EBS MORTGAGE FINANCE

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

Contents

Directors and other information

Directors	Helen Dooley Chris Curley Gerry Gaffney	AIB Group Non-Executive Director and Chair Executive Director (Managing Director) Executive Director
Secretary	Diane Lumsden	
Registered office	10 Molesworth Street Dublin 2 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 10 Molesworth Street Dublin 2 Ireland	

Directors' report

The Directors present herewith their annual report and audited financial statements for the financial year ended 31 December 2021. A Directors' responsibility statement in relation to the financial statements appears on page 5.

Principal activities, business review and future developments
EBS Mortgage Finance ("the Company"), 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 Company'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 Company's debt securities were listed on the main securities market of Euronext Dublin.

In 2020, EBS's ultimate parent AIB Group reviewed the role of the Company within the wider AIB Group and recommended that EBS should commence planning to transfer all the Company's assets to EBS. Following review, the Boards of EBS and the Company approved the wind-up of the Company 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 Company's covered bonds €2.5bn, (2) the inter group transfer of the mortgage assets from the Company 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 Company's regulators to revoke the banking licence and designated mortgage credit institution status ('DMCI'). On 1 February 2021, EBSMF received confirmation from ECB and CBI that its banking licence and DMCI status were cancelled effective from 2 February 2021.

It is the intention of the Board to complete the wind up the company during 2022.

Results and dividends
The results for the financial year are set out in the attached financial statements. The loss for the financial year, after taxation, amounted to €19k (2020: Profit €2,626k).

In March 2021, the Company's sole shareholder (EBS) approved the following;
(i) a capital reduction under which the issued share capital of the Company was reduced from €137,885,000 divided into 551,540,000 ordinary shares of €0.25 each to €1.00 divided into 4 ordinary shares of €0.25 each, with such reduction to be effected by the cancellation of 551,539,996 ordinary shares of €0.25 each.
(ii) the transfer of €137,884,999, being the amount of the capital reduction to the Company's reserves.
(iii) the declaration and payment of a final dividend of €143,435,000.

There was an interim dividend of €340m paid to EBS during 2020 and the Board did not recommend the payment of a final dividend for 2020.

Going concern
The financial statements for the financial year ended 31 December 2021 have been prepared on a basis other than that of going concern as the Directors intend to complete the wind up of the Company in 2022.

The measurement and recognition under IFRS of the Company's assets and liabilities is unchanged under the basis other than going concern as carrying value equals the fair value at year end.

Principal risks and uncertainties
Information concerning the principal risks and uncertainties facing the Company 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 note 18 to the financial statements.

Directors
The Directors of the Company during 2021 were:

Helen Dooley
Chris Curley
Gerry Gaffney
Yvonne Hill
Paul Owens

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

Directors' report

Directors
A Director who is appointed pursuant to Regulation 15 of the Company's constitution shall not be required to retire at the following annual general meeting.

Secretary
The Secretary of the Company during 2021 and at 31 December 2021 was Diane Lumsden.

Directors loans
None of the Directors received any loans from the Company (2020: Nil).There were no par loans paid (2020: Nil) to persons connected with a director in accordance with Section 307(1) of the Companies Act 2014.

Directors' and Secretaries interests in shares
The Directors and Company Secretaries did not hold any interests in the Company'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 financial year. Independent Non-Executive Directors do not participate in share option schemes.

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2021. Independent Non-Executive Directors do not participate in long term incentive plans.

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 financial year that require disclosure under the Electoral Act 1997.

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 Company by AIB. The accounting records of the Company 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
There have been no significant events affecting the Company since the reporting date which require amendment to, or disclosure in 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 Company's Auditor is unaware; and

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

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

Independent auditor
Deloitte Ireland LLP ('Deloitte'), Chartered Accountants & Statutory Audit Firm were appointed as auditors on 30 July 2013. Deloitte will step down as auditor of the ultimate parent company, AIB Group plc, following the conclusion of the 2022 financial year end process, having at that point served as statutory auditor for the maximum legally permitted unbroken tenure in office as AIB Group plc's statutory auditor of ten years. Consequently, Deloitte will also step down as auditor of the Company following the conclusion of the 2022 financial year end process.

