Liabilities	5,190	-	-	-	-	-	-	-	542	5,732
Derivatives financial instruments (interest rate swaps)										
Floating rate interest receivable	(6,139)	-	-	-	-	-	-	-	-	(6,139)
Floating rate interest payable	5,766	17	92	133	61	21	20	29	-	6,139
Floating rate interest payable	-	-	-	-	-	-	-	-	-	-
Floating rate interest receivable	-	-	-	-	-	-	-	-	-	-
Total derivatives	(373)	17	92	133	61	21	20	29	-	-
Interest sensitivity gap	846	-	-	-	-	-	-	-	(846)	-
Cumulative interest sensitivity gap	846	846	846	846	846	846	846	846	-	-

The impact on net interest income over a twelve month period of a 100 basis point ("bp") downward/ upward movement in interest rates on 31 December 2014 would be circa €2,279k/ €1,512k respectively.

*Forms an integral part of the audited financial statements.

RISK MANAGEMENT REPORT (CONTINUED)

3.5 Non-trading interest rate risk* (continued)

Interest Rate Sensitivity* ***(continued)***

Interest Rate Sensitivity analysis for the Bank at 31 December 2013 is as follows:

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Rate Insensitive	Total
Assets	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Loans and receivables to customers	5,941	119	23	111	117	18	22	13	(381)	5,983
Loans and receivables to bank	89	-	-	-	-	-	-	-	-	89
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	33	33
Other assets	-	-	-	-	-	-	-	-	25	25
Total Assets	6,030	119	23	111	117	18	22	13	(323)	6,130
Liabilities										
Deposits by banks	2,978	-	-	-	-	-	-	-	-	2,978
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	33	33
Debt issued	2,694	-	-	-	-	-	-	-	-	2,694
Other liabilities	-	-	-	-	-	-	-	-	1	1
Shareholders' equity	-	-	-	-	-	-	-	-	424	424
Total Liabilities	5,672	-	-	-	-	-	-	-	458	6,130
Derivatives financial instruments (interest rate swaps)										
Floating rate interest receivable	(6,572)	-	-	-	-	-	-	-	-	(6,572)
Floating rate interest payable	6,149	119	23	111	117	18	22	13	-	6,572
Floating rate interest payable	-	-	-	-	-	-	-	-	-	-
Floating rate interest receivable	-	-	-	-	-	-	-	-	-	-
Total derivatives	(423)	119	23	111	117	18	22	13	-	-
Interest sensitivity gap	781	-	-	-	-	-	-	-	(781)	-
Cumulative interest sensitivity gap	781	781	781	781	781	781	781	781	-	-

The impact on net interest income over a twelve month period of a 100 basis point ("bp") downward/ upward movement in interest rates on 31 December 2014 would be circa €1,747k/ €1,556k respectively

*Forms an integral part of the audited financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EBS MORTGAGE FINANCE

We have audited the financial statements of EBS Mortgage Finance (the "Company") for the year ended 31 December 2014 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Director's Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the company as at 31 December 2014 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Company.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the directors' report is consistent with the financial statements.
- The net assets of the company, as stated in the Statement of Financial Position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

John McCarroll
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2
26th **March 2015**

ACCOUNTING POLICIES*

1	Reporting entity
2	Statement of compliance
3	Basis of preparation
4	Interest income and expense recognition
5	Net trading income
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15	Contingent liabilities
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*Forms an integral part of the audited financial statements.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2014 are set out below.

1. Reporting entity
EBS Mortgage Finance (the 'Bank') was incorporated in the Republic of Ireland on 30 October 2008 as a public unlimited company and commenced trading on 1 December 2008 operating under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts 2001 and 2007. The Bank is a wholly owned subsidiary of EBS Limited (formally EBS Building Society), is part of the EBS (the 'Group') and AIB Group ("AIB Group") and is regulated by the Central Bank of Ireland.

On 1 July 2011 EBS Building Society was demutualised pursuant to the Building Societies Act 1989 (amended) and converted to EBS Limited, a private limited company pursuant to the Companies Act 1963 (as amended) under the terms of an Acquisition Conversion Scheme (the 'Scheme) completed on 1 July 2011. Under the terms of the Scheme the special investment shares issued by the Society were converted to ordinary shares in EBS Limited. 100% of the issued ordinary shares in EBS Limited held by the Minister for Finance were acquired by Allied Irish Banks, p.l.c. ('AIB') on 1 July 2011.

The Bank is a covered institution within the meaning of the Government Guarantee Scheme ('the Scheme') and stood specified under the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (Statutory Instrument No. 416 of 2008) ('CIFS') for the period 30 September 2008 to 29 September 2010. The Bank is not a participating institution under the new Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 which came into effect on 9 December 2009.

The Bank is currently a participating institution under the National Asset Management Agency Act 2009. However, there were no mortgage loans transferred under the Act.

2. Statement of compliance
The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards as adopted by the European Union ("EU") and applicable for the year ended 31 December 2014. The accounting policies have been consistently applied by the bank and are consistent with the previous year, unless otherwise described. The financial statements also comply with the Companies Acts 1963 to 2013 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended) and the Asset Covered Securities Acts 2001 and 2007.

3. Basis of preparation
Functional and presentation currency
The financial statements are presented in Euro, which is the functional currency of the Bank, 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, and certain hedged financial assets and financial liabilities.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, and the statement of changes in shareholders' equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Risk Management section of the annual financial statements. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax and determination of the fair value of certain financial assets and liabilities and retirement benefit obligations. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income. A description of these estimates and judgements is set out in section 17 of the accounting policies.

