EBS MORTGAGE FINANCE

Directors' Report and
Annual Financial Statements
for the financial year ended 31 December 2020

Contents

Directors and other information

Directors	Helen Dooley	AIB Group Non-Executive Director and Chair
	Chris Curley	Executive Director (Managing Director)
	Gerry Gaffney	Executive Director
Secretary	Diane Lumsden	
Registered office	The EBS Building 2 Burlington Road Dublin 4 Ireland	
Registered number	463791	
Registered auditor	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2 Ireland	
Bankers	EBS Designated Activity Company 2 Burlington Road Dublin 4 Ireland	
Cover-assets monitor	Mazars Harcourt Centre Block 3 Harcourt Road Dublin 2 Ireland	

Directors' report

The Directors of EBS Mortgage Finance (the 'Bank') present their Directors' report (the 'Report') and audited financial statements for the financial year ended 31 December 2020. A Directors' responsibility statement in relation to the financial statements appears on page 27.

Principal activities

The Bank, a public unlimited company, registered and domiciled in Ireland, is a subsidiary of EBS d.a.c. ('EBS'), a wholly owned subsidiary of Allied Irish Banks, p.l.c. ('AIB') which is a wholly owned subsidiary of AIB Group plc ('AIB Group'). The Bank 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 8 February 2006. The Bank was granted a derogation as permitted under section 1237(5) Companies Act 2014 by the Minister of Jobs, Enterprise and Innovation from the requirement to include 'unlimited company' in its name.

The Bank's principal objective was 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's debt securities were listed on the main securities market of Euronext Dublin.

For 2020 the Bank's business activities were 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 of Ireland ('CBI').

The Bank's activities were financed through the issuance of mortgage covered securities with the balance of funding being provided by EBS.

In 2020, EBS's ultimate parent AIB Group reviewed the role of the Bank within the wider AIB Group and recommended that EBS should commence planning to transfer all the Bank's assets to EBS. Following review the Boards of EBS and the Bank approved the wind-up of the Bank and the transfer of assets to EBS amounting to €3.3bn. During 2020, a project was established to undertake the wind-up, involving a number of stages (1) the redemption of all the Bank's covered bonds €2.5bn, (2) the inter group transfer of the mortgage assets from the Bank to EBS and (3) legal entity wind-up. Stage 1 & 2 were completed by end September 2020 following which an application was made to the Bank's regulators to revoke the banking licence and designated mortgage credit institution status ('DMCI'). In December 2020, the Bank paid a dividend of €0.3bn to EBS. On 1 February 2021, the Bank received confirmation from ECB and CBI that its banking licence and DMCI status were cancelled effective from 2 February 2021.

EBS's repurchase of the mortgage assets in September 2020 for €3.3bn provided the Bank with sufficient funds to clear its Inter-company loan of €2.6bn with EBS.

In 2021 the Bank intends to return it's remaining capital to EBS following which steps will be taken to complete the wind up of the company.

Corporate Governance Statement

The Bank was subject to the CBI's Corporate Governance Requirements for Credit Institutions 2015 (the "Requirements") which imposes minimum core standards upon all credit institutions licensed or authorised by the CBI. With effect from February 2021, the Bank had its application for the revocation of its bank licence approved by the CBI and thereafter, the Requirements no longer applied to the Bank.

The Bank during the financial period 2020 and up to and including 1 February 2021 was designated as a "high impact institution" for the purpose of the Requirements. The Bank had sought and received derogations from a number of the obligations imposed on high impact institutions, namely:

- Derogation granted from the requirement for the board of the Bank to have seven Directors on the basis that it continues to be of sufficient size and expertise to oversee adequately the operations of the credit institution
- Derogation granted from the requirement for the board of the Bank to have at least three independent non-executive Directors (INEDs) on the basis that the board of EBS Mortgage Finance continues to have at least 2 independent INEDs
- Derogation granted from the requirement to have an external evaluation of Board effectiveness carried out every three years, on the basis that the Bank continued to conduct an internal review of its own performance and that of its individual Directors annually and that this exercise is led by the Chairman.
- Derogation granted from the requirement for the Board to meet at least six times per calendar year, on the basis that the Board will continue to meet at least four times per calendar year and at least once every quarter.
- Derogation granted to the Bank to rely on the following AIB Committees: AIB Audit Committee, AIB Board Risk committee, AIB Remuneration Committee and AIB Nomination and Corporate Governance Committee.

Corporate Governance Statement (continued)

- Derogation granted from the requirement for cross committee membership on the basis that the Bank has no sub-committee.
- The Bank has received approval from the CBI that the Chief Risk Officer ('CRO') of AIB Group acts as the CRO of the Bank on an outsourced basis and a Designated Risk Representative ('DRR') has been appointed for the Bank for maintaining and monitoring the effectiveness of the credit institution's risk management system. The appointed DRR has a direct reporting line to the CRO.
- 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 applicable to debt listings of the Main Securities Market of Euronext Dublin.

The Bank was deemed to be materially compliant with the provisions of the Requirements throughout 2020.

The Board of Directors

Board of Directors and Secretaries composition and changes during 2020:

Directors	Role	Appointment Date	Resignation Date
Chris Curley	Managing Director		
Gerry Gaffney	Executive Director		
Helen Dooley	Chair and Group Non-Executive Director		
Yvonne Hill *	Independent Non-Executive Director	23 January 2020	
Paul Owens *	Independent Non-Executive Director	23 January 2020	
Jim O'Hara	Independent Non-Executive Director		30 January 2020
Brendan McDonagh	Independent Non-Executive Director		11 March 2020
Secretaries			
Diane Lumsden	Company Secretary		
Brian Kearns	Joint Company Secretary		11 December 2020
Conor Gouldson	Assistant Secretary	25 March 2020	
Aeilish McGovern	Assistant Secretary	25 March 2020	

** Following the revocation of the Bank's licence, Yvonne Hill and Paul Owens resigned as Directors, on 2 February 2021, as the Requirements no longer applied to the Bank.*

Governance is exercised through a Board of Directors ('the Board') and a senior management team. The Board is responsible for corporate governance encompassing leadership, direction and control of the Bank and is responsible for financial performance.

The Board is responsible for ensuring that appropriate systems of internal controls and risk management are maintained, specifically the Board sets the Risk Appetite Statement ('RAS'), approves the Risk Framework and approves the annual financial plans. The Bank benefits as a subsidiary of AIB from the wider AIB governance and operating structure, such as oversight of audit and risk related activities. AIB and EBS provide services to the Bank through a formal Managed Services Agreement, updates in respect of the performance against which are provided to the Board regularly. In the event that material failings or weaknesses in the systems of risk management or internal control are identified, an explanation of the issue and an assessment of its impact is presented with a proposed remediation plan to the Board. Agreed remediation plans are tracked to conclusion, with status updates provided to the Board. Given the work of the Board and representations made by the Management Team during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the risk management and internal control framework have been taken, or are currently being undertaken.

The Bank has robust governance arrangements, which include a clear organisational structure with well defined, transparent, and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal controls, including sound administrative and accounting procedures, IT systems and controls. The Board receives regular updates on the Bank's risk profile through the quarterly risk report and, during 2020, considered the outcome of internal and external audit activities.

Establishment of an Audit Committee
The Bank does not have an Audit Committee as per the derogation received from the CBI from the requirement to establish one.

The Board considers all audit matters including, inter alia:
- The quality and integrity of the Bank's accounting policies, financial and narrative reports and disclosure practices;
- The independence and performance of the External Auditor ('the Auditor') and Internal Audit, duly liaising with the AIB Group Board Audit Committee on matters in relation to the Auditor and Internal Audit, as necessary;
- The adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and the effectiveness of the Bank's internal control, risk management, and accounting and financial reporting systems.

These responsibilities are discharged through its meetings with and receipt of reports from AIB Group management functions including Finance, Internal Audit, Risk, and Compliance. During 2020, amongst other activities, the Board reviewed the Bank's annual financial statements, and related accounting policies, key judgements, and practices; reports on compliance; the effectiveness of internal controls; including the effectiveness of controls operated under the Managed Services Agreement, and the findings, conclusions and recommendations of the Auditor and Internal Auditor. The Board satisfied itself through regular reports from the AIB Group Internal Auditor and AIB Group functions including Risk, Compliance and the Auditor that the system of internal controls was effective.

Results for the year
The profit before taxation ('PBT') for 2020 income statement amounted to €3m (2019: €30m), as set out on income statement page 31.

The reduction in reported PBT is due to the implementation of an updated pricing agreement ('the Agreement'), based on the Transactional Net Margin Method, for 2020 to reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2020 this required a net receipt of €13m from EBS to the Bank (2019: net payment by the Bank to EBS of €23m).

Net Interest Income decreased to €63m for 2020, from €106m in 2019. The decrease is due to the impact of loan repayments received in the period to end August 2020 and the transfer of the remaining mortgage assets to EBS on 1 September 2020.

Other Income decreased to €2m in 2020 from €3m in 2019, a reduction of €1m as the Bank received fee income under the Agreement with EBS in 2020 of €13m (2019: nil) offset by net loss of €12m on repurchase of debt securities presented as other operating expense in the income statement (2019: nil) and reduction in net trading income of €2m, 2020 nil (2019: €2m which reflected a movement in the mark to market valuation of swap hedging instruments.).

Administrative expenses decreased to €13m in 2020, from €38m in 2019, a reduction of €25m driven by updates to the Agreement.

