EBS Building Society

Pillar 3 Disclosures

December 2009

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EBS
BUILDING SOCIETY

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 disclosures. 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 2009, our financial year-end. Disclosures are 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 16 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 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 'CIF Scheme'), was made by the Minister for Finance on 20 October 2008. The Act, the CIF 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. The scheme covers all retail and corporate deposits (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction), Interbank deposits, senior unsecured debt, covered bonds (including asset covered securities); and dated subordinated debt (Lower Tier 2), excluding any intra-group borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations.

The covered liabilities of participating covered institutions for the period 30 September 2008 to 30 September 2010 inclusive are guaranteed under the CIF Scheme by the Minister for Finance. In the event of any default of a covered institution in respect of a covered liability, the Minister will pay to the relevant creditor, on demand, an amount equal to the unpaid covered liabilities. The guarantee is unconditional and irrevocable and ensures timely payment of the covered liabilities of the covered institutions.

The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") is made pursuant to the Credit Institutions (Financial Support) Act 2008 and came into effect on 9 December 2009 and EBS acceded to this Scheme on the 1st February 2010. The ELG Scheme provides for an unconditional and irrevocable State guarantee for certain eligible liabilities (including deposits) of up to 5 years in maturity incurred by EBS during the period from 1st February 2010 to 30th June 2010 (subject to six month review and approval under EU State Aid rules) on certain terms and conditions.

EBS Building Society and EBS Mortgage Finance (EBS MF) are covered institutions for the purposes of the original Government Guarantee Scheme, which expires September 2010. In addition, EBS Building Society is a covered institution for the ELG Scheme but EBS MF is excluded as covered bonds are not eligible under the ELG Scheme.

EBS Building Society issued a €1bn guaranteed EMTN in February 2010 under the ELG Scheme.

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

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 reduction in earnings volatility, 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 the Group is founded on a clear risk governance structure at Board level and a clear risk management framework. The Board oversees the effectiveness of the system of internal control through review of management information and is supported 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 Group 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. The Chief Risk Officer has a dotted reporting line to the Chair of the Board Risk Committee. The ***Board Audit and Compliance Committee*** supports the Board in reviewing existing internal control mechanisms to assess whether they are adequate and whether they are performing effectively. The Head of Internal Audit has a direct reporting line to the Chair of the Board Audit and Compliance Committee.

In addition, the Head of Compliance, who has a direct reporting line to the Chief Risk Officer, provides ongoing updates on the compliance framework, processes and progress to the Board Audit and Compliance Committee. The Chief Risk Officer reports to the Board on business risks and emerging risk issues and provides a regular update on key risk indicators. There is a clear risk management framework, comprising of five key Group risk committees, and the Group's risk appetite is set out in the material risk policies which are reviewed by the Board generally on an annual basis. These policies are closely managed on a day to day basis throughout the Group, and are monitored by specific business units with oversight by the relevant risk management committees.

Responsibility for the management of risk rests with each operating unit across the Group. The 'first line of defence' in terms of risk management is the management of risk in day to day business operations, new product development and strategy implementation. There are three independent risk control functions within EBS, namely, Compliance, Risk and Audit. Compliance and Risk report to the Chief Risk Officer and form the 'second line of defence' in relation to risk management within the Group. Internal Audit, who report directly to the Board Audit and Compliance Committee, incorporates the work of the Fraud unit, and form the third, independent, line of defence in terms of risk management.

2.2. Risk Management Framework

EBS categorises risks under a number of headings namely, strategic, operational, compliance and financial (including credit, liquidity & market) 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 2009.

There are management systems and procedures in place in the Group 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 against which performance is monitored.
iii. The risk management framework is overseen by the Management Team (made up of senior management) and supported by its underlying Group Risk Committees comprising the Asset and 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 Group's risk appetite. Progress is monitored and reported regularly to the Board through the report of the Chief Risk Officer.

2.2.1. Risk Committees

i. The Group Asset & Liability Committee was established to monitor the Group's exposure to key market risks, i.e. liquidity risk, funding risk, interest rate risk in the banking book and foreign exchange risk. The Committee is responsible for asset and liability management, monitoring the adequacy of the liquidity framework and buffers, and for recommending the appropriate funding and capital policies and plans to the Board for approval. The Committee also has oversight for interest rate risk in the banking book, liquid asset investment and reserves investment policies and hedging policies of the Group. The Committee monitors capital ratios, including projections, and oversees the appropriate implementation of the capital policy.

ii. The Group Credit Risk Committee reviews and recommends appropriate credit risk management policies for the Society and its subsidiaries, in line with the overall credit risk appetite of the Group. These policies comprise lending, debt management and counterparty credit. The Committee is also responsible for monitoring the makeup and performance of the loan books, the credit quality of counterparts, the level of mortgage insurance in place and the adequacy of provisions for bad and doubtful debts. The Committee monitors the external macro-economic and other factors and new business credit risk trends and projections which serve as a benchmark against which the credit risk appetite of the organisation is evaluated. The committee is charged with ensuring that an appropriate level of credit risk insurance is being maintained for loans.

iii. The Group 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, model performance and model output in terms of forecasting. The Committee is responsible for setting the parameters for holistic stress testing across the organisation.

iv. The Group 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 Group Regulatory Compliance Committee ensures that there is an appropriate framework in place to support the objective of the Group to clearly be compliant with conduct of business regulations as well as prudential regulations, including prudential reporting. It is responsible for monitoring adherence to applicable regulations across the Group, and for evaluating impact of new regulations and ensuring that EBS is prepared for their implementation in the approved timeline

