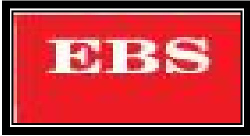
EBS Building Society

Pillar 3 Disclosures

Dec 2008



1. Overview ... 3

1.1. Background ... 3

1.2. Basis and Frequency of Disclosures ... 3

1.3. Scope ... 3

1.4. Transfer of Capital between Parent company and its subsidiaries ... 3

1.5. Irish government guarantee ... 3

1.6. Location and Verification ... 4

2. Risk Management Objectives and Policies ... 5

2.1. Strategies and Process to Manage Risks – Risk Appetite ... 5

2.2. Risk Management Framework ... 5

3. Financial Risk Management ... 8

3.1. Credit risk ... 8

3.2. Liquidity risk ... 16

3.3. Market Risks ... 17

3.4. Exposure to other market risks ... 19

4. Other Risks ... 23

4.1. Strategic risk management ... 23

4.2. Operational risk management ... 23

4.3. Regulatory compliance risk management ... 23

5. Capital Resources ... 25

5.1. Total Available Capital ... 25

5.2. Tier 1 Capital ... 26

5.3. Tier 2 Capital ... 26

6. Capital Adequacy ... 28

6.1. Internal Capital Adequacy Assessment Process ... 28

6.2. Minimum Capital Requirement: Credit Risk ... 29

6.3. Minimum Capital Requirement: Pillar 1 ... 30

6.4. Internal Capital Requirement: Pillar 2 ... 30

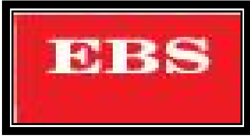
7. Credit Risk – Standardised Approach ... 31

8. Disclosures for Securitisations ... 35

8.1. Securitisations ... 35

8.2. Emerald securitisations ... 35

8.3. Securitised positions originated and retained by the Group ... 36



1. Overview

1.1. Background

The European Union Capital Requirements Directive came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10. Implementation of the Directive in Ireland was by way of rules introduced by the Financial Regulator. Among them are disclosure requirements applicable to banks and building societies, which are known as Pillar 3. These are designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes. Pillar 3 also aims to complement the minimum capital requirements described under Pillar 1 of Basel II, as well as the supervisory review processes of Pillar 2. EBS Building Society ("EBS") adopted the Pillar 1 standardised approach to credit risk and operational risk from 1 January 2008; it also became subject to Pillars 2 and 3 from that date. The disclosures in this document are made on this basis.

1.2. Basis and Frequency of Disclosures

This disclosure document has been prepared by EBS in accordance with the requirements of Pillar 3. Unless otherwise stated, all figures are as at 31 December 2008, our financial year-end. Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Annual Report and Accounts.

1.3. Scope

EBS is an EEA parent institution as defined under the CRD regulated by the Financial Regulator. The Basel II Framework therefore applies to EBS Building Society and its subsidiary undertakings (together "the Group") and accordingly the Pillar 3 disclosures have been prepared on a Group consolidated basis. There are no differences between the basis of consolidation of the Group for accounting and prudential purposes. All of the Group's subsidiaries are included in the Pillar 3 disclosures. Full details of the principal subsidiary undertakings are included in Note 13 to the Annual Report and Accounts.

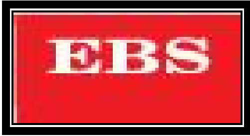
1.4. Transfer of Capital between Parent company and its subsidiaries

In order to maintain capital and/or liquidity ratios at or above the levels set down by the Financial Regulator, the licensed subsidiary would be unable to remit capital to the parent when to do so would result in such ratios being breached. Apart from this requirement, there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

EBS applied for and received permission from the Financial Regulator under Article 70 of the Capital Requirements Directive 2006/48/EC ('CRD') to include EBS Capital SA Luxembourg in its capital assessment on a solo consolidated basis.

1.5. Irish government guarantee

Under the Credit Institutions (Financial Support) Act 2008 (the 'Act'), the Minister for Finance has the power to provide financial support, including guarantees, to specified credit institutions and their subsidiaries. The Credit Institutions (Financial Support) Scheme 2008 (Statutory Instrument No. 411 of 2008) (the 'Scheme'), was made by the Minister for Finance on 20 October 2008. The Act, the Scheme and associated Ministerial orders provide the statutory basis for the guarantee for



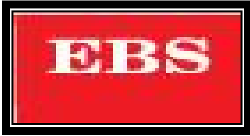
credit institutions announced by the Minister for Finance on 30 September 2008 and 9 October 2008. The Scheme has been approved by the European Commission as being compatible with EC Treaty State aid rules.

EBS Building Society and EBS Mortgage Finance are covered institutions for the purpose of the Scheme, standing specified under the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (Statutory Instrument No. 416 of 2008).

1.6. Location and Verification

These disclosures have been approved by the Board and are published on the Group's corporate website (www.ebs.ie). The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's Annual Report and Accounts.

The disclosures have been prepared to explain the basis on which the Group has prepared and disclosed capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and should not be relied on exclusively in making any judgement on the Group.



2. Risk Management Objectives and Policies

2.1. Strategies and Process to Manage Risks – Risk Appetite

The Group defines risk as a failure to maximise opportunities or a failure to foresee or manage events which could result in unnecessary material financial loss, interruption in business operations or damage to the Society's reputation. The Group recognises that the effective management of risk and its system of internal control is essential to the growth of earnings, the preservation of member value and the achievement of the Group's strategic objectives. The primary focus of the risk management framework is to ensure that the Group achieves the optimal risk/reward return on any investment of people, time and resources.

Risk management in EBS Building Society is supported by a clear risk management governance structure and a significant investment of both senior management and Board time in reviewing the system of internal control. The Board is supported in its review of effectiveness of the system of internal control by the work of two of its sub committees, namely the Board Risk Committee and the Board Audit and Compliance Committee. The Board Risk Committee supports the Board in identifying potential risks to the strategic objectives of the Society and evaluating the risk management policies and practices which are in place to reduce the likelihood of the risk occurring and/or minimise the impact in the case that the risk event did occur. There is regular reporting to the Board on emerging risk issues and key risk indicators both directly and also through the Board Audit and Compliance Committee and the Board Risk Committee. All material risk policies are reviewed by the Board Risk Committee on an annual basis and approved by the Board. These policies are closely managed on a day to day basis throughout the Group, and are monitored by specific business units with oversight by relevant risk management committees.

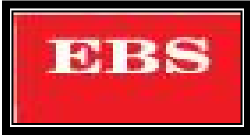
Risk management in the Society is supported by three independent risk functions, Regulatory & Compliance, Internal Audit and Risk.

2.2. Risk Management Framework

EBS categorises risks under a number of headings namely, financial, strategic, operational, and compliance risks. Together, these form the EBS Risk Universe. This helps the Society to assess and manage risk on an enterprise wide, holistic basis. The Risk Universe is continuously reviewed and updated reflecting the changing risk environment and was reviewed by the Board during 2008.