On behalf of the Board,

Helen Dooley
Chair

Chris Curley
Managing Director

Date: 23 September 2022

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 Company as at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014.

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

- select suitable accounting policies for the Company 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 Company will continue in business.

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

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

On behalf of the Board,

Helen Dooley
Chair

Chris Curley
Managing Director

Date: 23 September 2022

Deloitte.

Deloitte Ireland LLP
Chartered Accountants &
Statutory Audit Firm

INDEPENDENT AUDITOR'S 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 2021 and of the loss 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 24, 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 is the Companies Act 2014 and International Financial Reporting Standards as adopted by the European Union ("IFRS") ("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, 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 – Financial statements prepared on a basis other than that of 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 1.3 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 Audited 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 Audited 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.

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Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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.

A further description of our responsibilities for the audit of the financial statements is located on IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditor's report.

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 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.

Matters on which we are required to report by exception

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
EBS MORTGAGE FINANCE

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.

Sinead Moore

Sinead Moore
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, 29 Earlsfort Terrace, Dublin 2

04 October 2022

Income statement

for the financial year ended 31 December 2021

	Note	2021 € 000	2020 € 000
Interest income calculated using the effective interest method	3	—	65,988
Interest and similar expense	4	—	(3,317)
Net interest income		—	62,671
Net fee and commission income	5	—	12,960
Net trading income		—	358
Net gain on other financial assets measured at FVTPL	6	—	1,000
Other operating expense	7	—	(12,759)
Other Income		—	1,559
Total operating income		—	64,230
Operating expenses	8	**(18)**	(12,585)
Operating (loss)/profit before impairment charge and taxation		**(18)**	51,645
Net credit impairment charge	10	—	(48,676)
Profit on disposal of property		—	29
Operating profit before taxation from continuing operations		**(18)**	2,998
Income tax charge	11	**(1)**	(372)
(Loss)/profit for the year		**(19)**	2,626

Statement of comprehensive income

for the financial year ended 31 December 2021

	2021 € 000	2020 € 000
(Loss)/profit for the year	**(19)**	2,626
Other comprehensive income for the year	—	—
Total comprehensive income for the year	**(19)**	2,626

EBS

Statement of financial position

as at 31 December 2021

	Note	2021 € 000	2020 € 000
Assets			
Loans and advances to banks	12	**3,040**	147,536
Current taxation		**68**	—
Total assets		**3,108**	147,536
Liabilities			
Deposits by banks	14	**3,000**	28
Current taxation		**—**	858
Accruals and deferred income	15	**79**	3,167
Total liabilities		**3,079**	4,053
Shareholders' equity			
Issued share capital presented as equity	16	**—**	137,885
Revenue reserves		**29**	5,598
Shareholders' equity		**29**	143,483
Total liabilities and shareholders' equity		**3,108**	147,536

Helen Dooley
Chair

Chris Curley
Managing Director

Date: 23 September 2022

Statement of changes in shareholders' equity

for the financial year ended 31 December 2021

	Issued share capital presented as equity	Revenue reserves	Total shareholders' equity
	€ 000	€ 000	€ 000
At 1 January 2021	**137,885**	**5,598**	**143,483**
Total comprehensive income for the financial year			
Loss for the financial year	**—**	**(19)**	**(19)**
Transfer to Reserves	**(137,885)**	**137,885**	**—**
Dividend paid	**—**	**(143,435)**	**(143,435)**
At 31 December 2021	**—**	**29**	**29**

At 1 January 2020	137,885	342,972	480,857
Total comprehensive income for the financial year			
Profit for the financial year	—	2,626	2,626
Dividend paid	—	(340,000)	(340,000)
At 31 December 2020	137,885	5,598	143,483