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 control functions - Risk, Compliance and Internal Audit - each of which operates separately to, and independently of, the general business operation. A dedicated Fraud team is in place which reports into the Head of Internal Audit:

i. The Risk Function supports the Group in developing and maintaining a robust risk management framework, and by providing independence in terms of risk identification, measurement, monitoring and reporting. The Risk Function comprises, (i) Risk Analytics, which develops risk models and risk rating systems; (ii) Credit Risk, a component of Risk Analytics, which provides independent management information regarding loan book performance and adherence to credit policy, and independent credit review of adherence procedures; (iii) Treasury Risk (middle office) which provides independent management information regarding adherence to market risk policies and day to day treasury operations; (iv) Operational Risk, which monitors operational risk trends, losses and near misses and which incorporates Information Security which reports independently of Information Technology; and (v) Enterprise Risk, which supports the development and maintenance of a risk management framework to mitigate against unforeseen risk events materialising.

   Collectively the Risk division monitor and report on key risk indicators, developments in risk management protocols, regulations and practices, and other risk developments to the relevant risk committees and to the Board.

ii. The Regulatory Compliance Function supports each area of the Group in identifying their responsibilities in relation to prevailing and pending conduct of business and prudential regulations. The function assists each area of the business by reviewing their procedures to ensure compliance with relevant laws and regulations and has created a database for units to self assess ongoing compliance. The function independently evaluates adherence to key regulations and reports same to the Regulatory Compliance Committee. An annual plan is developed and approved by the Board Audit and Compliance Committee which receives regular updates on progress.

iii. The Internal Audit Function provides independent assurance in relation to the effectiveness of the system of internal control to the Board through the Board Audit and Compliance Committee. A dedicated Fraud prevention unit is in place which also reports to the Head of Internal Audit and updates are regularly provided to the Board Audit and 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. Given the deterioration in credit quality throughout 2009 in both the retail and commercial markets, both credit management and credit risk management have been a key area of focus over the past year. Resourcing, structures, policy and processes continue to be reviewed in order to ensure that the Group is best placed to manage asset quality in this severe downturn. The Group Credit Risk Management Committee is responsible for reviewing and recommending appropriate credit risk management structures and policies in line with the credit risk appetite of the Group and for monitoring the performance of the book. The Risk Analytics team 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.

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

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

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

The Society insures the Group against risk in the Irish residential property market through mortgage indemnity insurance. This insurance is taken on a loan by loan basis, the amount of coverage being determined by the loan to value percentage at origination. In the event of the Society suffering a loss, a claim can be made up to the value of the insurance cover. The insurance provider is Genworth Financial Mortgage Insurance, rated Baa3 by Moody's (EBS internal grade 10). As at 31 December 2009 EBS had €600m worth of mortgage indemnity insurance cover in place.

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:

	Society		Group	
	2009	2008	2009	2008
	€m	€m	€m	€m
Non-derivative financial assets				
Cash and balances with central banks	180.6	143.2	196.5	143.3
Loans and advances held-for-sale	750.6	-	750.6	-
Available-for-sale financial assets	3,972.2	2,368.8	2,924.8	2,368.8
Loans and advances to credit institutions	3,717.4	3,198.1	957.7	1,287.6
Loans and advances to customers	11,659.8	13,597.7	16,473.5	16,978.5
Held-to-maturity financial assets	-	1,872.5	-	372.5
Interest accrued	39.5	57.4	37.6	52.2
Derivatives				
Interest rate swaps	80.3	52.7	37.2	32.2
Cross currency interest rate swaps	11.3	18.1	11.3	18.1
Equity swaps	1.5	1.0	1.5	1.0
Loan commitments (not unconditionally cancellable)	216.5	222.0	252.2	301.3

Loan commitments disclosed above comprise formal loan offers which EBS has a legal obligation to fulfil at the reporting 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 ongoing reviews 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 €19.4m (2008: €5.5m) is held. In addition the Society has put in place a number of Credit Support Annexes (CSA's) covering in excess of 79% 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 and arrears aged analysis migration.

The credit quality of the portfolio of loans & advances to customers is set out below by reference to residential assets, commercial assets and held-for-sale financial assets.

Group residential assets amount to €15,516.1m (2008: €15,053.5m), commercial assets amount to €1,002.5m (2008: €1,112.1m) and held-for-sale financial assets amount to €912.8m (2008: €845.6m).

The assessment of credit quality of loan commitments is the same as for loans and advances to customers.

Credit quality in EBS portfolios is monitored using probability of default (PD) grades and loss functions mapping all portfolios into a 9-point grading system. Grading outputs are reported monthly to the Group Credit Risk Committee where trends, movements and migrations are analysed to assess changes in the risk profile of the portfolio.

Non-performing loans are determined based on the repayment status of the loans secured on a given property. Non-performing is defined to be 90 days or more in arrears, or where at least three monthly payments or the equivalent have been missed. Within the performing loans pool, loans with a PD in excess of 30% and loans with a Loss Given Default (LGD) of greater than 25% where the PD exceeds 5% are categorised as watch risk loans.

The analysis below in relation to residential, commercial and loans and advances held-for-sale is based on gross lending before impairment provisions, uncashed loan cheques and fair value adjustment for loans in a fair value hedge relationship. We have reclassified the prior year comparatives in order to provide more meaningful analysis. In 2008 the asset classes reported upon were (a) retail; (b) commercial; and (c) development finance. Retail comprised of home loans and retail buy-to-let and commercial comprised of term debt and commercial buy-to-let. In 2009 these have been reclassified into residential, commercial and loans and advances held-for-sale. Residential comprises home loans, retail buy-to-let and commercial buy-to-let and commercial comprises of term debt assets only.