Going concern
The financial statements for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Bank, that it has the ability to continue in business for the period of assessment.

EBS Mortgage Finance is dependent on its Ultimate Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Ultimate Parent.

The financial statements of Allied Irish Bank p.l.c for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the AIB Group Directors is twelve months from the date of approval of these annual financial statements.

ACCOUNTING POLICIES (continued)

3. Basis of preparation (continued)

***Going concern* (continued)**
In making its assessment, the AIB Group Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. There have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the AIB Group Directors have considered the commitment of support provided to AIB by the Irish Government.

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

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

In relation to liquidity and funding, the AIB Group Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the AIB Group during the period of assessment.

Conclusion
On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to EBS Mortgage Finance, the Directors of the Bank believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on its ability to continue as a going concern over the period of assessment.

Adoption of new accounting standards
The following standards/amendments to standards have been adopted by AIB Group and the Bank during the year ended 31 December 2014. The impact of these amendments on the financial statements is set out in the notes to the accounts.

Amendments to IAS 32 Financial Instruments: Presentation on Offsetting Financial Assets and Financial Liabilities
These amendments are effective from 1 January 2014. The amendments clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement on Novation of Derivatives and Continuation of Hedge Accounting*
These amendments, which are effective from 1 January 2014, provide an exception to the requirement to discontinue hedge accounting where a hedging derivative is novated, provided certain criteria are met.

The amendment applies to novations:
- which arise due to laws or regulations, or the introduction of laws or regulations;
- where the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- that did not result in changes to the terms of the original derivative except the changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception. AIB Group has not yet applied these amendments, however, when applied, their impact is not expected to be significant.

Changes to accounting policies
Arising from the adoption of the IFRSs set out above, the following accounting policy was revised effective from 1 January 2014:
- Derivatives and hedge accounting (Accounting Policy number 8).

This change to accounting policy has had no material effect on the financial statements.

ACCOUNTING POLICIES (continued)

4. Interest income and expense recognition
Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Bank estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation.

Interest income and expense presented in the income statement includes:

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense.

5. Net trading income
Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realised and unrealised fair value changes.

6. Financial assets

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the AIB Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

7. Financial liabilities
Issued financial instruments and their components are classified as liabilities where the substance of the contractual arrangement results in the Bank 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.

The Bank 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 profit or loss.

ACCOUNTING POLICIES (continued)

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

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

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

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', the Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge').

When a financial instrument is designated as a hedge, the Bank 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. The Bank 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.

The Bank discontinues hedge accounting when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold or repaid.

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, the Bank may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method.

Derivatives used to manage interest rate risk arising on mortgage covered securities have been designated as fair value hedges.

Derivatives that do not qualify for hedge accounting

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

Derivatives used to manage interest rate risk arising on mortgage loans to customers do not qualify for hedge accounting. Changes in their fair value are recognised immediately in the income statement.

9. Intangible assets

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the AIB Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

ACCOUNTING POLICIES (continued)

10. Impairment of financial assets
It is the Bank's policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset on or before the reporting date, ('a loss event') and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset, or a portfolio of financial assets, is impaired includes observable data that comes to the attention of the Bank about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Bank would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i. adverse changes in the payment status of borrowers in the portfolio; and
    ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported
The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported ('IBNR') assessment.

An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Collective evaluation of impairment
For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumption used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

ACCOUNTING POLICIES (continued)

10. Impairment of financial assets (continued)

Collateralised financial assets – Repossessions

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable. For loans which are impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Group will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all, or substantially all, of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

Past due loans

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days', is the term used to describe the cumulative numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received.

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

Loans renegotiated and forbearance

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

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk section 3.1. A request for a forbearance solution acts as a trigger for an impairment test. All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Bank continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelvemonths, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in the Group's collective assessment for IBNR provisions.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the Income Statement. Interest accrues on the new loan based on the current market rates in place at the time of renegotiation.

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

Occasionally, the Bank may temporarily amend the contractual repayments terms on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39 paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement.

However, where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

ACCOUNTING POLICIES (continued)

11. Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

12. 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 year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

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

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from the revaluation of certain financial assets and financial liabilities including derivative contracts.

13. Cash and cash equivalents

For the purposes of the cash flow statements, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

14. Shareholder's Equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Bank. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

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

Dividends and distributions
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders or in the case of the interim dividend when it has been approved for payment by the Board of Directors.

Capital reserves
Capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Revenue reserves
Revenue reserves represent retained earnings of the Bank.

15. Contingent liabilities

A contingent liability is a present obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Bank discloses contingent liabilities and assets in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

ACCOUNTING POLICIES (continued)

16. Prospective accounting changes

The following new accounting standards and amendments to existing standards approved by the IASB, but not early adopted by the Bank, will impact the Bank's financial reporting in future periods. The Bank is currently considering the impacts of these amendments. The new accounting standards and amendments which are more relevant to the Bank are detailed below.

(a) Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative

Nature of Change

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

These amendments are not expected to have a significant impact on AIB Group. The amendments are subject to EU endorsement.

IASB Effective Date

Annual periods beginning on or after 1 January 2016.

(b) Annual improvements to IFRSs 2012–2014 cycle

Nature of Change

The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2012-2014 Cycle amend IFRSs in relation to four issues addressed during this cycle.

