EBS Building Society

Pillar III Disclosures

December 2010

Contents

1. Overview

1.1. Background

The European Union first 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. Among the requirements are risk disclosure requirements applicable to banks and building societies, which are known as Pillar III 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 III also aims to complement the minimum capital requirements described under Pillar I of Basel II, as well as the additional capital requirements of Pillar II for bank specific risks. EBS Building Society ("EBS") adopted the Pillar I standardised approach to credit risk and operational risk from 1 January 2008; Pillar II and Pillar III requirements also became effective in full from that date. The disclosures in this document are made on this basis.

1.2. EBS Business Model

The Group consists of EBS Building Society (the 'EBS'), a building society registered and domiciled in the Republic of Ireland and its subsidiaries. The principal activities of the Group involve the provision of mortgage lending, savings investments and insurance arrangement services to customers.

EBS' core business is consistent with that of a traditional building society business model in that it takes deposits from savers and then uses these deposits to fund mortgages. However, in recent years the rate of intake from savers was not sufficient to fund the strong demand for mortgages and additional funding was accessed via the wholesale funding markets. In addition, EBS entered the commercial lending market in 1992 to support its core business. As wholesale funding dried up and as commercial lending impairments began to rise in 2008, EBS began to run into difficulties which ultimately resulted in it receiving State Aid from the Irish Government.

As a result of these difficulties, EBS has refocused its business model and returned to its core founding principle (a principle which served it well in an Irish context for 75 years) of providing an alternative source of savings, mortgages and complementary financial services products to Irish customers and families in an ethical and socially responsible manner. All commercial lending was ceased by the Society in April 2008.

1.3. Economic Environment

The economic, political and market risks and uncertainties currently impacting Irish financial institutions and the Group are described below. In particular these relate to challenges in terms of liquidity, funding and capital. In the current year the Directors have considered the following risks and uncertainties;

(a) Economic Environment

The Group is exposed to the inherent risk arising from the macro economic conditions in Ireland. The challenges presented by the Irish economy throughout 2010 significantly and adversely affected the Group's financial performance in the current year and presents significant risks and challenges for the foreseeable future.

Demand for property (both residential and commercial) has remained weak and is at very low levels as demonstrated by the size of the overall mortgage market for residential property in 2010 of approximately €5.8bn. Both commercial and residential property prices continued to fall in 2010 and further deterioration could adversely affect the Groups financial results going forward as it impacts provisioning and capital.

(b) Government Policy Risks

Given the current economic environment in Ireland the Group is also exposed to government policy risk.

Joint EU-IMF Programme for Ireland

On 28 November 2010 the European Union ('EU') and the International Monetary Fund ('IMF') agreed to provide an €85bn programme ('the Programme') of support for Ireland. The Programme is designed to facilitate the return of the Irish economy to sustainable growth and a properly functioning banking system focussed on supporting the recovery of the economy. Up to €35bn will be made available to the banking system for immediate recapitalisation and a further €25bn will be available on a contingency basis. The Programme has two elements, the first deals with bank restructuring and re-organisation and the second deals with fiscal policy and structural reform.

The Programme for recovery of the banking system is expected to be an intensification of the measures already adopted by the Government. The Programme provides for the recapitalisation, fundamental downsizing, restructuring and re-organisation of the banking sector in Ireland.

Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010 provides the legislative basis for the re-organisation and restructuring of the Irish Banking system agreed in the Programme. The Act applies to Banks, Building Societies and Credit Unions who have received financial support from the State.

The Act provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring actions and recapitalisation measures envisaged in the Programme. This allows the Minister to take the actions required to bring about a domestic retail bank system that is proportionate to and focussed on the Irish economy.

(c) Liquidity, Credit, Funding and Other Risks

Like all financial institutions the Group is subject to significant liquidity, credit, funding, capital, operational and other risks. There has been a more significant increase in liquidity and funding risks over the past year, which reflect factors that are specific to the Irish Banking Industry. The Group's ability to access market funding has significantly weakened during the year. The Group's access to and cost of borrowing is influenced by its credit ratings. Both Irish sovereign and financial institution downgrades, including that of EBS, have limited the Group's ability to access the capital markets and therefore impacted funding plans. During 2010 EBS initiated several funding contingency measures to create pools of collateral from existing assets to assist in accessing secured funding from both market counterparties and Monetary Authorities.