3.1.3.1. Residential Lending Assets

The EBS residential lending portfolio comprises loans for owner occupation, retail buy-to-let loans for single properties or small portfolios and commercial buy-to-let loans for large portfolios. The following analysis is based on the residential category:

	Society		Group	
	2009	2008	2009	2008
Residential assets				
Performing loans	93.3%	96.4%	94.7%	97.3%
Non-performing loans	6.7%	3.6%	5.3%	2.7%
	100.0%	100.0%	100.0%	100.0%

Of the Group Residential assets at 31 December 2009, 4.9% of Homeloans and 7.8% of Buy-to-Let loans were non-performing (2008: 2.4% and 4.6% respectively). On a risk grade obligor basis, 7.1% (2008: 3.7%) of Society Residential assets and 5.6% (2008: 2.7%) of Group Residential assets are non-performing.

Out of total performing residential loans, 3.6% of Group (2008: 2.3%) and 3.5% of Society loans (2008: 2.0%) are on the watch list.

3.1.3.2. Commercial Assets

The EBS Commercial loan portfolio comprises commercial term debt assets.

The following analysis is based on the commercial category:

Group and Society

	2009	2008
Commercial assets		
Performing loans	95.7%	93.9%
Non performing loans	4.3%	6.1%
	100.0%	100.0%

On a risk grade obligor basis, 20.8% (2008: 7.2%) of Commercial assets are non-performing. Loans on watch comprise 5.7% of performing loans (2008: 2.3%).

3.1.3.3. Loans and Advances held-for-sale

The loans and advances held-for-sale comprises development finance loans, commercial term debt and residential loans. These represent the loans that we expect to transfer to NAMA in 2010.

Loans and advances held-for-sale in the current year (2009) consists of retail loans of €216.8m, commercial loans of €190.4m and development finance loans of €505.6m.

Loans and advances held-for-sale in the prior year (2008) consists of retail loans of €192.5m, commercial loans of €207.3m and development finance loans of €445.8m. These were included in the residential, commercial and development finance categories in the prior year.

The following analysis is based on the Loans and advances held-for-sale category:

Group and Society

	2009	2008
Loans and advances held-for-sale		
Performing loans	60.9%	81.9%
Non performing loans	39.1%	18.1%
	100.0%	100.0%

Of the loans and advances held-for-sale at 31 December 2009, 52.0% of Land & Development loans and 22.7% of associated loans were non-performing (2008: 25.5% and 9.7% respectively).

On a risk grade obligor basis, 54.2% (2008: 24.2%) of loans and advances held-for-sale are non-performing. Loans on watch comprise 23.2% of performing loans (2008: 11.5%).

3.1.4. Counterparty Credit Risk

Background

Counterparty Credit risk in this context refers to the Treasury Counterparty Risk taken on by the Society in the normal course of its business. EBS has credit risk to other financial institutions through:

1) the purchase of assets issued by those institutions, e.g. MTNs, Covered Bonds, Securitisations, etc.;
2) the extending of credit via unsecured lending, e.g. interbank loans, etc.;
3) the conclusion of derivative contracts, e.g. interest rate swaps, for hedging purposes.

EBS maintains investment portfolios for the primary purpose of liquidity management hence the purchase of financial assets.

Governance & Oversight
EBS manages and controls counterparty risk through the Counterparty Credit Policy which is reviewed and monitored by both Asset and Liability Committee (ALCO) and the Group Credit Risk Committee (GCRC).

The responsibility for approving the Counterparty Credit Policy rests with the Board which is responsible for approving all material risk policies. The GCRC 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 GCRC. The GCRC reports to the Board on its activities and key risk indicators. The ALCO 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 in the Chief Risk Officer's Report and to the Board.

Management – processes & procedures
Counterparty exposures are monitored on a real time basis by Treasury Front-Office through the Treasury Management System/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 Treasury Risk (middle office). Treasury Risk reports to the Chief Risk Officer with a dotted reporting line to the Group Treasurer. Treasury Risk provides Counterparty risk reports and a log of excesses & breaches where they occur 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 within limits set out in the policy approved by the Board. 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 Risk Limit report – Counterparty Credit Policy (monthly)
- GCRC - Country Limit exposure (monthly)
- ALCO & GCRC - Concentration exposure (monthly)

3.1.5. Definitions

3.1.5.1. Definition of impaired

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. In the notes to our 2009 Annual Report and Accounts, impaired assets are those for which an individual provision has been made.

3.1.5.2. Definition of past due

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 year end 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. 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.

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 a 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.

	Society				Group			
	2009 €m		2008 €m		2009 €m		2008 €m	
PROVISION FOR LOAN IMPAIRMENTS (EXCLUDING LOANS AND ADVANCES HELD-FOR-SALE)								
Individual provision for loan impairments								
At 1 January		70.0		19.7		70.0		19.7
Charge for impairment losses								
Loans and advances held-for-sale	81.3		-		81.3		-	
Commercial assets	14.8		66.0		14.9		66.0	
Residential assets	19.5		2.4		21.2		2.4	
Total charge for impairment losses	115.6	115.6	68.4	68.4	117.4	117.4	68.4	68.4
Transfer to Loans and advances held-for-sale (note 14)		(142.6)				(142.6)		
Recoveries / write backs		-		-		-		-
Loans and advances written off		(0.4)		(18.1)		(0.4)		(18.1)
At 31 December		42.6		70.0		44.4		70.0
Collective provision for loan impairments								
At 1 January		42.7		17.2		43.8		17.2
Charge for impairment losses								
Loans and advances held-for-sale	2.1		-		2.1		-	
Commercial assets	12.7		19.3		12.7		19.3	
Residential assets	46.3		10.6		65.2		10.3	
Total charge for impairment losses	61.1	61.1	29.9	29.9	80.0	80.0	29.6	29.6
Transfer to Loans and advances held-for-sale (note 14)		(19.6)				(19.6)		
Recoveries / write backs		-		(3.0)		-		(3.0)
Other transfers		(0.9)		(1.4)		-		-
At 31 December		83.3		42.7		104.2		43.8
Total provision for loan impairments at 31 December		125.9		112.7		148.6		113.8

3.1.6.2. Assets carried at fair value

The Group assesses at each year end 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. There were no AFS impaired assets at 31 December 2009.