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

IASB Effective Date

Annual periods beginning on or after 1 January 2016.

(c) IFRS 15 Revenue from Contracts with Customers

Nature of Change

IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitive disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The impacts of this standard are being considered by AIB Group and the Bank. The standard is subject to EU endorsement.

IASB Effective Date

Annual periods beginning on or after 1 January 2017.

(d) IFRS 9 Financial Instruments

Nature of Change

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments.* This completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The main changes are as follows:

Classification and measurement

IFRS 9 introduces a single, principles-based classification approach that has two measurement categories: amortised cost and fair value. The basis of classification depends on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model with this model being applied to all financial instruments. IFRS 9 requires an entity to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime credit losses on a timely basis.

Hedge accounting

IFRS 9 replaces the rules-based general hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* with a principles-based approach that more closely aligns the accounting treatment with risk management activities. However, an entity may continue to apply the hedge accounting requirements of IAS 39. The accounting for macro hedges is not included within IFRS 9 and continues to be accounted for in accordance with the requirements of IAS 39.

ACCOUNTING POLICIES (continued)

16. Prospective accounting changes (continued)

(d) IFRS 9 Financial Instruments (continued)

Own credit
IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality be recognised in other comprehensive income rather than in profit and loss.

AIB Group and the Bank are currently assessing the impact that IFRS 9 will have on its financial statements. While the impact is expected to be significant, it is not practicable to provide a reasonable estimate of the effects at this time. The standard is subject to EU endorsement.

IASB Effective Date
Annual periods beginning on or after 1 January 2018.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES*

The estimates that have a significant impact on these financial statements, and estimates with a significant risk of material adjustment in the next year, are set out below:

(a) Going concern
The financial statements for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Bank, that it has the ability to continue in business for the period of assessment.

EBS Mortgage Finance is dependent on its Ultimate Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Ultimate Parent.

The financial statements of Allied Irish Bank p.l.c for the year ended 31 December 2014 have been prepared on a going concern basis as the Directors of AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the AIB Group Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the AIB Group Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. There have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the AIB Group Directors have considered the commitment of support provided to AIB by the Irish Government.

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

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

In relation to liquidity and funding, the AIB Group Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the AIB Group during the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to EBS Mortgage Finance, the Directors of the Bank believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on its ability to continue as a going concern over the period of assessment.

(b) Loan impairment
The Banks' accounting policy for impairment of financial assets is set out in accounting policy number 10. The provisions for impairment on loans and receivables at 31 December 2014 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date. The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local economic climate, conditions in various industries to which the borrowers are exposed, and other external factors such as legal and regulatory requirements.

The management process for the identification of loans requiring provision is underpinned by a series of independent stages, including regular monitoring of credit quality and loan loss provisions by AIB Group credit and risk management. The Bank assesses and approves its provisions on a quarterly basis. A quarterly assessment of provision adequacy is also considered by AIB Group Credit Committee, prior to AIB Group Audit Committee and Board approval being sought.

After a period of time when it is concluded that there is no real prospect of recovery of loans/part of loans which have have been subjected to a specific provision, the Bank writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

*Forms an integral part of the audited financial statements.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)*

(b) Loan impairment (continued)

Specific provision
A specific provision is made against an impaired loan when, in the judgement of management, the estimated realisable value, including available security, is expected to fall short of the principal and interest amount outstanding on the loan. A specific provision is set aside based on the estimate of the difference between the present value of future cash flows, and the assets' carrying value.

As the amount of specific provision required is primarily model driven, and based on estimates of the timing and amount of future cash flows, the amount of the Bank's provision is somewhat uncertain, and may not fully reflect the impact of the prevailing market conditions. Underlying assumptions are reviewed and updated on a regular basis.

Incurred but not reported provisions
Incurred but not reported ("IBNR") provisions are maintained to cover impaired loans which are known to be present within the portfolio, but have not been specifically identified as impaired at the reporting date. IBNR provisions are maintained at levels that are deemed appropriate following management assessment of a wide range of credit, portfolio, sectorial, and other economic factors.

The total amount of impairment loss in the Bank's non-impaired portfolio, and therefore the adequacy of the IBNR provision is inherently uncertain. Key assumptions underpinning the Bank's estimates of collective and IBNR provisions are regularly reviewed in line with experience.

Forbearance
The Bank has developed a number of forbearance strategies to assist customers experiencing financial difficulties, which involve modifications to contractual repayment terms, in order to improve the recoverability of outstanding debt. Advanced forbearance strategies currently being implemented are subject to high levels of judgement and estimation, which may impact on loan impairment provisions.

(c) Deferred tax
Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability, and the sufficiency of profits to absorb losses carried forward. It requires significant judgements to be made about long-term profitability projections over several future accounting periods over which recovery extends.

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

- absence of any expiry dates for Irish tax losses;
- non-enduring nature of the loan impairments at levels which resulted in recent years' losses;
- generation of operating profits before provisions in recent year; and
- return to profitability within the Bank's internal medium–term financial plan, and the ability to grow profits thereafter.

The Bank returned to profitability in 2014 and believes that it will generate profits in the long term. In the absence of any expiry date for tax losses in Ireland, the Bank therefore believes that it is more likely than not that there will be future profits against which to use the tax losses. The Bank 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 year.

IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised.

(d) Fair value of financial instruments
The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

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

*Forms an integral part of the audited financial statements.

INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 €m	2013 €m
Interest income and similar income	1	274	275
Interest expense and similar charges	2	(135)	(137)
Net Interest Income		139	138
Net trading gain/(loss)	3	2	(5)
Total Operating Income/(Loss)		141	133
Administrative expenses	4	(8)	(9)
Impairment of intangible assets	12	(2)	-
Operating profit/(loss) before impairment losses and taxation		131	124
Provisions for impairment of loans and advances to customers	5	(22)	(129)
Operating profit/(loss) before taxation		109	(5)
Income tax (charge)/credit	6	(14)	1
Profit/(loss) for the year		95	(4)

The operating profit arises from continuing operations.

The notes on pages 54 to 68 are an integral part of these financial statements.

Director:

Director:

Director:

Secretary:

Date: 26/3/15

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 €m	2013 €m
Profit/(loss) for the year		**95**	(4)
Total comprehensive income for the year		**95**	(4)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 €m	2013 €m
Assets			
Derivative financial instruments	7	22	33
Loans and receivables to banks	8	77	89
Loans and receivables to customers	9	5,623	5,983
Intangible assets	12	-	2
Deferred taxation	11	9	23
Total assets		5,731	6,130
Liabilities			
Deposits by banks	10	3,383	2,978
Derivative financial instruments	7	22	33
Debt securities in issue	13	1,807	2,694
Other Liabilities	14	-	1
Total liabilities		5,212	5,706
Shareholders' equity			
Ordinary share capital	15	552	552
Revenue reserves		(33)	(128)
Shareholders' equity		519	424
Total liabilities and shareholders' equity		5,731	6,130

The notes on pages 54 to 68 are an integral part of these financial statements

Director:

Director:

Director:

Secretary:

Date: 26/3/15

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2014

	Note	2014 €m	2013 €m
Cash flows from operating activities			
Operating profit/(loss) before taxation		**109**	(5)
Amortisation of FV discount on debt securities in issue	2	**63**	75
Provisions charge for impairment on loans and receivables	5	**22**	129
Impairment of intangibles	12	**2**	-
Fair value movement on hedging derivatives		**-**	(1)
		196	198
Changes in operating assets and liabilities			
Change in loans and receivables to customers		**338**	315
Change in accruals and deferred income		**-**	(2)
Change in deposits by banks		**405**	(276)
Change in debt securities in issue		**-**	225
Redemption of debt securities		**(950)**	(575)
Change in other liabilities		**(1)**	1
Net cash flows from operations before taxation		**(12)**	(114)
Taxation refund/(charge)		**-**	-
Net cash flows from operations		**(12)**	-
Net cash flow from investing activities		**-**	-
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**-**	75
Net cash flows from financing activities		**-**	75
Net increase/(decrease) in cash and cash equivalents		**(12)**	(39)
Cash and cash equivalents at 1 January		**89**	128
Cash and cash equivalents at 31 December	17	**77**	89

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

At 31 December 2014

	Ordinary Share Capital €m	Capital Reserve €m	Revenue Reserves €m	Total Shareholders' Equity €m
At 1 January 2014	**552**	**-**	**(128)**	**424**
Total comprehensive income for the period	**-**	**-**	**95**	**95**
At 31 December 2014	**552**	**-**	**(33)**	**519**
At 1 January 2013	477	-	(124)	353
Total comprehensive income for the period	-	-	(4)	(4)
Issue of ordinary shares	75	-	-	75
At 31 December 2013	552	-	(128)	424

NOTES TO THE FINANCIAL STATEMENTS

1. INTEREST INCOME AND SIMILAR INCOME

	2014 € m	2013 € m
Interest on loans and receivables to customers	230	251
Amortisation of fair value discount on loans and receivables to customers	44	24
	274	275

Included within various captions under interest income for the year ended 31 December 2014 is a total of €40m (2013: €38m) accrued on impaired financial assets.

2. INTEREST EXPENSE AND SIMILAR CHARGES

	2014 € m	2013 € m
Interest payable to credit institutions	26	26
Interest on debt securities in issue	46	36
Amortisation of fair value discount on debt securities in issue	63	75
	135	137

3. NET TRADING GAIN / (LOSS)

	2014 € m	2013 € m
Debt Securities and interest rate contracts	2	(5)
	2	(5)

4. ADMINISTRATIVE EXPENSES

	2014 € m	2013 € m
Personnel expenses	-	-
Other administrative expenses	2	3
Amounts payable to EBS	6	6
	8	9

Other administrative expenses consists of professional fees €0.6m (2013: €1.2m) and statutory payments €1.2m (2013: €1.0m)

There are no full time equivalents employed by EBS Mortgage Finance in the financial year 2014 (2013: 1.8). All EBS Staff moved to AIB contracts at the 1st of January 2014.

Auditors remuneration (excluding VAT)

	2014 € '000	2013 € '000
Statutory audit	12	12
Other assurance services	10	-
Tax advisory services	-	-
Other non-audit services	-	-
Total auditors remuneration	22	12

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. ADMINISTRATIVE EXPENSES (continued)

The disclosure of Auditors fees are in accordance with Statutory Instrument 220[1] which mandates fees in particular categories and that fees paid to the EBS Mortgage Finance's Auditor (Deloitte & Touche) for services to the Bank only be disclosed in this format. Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements. These fees include assignments where the auditor provides assurance to third parties.

[1] SI220 is titled the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010.