Net Credit Impairment charge was €49m in 2020 compared to a charge of €37m in 2019, an increase of €12m. The net credit impairment charge of €49m in 2020 is predominately due to post model adjustments for expected COVID-19 impacts and changes to the macroeconomic scenarios as a result of the deterioration in the economic outlook in the period to 31 August 2020. The net credit impairment charge for 2020 reflected a net remeasurement of expected credit loss ("ECL") allowance charge of €53m, offset by recoveries of amounts previously written-off of €4m. There was a net credit impairment charge of €37m in 2019 comprising of a €44m charge on loans and advances to customers, offset by recoveries of amounts previously written-off of €7m. For further information see page 14 in the Risk Management section.

Business review
The Bank's business has been adversely affected by the COVID-19 pandemic which triggered a global recession in 2020. In Ireland, whilst the hit to the economy was mitigated to some extent by the continuing strength of exports, most notably from the multi-national sector, there was a marked contraction in the domestic economy.

The recession in 2020 saw employment contract and unemployment rise. Some sectors were very hard hit by the restrictions on activity, in particular, hospitality, tourism, travel, live entertainment, non-essential retail and some personal services. At one stage in the year, the unemployment rates including those on pandemic unemployment payments, rose to close on 30%, although the official unemployment rate remained much lower, ending the year at 5.8% (Source: Central Statistics Office 'CSO').

House building activity held up better than expected in 2020, with CSO data putting house completions at 20,676 for the year, down only modestly on the 2019 number of 21,241. Meanwhile, CSO data show that construction output fell by 16.5% in the first three quarters of the year.

Business review (continued)
Meanwhile, the recession appears to have had just a modest impact on house prices. The latest CSO data show prices increased by 2.2% year-on-year in 2020,

The impact of the above factors on the Bank's financial performance is reflected in a significant increase in the Bank's expected credit loss charge of €49m prior the the transfer of the loans to EBS on 1 September 2020 (2019: €37m) due to the deterioration in the economic outlook and negative impact on credit quality, particularly for customers exposed to employment sectors impacted by the COVID-19 restrictions.

AIB, have prepared extensively for the UK's exit from the European Union since the Brexit vote in 2016. The Bank has not experienced any negative impact to its position given the nature of the Bank's business.

Asset quality
Loans and advances to banks amounted to €148m at 31 December 2020 (2019:€58m), the increase is the result of the net movements arising on repurchase of debt securities, sale of mortgage assets, repayment of inter-company loan from EBS and payment of dividend in 2020.

Loans and advances to customers (before impairment loss allowances) amounted to nil at 31 December 2020 (2019: €3.7bn) as the Bank transferred all mortgage assets to EBS on 1 September 2020.

Expected credit losses measured at 31 December 2020 are nil (2019: €0.1bn).

Funding activities
At 31 December 2020, the total amount of principal outstanding in respect of mortgage covered securities issued was nil as the covered bonds in issue were redeemed in full in June 2020 as stage one of the wind-up process of the Bank (31 December 2019: €2.5bn).

In addition to covered bonds the Bank was funded by deposits by banks being borrowings from its parent EBS. The balance at December 2020 was nil (2019:€0.6bn) as EBS's repurchase of the Bank's mortgage assets in September 2020 provided the Bank with sufficient funds to clear its Inter-company loan.

Share capital
The share capital of the Bank is €138m (2019: €138m), comprised of ordinary shares of €0.25 (2019; €0.25) each. Information on the structure of the Bank's share capital, including the rights and obligations attaching to each class of shares, is set out in note 21 to the financial statements.

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

The Bank's minimum CET1 requirement is 10.5%, comprised of a Pillar 1 requirement of 8% and a Capital Conservation Buffer ("CCB") of 2.5%. The Countercyclical Capital Buffer ('CCyB') of 1.0% was reset to 0% from 01 April 2020 as a direct impact of the Covid 19 pandemic. The capital requirements are no longer applicable from 2 February 2021, the date that the Bank's licence was revoked.

At 31 December 2020 the fully loaded CET1 ratio was 73.5% (2019: 27.9%). The fully loaded total capital ratio was 73.5% (2019: 27.9%).

At 31 December 2020 the transitional CET1 ratio was 73.5% (2019: 27.9%), the transitional total capital ratio was 73.5% (2019: 27.9%).

On 1 September 2020 the Bank transferred its mortgage business to EBS. This resulted in a substantial decrease in Risk Weighted Assets ('RWA'), consequently increasing the capital ratios above, RWA at 31 December 2020 are €195m (2019: €1.7bn) due to this transfer.

Leverage ratio
The leverage ratio at 31 December 2020 was 61.29% (2019: 12.8%) on a fully loaded basis and 61.29% (2019: 12.8%) on a transitional basis. The increase in the leverage ratio compared to 2019 under both fully loaded and transitional basis is due to the reduction in the Bank's mortgage assets as mentioned above.

Risk management
Information in relation to Risk management, including the principal risks and uncertainties facing the Bank, as required under the terms of the European accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005) is set out in the risk management report on pages 9 to 26.

Outlook
In 2021 the Bank intends to return it's remaining capital to EBS following which steps will be taken to complete the wind up of the company.

Going concern
The financial statements for the financial year ended 31 December 2020 have been prepared on a basis other than that of going concern as the Directors intend to complete the wind up of the Bank in 2021.

The measurement and recognition under IFRS of the Bank's assets and liabilities is unchanged under the basis other than going concern.

Directors' and Secretaries interests in shares
The Directors and Bank Secretaries did not hold any interests in the Bank's shares or debentures the beginning of the year, during the year or at the year end, pursuant to Section 267 and 329 of the Companies Act 2014.

Shares held by the Directors in ultimate parent company AIB Group plc were below 1% and not disclosable, pursuant to Section 260 of the Companies Act 2014.

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

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Bank Secretary at 31 December 2020. Independent Non-Executive Directors do not participate in long term incentive plans.

Attendance at Board Meetings during 2020

Name	Board (Scheduled)		Board (Out of Course)	
Directors	**Eligible to Attend**	**Attended**	**Eligible to Attend**	**Attended**
Chris Curley	4	4	3	3
Gerry Gaffney	4	4	3	3
Helen Dooley	4	4	3	3
Brendan McDonagh	—	—	1	1
Yvonne Hill	4	4	3	3
Paul Owens	4	4	3	3
Jim O'Hara	—	—	1	1

Dividend
There was an interim dividend of €340m paid to EBS during 2020 and the Board is not recommending the payment of a final dividend for 2020 (2019: no dividend paid).

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

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

Directors' report

Branches outside the State
The Bank has not established any branches outside the State.

Disclosure Notice under Section 33AK of the Central Bank Act 1942
The Bank did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2020.

Adequate accounting records
The Directors have complied with the requirements of Section 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by allocating personnel with appropriate expertise and by providing adequate resources to the financial function under the Managed Services Agreement for the provision of various services including accounting and other financial services to the Bank by AIB. The accounting records of the Bank are maintained at the registered office of its ultimate parent at AIB Group plc, 10 Molesworth Street, Dublin 2, Ireland.

Events after the reporting period
On 1 February 2021, the ECB approved the revocation of the Bank's authorisation as a credit institution and the revocation of its registration as a designated mortgage credit institution to take effect from 2 February 2021.

Following the revocation of the Bank's licence, Yvonne Hill and Paul Owens resigned as Directors,on 2 February 2021.

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

Statement of relevant audit information
Each of the Persons who is a Director at the date of approval of this Report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Bank's Auditors are unaware; and
(b) the Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that Bank's Auditors are aware of that information.

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

Independent auditor
Deloitte Ireland LLP, Chartered Accountants & Statutory Audit Firm were appointed as auditors on 30 July 2013 and have expressed their willingness to continue in office under Section 383(2) of the Companies Act, 2014.

On behalf of the Board

Helen Dooley
Chair

Chris Curley
Managing Director

Date: 26 March 2021

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 across AIB. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the AIB's risk management framework. The Bank experiences similar risks and uncertainties facing AIB and adopts the same risk mitigation initiatives as AIB.

On 1 September 2020, the Bank transferred all mortgage assets and related business to its parent EBS d.a.c. As a consequence, the balances at 31 December 2020 for Loans and advances to customers are nil and therefore not reported in the Credit Risk section 3.1 with the exception of the Gross loans movements and ECL movements table on page 16. Please refer to page 3 of the Directors Report for more information.

2. Risk management framework

The Bank relies on AIB's framework and its supporting policies, processes and governance. For more information on the operation of the Board of the Bank see page 4 of this Report.

AIB's Risk Management Framework has proven to be resilient throughout 2020 despite the impact of COVID-19 requiring major operational and business changes being implemented to support customers.

3. Individual risk types

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through AIB's material risk assessment process and which are relevant to the Bank:

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

3.1 Credit risk

Credit risk is the risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet their contractual obligations. Following the transfer of loans to EBS d.a.c., the Bank has significantly reduced it's credit risk for 2020.

Based on the annual risk identification and materiality assessment, credit risk can be categorised into the following three sub categories;

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

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

Credit risk management and key principles

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

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

Credit risk management response to COVID-19

The Bank has adapted its credit risk management operating model, including its underlying credit processes, in response to COVID-19 to ensure proactive and appropriate management of the heightened credit risk in the mortgage portfolio. In adapting its credit operating model, the Bank have also enabled the introduction and implementation of a number of customer support measures in a streamlined, agile and risk appropriate manner.

Bank Risk Appetite Statement ('RAS')

The Bank's RAS process sets the amount and nature of risks that the Bank is willing to accept within its risk capacity in pursuit of its financial objectives and informs both Bank strategy and policies. As part of the overall framework for risk governance, it forms a boundary condition to strategy and guides the Bank in its risk-taking and related business activities. Credit risk appetite is set at AIB Board level and is described, reported and monitored through a suite of qualitative and quantitative metrics. Risk appetite is stress tested to ensure limits are within the risk-taking capacity of the Bank. The Bank's risk appetite for credit risk is reviewed and approved at least annually.