3.1.7. Portfolios

Residential Assets

Group Residential assets amount to €15,516.1m (2008: €15,053.5m) and Society residential assets amount to €9,692.0m (2008: €11,012.0m).

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Residential assets	Society		Group	
	2009	2008	2009	2008
Not impaired:				
Neither past due nor impaired:	86.3%	91.3%	87.6%	92.3%
Past due :				
Up to 30 days	3.9%	2.8%	4.1%	2.8%
30 to 60 days	1.5%	1.3%	1.6%	1.3%
60 to 90 days	1.0%	0.9%	1.0%	0.8%
90+ days	6.0%	3.4%	4.8%	2.5%
Impaired but not past due	0.6%	0.0%	0.4%	0.0%
Past due and individually significantly impaired:				
Past due up to 90 days	0.1%	0.1%	0.1%	0.1%
Past due 90 to 180 days	0.0%	0.1%	0.0%	0.1%
Past due over 180 days	0.5%	0.1%	0.3%	0.1%
Possessions	0.1%	-	0.1%	-
Total	100.0%	100.0%	100.0%	100.0%

Commercial Assets

Group and Society commercial assets amount to €1,002.5m (2008: €1,112.1m).

Commercial assets		
Group and Society	2009	2008
Not impaired:		
Neither past due nor impaired:	67.2%	88.8%
Past due :		
Up to 30 days	1.8%	2.6%
30 to 60 days	0.6%	0.3%
60 to 90 days	0.5%	0.6%
90+ days	1.7%	2.4%
Impaired but not past due	25.0%	0.6%
Past due and individually significantly impaired:		
Past due up to 90 days	0.6%	1.0%
Past due 90 to 180 days	0.3%	1.4%
Past due over 180 days	2.2%	2.3%
Possessions	0.1%	-
Total	100.0%	100.0%

Loans and advances held-for-sale

Group and Society Loans and advances held-for-sale amount to €912.8m (2008: €845.6m).

Loans and advances held-for-sale		
Group and Society		
Not impaired:		
Neither past due nor impaired	31.3%	54.9%
Past due :		
Up to 30 days	1.3%	12.0%
30 to 60 days	0.5%	1.2%
60 to 90 days	2.7%	1.1%
90+ days	2.6%	4.2%
Impaired but not past due	19.9%	3.7%
Past due and individually significantly impaired:		
Past due up to 90 days	5.2%	9.0%
Past due 90 to 180 days	10.4%	3.2%
Past due over 180 days	25.8%	10.7%
Possessions	0.3%	-
Total	100.0%	100.0%

The carrying value of loans and advances to customers for the Group and Society that are past due but not impaired at the reporting date is €1,843.1m (2008: €1,182.6m) and €1,255.0m (2008: €981.4m) respectively.

The carrying value of loans and advances to customers for the Group and Society that are impaired at the reporting date is €427.4m (2008: €100.2m) and €416.0m (2008: €100.2m) respectively.

The carrying value of loans and advances held-for-sale for the Group and Society that are past due but not impaired at the reporting date is €65.5m (2008: €156.6m).

The carrying value of loans and advances held-for-sale for the Group and Society that are impaired at the reporting date is €562.6m (2008: €224.6m).

The carrying amount of loans and receivables that would otherwise have been past due or impaired whose terms have been renegotiated to provide a moratorium amount to €2.6m (2008: Nil). EBS provides moratoriums on an exceptional basis only.

Table 1: Distribution of Past Due and Impaired exposures by Geography as at 31st Dec 2009

Geographic Breakdown	Past Due Exposure %	Impaired Exposures %
Ireland	98.4%	87.7%
UK	1.4%	9.1%
Rest of Europe	0.2%	3.2%

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, held-to-maturity financial assets and loans and advances to credit institutions excluding operating bank accounts.

The Icelandic exposure which was impaired and provided for as at 31 December 2008 was sold during 2009. On completion of this transaction, a provision write-back of €2.5m was made.

The following table presents an analysis of Treasury asset counterparties based on EBS's internal ratings mapped to an external rating agency scale. Where the counterparty is government guaranteed we have used the sovereign rating.

Group 2009	Cash & Balances with central banks	Govt and other eligible bills	AFS financial assets	HTM financial assets	Derivatives	Loans & advances to credit institutions	Commitments and contingent liabilities
Aaa	100.0%	15.2%	13.2%	-	1.0%	-	78.1%
Aa3 to Aa1	-	72.4%	69.9%	-	22.0%	98.4%	-
A3 to A1	-	12.4%	16.7%	-	67.0%	-	-
Lower than A3	-	-	0.2%	-	10.0%	1.6%	-
Unrated	-	-	-	-	-	-	21.9%

Society 2009	Cash & Balances with central banks	Govt and other eligible bills	AFS financial assets	HTM financial assets	Derivatives	Loans & advances to credit institutions	Commitments and contingent liabilities
Aaa	100.0%	15.2%	9.5%	-	0.6%	-	80.6%
Aa3 to Aa1	-	72.4%	76.6%	-	58.6%	99.6%	-
A3 to A1	-	12.4%	12.1%	-	35.5%	-	-
Lower than A3	-	-	1.8%	-	5.3%	0.4%	-
Unrated	-	-	-	-	-	-	19.4%

The Society has put in place a number of Credit Support Annexes (CSA's) covering in excess of 79% of outstanding derivatives. Derivatives covered by these agreements are marked to market on an ongoing basis resulting in the determination of the amount to be posted as collateral under the CSA and thereby removing the counterparty credit risk. The counterparty credit risk relating to the remaining 21% of derivatives not covered by CSA's is mitigated by the fact that under our counterparty credit risk policy we can only transact derivatives with counterparties who warrant a minimum rating of 4 based on the EBS internal rating ('IRB') 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.