Directors remuneration

	2014	2013
	€ '000	€ '000
Fees	**30**	30

No additional remuneration has been made to any individuals employed directly by Allied Irish Bank p.l.c. for roles discharged as directors of EBS Mortgage Finance.

5. PROVISIONS FOR IMPAIRMENT OF LOANS AND RECEIVABLES

	2014			2013		
	Specific	**IBNR**	**Total**	Specific	IBNR	Total
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Balance at start of year	**335**	**46**	**381**	200	44	244
(Release)/charge against income statement	**12**	**10**	**22**	127	2	129
Other[1]	**-**	**-**	**-**	8	-	8
Amounts written off	**(67)**	**-**	**(67)**	-	-	-
Balance at end of year	**280**	**56**	**336**	335	46	381

[1] 2013 includes settlement received from Genworth in respect of mortgage indemnity insurance on a pool of loans which were greater than 6 months in arrears.

By geographical location and industry sector	**2014**	2013
	€ m	€ m
Republic of Ireland		
Home Mortgages	**336**	381

6. TAXATION

	2014	2013
	€ m	€ m
Origination of temporary differences (note 11)	**(14)**	1
Total tax (charge)/credit for the period	**(14)**	1

The tax charge (2013: credit) for the year is at an effective rate of 12.5%, which is the same as the standard Irish corporation tax rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. DERIVATIVE FINANCIAL INSTRUMENTS

Set out below are details on fair values and derivative information for EBS Mortgage Finance. The Bank interest rate swaps to hedge the interest rate risk. The first type is used to hedge interest rate risk on mortgage loan accounts both within the Cover Assets Pool and outside the Cover Assets Pool, effectively converting interest receivable from a fixed rate basis to a floating rate basis. Although these swaps are considered to be an effective hedge in economic terms, due to their nature, it has not been possible to establish a "fair value" hedging relationship under IAS 39 with the mortgage loan accounts and consequently, they are classified as "Held for Trading".

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Allied Irish Banks, p.l.c. is the counterparty to all derivative contracts noted below.

	2014			2013		
	Contract/ Notional Amount	**Fair Value Asset**	**Fair Value Liability**	Contract/ Notional Amount	Fair value Asset	Fair Value Liability
	€ m	**€ m**	**€m**	€ m	€ m	€ m
Derivatives classified as trading						
Interest rate swaps	**6,189**	**22**	**22**	6,622	33	33
Total derivatives	**6,189**	**22**	**22**	6,622	33	33

The following table represents the underlying principal and gross replacement costs of the Bank's derivatives as at 31 December 2014 and 31 December 2013.

	Residual Maturity 2014				Residual Maturity 2013			
	Within 1 yr	**1 to 5 yrs**	**Over 5 yrs**	**Total**	Within 1 yr	1 to 5 yrs	Over 5 yrs	Total
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Underlying principal amount								
Interest rate contracts	**-**	**6,189**	**-**	**6,189**	-	4,838	1,784	6,622
Positive fair value								
Interest rate contracts	**-**	**22**	**-**	**22**	-	16	17	33

8. LOANS AND RECEIVABLES TO BANKS

	2014	2013
	€ m	€ m
Funds placed with EBS Limited		
Analysed by remaining maturity:		
3 months or less	**33**	9
Funds placed with other banks outside AIB Group		
Analysed by remaining maturity:		
3 months or less	**44**	80
	77	89

For the purpose of cash flows the cash and cash equivalents comprise the above. Loans and advances to banks include balances with original maturities of less than 3 months. The balances held with other banks outside AIB Group represent Cash Substitution Pool Assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. LOANS AND RECEIVABLES TO CUSTOMERS

	2014 €m	2013 €m
Analysed by remaining maturity:		
Repayable on demand	**1,288**	1,250
3 months or less	**1**	1
1 year or less but over 3 months	**3**	4
5 years or less but over 1 year	**93**	94
Greater than 5 years	**4,574**	5,015
	5,959	6,364
Provisions for impairment of loans and receivables (Note 5)	**(336)**	(381)
	5,623	5,983

Amounts repayable on demand includes instances where customers have failed to meet specified repayment terms, and are therefore classified as repayable on demand, in accordance with lending conditions.

Loans and receivables to customers comprise EBS Limited originated residential mortgages in the Republic of Ireland.

Interest recognised on impaired loans amounted to €40m (2013: €38m) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

By geographic location and sector

	2014 €m	2013 €m
Republic of Ireland		
Home mortgages (net of provision)	**5,623**	5,983

10. DEPOSITS BY BANKS

	2014 €m	2013 €m
Funds received from EBS Limited	**3,383**	2,978

The facility limit with EBS is €6.0bn and the balance at 31 December 2014 amounted to €3.4bn (2013: €3.0bn). The interest rate is equal to the aggregate of Euribor and an applicable margin as agreed from time to time between the Bank and EBS. The facility can be terminated by either the Bank or EBS in accordance with the terms of the loan agreement. The Bank makes repayments under the facility from time to time without any premium, penalty or break costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. DEFERRED TAXATION

	2014 € m	2013 € m
At 1 January	**23**	22
Income statement (Note 6)	**(14)**	1
At 31 December	**9**	23

At 31 December 2014 deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €9m (2013: €23m). The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits.

The Bank returned to profitability in 2014 and is expected to generate profits in the foreseeable future. The Bank has carried out an exercise to determine the likely period required to utilise the deferred tax, which indicates the deferred tax asset will be fully utilised in 2015.