Statement of cash flows

for the financial year ended 31 December 2021

	Note	2021 € 000	2020 € 000
Cash flows from operating activities			
Operating (loss)/profit for the year before taxation		**(18)**	2,998
Adjustments for:			
Net credit impairment charge	10	**—**	48,676
		(18)	51,674
Changes in operating assets and liabilities			
Change in deposits by central banks and banks	14	**2,972**	(649,264)
Change in loans and advances to customers	12	**—**	3,560,400
Change in accruals and deferred income	15	**(3,088)**	(2,435)
Change in non-current assets held for sale		**—**	5,045
Change in other liabilities		**—**	(670)
Net cash flows from operating assets and liabilities		**(116)**	2,913,120
Net cash flows from operations before taxation		**(134)**	2,964,794
Taxation paid		**(927)**	(2,690)
Net cash flows from operations		**(1,061)**	2,962,104
Cash flows from investing activities			
Net cash flows from investing activities		**—**	—
Cash flows from financing activities			
Debt securities redeemed		**—**	(2,532,242)
Equity dividends paid on ordinary shares		**(143,435)**	(340,000)
Net cash flows from financing activities		**(143,435)**	(2,872,242)
Change in cash and cash equivalents		**(144,496)**	89,862
Opening cash and cash equivalents		**147,536**	57,674
Closing cash and cash equivalents	17	**3,040**	147,536

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 2021 are set out below.

1.1. Reporting entity
EBS Mortgage Finance (the 'Company') is a public unlimited company and commenced trading on 1 December 2008 operated under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts 2001 and 2007 until 2 February 2021, following the withdrawal, at the Company's request, of the Company's banking licence and DMCI status . The Company's registered office is 10 Molesworth Street, Dublin 2, Ireland, and it is registered under company number 463791. The Company 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 Company 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 Company was not a participating institution under the new Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 which came into effect on 9 December 2009.

The Company 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 2021. 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 Company 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 Company, rounded to the nearest thousand.

Basis of measurement
The financial statements have been prepared under the historical cost basis.

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 28.

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 2021 have been prepared on a basis other than that of going concern as the Directors intend to complete the wind up of the Company in 2022. The measurement and recognition under IFRS of the Company's assets and liabilities is unchanged under the basis other than going concern.

First time adoption new accounting standards
During the financial year to 31 December 2021, the Company adopted the following amendments to standards and interpretations which had an insignificant impact on these annual financial statements:
– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (‘RFR’). The amendments include a number of practical expedients. These amendments had no material impact on the financial statements of the Company.

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

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

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

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

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

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

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

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

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 Company 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 Company by EBS (2019: net payment by the Company 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 Company initially recognises financial assets on the trade date, being the date on which the Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 Company'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 Company decides to make a fundamental change in its business model for managing a specific portfolio of financial assets.

1.9. Financial liabilities

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

The Company 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 Company 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 Company 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 Company has access at that date. The Company 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 Company 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 Company’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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 Company may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Company will then offer this repossessed collateral for sale. However, if the Company 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 Company 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 Company 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 Company 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 Company 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 Company with little realistic alternative but to settle the obligation and the Company 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 Company. 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 Company'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 Company. They also include amounts arising from the capital reduction undertaken by the Company 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 Company, that will impact the Company'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 Company'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 Company in applying its accounting policies are set out below. The application of these judgements also necessarily involves estimations.

Given the make up of the Company's assets and liabilities at 31 December 2021 there were no significant judgements made by the Company in applying its accounting policies to determine the values reported.

Impairment of financial assets
The Company'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 2021 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 Company 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 Company 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.

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.

The Directors' intend to complete the wind up the Company in 2022. The measurement and recognition under IFRS of the Company's assets and liabilities is unchanged under the basis other than going concern.