Commitments and contingent liabilities include the Society's obligations to the Central Bank and Financial Services Authority (CBFSAI) and loan commitments.

3.2. Liquidity risk

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.

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') which meets every two weeks, monitors these risks and reports on key developments to the Board on a regular basis via the Chief Risk Officers report.

The Group conducts both regular and ad-hoc stress testing to assess on an ongoing basis the ability of the Group to withstand various idiosyncratic and systemic stress scenarios. Liquidity contingency plans are developed and updated on a continual basis reflecting the results of the stress tests.

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 Group has conducted stress tests in advance of expected changes in the liquidity framework in 2010 and over the coming years.

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 €m	Over 1 month to 3 months €m	Over 3 months to 6 months €m	Over 6 months to 1 year €m	1 to 2 years €m	Over 2 years €m	Total €m
31 December 2009							
Financial liabilities							
Deposits by credit institutions	1,431.4	802.5	1,105.2	1,122.3	-	-	4,461.4
Customer accounts	3,269.9	1,672.5	1,076.2	2,381.6	972.8	595.2	9,968.2
Derivative financial instruments	4.6	2.1	5.0	13.9	40.6	97.7	163.9
Debt securities in issue	622.9	790.6	97.6	2,052.6	185.7	2,247.5	5,996.9
Non controlling interests	-	0.9	-	6.3	-	250.0	257.2
Subordinated liabilities	-	0.5	-	3.4	100.0	110.7	214.6
Loan commitments	117.8	125.5	8.0	0.9	-	-	252.2
Total financial liabilities	5,446.6	3,394.6	2,292.0	5,581.0	1,299.1	3,301.1	21,314.4

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

	Up to 1 month €m	Over 1 month to 3 months €m	Over 3 months to 6 months €m	Over 6 months to 1 year €m	1 to 2 years €m	Over 2 years €m	Total €m
31 December 2009							
Financial liabilities							
Deposits by credit institutions	1,431.4	803.4	1,105.2	1,128.7	-	250.0	4,718.7
Customer accounts	3,495.1	1,672.5	1,076.2	2,381.6	972.8	1,633.8	11,232.0
Derivative financial instruments	4.6	2.1	5.0	13.9	40.6	127.4	193.6
Debt securities in issue	622.9	790.6	96.6	2,013.8	185.7	244.5	3,954.1
Subordinated liabilities	-	0.5	-	3.4	100.0	110.7	214.6
Loan commitments	97.5	110.1	8.0	0.9	-	-	216.5
Total financial liabilities	5,651.5	3,379.2	2,291.0	5,542.3	1,299.1	2,366.4	20,529.5

The previous tables show the undiscounted cash flows (other than for derivatives) on each of the Group's and Society'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 (other than derivatives) 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. The Asset and Liability committee ('ALCO'), which meets every two weeks, monitors these risks and reports on key developments to the Board on a regular basis via the Chief Risk Officers report.

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. Interest rate risk in the reserve investment portfolio is managed under the Reserve Investment Policy as approved by the Board. In addition, the Group conducts regular stress testing to evaluate the exposure of the banking book portfolio and reserve investment portfolio to a parallel interest rate shift of 100 and 200 basis points and a series of yield curve twists.

Interest rate sensitivity gap analysis

The tables below give an indication of the interest rate repricing mismatch in the Group's statement of financial position. A cumulative net liability position in a time band indicates an exposure to a rise in interest rates.

Interest rate sensitivity gap analysis 2009
Group

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Non Interest Bearing €m	Total €m
Non - trading book							
ASSETS							
Cash and balances with central banks	196.5	-	-	-	-	-	196.5
Loans and advances held-for-sale	895.1	-	7.8	8.9	1.0	(162.2)	750.6
Available-for-sale financial assets	208.5	244.7	737.2	1,496.8	237.6	-	2,924.8
Loans and advances to credit institutions	307.6	-	650.1	-	-	-	957.7
Loans and advances to customers	13,201.4	429.5	445.0	2,178.9	135.9	82.8	16,473.5
Other assets	-	-	-	-	-	202.5	202.5
Total assets	**14,809.1**	**674.2**	**1,840.1**	**3,684.6**	**374.5**	**123.1**	**21,505.6**
LIABILITIES							
Deposits by credit institutions	2,437.4	94.5	1,902.0	-	-	-	4,433.9
Customer accounts	5,119.0	1,042.0	2,322.5	1,323.1	23.6	-	9,830.2
Debt securities in issue	4,611.9	87.1	1,074.7	91.1	25.0	-	5,889.8
Other liabilities	-	-	-	-	-	496.0	496.0
Subordinated liabilities	60.0	-	-	150.1	-	5.1	215.2
Non controlling interests	125.0	-	-	-	125.0	(4.8)	245.2
Total liabilities	**12,353.3**	**1,223.6**	**5,299.2**	**1,564.3**	**173.6**	**496.3**	**21,110.3**
Derivatives	(4,713.8)	3,162.8	2,064.5	(322.7)	(190.8)	-	-
Interest rate sensitivity gap	**(2,258.0)**	**2,613.4**	**(1,394.6)**	**1,797.6**	**10.1**	**(373.2)**	**395.3**
Cumulative gap	**(2,258.0)**	**355.4**	**(1,039.2)**	**758.4**	**768.5**	**395.3**	**395.3**

In the table above, the assets and liabilities are allocated to time buckets based on the next repricing date of the individual assets and liabilities underlying the categories above.