There are management systems and procedures in place in the Society to identify, measure, manage and report on material risks. The key elements of these are:

i. There is a clearly defined organisation structure which is regularly updated.
ii. Strategies, goals, objectives, authority limits and reporting mechanisms are clearly defined and performance is monitored.
iii. The Society's risk appetite is evaluated and risk exposure is monitored by the Board, supported by a comprehensive risk governance structure incorporating the Board Risk Committee, the Management Team (made up of senior management), and its underlying risk committees comprising the Asset & Liability Committee, the Risk Rating Approval Committee, the Credit Risk Committee, the Operations Management Committee and the Regulatory Compliance Committee. Each of these committees is responsible for identifying actions to support robust risk management in line with the organisation's risk appetite and monitoring their progress.



2.2.1. Risk Committees

i. The Asset & Liability Committee was established to evaluate the Society's exposure to market risk, namely, interest rate risk, liquidity risk, funding risk and foreign exchange risk. It is responsible for recommending the appropriate capital policy for EBS including agreement on the appropriate level and composition of capital which should be held, monitoring capital ratios, including projections, and agreeing the appropriate management implementation of the capital policy. It is also responsible for approving the allocation of the cost of capital across each key business line and the appropriate return on capital, given the Society's risk appetite. The Committee monitors the return on capital and promotes the development of risk adjusted return on capital (RAROC) capabilities and use.

ii. The Credit Risk Committee reviews and recommends appropriate credit risk management structures and policies in line with the credit risk appetite of the organisation. It is also responsible for monitoring the performance of the loan book, external economic and other developments and new business credit risk trends. The committee is charged with ensuring that an appropriate level of credit risk insurance is being maintained and is responsible for reviewing and approving provision levels for bad and doubtful debts. A subcommittee of the Credit Risk Committee, namely the Counterparty Credit Committee supports robust monitoring of counterparty credit policy and procedures.

iii. The Risk Rating Approval Committee is responsible for reviewing and recommending to the Board policies on risk model development, validation and use. It is also responsible for the ongoing validation and monitoring of risk rating systems and model performance.

iv. The Operations Management Committee reviews and monitors business operation and process risks and improvement initiatives across the organisation. It is also responsible for reviewing loss and near miss events and making recommendations for changes in operational processes to the Management team where appropriate. The committee is responsible for evaluating the organisation's appetite for operational risk and ensuring that it is well communicated and understood. The Health & Safety Committee reports to the Operations Management Committee.

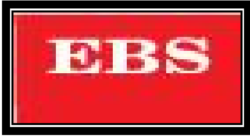
v. The Regulatory Compliance Committee ensures that there is an appropriate framework in place for ensuring that EBS is compliant with regulations across all areas of the business. It is also responsible for evaluating any compliance reviews and assessments undertaken by the Compliance function, external audit or other third parties, and for ensuring appropriate action plans are put in place where compliance risk gaps are identified.

vi. Detailed risk control self assessments of the risks associated with business targets and responsibilities are undertaken by business and support units and by project teams on an ongoing basis. The output of these assessments are agreed by the appropriate Executive Director and evaluated by the Operations Management Committee and the relevant Steering Committee.

2.2.2. Risk Functions

There are three independent review functions - Risk, Compliance and Internal Audit - each of which operates separately to, and independently of, the general business operation.

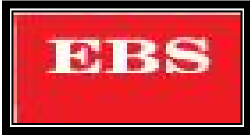
i. The Risk function supports the Group in identifying, measuring, managing and monitoring key risks. It comprises a risk analytics unit, a credit review unit, an operational risk unit, an information security unit and has oversight responsibility for treasury risk. The risk function facilitates each of the risk committees and the Management team in conducting and evaluating risk reviews for all strategic initiatives. It monitors and reports on risk management developments and risk indicators in an Enterprise Risk report which is evaluated on behalf of the Board by the



Board Risk Committee. It updates the Board on progress across EBS to mitigate risks through the Management Action Log which is reported to the Board Audit & Compliance Committee.

ii. The Legal & Compliance function supports each area of the Group in identifying their responsibilities in relation to prevailing and pending laws and regulations. This is reviewed and monitored by the Regulatory Compliance Committee and reports to the Board Audit & Compliance Committee on compliance with these requirements.

iii. Internal Audit provides independent assurance in relation to the effectiveness of the system of internal control to the Board through the Board Audit & Compliance Committee.



3. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:
(i) Credit risk
(ii) Liquidity risk
(iii) Market risks

This disclosure presents information about the Group's exposure to each of the above risks and about the Group's objectives, policies and processes for measuring and managing risk.

3.1. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Group's loans and advances to customers and credit institutions, held to maturity financial assets, available for sale financial assets and derivatives. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management in EBS is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. The Risk Analytics Unit is responsible for the development and ongoing validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the Group's loan assets. Credit Review assesses the application of credit policies, processes and procedures across all areas of the Society. The Retail and Commercial credit functions approve credits and manage credit control in line with EBS credit risk policies.

The Society insures the Group against risk in the Irish residential property market through mortgage indemnity insurance. Credit impairment provisions are put in place in line with International Financial Reporting Standards.

3.1.1. Maximum Exposure to Risk

The following table shows the Group's credit exposure, which is the maximum potential exposure including committed facilities.

	Group
	2008
	€m
Non-derivative financial assets	
Cash and balances with central banks	143.3
Available-for-sale financial assets	2,368.8
Loans and advances to credit institutions	1,287.6
Loans and advances to customers	16,900.6
Held-to-maturity financial assets	372.5
Interest accrued	52.2
Derivatives	
Interest rate swaps	32.3
Cross currency interest rate swaps	18.1
Interest rate caps	0.0
Equity swaps	0.9
Loan commitments (not unconditionally cancellable)	301.3

Loan commitments disclosed above comprise formal loan offers which EBS has a legal obligation to fulfil at the balance sheet date. This excludes any offer letters where the Society's legal commitment to fulfil has elapsed.

3.1.2. Holding of Collateral

EBS holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. For residential property, these values are updated using the PTSB/ESRI index. Processes to monitor the collateral underpinning Commercial lending are in place as part of the annual review of each Commercial connected exposure ('Obligor'). Otherwise, values are updated when a loan is individually assessed as impaired at which time the fair value of the collateral held is factored into the estimate of the impairment provision required. Collateral generally is not held over loans and advances to credit institutions, nor over debt securities or government and other eligible bills.

Against possession cases, collateral with a fair value of €5.5m is held. In addition the Society has put in place a number of Credit Support Annexes (CSA's) covering in excess of 75% of outstanding derivatives.

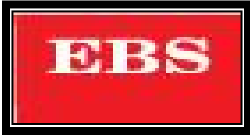
3.1.3. Credit Quality

EBS lending credit risk is measured both at transaction level and at portfolio level.

At origination, individual loan transactions are assessed for credit risk using a combination of factors. These include the risk rating attached to the credit (application score or obligor grade or external rating of a counterparty), the security exposure and an assessment of the member's, customer's or obligor's ability to repay the debt.

Over time, portfolio risk is measured by reference to risk rating migration, the volume and value of loans in default, arrears aged analysis migration, the volume of legal recovery activity and repossessions, movements in credit impairment provisions and the level of write-offs.