Notes to the financial statements

3. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2021	2020
	€000	€000
Interest on loans and advances to customers at amortised cost	—	65,988
	—	65,988

All interest income is calculated using the effective interest rate method. On 1 September 2020, the Company's mortgage assets transferred to EBS resulting in no interest income for 2021.

4. INTEREST AND SIMILAR EXPENSE

	2021	2020
	€000	€000
Interest payable to EBS	—	3,317
	—	3,317

5. NET FEE AND COMMISSION INCOME

	2021	2020
	€000	€000
Fees receivable from Group undertaking	—	12,960
	—	12,960

The pricing arrangements between EBS and the Company 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 2021 it required a net payment of nil (2020:€12,960k) by EBS to the Company.

6. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2021	2020
	€000	€000
Loans and advances to customers	—	1,000
	—	1,000

The fair value gain on loans and advances to customers measured at FVTPL was nil in 2021 (2020: €1,000k)

7. OTHER OPERATING EXPENSE

	2021	2020
	€000	€000
Loss on repurchase of debt securities in issue	—	12,759
	—	12,759

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

Notes to the financial statements

8. OPERATING EXPENSES

	2021	2020
	€000	€000
Amounts payable to EBS	**—**	7,897
Other administrative expenses	**18**	4,688
	18	12,585

Operating expenses decreased to €18k in 2021 from €12,585k in 2020. The reduction is driven by the transfer of the Company's mortgage assets to EBS.

There were no full time equivalents employed by the Company in the financial year 2021 (2020: nil), monthly average nil.

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

Directors' remuneration

	2021	2020
	€ 000	€ 000
Fees	**3**	29
	3	29

No additional remuneration has been made to any individuals employed directly by AIB for roles discharged as directors of the Company. The remuneration above relates to Directors not employed directly by AIB.

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 (2020: nil) to persons connected with a director in accordance with Section 306(1) of the Companies Act 2014.

9. AUDITOR'S FEES

Auditor’s remuneration including: Audit Fees, Other Assurance Services, Tax Advisory Services and Other Non-Audit Services is borne by EBS.

10. NET CREDIT IMPAIRMENT CHARGE

	2021	2020
	Measured at amortised cost	Measured at amortised cost
Net credit impairment charge on financial instruments	**€000**	€000
Net measurement of loss allowance		
Loans and advances to customers	**—**	(52,078)
Credit impairment charge	**—**	(52,078)
Recoveries of amounts previously written off	**—**	3,402
Net credit impairment charge	**—**	(48,676)

Notes to the financial statements

11. TAXATION

	2021	2020
	€000	€000
Current taxation		
Current tax on income for the financial year	**—**	(3,735)
Prior year adjustments	**(1)**	—
	(1)	(3,735)
Deferred taxation		
Amortisation of DTL created on IFRS 9 Transition	**—**	3,363
Total tax charge for the financial year	**(1)**	(372)
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:

	2021		2020	
		%		**%**
Operating (loss)/profit before taxation	**(18)**		2,998	
Corporation tax charge	**(1)**	**12.5 %**	(372)	12.5 %
Tax Charge	**(1)**	**12.5 %**	(372)	12.5 %

12. LOANS AND ADVANCES TO BANKS

	2021	2020
	€ 000	€ 000
Funds placed with parent company	**3,040**	147,536
Analysed by remaining maturity:		
3 months or less	**3,040**	147,536

13. DEFERRED TAXATION

	2021	2020
	€000	€000
Deferred tax assets		
Total gross deferred tax assets	**—**	—
Deferred tax liabilities:		
Total gross deferred tax liabilities	**—**	—
Net deferred tax liabilities	**—**	—

Analysis of movements in deferred taxation

	2021	2020
	€000	€000
At 1 January	**—**	3,363
Income statement	**—**	(3,363)
At 31 December	**—**	—