* Forms an integral part of the audited financial statements

3.1 Credit risk

Credit risk principles and policy*

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

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

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

Credit risk organisation and structure

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

Credit risk mitigants*

The perceived strength of a borrower's repayment capacity is the primary factor in acquiring a loan. However, the Bank uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of a borrower's default. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

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

Loans and advances to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. However, there were no repurchase agreements outstanding at 2020 or 2019.

Policy elections and simplifications

Low credit risk exemption

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

Under IFRS 9 the credit risk on a financial instrument is considered low if:

– the financial instrument has a low risk of default;
– the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
– adverse changes in economic business conditions in the longer term may (but will not necessarily), reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

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

* Forms an integral part of the audited financial statements

3.1 Credit risk

ECL governance

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

The key governance points in the ECL approval process during 2020 were:
– Model Risk Committee
– Asset and Liability Committee
– Business level ECL Committees
– AIB Group Credit Committee, and
– Board Audit Committee

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

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

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

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit exposure overview

Maximum exposure to credit risk*

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

The following table sets out the maximum exposure to credit risk that arises within the Bank and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2020 and 2019:

			2020			2019
	Amortised Cost[(1)]	**Fair Value[(2)]**	**Total**	Amortised Cost[(1)]	Fair Value[(2)]	Total
Maximum exposure to credit risk	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Derivative financial instruments	**—**	**—**	**—**	—	21	21
Loans and advances to banks	**148**	**—**	**148**	58	—	58
Loans and advances to customers	**—**	**—**	**—**	3,609	—	3,609
	148	**—**	**148**	3,667	21	3,688
Off balance sheet loan commitments[(3)]	**—**	**—**	**—**	9	—	9
Maximum exposure to credit risk	**148**	**—**	**148**	3,676	21	3,697

(1) All amortised cost items are loans and advances which are in a 'held-to-collect' business model.

(2) All items measured at fair value except investment securities at FVOCI and cash flow hedging derivatives are classified as 'fair value through profit or loss'.

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

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit exposure overview

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

The following table summarises financial instruments in the statement of financial position at 31 December 2020 and 2019:

	2020*				2019*			
	Statement of financial position			**Income statement**	Statement of financial position			Income statement
	Exposure	**ECL allowance**	**Carrying amount**	**Net credit impairment (charge)/ writeback**	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Loans and advances to banks	**148**	**—**	**148**	**—**	58	—	58	—
Loans and advances to customers:	**—**	**—**	**—**	**(49)**	3,728	(119)	3,609	(37)
Loan commitments	**—**	**—**	**—**	**—**	9	—	9	—
Total				**(49)**				(37)

There was a €49m net credit impairment charge in the year to 31 December 2020. This comprised of a €49m charge on loans and advances to customers (net re-measurement of ECL allowance charge of €53m, offset by recoveries of amounts previously written-off of €4m) and a nil writeback for off-balance sheet exposures.

There were two key drivers contributing to the €53m gross charge, both of which were impacted by COVID-19. Post model adjustments accounted for €23m, comprising of €17m for the mortgage PDH long term arrears and €6m for the COVID-19 expiry modification. Changes to the macroeconomic scenarios and probability weightings accounted for a further €36m charge. These charges were partially offset by stage transfers and a net re-measurement within stage writebacks of €7m. The ECL allowance movements are outlined on page 17.

Further details on the net credit impairment charge in the 12 months to 31 December 2020 are set out on page 52.

* Forms an integral part of the audited financial statements

3.1 Credit risk - Credit profile of the loan portfolio

The following table analyses the residential mortgage portfolio by ECL staging at 31 December 2020 and 2019:

			2020*			2019*
	Owner-Occupier	**Buy-To-Let**	**Total**	Owner-Occupier	Buy-To-Let	Total
Income statement credit impairment charge	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net remeasurement of ECL allowance	**53**	**—**	**53**	44	—	44
Recoveries of amounts previously written-off	**(4)**	**—**	**(4)**	(7)	—	(7)
Net credit impairment charge	**49**	**—**	**49**	37	—	37
	%	**%**	**%**	%	%	%
Net credit impairment charge on average loans	**2.05**	**—**	**2.04**	0.94	(0.91)	0.94 %

Income statement

There was a €49m net credit impairment charge in the 12 months to 31 December 2020, recoveries of €4m on loans previously written off.

2019 Credit risk information

Detailed disclosures about the Credit Risk of EBS Mortgage Finance as at 31 December 2019 can be found in the prior year financial statements as available at
www.ebs.ie/treasury-and-corporate-services/ebs-mortgage-finance-accounts-audit-reports

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

Gross loans movements and ECL movements[1]

The following table explains the changes in the gross carrying amount and ECL allowances for loans and advances to customers by ECL staging for the years to 31 December 2020 and 2019.

Amounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 17) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. The Bank believes this presentation aids the understanding of underlying credit migration.

Gross carrying amount movements

					2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**2,922**	**345**	**389**	**72**	**3,728**
Transferred from Stage 1 to Stage 2	**(216)**	**216**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**243**	**(243)**	**—**	**—**	**—**
Transferred to Stage 3	**(3)**	**(38)**	**41**	**—**	**—**
Transferred from Stage 3	**3**	**30**	**(33)**	**—**	**—**
Redemptions/repayments	**(230)**	**(21)**	**(21)**	**(3)**	**(275)**
Interest credited	**52**	**7**	**5**	**2**	**66**
Write-offs	**—**	**—**	**(4)**	**(1)**	**(5)**
Transfer to EBS DAC	**(2,771)**	**(296)**	**(377)**	**(70)**	**(3,514)**
At 31 December	**—**	**—**	**—**	**—**	**—**

					2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	3,194	421	488	74	4,177
Transferred from Stage 1 to Stage 2	(253)	253	—	—	—
Transferred from Stage 2 to Stage 1	331	(331)	—	—	—
Transferred to Stage 3	(3)	(51)	54	—	—
Transferred from Stage 3	4	67	(71)	—	—
Redemptions/repayments	(427)	(46)	(43)	(5)	(521)
Interest credited	87	13	10	3	113
Write-offs	—	—	(52)	(1)	(53)
Other movements	(11)	19	3	1	12
At 31 December	2,922	345	389	72	3,728

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

* Forms an integral part of the audited financial statements

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

Gross loans movements and ECL movements[1] *(continued)*

ECL allowance movements

					2020*
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	1	10	96	11	118
Transferred from Stage 1 to Stage 2	(1)	8	—	—	7
Transferred from Stage 2 to Stage 1	3	(7)	—	—	(4)
Transferred to Stage 3	—	(2)	5	—	3
Transferred from Stage 3	—	2	(5)	—	(3)
Net remeasurement	(1)	(6)	(3)	1	(9)
Impact of Model changes	5	1	16	1	23
Impact of credit or economic risk parameters	5	13	15	3	36
Income statement credit impairment charge	11	9	28	5	53
Write-offs	—	—	(4)	(1)	(5)
Transfer to EBS DAC	(12)	(19)	(120)	(15)	(166)
At 31 December	—	—	—	—	—

					2019*
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	1	11	109	8	129
Transferred from Stage 1 to Stage 2	—	8	—	—	8
Transferred from Stage 2 to Stage 1	—	(6)	—	—	(6)
Transferred to Stage 3	—	(2)	5	—	3
Transferred from Stage 3	—	1	(6)	—	(5)
Net remeasurement	(1)	(3)	6	2	4
Impact of Model changes	—	—	29	1	30
Impact of credit or economic risk parameters	1	2	6	1	10
Income statement credit impairment charge	—	—	40	4	44
Write-offs	—	—	(52)	(1)	(53)
Other movements	—	—	(1)	—	(1)
At 31 December	1	11	96	11	119

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

Transfers from Stage 1 to Stage 2 of €216m represent the underlying credit activity where a significant increase in credit risk occurred at some point during the period through either the quantitative or qualitative criteria for stage movement. The main driver of the movements to Stage 2 was the doubling of PDs, subject to 85bps (50bps for the non-mortgage portfolio).

Similarly, transfers from Stage 2 to Stage 1 of €243m represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

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3.1 Credit risk

Gross loans movements and ECL movements *(continued)*

Transfers from Stage 2 to Stage 3 of €38m represent those loans that defaulted during the period. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation.

Transfers from Stage 3 to Stage 2 of €30m were mainly driven by resolution activity with the customer, through either restructuring or forbearance previously granted and which subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place. Transfers from Stage 3 to Stage 1 of €3m primarily reflect curing events from default where no forbearance measure was required.

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

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity was nil (2019: €30m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2020 was nil (2019: €144m).*

3.2 Funding and liquidity risk

Liquidity risk is the risk that the Bank will not be able to fund its assets and meet its payment obligations as they fall due, without incurring unacceptable costs or losses. Liquidity risk arises from differences in timing between cash inflows and outflows and can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt.

Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost. Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities.

The objective of liquidity management is to ensure that, at all times, the Bank holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

The Bank's liquidity risk is managed as part of the overall AIB Group ('the Group') liquidity management. In accordance with the Capital Requirements Regulation ('CRR'), the Bank has appointed the Group as its liquidity manager to fulfil daily cash flow management, oversee any changes required in liquidity management or reporting and manage the Bank's liquidity risk as part of the overall Group liquidity risk management process. This includes the risk identification and assessment, risk management and mitigation, risk monitoring and reporting processes. Under this centralised approach the management of liquidity and related activities for the Bank is integrated with the Group.

The means by which these liquidity management activities are performed, and the procedures by which the Group ensures the Bank complies with the Group Funding and Liquidity Risk Policy are managed through a Service Level Agreement ('SLA').