The credit quality of the portfolio of loans & advances to customers is set out below by reference to retail assets, commercial assets and development finance assets. Group retail assets amount to



€14,624.6m, commercial assets amount to €1,834.0m and development finance assets amount to €442.0m.

3.1.3.1. Retail Lending

The analysis below in relation to retail, commercial and development finance assets is based on gross lending before impairment provisions and uncashed loan cheques.

The EBS Retail lending portfolio comprises loans for owner occupation and Buy to Let loans for single properties or small portfolios.

The primary tool in use for monitoring the credit quality of retail assets is a probability of default (PD) and loss given default (LGD) matrix. The matrix is based on PD and LGD bands, calculated during the monthly regulatory capital calculation cycle. It is reported monthly to Credit Risk Committee where trends, movements and migrations are analysed to assess changes in the risk profile of the portfolio.

The retail book risk is assessed on the basis of two categories: performing loans and non-performing loans. Within the performing loans pool, loans with a PD in excess of 30% and loans with an LGD of greater than 25% where the PD exceeds 5% are categorised as 'watch risk' loans. Non-performing loans are defined using the standard Basel 2 definition of default.

The following analysis is based on the above groupings.

	Group
	2008
Retail assets	
Performing loans	97.6%
Non-performing loans	2.4%
	100.0%

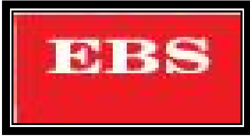
Out of total performing retail loans, 2.3% of Group loans are on the watch list.

3.1.3.2. Commercial and Development Finance Assets

The EBS Commercial loan portfolio comprises commercial assets and development finance assets. Commercial assets include loans to individuals and companies to purchase income earning real estate (i.e. commercial investment property), loans for properties for owner-managed enterprises and commercial buy to let assets. Development finance assets include loans for land and commercial and residential development.

Obligors are graded for default risk under a 10 point grading system. This grading system is used for all credit assessments, is a central feature of all loan reviews and informs the credit risk appetite in relation to large exposures. Obligor review frequency is risk-based, higher risk obligors being reviewed more frequently, and the outcome of a review is either a confirmation of the existing grade or a change to the grade.

Apart from day-to-day use in credit and pricing decisions the credit risk grades are used to analyse the quality of exposures at book level on an ongoing basis. Credit risk rating migrations are reported independently of the Commercial business unit to the Credit Risk Committee and the Board on a monthly basis.



The commercial book is categorised into two groups: Performing loans (including loans on 'watch') and Non-performing loans. Non-performing loans are defined using the standard definition of default under the Basel 2 capital regime. Loans on watch are those where there are indications of a possible future difficulty and which require individual and sustained review.

The following analysis is based on the above groupings:

Group	2008
Commercial assets	
Performing loans (of which loans on watch: 3.3% (2007: 0.9%))	92.8%
Non performing loans	7.2%
	100.0%

Group	
Development finance assets	
Performing loans (of which loans on watch: 13.8% (2007: 7.7%))	64.0%
Non performing loans	36.0%
	100.0%

3.1.4. Counterparty Credit Risk

Counterparty exposures are monitored real time by Treasury Front-Office through the TMS/Globus system. This system allows the dealers to assess Counterparty Limit availability prior to concluding a deal (before the event). Counterparty exposure reports are monitored and recorded daily (after the event) by the Treasury Risk section. The Treasury Risk section reports to the Chief Risk Officer with a dotted reporting line to the Group Treasurer. The Treasury Risk section provides Counterparty risk reports and a log of excesses & breaches of Counterparty limits to ALCO on a monthly basis.

The counterparty credit limit is set with reference to the EBS internal rating of the party.
The Counterparty Risk reports are made available by 8.30am to the Front Office Dealers and the Group Treasurer. Any excesses or limit breaches follow the appropriate EBS Escalation Policy.

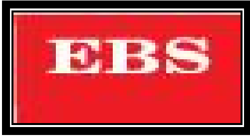
A number of reports are generated daily to measure & monitor Counterparty Risk, these are –

- Counterparty Limit Report – Limit Detail Report (Daily)
- Internal Rating Counterparty Report (weekly)
- ALCO Exposure report – Counterparty Credit Policy (monthly)
- Country Limit exposure (monthly)
- Concentration exposure (monthly)

3.1.5. Definitions

Provisions are calculated for assets which are deemed to be **impaired** where there is objective evidence of impairment. If the asset is deemed to be significant, then it is reviewed on an individual basis. Where the asset is impaired, but not significant, it is reviewed on a pooled or collective basis. Provisions are also calculated for assets where there is no objective evidence of impairment yet, but where impairment may have been incurred i.e. incurred but not reported (IBNR). In this way, all loan assets are reviewed for impairment assessment purposes.

For the majority of loans, interest is charged on a calendar month basis. Loans are deemed to be **past due** when there is any part of a monthly payment missed.



3.1.6. Accounting policies adopted for impaired financial assets

3.1.6.1. Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment costs are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor; or
(ii) a breach of contract, such as a default or delinquency in interest or principal payments; or
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider; or
(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) adverse changes in the payment status of Group's borrowers; or
(vii) national or local economic conditions that correlate with defaults on the assets of the Group.

The Group first assesses whether objective evidence of impairments exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's current effective interest rate (with adjustments for future repricing of fixed rate loans). The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant

factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

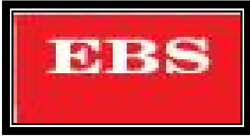
Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss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

Estimates of changes in future cash flows for group of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through the income statement.

			2008 €m
PROVISION FOR LOAN IMPAIRMENTS			
Individual provision for loan impairments			
At 1 January			19.7
Charge for impairment losses	Commercial	66.0	
	Retail	2.4	68.4
Loans and advances written off			(18.1)
At 31 December			70.0
Collective provision for loan impairments			
At 1 January			17.2
Charge for impairment losses	Commercial	19.3	
	Retail	10.3	29.6
Recoveries / write backs			(3.0)
Transfers			-
At 31 December			43.8
Total provision for loan impairments at 31 December			113.8



3.1.6.2. Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

As at 31 December 2008 one Treasury asset was impaired and a provision of €15.0m was made.

3.1.7. Portfolios

Retail Assets

Group Retail assets amount to €14,624.6m after impairment charges and before uncashed cheques.

.

Retail assets	Group 2008
Not impaired:	
Neither past due nor impaired:	92.6%
Past due :	
Up to 30 days	2.9%
30 to 60 days	1.2%
60 to 90 days	0.8%
90+ days	2.4%
Impaired individually significant:	
Past due 90 to 180 days	-
Past due over 180 days	0.1%
Total	100.0%

Commercial Assets

Group commercial assets amount to €1,834.0m after impairment charges and before uncashed cheques.

.

Commercial assets *Group and Society*	2008
Not impaired:	
Neither past due nor impaired:	86.0%
Past due :	
Up to 30 days	3.1%
30 to 60 days	1.2%
60 to 90 days	0.8%
90+ days	1.7%
Impaired individually significant:	
Past due 90 to 180 days	5.1%
Past due over 180 days	2.1%
Total	100.0%

Development Finance Assets

Group development finance assets amount to €442.0m after impairment charges and before uncashed cheques.