Notes to the financial statements

14. DEPOSITS BY BANKS

	2021	2020
	€000	€000
Due to Parent company	**3,000**	28
	3,000	28

15. ACCRUALS AND DEFERRED INCOME

	2021	2020
	€000	€000
Other accrued expense	**79**	3,167
	79	3,167

16. ISSUED SHARE CAPITAL PRESENTED AS EQUITY

		2021		2020
	Number of shares		Number of shares	
	ones	**€**	ones	€
Authorised:				
Ordinary share capital				
Ordinary shares of €0.25 each	**1,000,000,000**	**250,000,000**	1,000,000,000	250,000,000
Issued and fully paid up:				
Ordinary share capital				
Ordinary shares of €0.25 each	**4**	**1**	552,000,000	137,885,000

	2021	2020
Movements in Issued share capital	**€ 000**	€ 000
At 1 January	**137,885**	137,885
Capital reduction	**(137,885)**	—
At 31 December	**—**	137,885

In March 2021, the Company's sole shareholder (EBS) approved the following;

(i) a capital reduction under which the issued share capital of the Company was reduced from €137,885,000 divided into 551,540,000 ordinary shares of €0.25 each to €1.00 divided into 4 ordinary shares of €0.25 each, with such reduction to be effected by the cancellation of 551,539,996 ordinary shares of €0.25 each.

(ii) the transfer of €137,884,999, being the amount of the capital reduction to the Company's reserves.

(iii) the declaration and payment of a final dividend of €143,435,000.

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

17. STATEMENT OF CASH FLOWS

Analysis of cash and cash equivalents

	2021	2020
	€000	€000
Loans and advances to banks (note 12)	**3,040**	147,536
	3,040	147,536

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. The reduction in loans and advances to banks balance of €144,496k includes the payment of a dividend on 31 March 2021 of €143,435k.

Notes to the financial statements

18. RISK MANAGEMENT
Risk taking is inherent in the provision of financial services and the Company, as part of AIB, assumes a variety of risk in undertaking its business activities. Risk is defined as any event that could: damage the core earnings capacity of the Company, increase earnings or cash flow volatility; reduce capital; threaten business reputation or viability; and/or breach legal obligations. AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks.

The key elements of the framework are:

Risk philosophy;
Risk appetite;
Risk governance and risk management organisation;
Risk identification and assessment process;
Risk strategy; and
Stress and scenario testing.

Risk Management - Individual risk types
This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the AIB risk assessment process and which are relevant to the Company.

18.1 Credit risk
18.2 Liquidity risk
18.3 Operational risk
18.4 Non -trading interest rate risk

The 4 applicable risk types are discussed below.

18.1 Credit risk
Credit risk is the risk that the Company will incur losses as a result of a customer or counterparty being unable or unwilling to meet their contractual obligations. The following table sets out the maximum exposure to credit risk that arises within the Company:

	2021	2020
	€'000	€'000
Loans and advances to banks	**3,040**	147,536
	3,040	147,536

The Directors consider the credit risk of the Company is low as none of this balance is past due or impaired (2020: Nil). No collateral is held as security by the Company.

Notes to the financial statements

18.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

The Company's liquidity risk is managed as part of overall AIB liquidity management. This includes the risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes. The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2021 and 2020:

Exposure to Liquidity Risk

						2021
	On demand	**<3 months but not on demand**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Financial liabilities						
Deposits by banks	**3,000**	**—**	**—**	**—**	**—**	**3,000**
Accruals and deferred income	**79**	**—**	**—**	**—**	**—**	**79**
	3,079	**—**	**—**	**—**	**—**	**3,079**

						2020
	On demand	<3 months but not on demand	3 months to 1 year	1-5 years	Over 5 years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial liabilities						
Deposits by banks	28	—	—	—	—	28
Accruals and deferred income	3,167	—	—	—	—	3,167
	3,195	—	—	—	—	3,195

18.3 Operational risk

Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems, or from external events.