The financial assets exposed to fair value interest rate risk are €6,573.4m (2008: €6,956.3m), exposed to cash flow interest rate risk are €14,809.1m (2008: €14,192.6m) and not exposed to interest rate risk are €123.1m (2008: €228.8m).

The financial liabilities exposed to fair value interest rate risk are €8,260.7m (2008: €5,182.2m), exposed to cash flow interest rate risk are €12,353.3m (2008: €15,180.7m) and not exposed to interest rate risk are €496.3m (2008: €591.6m).

There are some limitations associated with this analysis, mainly due to market effects, over aggregation, run-offs. 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 100 bps 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 100 bps 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)			
		2009		**2008**
		€000		€000
Banking book portfolio				
Average for the period	-/+	3,947	-/+	6,939
Maximum for the period	-/+	8,365	-/+	11,123
Minimum for the period	-/+	172	-/+	548
Reserve investment portfolio				
Average for the period	-/+	15,249	-/+	18,087
Maximum for the period	-/+	17,837	-/+	18,984
Minimum for the period	-/+	12,393	-/+	16,916

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

Overall interest rate risk positions are managed by Group Treasury. The use of derivatives to manage interest rate risk is described in Section 3.1.8 above.

There have been no changes in methods or assumptions used from the prior year for managing interest rate risk.

3.4. Exposure to other market risks

3.4.1. Foreign exchange risk

The Group and Society take 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 and Society:

Assets (including derivatives) denominated in currency other than Euro:	**2009**	**2008**
	€m	€m
Sterling	393.6	1,733.2
US Dollars	263.5	797.2
Swiss Franc	0.0	33.8
Japanese Yen	7.5	7.9
Czeck Krona	57.9	57.0
Total	722.5	2,629.1

Liabilities (including derivatives) denominated in currency other than Euro:	**2009**	**2008**
Sterling	392.5	1,732.5
US Dollars	263.7	796.0
Swiss Franc	-	33.8
Japanese Yen	7.5	7.9
Czeck Krona	57.9	57.0
Total	721.6	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 and Society have 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. In addition we have also set out the accounting classifications of each of the assets and liabilities. Where assets or liabilities are in a fair value hedge relationship the underlying asset of liability is also marked to market.

Group:		2009			2008		
	Accounting classifications	Carrying value €m	Fair value €m	Unrecognised gain €m	Carrying value €m	Fair value €m	Unrecognised gain (loss) €m
ASSETS							
Cash and balances with central banks	Amortised cost	196.5	196.5	-	143.3	143.3	-
Derivative financial instruments	Fair value	50.0	50.0	-	51.3	51.3	-
Loans and advances held-for-sale	Loans and receivables	750.6	639.0	(111.6)	-	-	-
Available-for-sale financial assets	Available-for-sale	2,924.8	2,924.8	-	2,368.8	2,368.8	-
Loans and advances to credit institutions	Loans and receivables	957.7	957.4	(0.3)	1,287.6	1,298.3	10.7
Loans and advances to customers	Loans and receivables	16,473.5	15,922.2	(551.3)	16,978.5	17,114.4	135.9
Held-to-maturity financial assets	Held-to-maturity	-	-	-	372.5	378.3	5.8
LIABILITIES							
Deposits by credit institutions	Amortised cost	4,433.9	4,433.9	-	6,103.9	6,103.9	-
Customer accounts	Amortised cost	9,830.2	9,781.8	(48.4)	10,125.2	10,070.3	(54.9)
Derivative financial instruments	Fair value	163.9	163.9	-	202.8	202.8	-
Debt securities in issue	Amortised cost	5,889.8	5,756.2	(133.6)	3,682.5	3,575.8	(106.7)
Subordinated liabilities	Amortised cost	215.2	185.3	(29.9)	212.7	170.2	(42.5)

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. 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 2009 Annual Report and Accounts). Derivative financial instruments used for hedging are carried on the statement of financial position at fair values, those with a positive replacement value are classified as assets and those with a negative value are classified as liabilities.

Fair value measurements are recognised in the statement of financial position for available-for-sale financial assets and derivative financial instruments.

3.4.4. Policies for securing collateral and establishing credit reserves

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 (CSA) has been put in place covering over 79% 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 seeks to manage 'wrong-way'[1] risk exposures through the market risk and counterparty credit policies that monitor market and credit risk exposures to Treasury Counterparts. For example the FX Open Currency Position policy limits FX exposures to freely convertible widely traded currencies such as the USD and GBP with small operational limits thereby mitigating the wrong risk that was observed in 1998 and other currency crises. On Counterparty risk EBS monitors the external ratings of all Treasury

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

counterparts on a weekly basis, which feed into the internal rating model, adjusting the rating for that counterpart accordingly. In addition the Society only deals derivatives with counterparts who have a minimum AA rating. Lastly the Society has Credit Support Annex's covering more than 79% of outstanding derivatives & Global Master Repo Agreements covering 100% of all Repo counterparts.

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 multi-notch downgrade. The results of these tests are circulated to the members of ALCO.