12. INTANGIBLE ASSETS

	2014 € m	2013 € m
Computer Software		
Cost		
Balance at 1 January	**3**	3
Additions / Disposals	**-**	-
Balance at 31 December	**3**	3
Amortisation / Impairment		
Balance at 1 January	**(1)**	(1)
Amortisation for period	**-**	-
Impairment for period	**(2)**	-
Balance at 31 December	**(3)**	(1)
Net book value at 31 December	**-**	2

13. DEBT SECURITIES IN ISSUE

	2014 € m	2013 € m
Mortgage covered securities in issue by remaining maturity:		
1 year or less	**432**	525
5 years or less but over 1 year	**1,375**	2,169
Greater than 5 years	**-**	-
Nominal Value of Debt Securities	**1,807**	2,694
Gain or loss on the hedged item attributable to the hedged risk	**-**	-
Carrying Value of Debt Securities	**1,807**	2,694
Mortgage covered securities in issue to external investors and internal issuances at nominal value:		
External investors	**-**	50
EBS Limited	**1,850**	2,750
	1,850	2,800

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. DEBT SECURITIES IN ISSUE (continued)

EBS Mortgage Finance is an issuer of mortgage covered securities under the Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities Amendment Act, 2007 (the "Act"). The Act requires that mortgage covered securities are secured by assets that are included in a Cover Assets Pool maintained by the issuer and that a register of mortgage covered securities business is kept.

Section 40 (2) of the Act requires that the following information be disclosed in respect of mortgage credit assets that are recorded in the register of mortgage covered securities business.

(a) Mortgaged properties and principal loan balances outstanding in the cover assets pool

Total Loan Balances

From	To	Total Loan Balances 2014 (1 & 2) € m	Number of Mortgaged Properties 2014 € m	Total Loan Balances 2013 (1 & 2) € m	Number of Mortgaged Properties 2013 € m
-	€100,000	566	12,399	598	13,301
€100,000	€200,000	1,801	12,021	1,922	12,804
€200,000	€500,000	2,167	8,273	2,558	9,691
Over €500,000		153	216	206	292
		4,687	32,909	5,284	36,088

(1) The total loan balances are categorised by the total loan balance outstanding per mortgaged property, including principal and interest charged to the loan accounts, but excluding interest accrued but not charged to the loan accounts.

(2) There could be one or more loan accounts per mortgaged property. The Cover Assets Pool contains 42,972 loan accounts (2013: 47,698) secured on 32,909 properties (2013: 36,088).

(b) Geographical location of mortgaged properties in the cover assets pool

Geographical Area	Number of Mortgaged Properties 2014		Number of Mortgaged Properties 2013	
Co. Dublin	11,798	36%	12,997	36%
Outside Dublin	21,111	64%	23,091	64%
	32,909	100%	36,088	100%

(c) Mortgage loan accounts in default in the cover assets pool
As at 31 December 2014, there were 219 mortgage loan accounts (2013: 1,065) in default in the Cover Assets Pool (in default being defined as impaired mortgage loan accounts).

(d) Mortgage loan accounts in default in the cover assets pool with arrears greater than €1,000
During the year ended 31 December 2014, 3,875 mortgage loan accounts (2013: 4,188) in the Cover Assets Pool had been in default with arrears greater than €1,000. As at 31 December 2014, there were 980 accounts in default in the Cover Assets Pool (2013: 2,020).

(e) Replacement of non-performing mortgage loan accounts from the cover assets pool
During the year ended 31 December 2014, 1,052 non-performing mortgage loan accounts (2013: 1,095) were removed in total from the Cover Assets Pool. (For this purpose, non-performing is defined as in arrears by six monthly repayments or more). These loan accounts were not replaced with other assets in 2014 as the Cover Assets Pool continued to meet all regulatory requirements.

(f) Amount of interest in arrears on mortgage loan accounts in the cover assets pool not written off
The total amount of interest in arrears in respect of 2,091 accounts (2013: 4,246) as at 31 December 2014 was €2m (2013: €5m).

(g) Total principal and interest payments on mortgage loan accounts
The total amount of repayments (principal and interest) made by customers on mortgage loan accounts in the Cover Assets Pool during the year ended 31 December 2014 was €520m (2013: €517m), of which €336m (2013: €312m) represented repayment of principal and €185m (2013: €205m) represented payment of interest. The repayments of principal include the repayment of mortgage loan accounts by customers closing their existing accounts when opening a new account.

(h) Number and amount of mortgage loans in the cover assets pool secured on commercial property
As at 31 December 2014 there were no loan accounts (2013: Nil) in the Cover Assets Pool that were secured on commercial properties.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. OTHER LIABILITIES

	2014 €m	2013 €m
Sundry creditors	-	1
	-	1

15. SHARE CAPITAL

	2014 €m	2013 €m
Authorised:		
1,000,000,000 ordinary shares of €1.00 each	1,000	1,000
(2013: 1,000,000,000 ordinary shares of €1.00 each)	1,000	1,000
Issued and fully paid up:		
551,540,000 ordinary shares of €1.00 each	552	552
(2013: 551,540,000 ordinary shares of €1.00 each)	552	552

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. CAPITAL MANAGEMENT

Capital regulation
The European Union ("EU") adopted legislative package, known as CRD IV, came into force on 1 January 2014, with some of the new provisions being phased-in from 2014. CRD IV consists of the Capital Requirements Regulation ("CRR") which is directly applicable across firms in the EU, and the new Capital Requirements Directive ("CRD"), which must be implemented by member states of the European Economic Area through national law.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. These new regulations include enhanced requirements for quality and quantity of capital. It also harmonises the deduction from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes.