Development finance assets *Group and Society*	
Not impaired:	
Neither past due nor impaired	40.2%
Past due :	
Up to 30 days	15.7%
30 to 60 days	0.6%
60 to 90 days	0.7%
90+ days	8.3%
Impaired individually significant:	
Past due 90 to 180 days	17.8%
Past due over 180 days	16.7%
Total	100.0%

The value of loans and advances to customers for the Group that are past due but not impaired at the balance sheet date is €1,328m.

The value of loans and advances to customers for the Group that are impaired at the balance sheet date is €322.5m.

Table 1: Distribution of Past Due and Impaired exposures by Geography as at 31st Dec 2008

Geographic Breakdown	Past Due Exposure %	Impaired Exposure %
Ireland	96%	93%
UK	3%	2%
Rest of Europe	1%	5%

3.1.8. Treasury Assets and Derivatives

Treasury assets consist of cash and balances with central banks, central government bills and other eligible bills, derivative financial instruments, available-for-sale and held-to-maturity financial assets, and loans and advances to credit institutions excluding operating bank accounts.

The following table presents an analysis of Treasury asset counterparties based on EBS's internal ratings mapped to an external rating agency scale.

Group 2008	Cash & Balances with central banks	Govt and other eligible bills	Derivatives
Aaa	100.0%	57.3%	4.3%
Aa3 to Aa1	-	42.7%	85.3%
A3 to A1	-	-	10.4%
Lower than A3	-	-	-

The Society has put in place a number of Credit Support Annexes (CSA's) covering in excess of 80% of outstanding derivatives. Derivatives covered by these agreements are marked to market on an ongoing basis thereby removing the counterparty credit risk. The counterparty credit risk relating to the remaining 20% of derivatives not covered by CSA's is mitigated by the fact that under our counterparty credit risk policy we can transact derivatives only with counterparties who warrant a minimum rating of 4 based on the EBS internal rating system if a CSA agreement is not in place.

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

EBS transacts derivatives for the purpose of reducing or eliminating Interest Rate Risk in the Banking Book (IRRBB). EBS uses interest rate, cross currency and foreign exchange swaps for this purpose.

3.2. Liquidity risk

Group Treasury is responsible for the management of liquidity, i.e., to ensure that resources are available at all times to meet the Group's obligations arising from the withdrawal of customer deposits or interbank lines. The Asset and Liability Committee ('ALCO') monitors these risks and reports on key developments to the Board on a regular basis.

Liquidity risk relates to the ability of the Group to meet it's on and off balance sheet obligations in a timely manner as they fall due, without incurring excessive cost, whilst continuing to fund its assets and growth therein.

The Group applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the Financial Regulator in July 2007.

The overall purpose of a maturity mismatch approach is to ensure that the Group will have, at any given time, a pool of highly liquid assets capable of being converted into cash within four business days, sufficient to cover a certain percentage of foreseeable cash outflows for future periods of time ('time bands').

The maturity mismatch approach requires cash flows to be analysed under various headings and assigned to predetermined time bands depending on when the cash is received or paid out. Assumptions are made about the retention rates of certain retail and corporate flows, which are based on historical behaviour together with additional prudential reductions (haircuts). Maturity mismatches are assessed on a net cumulative basis, with statutory limits imposed on the first (up to eight days) and second (over eight days to one month) time bands. The Group applies internal limits in excess of the regulatory requirements for these two time bands.

Key measures used by the Group for managing liquidity risk are the liquidity ratios, calculated and reported on a daily basis to the Group Treasurer, on a weekly basis to the Financial Regulator and on a monthly basis to ALCO and the Board. Any breaches of limits are escalated immediately per the escalation procedure.

Exposure to liquidity risk

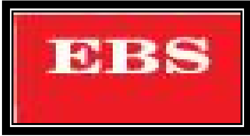
The table below analyses gross contractual maturities of financial liabilities held by the Group:

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
31 December 2008							
Financial liabilities							
Deposits by credit institutions	2,830.7	1,657.4	751.6	550.0	340.0	-	6,129.7
Customer accounts	4,872.0	1,473.0	902.9	1,346.2	777.7	981.7	10,353.5
Derivative financial instruments	-	41.3	4.7	37.2	102.8	15.9	201.9
Debt securities issued	932.3	328.9	33.2	55.1	778.6	1,590.0	3,718.1
Minority interest	-	1.4	-	6.3	-	250.0	257.7
Subordinated liabilities	-	1.6	-	63.1	-	147.2	211.9
Unrecognised loan commitments	124.7	138.8	32.5	5.3	-	-	301.3

The previous table shows the undiscounted cash flows on each of the Group's financial liabilities and unrecognised loan commitments on the basis of contractual maturity. Liabilities and unrecognised loan commitments, which include offers and undrawn credit facilities, are included according to the earliest possible date of obligation. The disclosure for derivatives shows a net amount as the derivatives are all net settled. The Group's expected cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

3.3. Market Risks

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (funding risk) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.



Group Treasury manages these risks using gap and sensitivity analysis. Derivatives such as interest rate and foreign currency swap agreements and equity index options are used to hedge these market risks.

Interest rate risk in the banking book portfolio is the Group's primary source of interest rate risk and is managed principally through monitoring interest rate gaps and by having various limits, processes and procedures. In addition, the Group conducts regular stress testing to evaluate the exposure of the banking book portfolio to a 100 basis point upward or downward shift.

Interest rate risk in the reserve investment portfolio is managed under the Reserve Investment Policy as approved by the Board.

Interest rate sensitivity gap analysis

The financial assets exposed to fair value interest rate risk are €6,956.3m, exposed to cash flow interest rate risk are €14,192.6m and not exposed to interest rate risk are €225.3m.

The financial liabilities exposed to fair value interest rate risk are €5,183.1m, exposed to cash flow interest rate risk are €15,180.7m and not exposed to interest rate risk are €587.2m.

Assets and liabilities are allocated to time buckets based on the next repricing date of the individual assets and liabilities underlying the categories. There are some limitations associated with this analysis, mainly due to market effects, over aggregation, run-offs and cashflows arising from off balance sheet activities. However, measures have been taken to minimise the effect of these limitations in line with industry practice and we are satisfied that the sensitivity analysis is an appropriate tool for measuring interest rate risk.

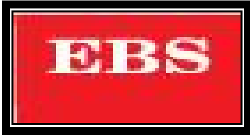
Interest rate stress testing

The Group conducts daily stress testing on the Banking Book Portfolio, evaluating the exposure of the Group and Society to a parallel interest rate shift of 1% and a series of yield curve twist tests. The results of this stress testing are presented to ALCO on a monthly basis. The Group conducts at least monthly interest rate stress testing on the Reserve Investment Portfolio, evaluating the exposure of the Group and Society to a parallel interest rate shift of 1% and a series of yield curve twist tests. The results of this stress testing are presented to ALCO on a monthly basis.