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, third party relationship 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 Group Operations Management Committee.

The core focus of operational risk management is to support the 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, litigation risk management, collateral management, solutions development, systems integrity, business continuity management, third party servicing, outsourcing and customer facing 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 regulatory obligations and prudential regulatory requirements. It supports an ongoing review of the framework used to enable each area of the business to clearly determine their 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.

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. The Regulatory Compliance function is responsible for supporting and ensuring that the business is in adherence with the requirements of this new regulatory regime and the conditions of the Government Guarantee scheme and any subsequent scheme.

5. Capital Resources

From 1 January 2008 the minimum regulatory capital requirement of the Group's banking operations has been calculated in accordance with the provisions of Basel II as implemented by the European Capital Requirements Directive and the Irish Financial Regulator. The objective of Basel II is to more closely align bank regulatory capital with the economic capital with the economic capital required to support the risks being undertaken. The capital required to cover credit, operational and market risks is required to be explicitly measured under the Basel II methodology. In implementing Basel II, the Group has adopted the standardised approach to credit risk.

EBS Group sets and monitors capital policy in line with regulatory and legislative requirements. Capital adequacy is monitored by the Asset and Liability Committee.

5.1. Total Available Capital

The Group's regulatory capital position at 31 December 2009 was as follows:

	2009 €m	2008 €m
Tier 1 capital		
General reserve	463.8	525.1
Non controlling interests	245.2	245.0
Intangible assets	(24.8)	(26.9)
Other regulatory adjustments	(5.1)	30.7
Total	679.1	773.9
Tier 2 capital		
Qualifying subordinated liabilities	198.1	206.3
Collective allowances for impairment	123.8	43.8
Revaluation reserves	0.3	8.6
Other regulatory adjustments	21.5	6.7
Total	343.7	265.4
Total regulatory capital	1,022.8	1,039.3

Risk-weighted Assets	**2009** €m	**2008** €m
Exposure classes excluding securitization positions	9,628	9,314
Securitization positions	220	206
Capital requirement for Operational Risks	288	260
Total	10,136	9,781
Capital Ratios		
Tier 1	6.7%	8.0%
Total capital	10.1%	10.6%

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 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 non-controlling interests 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 non-controlling interests are outlined in the table below:

	2009 €m	2008 €m
NON CONTROLLING INTERESTS		
Group		
At 1 January	245.0	245.2
Upfront costs	-	(0.5)
Amortisation of upfront costs through reserves	0.2	0.1
Amortisation of discount through income statement	-	0.2
At 31 December 2009	245.2	245.0

The Society holds 750,000 €1.25 Class A shares in EBS Capital No. 1 S.A., a 75% owned subsidiary incorporated in Luxembourg. EBS issued €125m of permanent interest bearing shares to EBS Capital No.1 S.A. in 2005 and again in 2007. The registered address of the company is 2 Avenue Charles De Gaulle, L 1653, Luxembourg. 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 No. 1 S.A. to pay dividends are guaranteed by EBS Building Society only when dividends have been declared by EBS Capital No. 1 S.A.

5.3. Tier 2 Capital

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

Details of subordinated liabilities 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 £14.6
19 December 2002	Nov-19	Fixed rate	6.44%	Dec-14	GBP £30.0
14 December 2004	Dec-14	Variable	euribor +105bps	Dec-09	€60m
28 November 2006	Nov-16	Variable	euribor +35bps	Dec-11	€100m

The interest expense on the subordinated bonds amounted to €6.8m (2008: €13.0m) during the year. There have been no defaults or breaches in respect of subordinated liabilities.

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. Other deductions from capital include the carrying amounts of the first loss deductible in relation to the securitisation vehicles.

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. In this regard we expect to receive an injection of Core Tier 1 capital from the Irish government which will increase our capital ratios and provide an adequate buffer to absorb losses on the transfer of assets to NAMA during 2010.

There have been no material changes in the Group's capital policy during the period.

6. Capital Adequacy

6.1. Internal Capital Adequacy Assessment Process

EBS undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of its capital needs for Pillar 2 purposes. This internal assessment considers all risks included in both Pillar 1 as well as other material risks not included in Pillar 1. The ICAAP process is designed to drive improvements in the way EBS manages, measures and integrates risk into the decision making processes of the group.

The ICAAP is performed annually or more frequently should the need arise and is reviewed and approved by both senior management and the Board (with whom ultimate responsibility lies). A management review of the ICAAP is undertaken on an annual basis. The output of the ICAAP process is reflected within a submission document to the Financial Regulator called the ICAAP portal submission which is submitted to the Financial Regulator on a regular basis.

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[2], the two major risks faced by a financial institution. Of the two, Credit Risk is by far the more significant in capital calculations. The calculation for Operational Risk is based on a standard regulatory percentage of the Groups gross income by different business lines averaged over a three year period.

To calculate capital requirements arising from Credit Risk, there are two main methods available – known as The Standardised Approach (TSA) and the Internal Ratings Based Approach (IRB). TSA is a minimum standard that must be met. IRB uses more sophisticated models and methods and may be applied by institutions only after approval from the Financial Regulator.

At present EBS uses TSA 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) with the exception of EBS Mortgage Finance at 31 December 2009 and 31 December 2008.

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

	2009	2008
Mortgage Exposures	€m	€m
Secured on Real Estate Property	588.2	594.5
Unsecured lending	0.6	0.9
High Risk	38.2	46.8
Past Due	97.8	35.6
	724.7	677.7
Other Exposure Classes		
Central Govt & Central Banks	-	-
Financial Institutions	30.3	53.1
Securitisation Positions	17.6	16.5
Covered Bonds	3.1	3.1
	51.0	72.7
Other		
Fixed and Other Assets	12.1	15.3
Total Credit Risk minimum capital requirement	787.8	765.8

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 Irish Financial Services Regulatory Authority (IFSRA) Handbook. The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December 2009. The position at 31 December 2008 is included for comparison purposes.