A new system of financial supervision, the Single Supervisory Mechanism ("SSM"), comprising the European Central Bank ("ECB") and the national competent authorities of EU countries has been established. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-euro EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM. The aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

The ECB has advised EBS Mortgage Finance that it must at all times satisfy the own funds requirements that apply pursuant to Article 92 of the CRR. This equates to a Common Equity Tier 1 (CET1) ratio of 4.5%, a tier 1 capital ratio of 6% and a total capital ratio of 8%.

Capital resources and regulatory capital ratios
The table below shows EBS Mortgage Finance's capital resources as at 31 December 2014 and 31 December 2013.

Basel II as reported		CRD IV Transitional basis	
31 December 2013		**31 December 2014**	Pro-forma 1 January 2014
€m		**€m**	€m
	Core/Common equity tier 1 capital		
424	Gross common equity tier 1	**519**	423
	Regulatory adjustments		
(2)	- Goodwill and intangibles	**-**	(2)
422	**Core/Common equity tier 1 capital**	**519**	421
	Tier 2 capital		
-	Subordinated debt	**-**	-
40	Credit provisions	**29**	32
-	Regulatory adjustments	**-**	-
40	**Total Tier 2 capital**	**29**	32
462	**Total capital**	**548**	453
12.9%	**Core tier 1/common equity tier 1 ratio**	**17.0%**	13.0%
14.1%	**Total capital ratio**	**18.0%**	13.9%

The CET1 transitional ratio, at 17.0%, is significantly in excess of the minimum CET1 regulatory requirements. The capital figures reflect the audited 2014 year-end profit for the Bank. The quarterly SSM regulatory capital reporting will include these profits in due course.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. STATEMENT OF CASH FLOWS

	2014 €m	2013 €m
Loans and receivables to banks (note 8)	77	89

Loans and Receivables to Banks include funds placed on short-term deposit which are treated as cash/ cash equivalents within the cash flow statement.

18. SEGMENTAL INFORMATION

The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The Banks' accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 17(d).

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate the Bank's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Bank as a going concern at 31 December 2014.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. During the year, the Bank has continued to observe adverse changes in the credit quality of its borrowers, with increasing delinquencies and defaults across a range of sectors. The volatility in financial markets and the illiquidity that is evident in these markets has reduced the demand for many financial instruments and this creates a difficulty in estimating the fair value for loans to customers. The Bank 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 market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

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

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

Financial instruments measured at fair value in the financial statements

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

Loans and receivables to banks
The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placements with similar characteristics.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Loans and receivables to customers
The Bank 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.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. The fair value of variable rate mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2014 took account of the Banks' expectations on credit losses over the life of the loans.

Deposits by banks
The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Bank.

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 where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at the 31 December 2014:

	2014									
	Carrying amount in statement of financial position						Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity	At amortised cost		Total				
	Held for trading	Fair value hedge derivative	Cash flow hedge derivatives	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Derivative financial instruments										
Interest Rate Derivatives	22	-	-	-	-	22	-	22	-	22
Financial assets not measured at fair value										
Loans and receivables to banks[1]	-	-	-	77	-	77	-	-	77	77
Loans and receivables to customers	-	-	-	5,623	-	5,623	-	-	5,326	5,326
Other financial assets	-	-	-	-	-	-	-	-	-	-
	22	-	-	5,700	-	5,722	-	22	5,403	5,425
Financial liabilities measured at fair value										
Derivative financial instruments										
Interest Rate Derivatives	22	-	-	-	-	22	-	22	-	22
Financial liabilities not measured at fair value										
Deposits by banks	-	-	-	-	3,383	3,383	-	-	3,383	3,383
Debt securities in issue	-	-	-	-	1,807	1,807	-	1,606	-	1,606
Other financial liabilities	-	-	-	-	1	1	-	-	1	1
	22	-	-	-	5,191	5,213	-	1,628	3,384	5,012

No transfers in or out of Level 3 have occurred during 2014.

[1] A reclassification between levels has taken place to be in line with AIB Group treatment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at the 31 December 2013:

	2013 Carrying amount in statement of financial position						Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity	At amortised cost		Total				
	Held for trading	Fair value hedge derivative	Cash flow hedge derivatives	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Derivative financial instruments										
Interest Rate Derivatives	33	-	-	-	-	33	-	33	-	33
Financial assets not measured at fair value										
Loans and receivables to banks[1]	-	-	-	89	-	89	-	-	89	89
Loans and receivables to customers[2]	-	-	-	5,983	-	5,983	-	-	5,718	5,718
Other financial assets	-	-	-	-	-	-	-	-	-	-
	33	-	-	6,072	-	6,105	-	33	5,807	5,840
Financial liabilities measured at fair value										
Derivative financial instruments										
Interest Rate Derivatives	33	-	-	-	-	33	-	33	-	33
Financial liabilities not measured at fair value										
Deposits by banks[2]	-	-	-	-	2,978	2,978	-	-	2,978	2,978
Debt securities in issue	-	-	-	-	2,694	2,694	2,510	-	-	2,510
Other financial liabilities	-	-	-	-	1	1	-	-	1	1
	33	-	-	-	5,673	5,706	2,510	33	2,979	5,522

No transfers in or out of Level 3 have occurred during 2013.

[1] A reclassification between levels has taken place to be in line with AIB Group treatment.