The Bank was authorised to fund the assets it holds through the following forms of funding:

a. the issuance of Mortgage Covered Securities in accordance with the Asset Covered Securities Acts ('ACS Acts');
b. borrowing funds from AIB;
c. borrowing from the Central Bank under a Mortgage-Backed Promissory Note (short term) facility ('MBPN Facility') and other funding from the Central Bank under facilities which may be available to the Bank from time to time;
d. capital funding to ensure at a minimum compliance with the capital adequacy requirements of the Single Supervisory Mechanism ('SSM').

If utilised, the MBPN Facility would be secured by a floating charge over a pool of the Bank's home loans and related security which would be separate to the Pool (that secures the Mortgage Covered Securities) maintained by the Issuer in accordance with the ACS Acts. The Bank's Management team monitors the funding and liquidity risks and reports to the Board on developments on a regular basis

* Forms an integral part of the audited financial statements

3.2 Funding and liquidity risk *(continued)*

Identification and assessment*

Funding and liquidity risk is identified and assessed using a range of Liquidity Stress Testing scenarios and ensuring adherence to limits based on both internal limits and regulatory defined liquidity ratios, the Liquidity Coverage Ratio ('LCR') and the Net Stable Funding Ratio ('NSFR'). Liquidity stress testing consists of applying severe but plausible stresses to AIB's liquidity buffer through time in order to simulate a survival period. The simulated survival period is a key risk metric and is controlled using AIB Board approved limits. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities. These metrics are key risk metrics for the Group and are monitored against Group Board approved limits.

Management and measurement*

The Internal Liquidity Adequacy Assessment Processes ("ILAAP") is fully integrated and embedded in the strategic, financial and risk management processes of the Group. An ILAAP Framework and supporting policies are in place which sets out the key processes, governance arrangements and roles and responsibilities which support the ILAAP. The Bank's Board adopts applicable group policies as appropriate. Embedding of the ILAAP is facilitated through liquidity and funding planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the Group's Funding and Liquidity Plan, a Contingency Funding Plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. A further set of triggers and liquidity options are set out in the Group's Recovery Plan, which presents the actions available to the Group to restore viability in the event of extreme stress. Finally, the Group has an approved liquidity cost-benefit allocation mechanism in place by which funding costs, benefits and risks are reflected in the Bank's business lines.

2020 developments in response to COVID-19

Precautionary saving, lower consumer expenditure and weak loan demand due to the COVID-19 pandemic, had the impact of increasing the Group's surplus liquidity position in 2020. Due to the high level of uncertainty regarding funding and liquidity developments at the outset of the pandemic, the Group activated it's Contingency Funding Plan "CFP" (the CFP has since been deactivated). In addition the Group engaged in the following activities:

- Enhanced funding and liquidity monitoring and reporting through daily updates provided to the COVID-19 Liquidity Working Group. This was escalated up to the wider bank-wide COVID-19 incident management response.
- The suite of liquidity stress tests performed to assess the full range of potential adverse outcomes was broadened to consider the pandemic.

Monitoring, escalating and reporting

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

Liquidity risk stress testing

Liquidity stress testing is a key component of the AIB Group ILAAP framework. The Bank, as part of the Group, undertakes liquidity stress testing that includes both firm specific and systemic risk events and a combination of both as a key liquidity control. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. This estimates the potential impact of a range of stress scenarios on the Group's liquidity position including its available liquid assets and contingent liquidity. The purpose of these tests is to ensure the continued stability of the Group liquidity position within the Group's pre-defined liquidity risk tolerance levels. Liquidity stress test results are reported to Group ALCo, AIB Executive Committee and AIB Board.

The Group also monitors a suite of Recovery Indicators and Early Warning Indicators in order to identify the potential emergence of a liquidity stress. As part of its contingency and recovery planning the Group has identified a suite of potential funding and liquidity options which could be exercised to help the Group to restore its liquidity position on the occurrence of a major stress event.

* Forms an integral part of the audited financial statements

3.2 Funding and liquidity risk *(continued)*

Financial liabilities by undiscounted contractual maturity*

The following tables analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2020 and 2019:

						2020
	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Deposits by banks	—	—	—	—	—	—
Customer accounts	—	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	—
Debt securities in issue	—	—	—	—	—	—
Other liabilities	**4**	—	—	—	—	**4**
Total	**4**	—	—	—	—	**4**

						2019
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Deposits by banks	649	—	—	—	—	649
Derivative financial instruments	—	—	—	10	11	21
Debt securities in issue	—	—	500	1,515	517	2,532
Other liabilities	7	—	—	—	—	7
Total	656	—	500	1,525	528	3,209

3.3 Capital adequacy risk*

Capital adequacy risk is the risk that the Bank does not maintain sufficient capital to achieve its business strategy, support our customers or to meet regulatory capital requirements. Capital adequacy risk for the Bank was evaluated through the 2020 to 2022 annual financial planning and ICAAP processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using the Group's' stress testing methodologies. The impact of changing regulatory requirements, changes in the risk profile of the the Bank's balance sheet and other internal factors, and changing external risks are regularly assessed by first line of defence and second line of defence teams via regular monitoring of performance against the Financial Plan and Strategy. An annual material risk assessment is conducted to identify all relevant (current and anticipated) material risks which are then assessed from a capital perspective.

The Bank's Board reviewed and approved the Financial Plan and the supporting stress tests confirming it is satisfied with the capital adequacy of the Company.

Given the transfer of the bulk of the Bank's assets to EBS d.a.c. during 2020, the focus of risk review and oversight has been on the short-term capital implications of the transfer for the parent and the upstreaming of capital to EBS d.a.c., once the wind down is complete.

* Forms an integral part of the audited financial statements

3.4 Financial risk - Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Bank.

Interest rate risk in the banking book ('IRRBB') is the current or prospective risk to both the earnings and capital of the bank as a result of adverse movements in interest rates being applied to positions held in the banking book. Changes in interest rates impact the underlying value of the Bank assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes may impact the bank net interest income through interest-sensitive income and expense effects.

The Bank was exposed to interest rate risk arising from mortgage lending activities and the issuance of Mortgage Covered Securities. Interest rate swaps, as explained in the paragraphs below, were used to manage this exposure.

The Bank is not allowed to engage in proprietary trading under the conditions of the Asset Covered Securities Act. The interest rate exposure of the Bank relating to its Irish residential lending was managed using four macro interest rate swaps with EBS d.a.c., three of which, the Pool Hedge swaps, relates only to the Pool and Mortgage Covered Securities issued by the Bank and the other of which (the Non-Pool Hedge) relates only to Irish residential loans which are not included in the Pool. This split is required by the Asset Covered Securities Acts.

The Pool Hedge and the Non-Pool Hedge contracts entailed the monthly payment of the average customer rate on these mortgages and in return, the receipt of 1 month Euribor plus the current margin being achieved on the mortgage portfolio. The contract was reset each month to reflect the outstanding mortgage balances at that time and to reflect updated customer rates, Euribor and margin levels. Settlements were made between the Bank and EBS d.a.c. to reflect the net amount payable/receivable in each month.

There is no residual interest rate risk in the Bank.

The Bank is not exposed to any other market risks, i.e. foreign exchange rates or equity prices.

* Forms an integral part of the audited financial statements

3.4 Financial risk - Market risk (continued)

Interest Rate Exposure and Sensitivity*

	0≤1mth € m	1≤3mths € m	3≤12mths € m	1≤2yrs € m	2≤3yrs € m	3≤4yrs € m	4≤5yrs € m	5yrs+ € m	Non-interest bearing € m	2020 Total € m
Assets										
Loans and advances to banks	148	—	—	—	—	—	—	—	—	148
Total Assets	148	—	—	—	—	—	—	—	—	148
Liabilities										
Other liabilities	—	—	—	—	—	—	—	—	4	4
Shareholders' equity	—	—	—	—	—	—	—	—	144	144
Total Liabilities	—	—	—	—	—	—	—	—	148	148
Derivatives affecting interest rate sensitivity	—	—	—	—	—	—	—	—	—	—
Interest sensitivity gap	148	—	—	—	—	—	—	—	(148)	—
Cumulative interest sensitivity gap	148	148	148	148	148	148	148	148	—	—

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2020 would be nil.

* Forms an integral part of the audited financial statements

Interest Rate Exposure and Sensitivity*

	0≤1mth €m	1≤3mths €m	3≤12mths €m	1≤2yrs €m	2≤3yrs €m	3≤4yrs €m	4≤5yrs €m	5yrs+ €m	Non-interest bearing €m	2019 Total €m
Assets										
Loans and advances to customers	2,795	51	219	269	99	179	116	—	(119)	3,609
Loans and advances to banks	58	—	—	—	—	—	—	—	—	58
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	21	21
Other assets	—	—	—	—	—	—	—	—	5	5
Total Assets	2,853	51	219	269	99	179	116	—	(93)	3,693
Liabilities										
Deposits by banks	649	—	—	—	—	—	—	—	—	649
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	21	21
Debt securities in issue	2,532	—	—	—	—	—	—	—	—	2,532
Other liabilities	—	—	—	—	—	—	—	—	10	10
Shareholders' equity	—	—	—	—	—	—	—	—	481	481
Total Liabilities	3,181	—	—	—	—	—	—	—	512	3,693
Derivatives affecting interest rate sensitivity	(932)	51	219	269	99	178	116	—	—	—
Interest sensitivity gap	604	—	—	—	—	1	—	—	(605)	—
Cumulative interest sensitivity gap	604	604	604	604	604	605	605	605	—	—

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2019 would be circa -€1m/€1m respectively.

* Forms an integral part of the audited financial statements

3.4 Financial risk - Market risk

Interest rate benchmark reform

Authorities and regulators are facilitating the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative Risk Free Rates (RFRs) by end 2021.

The Bank does not consider there to be risk in respect of the Euro Interbank Offered Rate (EURIBOR) arising from IBOR because there are no balances at 31 December 2020 with an exposure to EURIBOR.