The table below provides an analysis of the Group's sensitivity to an increase or decrease in market rates:

		100 bps parallel shift (increase/ decrease)		
		2008		**2007**
		€000		€000
Banking book portfolio				
Average for the period	-/+	6,939	-/+	10,455
Maximum for the period	-/+	11,123	-/+	13,551
Minimum for the period	-/+	548	-/+	5,435
Reserve investment portfolio				
Average for the period	-/+	18,087	-/+	17,866
Maximum for the period	-/+	18,984	-/+	19,903
Minimum for the period	-/+	16,916	-/+	15,052

The above table shows the present value effect that would be realised on an accruals basis on the banking book and reserve investment book over the life of the assets and liabilities contained therein.



3.4. Exposure to other market risks

3.4.1. Foreign exchange risk

The Group takes the euro as its base currency. However, through the normal course of business operations EBS naturally accumulates foreign currency positions. The Group is therefore exposed to movements in foreign exchanges rates that may have an adverse effect on the economic value of the Group and Society. The size of the foreign currency open positions is kept within small operational limits.

Group :

Assets denominated in currency other than Euro:	**2008**
	€m
Sterling	1,733.2
US Dollars	797.2
Swiss Franc	33.8
Japanese Yen	7.9
Czeck Krona	57.0
Total	2,629.1
Liabilities denominated in currency other than Euro:	
Sterling	1,732.5
US Dollars	796.0
Swiss Franc	33.8
Japanese Yen	7.9
Czeck Krona	57.0
Total	2,627.2

The main methods used for mitigating foreign exchange risk include prohibiting the running of a trading book in any foreign currency, monitoring and centrally managing foreign exchange risk and hedging open currency positions through the use of derivatives. The Group has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

3.4.2. Funding risk - credit spreads

Funding risk (not relating to changes in the obligor / issuer's credit standing) is closely managed by Group Treasury and is monitored on an ongoing basis by ALCO.

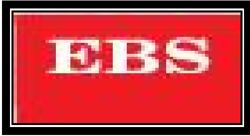
3.4.3. Fair value risk

The following table represents the fair value of financial instruments, including those not reflected in the financial statements at fair value. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

Group:	2008		
	Carrying value €m	Fair value €m	Unrecognised gain €m
ASSETS			
Cash and balances with central banks	143.3	143.3	-
Derivative financial instruments	51.3	51.3	-
Available-for-sale financial assets	2,368.8	2,368.8	-
Held-to-maturity financial assets	372.5	378.3	5.8
Loans and advances to credit institutions	1,287.6	1,348.0	60.4
Loans and advances to customers	16,900.6	17,051.3	150.7
LIABILITIES			
Deposits by credit institutions	6,103.9	6,103.9	-
Customer accounts	10,126.1	10,139.6	13.5
Derivative financial instruments	201.9	201.9	-
Debt securities in issue	3,682.5	3,734.5	52.0
Subordinated liabilities	212.7	212.7	-

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (for example a recognised stock exchange), which is the best evidence of the fair value of the financial instrument. For all financial assets held at fair value the Group has applied Fair Value based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some loans and advances to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments.

Market prices are not available for all financial assets and liabilities held or issued by the Group. Where no market price is available, fair values are estimated using valuation techniques. These are generally applied to over-the-counter (OTC) derivatives, unlisted trading assets and unlisted financial investments. The most frequently applied pricing models and valuation techniques include present value of future cash flows and option models. The valuations arrived at by applying these techniques are significantly affected by the choice of valuation model used and the underlying



assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates and volatility.

The following methods and significant assumptions have been applied in determining the fair value of financial instruments presented in the previous table, both for financial instruments carried at fair value, and those carried at cost (for which fair values are provided as a comparison):

i. trading and available-for-sale assets are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of recognised valuation techniques.

ii. the carrying value of liquid assets and other assets maturing within 12 months is assumed to be their fair value.

iii. the fair value of variable rate financial instruments is assumed to be equal to their carrying value, as the instruments continually reset to the market rate.

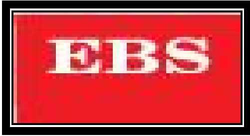
iv. the fair value of fixed rate financial instruments carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates on similar loans

The fair value of the Group's fixed rate instruments is predominantly hedged by derivative financial instruments, mainly interest rate swaps as explained in the accounting policies (Note 1(f) to the Annual Report and Accounts). Derivative financial instruments used for hedging are carried on the balance sheet at fair values, those with a positive replacement value are classified as assets and those with a negative value are classified as liabilities.

3.4.4. Policies for securing collateral and establishing credit reserves

The responsibility for approving the Counterparty Credit Policy rests with the Board which is responsible for approving all material risk policies. The Board Risk Committee on behalf of the Board conducts a detailed evaluation of all risk policies including the Counterparty Credit Policy on an annual basis and recommends changes to the Board as appropriate. The Group Counterparty Credit Committee has the delegated authority to approve named counterparties within the benchmark limits set by the Board. On an annual basis a review of all counterparties is conducted by the Group Counterparty Credit Committee. The Group Counterparty Credit Committee reports to the EBS Credit Risk Committee which in turn reports to the Board on its activities and key risk indicators. The Asset and Liability Committee monitors adherence to the Counterparty Credit Policy on an ongoing basis and this committee also reports exceptions to policy to the Board. Key risk indicators and management activity in relation to counterparty credit is reported to the Board Risk Committee on a quarterly basis in the Enterprise Risk Report.

As part of the EBS Collateral Management Strategy in relation to Treasury Counterparts, EBS has put in place ISDA Master Agreements with all counterparts. The ISDA sets out the legally binding conditions for derivative agreements with counterparties covering all types of Swaps. In addition to this, a Credit Support Annex has been put in place covering over 80% of all outstanding derivatives. The CSA’s allows for a Mark to Market process. In relation to all our Repo counterparts we have a Global Master Repo Agreement (GMRA) in place. Each Repo deal is re-valued on a daily basis. We implement an active Repo margining process on daily basis to cater for any fluctuations in bond values.



3.4.5. Policies with respect to 'wrong-way' risk exposures

EBS manages 'wrong-way'[1] risk exposures through the market risk & counterparty credit policies that monitor market & credit risk exposures to Treasury Counterparts. In addition to this EBS monitors the external ratings of Treasury counterparts on a weekly basis, which feed into the internal rating model, adjusting the rating for that counterpart accordingly.

Inherently the instances of 'wrong-way' risk exposures are very limited in that the Society's activities in foreign currency constitute only a very portion of overall activity which is predominantly in euro. FX activity is typically EUR/GBP short dated FX Swaps (<1year). In addition the Society only deals derivatives with counterparts who have a minimum AA rating. Lastly the Society has CSA's covering more than 80% of outstanding derivatives.

3.4.6. Credit Rating Change Analyses

EBS performs Liquidity Stress test monthly. As part of this EBS has specifically stress tested scenarios in relation to credit rating downgrades. EBS's stress tests take full account of the impact on collateral. This has been measured and examined in the event of EBS receiving a 2, 3 & 4 notch downgrade. The results of these tests are circulated to the members of ALCO.

[1] The positive correlation and reinforcing effects of market and credit risk.