Total minimum capital requirement	2009	2008
	€m	€m
Credit Risk	787.8	765.8
Market Risk	-	-
Operational Risk	23.0	20.8
	810.8	786.6
Total Own Funds	1,022.8	1,039.3
Excess over Pillar 1 capital requirement	212.0	252.7

6.4. Internal Capital Requirement: Pillar 2

Since January 1st 2008, 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	4.00%	4.36%
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 has sought and received approval from the Financial Regulator to quote capital ratios & targets exclusive of ICR so that it is comparable with those published by other market participants.

7. Credit Risk – Standardised Approach

Table 1: Distribution of credit exposures by Geography as at 31st Dec 2009

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	401	1,883	11	14,667	1,179	282	194	241	18,856
UK (inc NI)		589		143	17	36	118		904
Rest of Europe	2,659	538		41	3		224		3,465
North America		156							156
Rest of World		151							151
Total Exposures	3,059	3,317	11	14,850	1,198	318	537	241	23,532
Average Exposure over the Period	3,685	3,411	13	15,012	840	363	511	226	24,061

Table 2: Distribution of credit exposures by Industry as at 31st Dec 2009

Sector \ Exposure Class	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
Hospitality and Leisure				63	44	3			110
Industrial/Mixed Use				424	63	1			489
Other Property				9	9	0			18
Property / Development				38	40	313			392
Residential Mortgages			11	13,926	880	0			14,817
Retail / Mixed Use				390	162				552
Institutions and Sovereign	3,059	3,317					537		6,914
Other								241	241
Total Exposures	**3,059**	**3,317**	**11**	**14,850**	**1,198**	**318**	**537**	**241**	**23,532**

Table 3: Distribution of credit exposures by Maturity as at 31st Dec 2009

Maturity \ Exposure Class	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	1,200.0	1,170.9	0.2	87.7	57.7	123.8	25.5		2,666
3_6mths	10.9	257.2	0.3	27.6	6.7	55.5	-		358
6_12mths	1,300.0	814.5	0.2	37.6	27.5	70.8	-		2,251
1 < 3 years	117.3	737.0	1.2	132.3	43.3	51.0	60.5		1,143
3 < 5 years	239.1	175.1	2.3	189.4	7.4	1.4	226.1		841
5 < 10 years	-	42.0	4.0	960.5	52.7	0.4	225.1		1,285
10 years +	-	0.8	2.7	13,415.0	1,002.8	15.0	-	69	14,505
No Maturity	191.9	120.1						172	484
Total Exposures	**3,059**	**3,317**	**11**	**14,850**	**1,198**	**318**	**537**	**241**	**23,532**

Table 4: Distribution of credit exposures by credit quality step as at 31st Dec 2009

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	3,059	1,130					537		4,726
Step 2		1,938							
Step 3		213							
Step 4									
Step 5									-
Step 6									-
Total Rated	3,059	3,281	-	-	-	-	537	-	4,726
Unrated		36	11	14,850	1,198	318		241	
Total Exposures	3,059	3,317	11	14,850	1,198	318	537	241	23,532

Table 4.b: Distribution of credit exposures after credit risk mitigation by credit quality step as at 31st Dec 2009

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	5,038	1,130					388		6,556
Step 2		315							
Step 3		6							
Step 4									
Step 5									-
Step 6									-
Total Rated	5,038	1,451	-	-	-	-	388	-	6,556
Unrated		36	11	14,850	1,198	318		241	
Total Exposures	5,038	1,487	11	14,850	1,198	318	388	241	23,532

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.

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 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 2009 the Group and Society had advances secured on residential property subject to non-recourse funding. These loans, which have not been de-recognised, are shown within loans and advances to customers, and the non-recourse funding is shown within debt securities in issue within the Group. In the Society the non recourse funding, in the form of loan notes, is shown in customer accounts.

The total carrying amount of the original residential property transferred by the Society to Emerald Mortgages No.4 plc ("Emerald 4") and Emerald Mortgages No.5 unlimited ("Emerald 5") as part of the securitisation amounts to €4,000m (2008: €4,000m). The amount of transferred secured loans that the Group continues to recognise at 31December 2009 is €3,184.4m (2008: €3,397.3m). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €953.0m (2008: €1,108.1m). The carrying amount of the loan note in the Society issued to Emerald 4 amounts to €1,025.6 (2008: €1,095.4m). These companies issued bonds to finance the purchase of the loans in the securitised pools.

EBS has retained a first loss position of €16.5m in Emerald 4 and calculates a risk-weighted exposure amount for this position using the Standardised Approach.

Table 5: Amount of Exposures Securitised as at 31st Dec 2009

Exposure Type	Securitisation Type	Balance of Securitised Mortgages	Past Due	Default	Impaired Exposures	Losses Recognised
Residential Mortgages	Traditional	€1,002m	€81.3m	€30.3m	€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).

There are outstanding bonds issued by Emerald 5 but are not shown on the statement of financial position as these bonds were issued by Emerald 5 to the Society as a retained deal. These are netted against each other in 2009 and 2008.

Table 6: Securitised Positions Retained as at 31st Dec 2009

Exposure Type	Risk Weight	Retained Balances (€m)
Residential Mortgages	35%	1,685.1
Residential Mortgages	75%	372.0
Residential Mortgages	100%	90.4
Residential Mortgages	150%	5.9
Total		2,153.4

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