3.5 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems or from external events. This includes legal risk – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk.

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

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

The key people, systems and processes supporting the Bank are provided by AIB and this relationship is governed by a Managed Service Agreement. AIB's operational risk framework applies across all areas of AIB including the Bank. A key focus of operational risk management in the Bank is the oversight of outsourced service activities, in particular activities related to the requirements of the ACS Act, as well as the mortgage servicing processes and the project to transfer mortgage assets to EBS.

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

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

3.6 Regulatory compliance risk

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

The Group's Regulatory Compliance function is specifically responsible for independently identifying, assessing current and forward looking compliance obligations, as well as financial crime regulation, regulation on privacy and data protection. The Regulatory Compliance function operates a risk framework approach.

During 2020, the level of regulatory risk remained high, significant input to the assessment of COVID-19 solutions and measures designed to support the Bank's customers through this unprecedented crisis and to ensure key risks, mitigants and controls were identified and communicated. Throughout this period, Regulatory Compliance Risk Appetite Statement metrics were closely monitored.

3.7 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by the Bank cause poor and unfair customer outcomes or market instability.

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

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

During 2020 in response to COVID-19 the Group identified and implemented steps to support and protect its customers. A number of potential conduct risk drivers and managing customer rights were overseen and monitored throughout the COVID-19 crisis. Regulatory Compliance monitored and reported the impact of COVID-19 on the Conduct Risk Risk Appetite Statement metrics, taking into account key factors including the volume of customer engagements, the increased number of vulnerable customers and the range of measures taken to assist good customer outcomes and market stability.

3.8 People and culture risk

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

AIB Group identifies and reviews employee satisfaction and engagement which are indicators of culture throughout the year. Due to disruption of the working environment as a result of COVID-19 there was additional staff engagement activities in place including regular staff check-in's and a staff engagement survey carried out in both the first half and second half of 2020. A detailed Wellness Programme operated throughout the year and the launch in 2020 to all staff of the PepTalk Wellness App with specific content for the Group has significantly enhanced the wellness offering.

In 2017 the Group launched its 'Purpose', which is supported and embedded by a clear set of values. The Group's Code of Conduct, incorporating the risk culture principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The Code sets out how employees are expected to behave in terms of the business, customer and employee.

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

COVID-19 presented unique challenges during 2020 including the vast majority of staff members working from home and significant changes to the working environment to facilitate those that needed to attend branches and offices. The Group rolled out new and enhanced teleconferencing facilities and provided laptops to staff working remotely.

3.9 Business model risk

Business model risk is defined as the risk of not achieving the agreed strategy or approved business plan which included the transfer of the mortgage assets to EBS in 2020, either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment. This also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

The Bank identifies and assesses business model risk as part of its Financial Planning process, which encapsulates strategic, business and financial planning.

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

3.9 Business model risk (continued)

The Bank manages business model risk via its Risk Appetite Statement, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through regular monitoring of actual performance versus plan across a range of key performance indicators. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter.

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

3.10 Model risk

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

The Board of EBS MF has ultimate accountability for ensuring that the models used by EBS MF are fit for purpose and meet all jurisdictional regulatory and accounting standards. Operating to the principles outlined in the Model Risk Framework supports EBS MF's strategic objectives and provides comfort to the Board on the integrity and completeness of the model risk governance.

The Group mitigates model risk by having a framework, policies and standards in place in relation to model development, operation, and validation together with suitable resources. The Model Risk Framework is designed to ensure that model risk in the Group is properly identified and managed across each step of the model lifecycle and is aligned to Group's Risk Management Framework.

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

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

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

During 2020, COVID-19 impacted model risk predominantly through the crisis required a re-prioritisation of business activities to support the roll-out of new customer solutions (e.g. payment breaks), and the unknown impact on the performance of models as the outcomes of COVID-19 evolve. These were mitigated by re-planning activities appropriately in order to ensure the business priorities were not impacted but that model developments continued to an appropriate timeline and ongoing monitoring of models continued through 2020 to ensure that any changes in model performance as a result of COVID-19 were identified and mitigated such as through the use of post-model ECL adjustments.

Directors' responsibility statement

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

The Directors are responsible for preparing the Directors' report and the annual financial statements in accordance with applicable Irish law and regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Bank as at the financial year end date and of the profit or loss of the Bank for the financial year and otherwise comply with the Companies Act 2014.

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

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

The Directors are responsible for ensuring that the Bank keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Bank, enable at any time the assets, liabilities, financial position and profit or loss of the Bank to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014, and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Helen Dooley
Chair

Chris Curley
Managing Director

Date: 26 March 2021

Independent auditors' report to the members of EBS Mortgage Finance

Report on the audit of the financial statements

Opinion on the financial statements of EBS Mortgage Finance (the 'Company')

In our opinion- the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Shareholders' Equity;
- the Statement of Cash Flows; and
- the related notes 1 to 32, including a summary of significant accounting policies as set out in note 1.

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

Basis for opinion

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

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

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

Emphasis of matter - Basis other than going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Other information

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

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

We have nothing to report in this regard.

Independent auditors' report to the members of EBS Mortgage Finance

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

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

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are is in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

Independent auditors' report to the members of EBS Mortgage Finance

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

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) of section 1373 Companies Act 2014 is consistent with the company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014. Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

Matters on which we are required to report by exception

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

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

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sinéad Moore

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

Date: 26 March 2021

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

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

Income statement

for the financial year ended 31 December 2020

	Note	2020 € m	2019 € m
Interest income calculated using the effective interest method	3	**66**	112
Interest and similar expense	4	**(3)**	(6)
Net interest income		**63**	106
Net fee and commission income	5	**13**	—
Net trading income	6	**—**	2
Net gain on other financial assets measured at FVTPL	7	**1**	1
Other operating expense	8	**(12)**	—
Other Income		**2**	3
Total operating income		**65**	109
Administrative expenses	9	**(13)**	(38)
Operating profit before impairment charge and taxation		**52**	71
Net credit impairment charge	11	**(49)**	(37)
Operating profit before taxation from continuing operations		**3**	34
Income tax charge	12	**—**	(4)
Profit for the year		**3**	30

Statement of comprehensive income

for the financial year ended 31 December 2020

	2020 € m	2019 € m
Profit for the year	**3**	30
Other comprehensive income for the year	**—**	—
Total comprehensive income for the year	**3**	30

Statement of financial position

as at 31 December 2020

	Note	2020 € m	2019 € m
Assets			
Non-current assets held for sale	13	**—**	5
Derivative financial instruments	14	**—**	21
Loans and advances to banks	15	**148**	58
Loans and advances to customers	16	**—**	3,609
Total assets		**148**	3,693
Liabilities			
Deposits by banks	18	**—**	649
Derivative financial instruments	14	**—**	21
Debt securities in issue	19	**—**	2,532
Other liabilities	20	**—**	1
Current taxation		**1**	—
Deferred taxation	17	**—**	3
Accruals and deferred income	21	**3**	6
Total liabilities		**4**	3,212
Shareholders' equity			
Issued share capital presented as equity	22	**138**	138
Revenue reserves		**6**	343
Shareholders' equity		**144**	481
Total liabilities and shareholders' equity		**148**	3,693

Helen Dooley
Chair

Chris Curley
Managing Director

Date: 26 March 2021

Statement of changes in shareholders' equity

for the financial year ended 31 December 2020

	Issued share capital presented as equity	Revenue reserves	Total shareholders' equity
	€ m	€ m	€ m
At 1 January 2020	**138**	**343**	**481**
Total comprehensive income for the financial year			
Profit for the financial year	—	**3**	**3**
Capital reduction	—	—	—
Capital repayment	—	—	—
Dividend paid	—	**(340)**	**(340)**
At 31 December 2020	**138**	**6**	**144**
At 1 January 2019	552	299	851
Total comprehensive income for the financial year			
Profit for the financial year	—	30	30
Capital reduction[1]	(414)	414	—
Capital repayment[1]	—	(400)	(400)
At 31 December 2019	138	343	481

[1]For details in relation to the capital reduction transaction in 2019 see note 22. Issued share capital presented as equity.

Statement of cash flows

for the financial year ended 31 December 2020

	Note	**2020**	2019
		€ m	€ m
Cash flows from operating activities			
Operating profit for the year before taxation		**3**	34
Adjustments for:			
Net credit impairment charge	11	**49**	37
		52	71
Changes in operating assets and liabilities			
Change in deposits by central banks and banks	18	**(649)**	(80)
Change in loans and advances to customers	16	**3,560**	404
Change in accruals and deferred income	21	**(3)**	3
Change in non-current assets held for sale		**5**	(3)
Change in other liabilities		**(1)**	(1)
Net cash flows from operating assets and liabilities		**2,912**	323
Net cash flows from operations before taxation		**2,964**	394
Taxation paid		**(2)**	(5)
Net cash flows from operations		**2,962**	389
Cash flows from investing activities			
Net cash flows from investing activities		**—**	—
Cash flows from financing activities			
Debt securities redeemed		**(2,532)**	(6)
Capital reduction		**—**	(400)
Equity dividends paid on ordinary shares		**(340)**	—
Net cash flows from financing activities		**(2,872)**	(406)
Change in cash and cash equivalents		**90**	(17)
Opening cash and cash equivalents		**58**	75
Closing cash and cash equivalents	24	**148**	58

Notes to the financial statements

Notes to the financial statements

Accounting policies index

Notes to the financial statements

1. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the financial statements for the financial year ended 31 December 2020 are set out below.