4. Other Risks

4.1. Strategic risk management

Strategic risk management comprises the Group's values and beliefs, organisational structure and alignment, change readiness, strategic plan management, performance incentives, crisis management, brand management, leadership and communication. Strategic risk also encompasses external trends which cannot be controlled but which could have a significant impact on the Group's business such as the economic environment, market developments and technological innovation. Strategic risks are managed and monitored in the main by the senior management team and the Board. Significant developments are reported to the Board directly and to its subcommittees on a regular basis.

4.2. Operational risk management

Operational risk is the current or prospective risk of loss arising from inadequate or failed internal processes or systems, human error or external events. Group Operational Risk is responsible for supporting and monitoring operational risk management throughout the organisation and for recommending changes to the operational risk policy as appropriate to the Operations Management Committee.

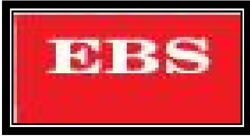
The core focus of operational risk management is delivery of optimal products and services to members and customers, operational efficiency, fraud prevention, clear lines of authority, employee development, health, safety and personal security of all employees and customers, solutions development, systems integrity, business continuity management, and third party partnership management. Group Operational Risk supports the business in conducting regular self-assessments of the risks in individual functions, in key processes and in significant projects. The self-assessment process helps identify key risks, the materiality of the risks (based on the probability of their occurrence and the impact if they did occur), an evaluation of the management activities to control and/or mitigate the risks and the level of residual risk. This supports the business in identifying actions to improve the Group's risk management capabilities.

Further actions are identified from the evaluation of losses and near misses which are recorded in each part of the organisation and monitored by the Operational Risk function. These, and other actions arising from internal audit reviews or risk committee prompts, are monitored on an ongoing basis and progress against actions is reported on a regular basis to the Management Team and the Board.

4.3. Regulatory compliance risk management

Regulatory compliance risk is the risk that the Society fails to meet the standards and requirements of the Regulator in relation to the provision of financial services to consumers.

The Regulatory Compliance function is responsible for advising and facilitating the business in identifying, managing and monitoring its legal and regulatory obligations. It supports an ongoing review of the framework used to enable each area of the business to clearly determine their legal and regulatory risks, identify the controls in place that mitigate those risks, ensuring appropriate allocation of responsibility for risks and controls is in place and that feedback is monitored and



reported. Regulatory Compliance reports to the Board Audit and Compliance Committee on key compliance issues and trends on a semi-annual basis.

Recent government intervention in global financial markets is expected to significantly increase the level of regulation by national and international regulatory bodies, increasing compliance and regulatory risks for all banks and building societies.

In line with the Credit Institution (Financial Support) Act 2008, the Group executed a 'Guarantee Acceptance Deed' on 24 October 2008 to become a covered institution. This Government guarantee covers all relevant liabilities of the Society. The terms and conditions of the Government guarantee identify additional levels of oversight and scrutiny for the duration of the scheme. This oversight is expected to be concentrated in the following areas: information and monitoring; Board representation and executive management; commercial conduct; corporate social responsibility; and controls on executive remuneration.

5. Capital Resources

5.1. Total Available Capital

The Group's regulatory capital position at 31 December was as follows:[2]

		2008
	€m	€m
Tier 1 capital		
General reserve		525.1
Minority interests		245.0
Intangible assets		(26.9)
Other regulatory adjustments:		
Add back ineffective portion of cashflow hedges	1.2	
Reversal of IFRS deficit on Defined Benefit Pension scheme	38.6	
Regulatory charge for Defined Benefit Pension scheme	(2.4)	
Warehousing of Innovative Tier 1 Capital	(6.7)	30.7
Total		773.9
Tier 2 capital		
Qualifying subordinated liabilities		206.3
Collective allowances for impairment		43.8
Revaluation reserves		8.6
Other regulatory adjustments:		
Warehousing of Innovative Tier 1 Capital	6.7	6.7
Total		265.4
Total regulatory capital		1,039.3

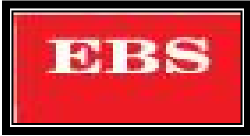
Risk-weighted assets	
Banking book	9,781
Total risk-weighted assets	9,781

	2008
	%
Capital ratios	
Total capital ratio	10.6%
Tier 1 capital ratio	7.9%

The allocation of capital between different business lines is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The allocation of capital to specific business lines and activities is approved by the Group's Management team and is monitored by the Asset and Liability Committee.

Although risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic

[2] The capital ratios are before inclusion of the interim capital requirement (ICR).



objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

5.2. Tier 1 Capital

Tier 1 capital, which includes general reserve capital, innovative and non innovative Tier 1 securities which are classified as minority interests, deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Details of minority interests are outlined in the table below:

	2008 €m
MINORITY INTEREST	
Group	
At 1 January	245.2
Capital securities issued in subsidiary undertakings	-
Upfront costs	(0.5)
Amortisation of upfront costs through reserves	0.1
Amortisation of discount through income statement	0.2
At 31 December	245.0

The Society holds 750,000 €1.25 Class A shares in EBS Capital, a 75% owned subsidiary incorporated in Luxembourg. EBS issued €125m of permanent interest bearing shares to EBS Capital in 2005 and again in 2007. In 2005 EBS Capital issued 125,000 class B shares in the form of non-cumulative step-up perpetual capital securities ('Capital Securities') and in 2007 it issued 125,000 class B shares in the form of non-cumulative capital securities. The issuance of capital securities in 2005 are classified for regulatory purposes as Innovative Tier 1 capital and the issuance of securities in 2007 are classified as non-innovative Tier 1 capital. The obligations of EBS Capital under the Capital Securities are guaranteed on a subordinated basis by the Society.

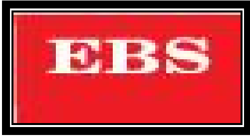
5.3. Tier 2 Capital

Tier 2 capital includes qualifying subordinated liabilities, revaluation reserve, collective impairment allowances and other regulatory adjustments.

Details of bonds issued are as follows:

Issue date	Maturity Date	Interest Rate		Call dates	Amount
26 November 1999	Nov-19	Fixed rate	7.00%	Nov-14	GBP £14.6m
19 December 2002	Nov-19	Fixed rate	6.44%	Dec-14	GBP £30.0m
14 December 2004	Dec-14	Variable	euribor +55bp	Dec-09	€60m
28 November 2006	Nov-16	Variable	euribor +35bp	Dec-11	€100m

Within these tiers, limits are set for different components of capital. The amount of innovative Tier 1 securities cannot exceed 15 percent of total Tier 1 capital, qualifying Tier 2 capital cannot exceed Tier 1 capital, and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be

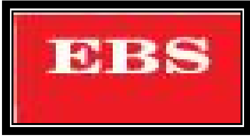


included as part of Tier 2 capital.

Banking operations are categorised as either banking book or reserve investments, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group’s policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

The Group has complied with all capital requirements throughout the period and has transitioned fully to the Basel 2 framework with effect from 1 January 2008. The ratios disclosed do not include the effect of the Financial Regulator's Interim Capital Requirement.