The management of operational risk is a line management responsibility. It is supported by specialist operational risk management ('ORM') functions within AIB that assist and advise line management on specific operational risks. Examples include money laundering prevention, compliance, business continuity planning, information security and insurance.

An element of the Company's ORM programme is an operational risk self-assessment process. This process requires the Company to assess its 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.

18.4 Non-trading interest rate risk

Interest rate risk is the exposure of the Company's earnings to movements in market interest rates. The Company is exposed to risk of interest rate fluctuations to the extent that assets and liabilities mature or reprice at different times or in differing amounts.

The assets and liabilities are not subject to interest rate repricing risk.

Notes to the financial statements

19. 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 2021 and 2020 the carrying amounts of the financial assets and financial liabilities by measurement category as defined in IFRS 9 *Financial Instruments* and by statement of financial position heading.

			2021
	At fair value through profit or loss	**At amortised cost**	**Total**
	Mandatorily		
	€m	**€m**	**€m**
Financial assets			
Loans and advances to banks	**—**	**3,040**	**3,040**
	—	**3,040**	**3,040**
Financial liabilities			
Deposits by banks	**—**	**3,000**	**3,000**
Other financial liabilities	**—**	**79**	**79**
	—	**3,079**	**3,079**

			2020
	At fair value through profit or loss	At amortised cost	Total
	Mandatorily		
	€m	€m	€m
Financial assets			
Loans and advances to banks	—	147,536	147,536
	—	147,536	147,536
Financial liabilities			
Deposits by banks	—	28	28
Other financial liabilities	—	4,025	4,025
	—	4,053	4,053

Notes to the financial statements

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The Companys' 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 Company 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 Company's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument 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 Company as at 31 December 2021.

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

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.

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 2021.

Notes to the financial statements

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

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

					2021
	Carrying amount	**Fair value**			
		Fair value hierarchy			
		Level 1	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Financial assets not measured at fair value					
Loans and advances to banks	**3,040**	**—**	**—**	**3,040**	**3,040**
	3,040	**—**	**—**	**3,040**	**3,040**
Financial liabilities not measured at fair value					
Deposits by banks	**3,000**	**—**	**—**	**3,000**	**3,000**
Other financial liabilities	**79**	**—**	**—**	**79**	**79**
	3,079	**—**	**—**	**3,079**	**3,079**

					2020
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000	€000
Financial assets not measured at fair value					
Loans and advances to banks	147,536	—	—	147,536	147,536
	147,536	—	—	147,536	147,536
Financial liabilities not measured at fair value					
Deposits by banks	28	—	—	28	28
Other financial liabilities	4,025	—	—	4,025	4,025
	4,053	—	—	4,053	4,053

Notes to the financial statements

21. RELATED PARTY TRANSACTIONS

The Company 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.

The Company has related party relationships with EBS. All related party transactions are at arm's length.

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

	2021	2020
	€000	€000
Included in the statement of financial position		
Loans and advances to banks	**3,040**	147,536
Deposits by banks	**3,000**	28
Included in the income statement		
Interest expense	—	(3,283)
Net fee and commission income	—	12,960
Administrative expenses	—	(7,897)

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.

Compensation of Key Management Personnel ('KMP')

In the Company, Key Management Personnel ('KMP') comprises of the Directors of the Company. The Company is a subsidiary of EBS and wholly owned subsidiary of AIB. The time and costs of executives and other staff who are primarily employed by AIB are not specifically recharged. The emoluments of Directors employed by AIB are met by AIB. They do not receive remuneration for services provided to the Company. The remuneration of Directors not employed by AIB are disclosed in note 8 Operating expenses.

Transactions with Key Management Personnel ('KMP')

There were no amounts outstanding between the Company and the KMP, as defined above, during the financial years ended 31 December 2021 and 2020.

22. EVENTS AFTER REPORTING PERIOD

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

23. PARENT COMPANY

The Company 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.

24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 September 2022.