1.1. Reporting entity

EBS Mortgage Finance (the 'Bank') is a public unlimited company and commenced trading on 1 December 2008 operating under the Irish Central Bank Act, 1971 (as amended) and is a designated mortgage credit institution under the Asset Covered Securities Acts 2001 and 2007. The Bank's registered office is The EBS Building, 2 Burlington Road, Dublin 4, and it is registered under company number 463791. The Bank is a wholly owned subsidiary of EBS Designated Activity Company ('EBS'), which is included as part of EBS Group (the 'Group') and AIB Group plc and is regulated by the Single Supervisory Mechanism ('SSM').

In 2020 the Bank was 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 was 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.

1.2. Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRSs') as adopted by the European Union ('EU') and applicable for the financial year ended 31 December 2020. The financial statements also comply with the Companies Act 2014 applicable to companies reporting under IFRS and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015, and the Asset Covered Securities Acts 2001 and 2007 and Article 4 of the IAS Regulation. The accounting policies have been consistently applied by the Bank and are consistent with the previous year, unless otherwise described.

1.3. Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of 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 and financial instruments at fair value through profit or loss.

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.

The Directors' intend to complete the wind up the Bank in 2021. The measurement and recognition under IFRS of the Banks assets and liabilities is unchanged under the basis other than going concern.

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 are in the areas of loan impairment and impairment of other financial instruments; determination of the fair value of certain financial assets and liabilities, and provisions for liabilities and commitments.

A description of these judgements and estimates is set out in note 2: 'Critical accounting judgements and estimates' on page 49.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.3. Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2020 have been prepared on a basis other than that of going concern as the Directors intend to complete the wind up of the Bank in 2021. The measurement and recognition under IFRS of the Banks assets and liabilities is unchanged under the basis other than going concern.

Adoption of new accounting standards/amendments to standards

During the financial year 31 December 2020, the Bank adopted the following amendments to standards and interpretations which had an insignificant impact on these annual financial statements:

– Amendments to References to the Conceptual Framework in IFRS Standards;
– Amendments to IFRS 16 Leases COVID-19 Related Rent Concessions.

1.4. Interest income and expense recognition

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

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:

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

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments other than credit impaired assets, the Bank estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Amortised cost and gross carrying amount

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

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

Calculation of interest income and interest expense

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

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

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

When a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss), the Bank presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.4. Interest income and expense recognition *(continued)*

Presentation

Interest income and expense presented in the income statement include:

– Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
– Interest on investment debt securities measured at FVOCI calculated on an effective interest basis;
– Interest on financial assets measured at FVTPL;
– Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
– Interest income and funding costs of trading portfolio financial assets.

1.5. Net fee income

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

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

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

Fee income is recognised when the performance obligation in the contract has been performed, 'point in time' recognition, or 'over time' recognition if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

During 2020 the Bank implemented an updated pricing agreement with EBS to reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved, for 2020 this required a net payment to the Bank by EBS (2019: net payment by the Bank to EBS).

1.6. Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realised and unrealised fair value changes. Interest revenue and dividend income on trading assets are shown in 'interest income' and 'dividend income' respectively.

1.7. Income tax, including deferred tax

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

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

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

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

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

Notes to the financial statements

1. ACCOUNTING POLICIES

1.8. Financial assets

Recognition and initial measurement

The Bank initially recognises financial assets on the trade date, being the date on which the Bank commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers.

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

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Classification and subsequent measurement

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

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

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

- Amortised cost

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

- Fair value through other comprehensive income ('FVOCI')

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

- Fair value through profit or loss ('FVTPL')

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses on such assets are recognised in profit or loss on an on-going basis.

In addition, the Bank may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

- Embedded derivatives

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

Notes to the financial statements

1. ACCOUNTING POLICIES

1.8. Financial assets (continued)

Business model assessment

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

- The strategy for the portfolio as communicated by management;
- How the performance of the portfolio is evaluated and reported to senior management;
- The risks that impact the performance of the business model, and how those risks are managed;
- How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.
- Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

Characteristics of the contractual cash flows

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

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

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

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

Reclassifications

Reclassifications of financial assets to alternative measurement categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur if the Bank decides to make a fundamental change in its business model for managing a specific portfolio of financial assets.

1.9. Financial liabilities

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

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

Issued financial instruments and their components are classified as liabilities where the substance of the contractual arrangement results in 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. Where financial liabilities are classified as held for trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.
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 the income statement.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.10. Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The Bank considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted prices in active markets are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and offer prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an ‘over the counter’ basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks (‘contributors’) publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Bank’s valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.10. Determination of fair value of financial instruments (continued)

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equity and commodity prices, credit spreads, option volatilities and currency rates. In addition, the Bank considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

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

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

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

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

The Bank tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Transfers between levels of the fair value hierarchy

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

Notes to the financial statements

1. ACCOUNTING POLICIES

1.11. Derivatives and hedge accounting

Derivatives, such as interest rate swaps are used for risk management purposes.

Derivatives

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

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

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

Hedging

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

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

– hedges of the fair value of recognised assets or liabilities or firm commitments (‘fair value hedge’); or
– hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (‘cash flow hedge’).

When a financial instrument is designated as a hedging instrument in a qualifying hedge, 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:

a. it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b. the derivative expires, or is sold, terminated, or exercised;
c. the hedged item matures or is sold or repaid; or
d. a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.11. Derivatives and hedge accounting *(continued)*

Derivatives that do not qualify for hedge accounting

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

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.

1.12. Derecognition

Financial assets

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

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

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

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

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

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

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

1.13. Impairment of financial assets

The Bank recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:

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

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

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

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

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

Notes to the financial statements

1. ACCOUNTING POLICIES

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

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

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

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ("POCI"). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs. Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in the Bank's loss given default models ('LGD').

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

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

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

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

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

A modification refers to either:
– A change to the previous terms and conditions of a debt contract; or
– A total or partial refinancing of a debt contract.

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

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

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

Where renegotiation of the terms of a financial asset leads to a customer granting equity to the Bank 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

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

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

Collateralised financial assets - Repossessions
The ECL calculation for a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are credit impaired, the Bank may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Bank will then offer this repossessed collateral for sale. However, if the Bank 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 Bank believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of that asset and not as a credit impairment of the original loan.

Write-offs and debt forgiveness
The Bank reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

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

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

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

1.14. Non-current assets held for sale
A non-current asset is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset.

On initial classification as held for sale, generally, non-current assets are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent re-measurement. However, financial assets within the scope of IFRS 9 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value less costs to sell off assets that have been classified as held for sale are recognised in the income statement, to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on re-measurement and impairment losses subsequent to classification as non-current assets held for sale are shown within continuing operations in the income statement.

Non-current assets held for sale are presented separately on the Statement of Financial Position. Prior periods are not reclassified.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.15. Non-credit risk provisions

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

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

Legal claims and other contingencies

Provisions are made for legal claims where the Bank has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Bank with little realistic alternative but to settle the obligation and the Bank has created a valid expectation in other parties that it will discharge the obligation.

1.16. Shareholders' equity

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

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital

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

Share issue costs

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

Dividends and distributions

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

Revenue reserves

Revenue reserves represent retained earnings of the Bank. They also include amounts arising from the capital reduction undertaken by the Bank in June 2019.

1.17. Cash and cash equivalents

For the purposes of the cash flow statements, cash comprises cash on hand and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

1.18. Prospective accounting changes

There are no new standards and amendments to existing standards which have been approved by the IASB, but not early adopted by the Bank, that will impact the Bank's financial reporting in future periods.

Notes to the financial statements

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Significant judgements
The significant judgements made by the Bank in applying its accounting policies are set out below. The application of these judgements also necessarily involves estimations.

Given the make up of the Banks assets and liabilities at 31 December 2020 there were no significant judgements made by the Bank in applying its accounting policies to determine the values reported.

Impairment of financial assets
The Bank's accounting policy for impairment of financial assets is set out in accounting policy 1.13 in note 1. The expected credit loss ('ECL') allowance for financial assets at 31 December 2020 represent management's best estimate of the expected credit losses on various portfolios at the reporting date.

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

The most significant judgements applied by the Bank in estimating the ECL allowance are as follows:
- *determining the criteria for a significant increase in credit risk and for being classified as credit impaired;*
- *definition of default;*
- *choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD and the parameters to be included within the models;*
- *determining the life of a financial instrument and therefore, the period over which to measure ECL;*
- *establishing the number and relative weightings for forward looking scenarios for each asset class and ECL, particularly, in relation to Brexit uncertainty;*
- *determining post-model adjustments using an appropriate methodology; and*
- *assessing the impact of forbearance strategies on cash flows and therefore, the ECL allowance for restructured loans.*

The management process for the calculation of the ECL allowance is underpinned by independent tiers of review. The Bank assesses and approves the ECL allowance and its adequacy on a quarterly basis. The ECL allowance is, in turn, reviewed and approved by the AIB Group Credit Committee on a quarterly basis with final AIB Group levels being approved by the AIB Board Audit Committee. Further detail on the ECL governance process is set out on page 12.

Credit quality and ECL provisioning are independently monitored by credit and risk management on a regular basis. On an ongoing basis, the various judgements, estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions.

Critical accounting estimates
There were no accounting estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the financial statements

3. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2020	2019
	€m	€m
Interest on loans and advances to customers at amortised cost	**66**	112
	66	112

All interest income is calculated using the effective interest method. On 1 September 2020, the Bank's mortgage assets transferred to EBS resulting in a reduction in interest income.

4. INTEREST AND SIMILAR EXPENSE

	2020	2019
	€m	€m
Interest payable to EBS	**3**	6
	3	6

5. NET FEE AND COMMISSION INCOME

	2020	2019
	€m	€m
Fees receivable from Group undertaking	**13**	—
	13	—

The pricing arrangements between EBS and the Bank reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2020 it required a net payment of €13m by EBS to the Bank. For 2019 this required a net payment by the Bank to EBS of €23m (see note 9: Administrative expenses).