6. Capital Adequacy

6.1. Internal Capital Adequacy Assessment Process

EBS Capital Policy
EBS has set a policy that recognises the need to maintain a countercyclical approach to Capital Management. EBS Capital Policy recognises that the amount of capital that is appropriate will vary from time to time influenced primarily by the economic and credit cycles both of which are likely to be moving in the same direction.

In summary, the policy seeks to underpin the objective of strengthening the capital position in favourable market conditions to build a buffer for a downturn in the credit and economic cycle when the capital ratios may deteriorate due to losses, higher impairments and reduced profitability. We are experiencing just such a downturn, and a more severe downturn than EBS or indeed the market had expected.

One of the challenges of capital policy at present is the speed and depth of the change in the economic cycle which has negatively impacted the ability to access capital and the cost of capital. Most importantly, it follows a period of sustained growth which incorporated a structural change in the economy and where retained earnings were not sufficient to fund exponential market growth.

Capital policy in EBS also takes into account the unique challenges faced by EBS Building Society arising from the fact that, as a mutual, the option of raising core capital externally or increasing our retained earnings by cutting dividends does not currently arise.

How Capital Policy is Set
In setting its capital targets EBS takes into account a number of key factors.

- Regulatory Requirements
In setting its targets EBS takes account of the minimum requirements and projects forward in line with budget position to ensure we are in line with regulatory position.

- Rating Agencies
The level and make up of capital is fundamental to the rating of a credit institution by an external rating agency. It is also be very important to credit analysts who are considering the credit risk attached to any bond, senior, subordinated or tier 1 issue in increasing order, and we can use the approach of the rating agencies as a proxy for such investors.

EBS has ongoing in depth dialogue with Moody's and Fitch in relation to their assessment of both the quantum and quality of capital and it is clear from recent rating actions the attitude of rating agencies to non equity Tier 1 is evolving in the current environment.

Methods
Capital is held to guard against losses. There are two types of credit losses

- **Expected Loss**: average level of losses a bank can reasonably expect to have
  - Managed through pricing & provisioning

- Losses above expected levels are usually referred to as **Unexpected Losses (UL)** - institutions know they will occur now and then, but they cannot know in advance their timing or severity.
  - The market will not support prices sufficient to cover all unexpected losses. Capital is needed to be held in reserve to cover such peak losses

The calculation of capital requirements falls into two pieces, known as Pillar 1 and Pillar 2. Pillar 1 looks at Credit Risk and Operational Risk[3], the two major risks faced by a financial institution. Of the two, Credit Risk is by far the more important and significant in capital calculations. The calculation for Operational Risk is based on a standard regulatory percentage of the Groups income.

To calculate capital requirements arising from Credit Risk, there are two main methods available – known as The Standardised Approach and the Internal Ratings Based Approach (IRB). The Standardised Approach is a more basic method and is the least that institutions must be capable of using. IRB uses more sophisticated concepts and methods and is available to institutions only after approval from the Financial Regulator.

At present EBS uses The Standardised Approach in its regulatory returns. However EBS is committed to the IRB approach, since it delivers greater risk differentiation and a consistent framework for forecasting, provisioning and the management of credit risk generally. EBS uses IRB methods to perform internal capital adequacy assessment.

6.2. Minimum Capital Requirement: Credit Risk

The following table shows EBS's overall minimum capital requirement for credit risk under the standardised approach (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes) at 31 December 2008:

Minimum Capital Requirement 8%	2008 €m
Retail exposure classes	
Secured on real estate property	594.4
Unsecured lending	1.0
High risk	46.8
Past due items	35.6
	677.8
Other exposure classes	
Central governments & central banks	0.0
Financial institutions	53.1
Securitisation positions	16.5
Covered bonds	3.1
	72.7
Other	
Fixed and other assets	15.3
Credit risk minimum capital requirement	765.8

[3] EBS has no Market risk exposure: otherwise it too would be included in Pillar 1.

6.3. Minimum Capital Requirement: Pillar 1

EBS's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk using the standardised approach, and the foreign exchange Position Risk Requirement (FX PRR) element of Market Risk. The FX PRR charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions arising from movements in the foreign exchange rate and is calculated in accordance with the IFSRA Handbook. The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December 2008:

Total minumum capital requirement	2008 €m
Credit Risk (Standardised)	765.8
Market Risk	0
Operational Risk (Standardised)	20.8
	786.6
Total own funds (per section 3.1)	1039.3
Excess of own funds over minimum capital requirement under Pillar 1	**252.7**

6.4. Internal Capital Requirement: Pillar 2

For institutions that have remained on The Standardised Approach for Credit Risk (TSA), the Financial Regulator has required the use of an Interim Capital Requirement (ICR), the effect of which is to raise minimum regulatory capital requirements to at least Basel 1 levels. In EBS's case this amounts to a 9% increase to the calculated risk weighted asset figure, and use of the ICR-adjusted risk weighted asset number results in a corresponding decrease in our capital ratios. This is equivalent to an increase in the Regulatory Minimum as outlined in the table below:

Component	**(a) Regulatory Minimum Exclusive of ICR**	**(b) Regulatory Minimum Inclusive of ICR**
Core	2.04%	2.22%
Tier 1	4.00%	4.36%
Total	8.00%	8.72%

As such, the absolute Regulatory Minimum ratios that must be maintained by EBS are outlined in column (b) above (Inclusive of ICR).

EBS's policy is to articulate our capital ratio targets (exclusive of ICR) so that we are in line and consistent with our capital ratios as published within our Annual Report and Accounts. This will also facilitate the comparability of our ratios to those published by other market participants.

7. Credit Risk – Standardised Approach

Table 1: Distribution of credit exposures by Geography as at 31st Dec 2008

Exposure Class / Geography	Central Govt or Central Banks €m	Institutions €m	Retail €m	Secured on Real Estate Property €m	Past Due Items €m	High Risk Categories €m	Covered Bonds €m	Other Items €m	Total €m
Republic of Ireland	228	1,032	14	14,962	445	348	142	211	17,382
UK (inc NI)		654		142	10	42	118		967
Rest of Europe	4,084	1,222		61			224		5,592
North America		407							407
Rest of World		187			16				204
Total Exposures	4,312	3,504	14	15,165	471	390	485	211	24,552
Average exposures over the Period	3,606	2,920	15	14,613	352	214	485	308	22,512

Table 2: Distribution of credit exposures by Industry as at 31st Dec 2008

Exposure Class / Geography	Central Govt or Central Banks €m	Institutions €m	Retail €m	Secured on Real Estate Property €m	Past Due Items €m	High Risk Categories €m	Covered Bonds €m	Other Items €m	Total €m
A4 Other Agricultural Activities				4	1				5
G1 Sale/maintenance/repair of vehicles; retail sale of fuel				9					9
G2 Wholesale/commission trade (except vehicles)				117	0				117
G4 Other wholesale/retail, not included elsewhere				255	4				259
H1 Hotels				26	3				28
H2 Restaurants				16	3				19
H3 Public Houses				26	18				44
H4 Other accommodation and catering				15	1				16
K1.1 Speculative property investment/development				79	15	390			483
K1.2 Property investment/development with rental income				685	19	0			704
K4 Legal/accounting/book-keeping/auditing/tax/market				9					9
M1 Hospitals and medical practice activities				8					8
N3 Churches and religious organisations				0					0
N4 Recreational, cultural and sporting activities				3					3
O1 Housing Mortgage Finance			9	13,531	381				13,921
O2 Other Housing Finance				1	0				2
O4 Other personal			5	382	9				396
Institutions and Soverign	4,312	3,504			16		485		8,316
Other								211	211
Total Exposures	**4,312**	**3,504**	**14**	**15,165**	**471**	**390**	**485**	**211**	**24,552**