[2] A revaluation has taken place to be in line with AIB Group treatment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. RELATED PARTY TRANSACTIONS

The immediate holding company and controlling party is EBS Limited, with a registered office at 2 Burlington Road, Dublin 4. The ultimate holding entity and controlling party is Allied Irish Banks, p.l.c, with a registered office at Bankcentre, Ballsbridge, Dublin 4. Copies of both the Group and AIB Group financial statements are available from the registered office of Allied Irish Banks, p.l.c. The only related party transactions are normal banking transfers to and from EBS.

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

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

Rights and powers of the Irish Government and the Central Bank of Ireland.
The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, inter alia:

- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of Allied Irish Banks, p.l.c, having regard to capital ratios, market share and the Group's balance sheet growth. In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in the Risk section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:

- Guarantee schemes;
- NAMA;
- Credit Institutions (Stabilisation) Act 2010:
    - (i) Direction Order;
    - (ii) Transfer Order;
    - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011.

Since 31 December 2013, there have been no significant changes to the various aspects of this relationship.

- Guarantee schemes
The Bank is a covered institution under the Government's Credit Institutions (Finance Support) Scheme 2008 (the 'CIFS Scheme') which guaranteed covered liabilities raised by covered institutions up to 29 September 2010. Covered liabilities that were covered by the CIFS Scheme were those liabilities in respect of retail and corporate deposits (to the extent not covered by existing deposit protection scheme in Ireland or any other jurisdiction), inter-bank deposits and senior unsecured debt excluding any intra group borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations. Under the terms of the CIFS Scheme the Central Bank in consultation with the Minister regulated the commercial conduct of covered institutions strictly in order to achieve the objectives of this scheme.

- NAMA
The Irish Government set up an asset relief scheme in 2009 under the auspices of the National Asset Management Agency in Ireland. The Bank is a participating institution in NAMA. However, no loans were transferred from the Bank to NAMA.

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

- A Direction Order in December 2010;
- A Transfer Order in February 2011;
- A Subordinated Liabilities Order in April 2011; and
- Acquisition of EBS Limited (EBS").

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. RELATED PARTY TRANSACTIONS (continued)

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

- Central Bank and Credit Institutions (Resolution) Act 2011

The Central Bank and Credit Institutions (Resolution) Act 2011 was signed into law on 20 October 2011 and became effective on 28 October 2011. This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy. The Act gives the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants, and to move their deposits and loans to other banks. On 28 September 2012, the Minister made the Credit institutions Resolution Fund Levy Regulations, 2012 providing for contributions, by authorised credit institutions, to a Credit Institutions Resolution Fund pursuant to Section 15 of the Central Bank and Credit Institutions (Resolution) Act 2011. This Resolution Fund has been designed to provide a source of funding for the resolution of financial instability in, or of an imminent serious threat to the financial stability of an authorised credit institution. The Act provides for the establishment of "Bridge-Banks" for the purpose of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible. The Central Bank is empowered to make special management orders in relation to an authorised credit institution, or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

(b) Transactions with EBS Ltd

The following amounts represent the transactions and outstanding balances with the EBS:

- Loans from EBS at 31 December 2014 are €3,383m (2013: €2,978m)
- Deposits placed with EBS at 31 December 2014 are €33m (2013: €9m)
- The nominal value of debt securities in issue to EBS at 31 December 2014 are €1,850m (2013: €2,750m)

Derivative financial instruments with EBS Limited

Interest rate swaps	**2014** **€m**	2013 €m
Assets (Fair value)	**22**	33
Liabilities (Fair value)	**22**	33

At 31 December 2014, there were no transactions between the Bank and the ultimate Parent, Allied Irish Banks, p.l.c

	2014 **€m**	2013 €m
Income and expense included in the Income Statement from related parties:		
Service fee	**(6)**	(6)
Interest expense on loans	**(26)**	(26)
Interest expense on debt securities	**(108)**	(110)
Net trading income/(expense)	**2**	(5)

The above transactions arose in the ordinary course of business. The interest charged and interest earned involving related parties is at normal commercial rates appropriate to the transaction.

There have been no contracts or arrangements with the Bank in which a director of the Bank was materially interested and which were significant in relation to the Bank's business.

(c) Transactions with key management personnel

Loans to Key management personnel are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with EBS Mortgage Finance, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to executive directors and senior executive officers are also made in the ordinary course of business, on terms available to other employees in EBS Mortgage Finance generally, in accordance with established policy, within limits set on a case by case basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with key management personnel (continued)
Details of transactions with Key management personnel, and connected parties where indicated, for the years ended 31 December 2014 and 2013 are as follows:

(i) Current Directors
Directors in office during 2014, being Denis Holland, William Cunningham, Fidelma Clarke, Gerry Gaffney and Owen Purcell had no facilities with the EBS Mortgage Finance during 2014.

(ii) Former Directors who were in office during the year
There were no changes to the Board during the year.

(iii) Senior Executive Officers in office during the year
Senior Executive Officers in office during the year had no facilities with the EBS Mortgage Finance during 2014.

(iv) Connected persons
There were no loans to connected persons of Directors in office as at 31 December 2014, as defined in Section 26 of the Companies Act 1990 and in accordance with conditions attached to EBS Mortgage Finance banking licence.

21. SUBSEQUENT EVENTS

No events have occurred post year end which would require adjustment to or disclosure in these financial statements.

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Directors on 26 March 2015.