6. NET TRADING INCOME

	2020	2019
	€m	€m
Debt securities and interest rate contracts	**—**	2
	—	2

There was a net trading gain of €2m in 2019 which reflected a movement in the mark to market valuation of swap hedging instruments.

7. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2020	2019
	€m	€m
Loans and advances to customers	**1**	1
	1	1

The fair value gain on loans and advances to customers measured at FVTPL was €1m in 2020 (2019: €1m)

Notes to the financial statements

8. OTHER OPERATING EXPENSE

	2020	2019
	€m	€m
Loss on repurchase of debt securities in issue	12	—
	12	—

The Bank repurchased the debt securities in issue in June 2020, resulting in a loss of €12m.

9. ADMINISTRATIVE EXPENSES

	2020	2019
	€m	€m
Amounts payable to EBS	8	34
Other administrative expenses	5	4
	13	38

Amounts payable to EBS decreased to €8m in 2020 from €34m in 2019. The reduction is driven by the transfer of the Bank's mortgage assets to EBS and the implementation of an updated pricing agreement with EBS for 2020 to reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2020 this required a net payment by EBS to the Bank of €13m see Note 5: Net fee and commission income for further details (2019: net payment to EBS of €23m).

Other administrative expenses consists of statutory payments (regulatory payments/levies) €4.0m (2019: €3.9m), professional fees €0.4m (2019: €0.1m)

There were no full time equivalents employed by the Bank in the financial year 2020 (2019: nil), monthly average nil.

In addition a small number of AIB employees maintain a parallel employment relationship with the Bank, in order to facilitate delivery of outsourced service activities under the Managed Service Agreement with AIB. These parallel employments are unremunerated. These employees of AIB in the Republic of Ireland have a primary employment relationship with AIB, which maintains day-to-day control over them and remains responsible for the payment of their remuneration as well as accounting for tax and other payroll deductions.

Non-Executive Directors' remuneration

	2020	2019
	€ 000	€ 000
Fees	29	21
	29	21

	2020	2019
	€ 000	€ 000
Yvonne Hill	14	—
Paul Owens	14	—
Brendan McDonagh	—	10
Jim O'Hara	1	11

No additional remuneration has been made to any individuals employed directly by AIB for roles discharged as directors of the Bank. The non-Executive Directors' fees are non-pensionable.

The Directors do not participate in share option plans, therefore there were no gains on exercise of share options during the financial year in accordance with Section 305(1) of the Companies Act 2014.

There were no amounts paid (2019: nil) to persons connected with a director in accordance with Section 306(1) of the Companies Act 2014.

Notes to the financial statements

10. AUDITOR'S FEES

The disclosure of Auditor's remuneration is in accordance with Section 322 of the Companies Act 2014 which mandates fees in particular categories and that fees paid to the Bank's Auditor (Deloitte) 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.

	2020	2019
	€ 000	€ 000
Auditor's fees *(excluding VAT)*:		
Statutory Audit of entity financial statements	**20**	20
Other assurance services	**9**	—
	29	20

11. NET CREDIT IMPAIRMENT CHARGE

	2020 Measured at amortised cost	2019 Measured at amortised cost
Net credit impairment charge on financial instruments	**€m**	€m
Net measurement of loss allowance		
Loans and advances to customers	**(53)**	(44)
Credit impairment charge	**(53)**	(44)
Recoveries of amounts previously written off	**4**	7
Net credit impairment charge	**(49)**	(37)

12. TAXATION

	2020	2019
	€m	€m
Current taxation		
Current tax on income for the financial year	**(3)**	(5)
Deferred taxation		
Amortisation of DTL created on IFRS 9 Transition	**3**	1
Total tax charge for the financial year	**—**	(4)
Effective income tax rate	**12.5 %**	12.5 %

Factors affecting the effective tax rate

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

	2020		2019	
	€ m	**%**	€ m	**%**
Operating profit before taxation	**3**		34	
Corporation tax charge	**—**	**12.5 %**	(4)	12.5 %
Tax Charge	**—**	**12.5 %**	(4)	12.5 %

Notes to the financial statements

13. NON-CURRENT ASSETS HELD FOR SALE

	2020	2019
	€m	€m
Repossessed assets	—	5
	—	5

14. DERIVATIVE FINANCIAL INSTRUMENTS

Set out below are details on fair values and derivative information for the Bank. The Bank uses interest rate swaps to hedge the 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. AIB is the counterparty to all derivative contracts noted below. On foot of the transfer of the of the mortgage loan accounts to EBS on 1 September 2020 there was no longer a requirement to hedge interest rate risk and the derivative financial instruments were terminated.

	2020			2019		
	Contract/ Notional Amount	**Fair Values**		Contract/ Notional Amount	Fair Values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives classified as trading						
Interest rate swaps	—	—	—	3,964	21	(21)
Total derivatives	—	—	—	3,964	21	(21)

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

				2020				2019
	Less than 1 year	**1 to 5 years**	**5 years +**	**Total**	Less than 1 year	1 to 5 years	5 years +	Total
Residual maturity	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Notional principal amount	—	—	—	—	—	839	3,125	3,964
Positive fair value	—	—	—	—	—	10	11	21

15. LOANS AND ADVANCES TO BANKS

	2020	2019
	€ m	€ m
Funds placed with banks (third parties)	—	12
Funds placed with parent company	**148**	46
	148	58
Analysed by remaining maturity:		
3 months or less	**148**	58

The funds placed with banks outside AIB represent Cash Substitution Pool Assets. Cash substitution pool assets are an Asset Covered Securities Act concept whereby certain assets can be held as part of the Cover Assets Pool.

Notes to the financial statements

16. LOANS AND ADVANCES TO CUSTOMERS

	2020	2019
	€ m	€ m
Analysed by remaining maturity:		
Repayable on demand	—	231
3 months or less	—	2
1 year or less but over 3 months	—	4
5 years or less but over 1 year	—	91
Greater than 5 years	—	3,400
	—	3,728
Expected credit loss allowance	—	(119)
	—	3,609

On 1 September 2020, the Bank transferred its mortgage assets to EBS (See page 3 of the Directors Report for more details).

The following table shows the movements on the impairment loss allowance on financial assets as at 31 December 2020 and 2019:

	2020	2019
	€ m	€ m
Opening Balance	**119**	129
Net remeasurement of loss allowance - customers	**52**	44
Changes in loss allowance due to write-offs	**(5)**	(53)
Transfer to EBS DAC	**(166)**	(1)
At 31 December	—	119
Amounts include loss allowance on:		
Loans and advances to customers measured at amortised cost	—	119

Loans and advances to customers comprise EBS Group originated residential mortgages in the Republic of Ireland.

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.

17. DEFERRED TAXATION

	2020	2019
	€m	€m
Deferred tax assets		
Total gross deferred tax assets	—	—
Deferred tax liabilities:		
Transition to IFRS 9	—	3
Total gross deferred tax liabilities	—	3
Net deferred tax liabilities	—	3

Analysis of movements in deferred taxation

	2020	2019
	€m	€m
At 1 January	**3**	4
Income statement	**(3)**	(1)
At 31 December	—	3

Notes to the financial statements

18. DEPOSITS BY BANKS

	2020	2019
	€m	€m
Due to Parent company	—	649
	—	649

The facility limit with EBS is €4.0bn and the balance at 31 December 2019 amounted to €649m. 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. The transfer of the Banks's assets to EBS on 1 September 2020 provided the Bank with sufficient funds to clear it's intercompany loan with EBS.

19. DEBT SECURITIES IN ISSUE

	2020	2019
	€ m	€ m
Mortgage covered securities internal issuances at carrying value:		
EBS	—	2,532
	—	2,532
Analysed by remaining maturity		
1 year or less but over 3 months	—	500
5 years or less but over 1 year	—	1,515
Greater than 5 years	—	517
Carrying value of debt securities	—	2,532

In 2020 the Bank was 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.

At 31 December 2020 the Cover Assets Pool amounted to nil (2019: €3.28bn), comprising of nil (2019:: €3.27bn) of mortgage credit assets (mortgage loan accounts) and nil (2019: €0.01bn) of substitution assets (cash on deposit with suitably rated credit institutions). 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

		Total Loan Balances	Number of Mortgaged Properties	Total Loan Balances	Number of Mortgaged Properties
		2020 (1 & 2)	2020	2019 (1 & 2)	2019
From	**To**	€ m		€ m	
€0	€100,000	—	—	485	10,040
€100,000	€200,000	—	—	1,502	10,141
€200,000	€500,000	—	—	1,228	4,818
Over €500,000		—	—	55	82
		—	—	3,270	25,081

(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 at 31 December 2020 contains nil (2019: 31,730) loan accounts secured on nil (2019: 25,081) properties.

Notes to the financial statements

19. DEBT SECURITIES IN ISSUE *(continued)*

(b) Geographical location of mortgaged properties in the Cover Assets Pool

Geographical Area	Number of Mortgaged Properties 2020		Number of Mortgaged Properties 2019	
Co. Dublin	—	— %	8,835	35 %
Outside Co. Dublin	—	— %	16,246	65 %
	—	— %	25,081	100 %

(c) Mortgage loan accounts in default in the cover assets pool with arrears greater than or equal to three months
As at 31 December 2020, there were nil (2019: 70) mortgage loan accounts 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 financial year ended 31 December 2020, nil (2019:1,130) mortgage loan account in the Cover Assets Pool had been in default with arrears greater than €1,000. As at 31 December 2020, there were nil (2019: 337) accounts in default in the Cover Assets Pool.