Table 3: Distribution of credit exposures by Maturity as at 31st Dec 2008

Exposure Class / Geography	Central Govt or Central Banks €m	Institutions €m	Retail €m	Secured on Real Estate Property €m	Past Due Items €m	High Risk Categories €m	Covered Bonds €m	Other Items €m	Total €m
0_3 mths	3,096.7	1,220.5	0.2	140.7	19.6	119.4			4,597
3_6mths	610.4	203.8	0.4	40.3	15.6	90.0			960
6_12mths	38.3	490.7	0.2	43.2	0.4	37.9			611
1 < 3 years	230.7	1,157.7	1.7	187.5	17.9	130.8	25.5		1,752
3 < 5 years	196.7	355.9	2.5	188.2	4.0	4.2	103.4		855
5 < 10 years		55.7	6.7	930.3	20.9	1.4	355.9		1,371
10 years +		19.4	2.8	13,634.5	393.0	6.3			14,056
No Maturity	138.7							211	350
Total Exposures	**4,312**	**3,504**	**14**	**15,165**	**471**	**390**	**485**	**211**	**24,552**

Table 4: Distribution of credit exposures by credit quality step as at 31st Dec 2008

Exposure Class / Credit Quality Assessment Steps	Central Govt or Central Banks €m	Institutions €m	Retail €m	Secured on Real Estate Property €m	Past Due Items €m	High Risk Categories €m	Covered Bonds €m	Other Items €m	Total €m
Step 1	4,312	2,578					485		7,374
Step 2		616							
Step 3		167							
Step 4									
Step 5									-
Step 6					16				16
Total Rated	4,312	3,360	-	-	16	-	485	-	7,390
Unrated		143	14	15,165	455	390		211	
Total Exposures	4,312	3,504	14	15,165	471	390	485	211	24,552

Table 4.b: Distribution of credit exposures after credit risk mitigation by credit quality step as at 31st Dec 2008

Exposure Class / Credit Quality Assessment Steps	Central Govt or Central Banks €m	Institutions €m	Retail €m	Secured on Real Estate Property €m	Past Due Items €m	High Risk Categories €m	Covered Bonds €m	Other Items €m	Total €m
Step 1	4,312	3,024					485		7,821
Step 2		616							
Step 3		167							
Step 4									
Step 5									-
Step 6					16				16
Total Rated	4,312	3,807	-	-	16	-	485	-	7,837
Unrated		143	14	14,731	442	390		211	
Total Exposures	4,312	3,950	14	14,731	458	390	485	211	24,552

8. Disclosures for Securitisations

8.1. Securitisations

In this section the Group sets out its disclosure information in respect of securitisation.

Securitisation risk is the risk of loss associated with buying or selling asset-backed securities. It occurs when issuing mortgage backed securities as a risk transfer or funding device. Securitisation risk is minimised through the use of 'standard' (as opposed to exotic) securitisation structures, and the use of only high quality counterparties to perform the structuring, where oversight and governance are provided by appropriately qualified experienced external and internal parties.

At 31 December 2008, the group had advances secured on residential property subject to non-recourse funding. These loans, which have not been derecognised, are shown within loans and receivables to customers and the non-recourse funding is shown as a separate liability.

The securitisations involve selling pools of mortgages to special purpose entities which issue mortgage backed floating notes ('notes') to fund the purchase of these mortgage pools.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios and any related income generated by the portfolios, without recourse to EBS Building Society. EBS Building Society is not obliged to support any losses in respect of the mortgages subject to non-recourse funding and does not intend to do so.

Monitoring of securitisation risk within the group principally occurs through three processes:

1. A review of the mortgage pool to be used in the securitisation including checking the pool is appropriately homogeneous by reference to time in arrears and loan-to-value (LTV) amongst other parameters.
2. A review of the internal securitisation process following the execution of a transaction allowing the process to be improved in terms of efficiency and risk reduction
3. Monthly monitoring of the underlying mortgage pool performance following the transaction.

The accounting policy of the securitised assets is disclosed in Note 1 (e) in the Annual Report and Accounts.

The ECAI's used for rating securitisations are Moody's and Fitch. The exposure type is Residential Mortgages.

8.2. Emerald securitisations

At 31 December 2008 the Group and Society had advances secured on residential property subject to non-recourse funding. These loans, which have not been derecognised, are shown within loans and advances to customers, and the non-recourse funding is shown within debt securities in issue within the Group. The loan notes in the Society are included in Customer accounts.

Loan notes for Emerald Mortgages No's.1, 2 and 3 were repaid by the Society in April 2008 in accordance with the refinance notices and the Emerald 1, 2 and 3 bonds were redeemed in April 2008 which resulted in all principal and interest being repaid to the bondholders and other liabilities being paid off. Emerald

Mortgages No. 5 Limited commenced to trade on 20 March 2008 when it issued €2.5bn in floating rate bonds. These bonds were purchased by EBS Building Society.
The total carrying amount of the original secured loans transferred by the Society to Emerald Mortgages No.4 plc and Emerald Mortgages No.5 Limited amount to €4,000m (2007: €3,270m for Emerald Mortgages No's.1, 2, 3 and 4). The amount of transferred secured loans that the Society continues to recognise at 31 December 2008 is €3,397.3m (2007: €1,798.0m for Emerald Mortgages No's.1, 2, 3 and 4) with the carrying amount of the associated liability amounting to €3,403.6m (2007: €1,809.3m for Emerald Mortgages No's.1, 2, 3 and 4). These companies issued bonds to finance the purchase of the loans in the securitised pools.

EBS has retained a first loss position in Emerald 4 and calculates risk-weighted exposure amount for this position using the Standardised Approach.

Table 5: Amount of Exposures Securitised as at 31st Dec 2008

Exposure Type	Securisation Type	Exposures Securitised	Past Due	Default	Impaired Exposures	Losses Recognised
Residential Mortgages	Traditional	€1,102m	€56.2m	€14.5m	€0	€0

8.3. *Securitised positions originated and retained by the Group*

The below table provides details on the securitised positions retained by the Group (Emerald Mortgages No. 5).

Table 6: Securitised Positions Retained as at 31st Dec 2008

Exposure Type	Risk Weight Band	Retained (Exposure)
Residential Mortgages	35%	€2,007m
Residential Mortgages	75%	€252m
Total		€2,259m

EBS Building Society, 2 Burlington Road, Dublin 4, Ireland
© EBS Building Society
EBS is a registered trademark of EBS Building Society
www.EBS.ie