(e) Replacement of non-performing mortgage loan accounts from the cover assets pool
During the financial year ended 31 December 2020, nil (2019: 105) non-performing mortgage loan accounts were removed in total from the Cover Assets Pool (For this purpose, non-performing is defined as credit grade 7 and 8, i.e. has the same meaning as in default). These loan accounts were not replaced with other assets 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 in arrears (including principal and interest) in respect of nil (2019: 900) accounts as at 31 December 2020 was nil (2019: €0.4m)

(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 2020 was nil (2019: €460m), of which nil (2019: €366m) represented repayment of principal and nil (2019: €94m) 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 2020 there were no loan accounts in the Cover Assets Pool that were secured on commercial properties.

20. OTHER LIABILITIES

	2020 € m	2019 € m
Sundry creditors	—	1
	—	1

21. ACCRUALS AND DEFERRED INCOME

	2020 € m	2019 € m
Interest payable on mortgage covered securities	—	3
Other accrued expense	3	3
	3	6

Notes to the financial statements

22. ISSUED SHARE CAPITAL PRESENTED AS EQUITY

	2020		2019	
	Number of shares		Number of shares	
	m	**€m**	m	€m
Authorised:				
Ordinary share capital				
Ordinary shares of €0.25 each	**1,000**	**250**	1,000	250
Issued and fully paid up:				
Ordinary share capital				
Ordinary shares of €0.25 each	**552**	**138**	552	138

	2020	2019
Movements in Issued share capital	**€ m**	€ m
At 1 January	**138**	552
Capital reduction	**—**	(414)
At 31 December	**138**	138

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.

23. CAPITAL MANAGEMENT

Capital regulation

The Capital Requirements Directive IV ('CRD IV"), which came into force on 1 January 2014, consists of the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD'), and is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. CRD IV measures include:

- a single set of harmonised prudential rules which enhanced requirements for quality and quantity of capital; and
- harmonising the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes.

The Bank commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 6 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV.

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

24. STATEMENT OF CASH FLOWS

Analysis of cash and cash equivalents

	2020	2019
	€m	€m
Loans and advances to banks (note 13)	**148**	58
	148	58

Loans and advances to banks include funds placed on short-term deposit which are treated as cash/cash equivalents within the statement of cash flows.

Notes to the financial statements

25. SEGMENTAL INFORMATION

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

26. COMMITMENTS

At 31 December 2020 the Bank had no approved mortgage loan applications that had not been drawn down as at the year end (2019: €9m). The Bank has no intention to approve further loan applications ahead of the wind up.

Loan commitments are classified and measured in accordance with IFRS 9. The Bank's accounting policy for the recognition of ECL allowances on loan commitments is set out in accounting policy number 1.13 Impairment of financial assets.

27. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis as set out in note 1.3 on basis of preparation. The accounting policy for financial assets in note 1.8 and financial liabilities in note 1.9, describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses at 31 December 2020 and 2019 the carrying amounts of the financial assets and financial liabilities by measurement category as defined in IFRS 9 *Financial Instruments* and by statement of financial position heading.

	At fair value through profit or loss	**At amortised cost**		**2020 Total**
	Mandatorily	**Loans and advances**	**Other**	
	€m	**€m**	**€m**	**€m**
Financial assets				
Loans and advances to banks	**—**	**148**	**—**	**148**
	—	**148**	**—**	**148**
Financial liabilities				
Other financial liabilities	**—**	**—**	**4**	**4**
	—	**—**	**4**	**4**

	At fair value through profit or loss	At amortised cost		2019 Total
	Mandatorily	Loans and advances	Other	
	€m	€m	€m	€m
Financial assets				
Derivative financial instruments	21	—	—	21
Loans and advances to banks	—	58	—	58
Loans and advances to customers	—	3,609	—	3,609
	21	3,667	—	3,688
Financial liabilities				
Deposits by banks	—	—	649	649
Derivative financial instruments	21	—	—	21
Debt securities in issue	—	—	2,532	2,532
Other financial liabilities	—	—	7	7
	21	—	3,188	3,209

Notes to the financial statements

28. 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 1.10.

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. 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 inputs.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss.

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

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate 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 such as shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Bank as at 31 December 2020.

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.

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

Loans and advances to banks

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

Notes to the financial statements

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

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

The fair value of variable rate mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate mortgages, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2019 took account of the Bank's' 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 debt securities in issue, is based on quoted prices were available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Other financial assets and other financial liabilities
This caption includes accrued interest receivable and payable and the carrying amount is considered representative of fair value hierarchy at 31 December 2020.

The following tables sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at the 31 December 2020 and 2019:

					2020
	Carrying amount	**Fair value**			
		Fair value hierarchy			
		Level 1	**Level 2**	**Level 3**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate swaps	—	—	—	—	—
Financial assets not measured at fair value					
Loans and advances to banks	**148**	—	—	**148**	**148**
	148	—	—	**148**	**148**
Financial liabilities measured at fair value					
Interest rate swaps	—	—	—	—	—
Financial liabilities not measured at fair value					
Other financial liabilities	**4**	—	—	**4**	**4**
	4	—	—	**4**	**4**

Notes to the financial statements

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

					2019
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Interest rate swaps	21	—	21	—	21
Financial assets not measured at fair value					
Loans and advances to banks	58	—	—	58	58
Loans and advances to customers	3,609	—	—	3,609	3,609
	3,667	—	—	3,667	3,667
Financial liabilities measured at fair value					
Interest rate swaps	21	—	21	—	21
Financial liabilities not measured at fair value					
Deposits by banks	649	—	—	649	649
Debt securities in issue	2,532	—	2,532	—	2,532
Other financial liabilities	7	—	—	7	7
	3,188	—	2,532	656	3,188

Significant transfers between Level 1 and Level 2 of the fair value hierarchy
There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2020 and 2019.

Notes to the financial statements

29. RELATED PARTY TRANSACTIONS

The Bank is a wholly owned subsidiary of EBS. EBS is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ('AIB'), which is a wholly owned subsidiary of AIB Group plc.

At 31 December 2020, there were no derivative transactions between the Bank and AIB. Related party transactions are normal banking transfers to and from EBS. In addition, the Bank has a pricing agreement with EBS updated in 2020 to reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved (see note 5: Net fee and commission income and Note 9: Administrative expenses).

a) Transactions with EBS

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

	2020	2019
	€m	€m
Included in the statement of financial position		
Loans and advances to banks	**148**	46
Deposits by banks	**—**	649
Debt securities in issue	**—**	2,532
Derivative financial instruments		
Interest rate swaps		
Assets (Fair value)	**—**	21
Liabilities (Fair value)	**—**	(21)
Included in the income statement		
Interest expense	**(3)**	(6)
Net fee and commission income	**13**	—
Administrative expenses	**(8)**	(34)
Net trading income	**—**	2

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.

(b) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*. Under IAS 24, Key Management Personnel ('KMP') are defined as comprising Executive, Non-Executive Directors and Senior Executive Officers including individuals employed by AIB p.l.c.. As at 31 December 2020 the Bank has 8 KMP (2019: 8 KMP).

(i*) Compensation of Key Management Personnel ('KMP')*

Compensation of KMP, namely Executive and Non-Executive Directors and Senior Executive Officers, in office during the year is paid by AIB and allocated to the Bank under the Managed Service Agreement.

	2020	2019
	€'000	€'000
Short-term compensation*	**29**	21
	29	21

*Non-Executive Directors: comprises Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by AIB.

The figures shown include the figures separately reported in respect of Directors' remuneration in note 9. Administrative expenses

Notes to the financial statements

29. RELATED PARTY TRANSACTIONS *(continued)*

(b) IAS 24 Related Party Disclosures (continued)

(ii) Transactions with Key Management Personnel ('KMP')

Loans to KMP and their close family members are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Bank, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executive Officers are made on terms available to other employees in the Bank generally, in accordance with established policy, within limits set on a case by case basis.

There were no amounts outstanding in respect of loans, quasi loans and credit transactions between the Bank and the KMP, as defined above, together with members of their close families and entities influenced by them.

(c) Companies Act 2014 disclosures

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Act disclosures, Director means the Board of Directors and any past Directors who are Directors during the relevant period. There were 7 Directors in office during the year, none of whom availed of credit facilities (2019: 5).

(ii) Connected persons

The aggregate of loans to connected persons of Directors, in office during the year, at 31 December 2020, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 2 persons; 2019: 1):

	Balance at 31 December 2020	Balance at 31 December 2019
	€ 000	€ 000
Loans	**—**	135
Interest Charged during the year	**2**	1
Maximum debit balance during the year*	**488**	141

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

An expected credit loss allowance (ECL) was created for all loans and advances. Accordingly, an insignificant ECL was created on 1 January 2018 and is held on the above facilities until the transfer of the Bank's assets to EBS on 1 September 2020. All facilities were performing to their terms and conditions.

(d) Summary of relationship with the Irish Government

The Bank considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over AIB.

Equity Interest in the ultimate parent of the Bank

At 31 December 2020, the State held 71.12% of the ordinary shares of AIB Group plc (31 December 2019: 71.12% of the ordinary shares of AIB).

30. EVENTS AFTER REPORTING PERIOD

On 1 February 2021 the ECB approved the revocation of the Bank's authorisation as a credit institution and the revocation of its registration as a designated mortgage credit institution to take effect from 2 February 2021.

Following the revocation of the Bank's licence Yvonne Hill and Paul Owens resigned as Directors, on 2 February 2021.

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

Notes to the financial statements

31. PARENT COMPANY

The Bank is a wholly owned subsidiary of EBS. EBS is a wholly owned subsidiary of AIB which is a wholly owned subsidiary of AIB Group plc. The financial statements of AIB and of the ultimate parent company are available from AIB Group plc, 10 Molesworth Street, Dublin 2, Ireland. Alternatively, information can be viewed by accessing AIB's website at www.aib.ie/investorrelations.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26 March 2021.