While the Government guarantee schemes put in place in 2008 and 2010 have eased the liquidity challenge there continues to be significant ongoing liquidity pressures for the Group and the Irish Banking system generally. These challenges gave rise to liquidity breaches in December 2010 and further breaches in 2011.

Any further reduction in the Group's credit ratings could adversely affect access to liquidity and cost of funding and have a negative impact on the Group's financial condition.

(d) Reliance on Monetary Authority

The continued deterioration of the Irish economy throughout 2010, the EU/IMF bailout package, the Sovereign and Financial Institutions downgrades, a continued lack of market access and the loss of deposits in the Irish banking sector generally have created very significant funding challenges for Irish Financial Institutions, including EBS.
As a consequence, financial institutions have increased borrowings from Monetary Authorities including the European Central Bank and the Central Bank of Ireland. At 31 December 2010 the Group had €3.4bn of collateralised funding from the ECB and €1.5bn of collateralised funding from the Central Bank of Ireland.

(e) Capital

The Group is required by the Central Bank to maintain adequate capital and the Group is subject to the risk of having insufficient capital resources to meet minimum regulatory capital requirements. In addition, those minimum regulatory capital requirements may increase in the future and the Central Bank may change the manner in which it applies its existing regulatory requirements as evidenced through the PCAR 2011 process. Any failure by the Group to maintain its minimum regulatory capital ratios could have a material adverse impact on the Group.

The Building Societies Act was amended in 2009 to enable the Minister to provide capital to a building society in the form of Special Investment Shares ("SIS"). In addition, in December 2009, EBS held a Special General Meeting ("SGM") for customers to vote on changing the Society's rules to allow the issue of these shares and the customers voted in favour of this proposal. The SIS constitutes Core Tier 1 capital of the Society. The Central Bank conducted an initial Prudential Capital Assessment Review ('PCAR') in March 2010 and determined that EBS required €875m in capital by the 31 December 2010 to achieve a core tier 1 ratio of 8%. During 2010 the Society received €625m in the form of Special Investment Shares (SIS) and €250m in the form of a capital contribution bringing the total capital from Government to €875m. The SIS conveys significant rights to the Minister in recognition of the capital contribution the Government provided through investing in the shares.

The SIS essentially grants the Minister majority voting rights in the Society. The Government's recapitalisation of the Society by €875m in the form of a capital contribution and Special Investment Shares (SIS) was to bring the Society in line with the Central Bank's revised regulatory core tier 1 minimum of 8% by December 2010.

In addition as part of the EU/IMF agreement it was determined that Irish Banks should have sufficient capital in 2011 to achieve a target core tier 1 ratio of 12%. Following this agreement it was announced that EBS would require an additional €438m of capital in order to achieve the target core tier 1 ratio of 12%.

In January 2011 the Central Bank initiated a Financial Measures Programme, which incorporated a PCAR and Prudential Liquidity Assessment Review ('PLAR'). Under the PCAR the Central Bank determined that Irish Banks are required to achieve a 10.5% Core Tier 1 ratio under the Base Case and 6% under the stress case. On 31 March 2011, the Minister for Finance confirmed that the Banks will be recapitalised to the levels required under the PCAR, including where appropriate burden sharing with subordinated bondholders.

(f) PCAR and PLAR

The PCAR and PLAR reviews are a key component of the Joint EU-IMF Programme which are designed to identify measures to reform the Irish Banking system to facilitate a move towards a smaller more proportionate banking system.

The PCAR exercise enabled the Central Bank to perform a thorough and conservative assessment of bank's asset quality and earnings together with incorporating incremental three year projected provisions estimates based on Blackrock identified stress loan losses. The inclusion of projected losses under the stress case ensures that the banks will hold capital to meet potential future losses at an early stage. This goes well beyond the impairment provisioning methodology required under the International Accounting Standards. An additional element of conservatism was also applied through the requirement to achieve a 10.5% Core Tier 1 capital ratio under Base and a 6% Core Tier 1 ratio under stress as well as an additional protective buffer. The protective buffer is designed to introduce an additional layer of resilience and to recognise the possibility of additional loan losses after the three year period.

The PLAR exercise outlines the measures to be implemented to steadily deleverage the banking system and reduce reliance on the funding from Monetary Authorities. The PLAR exercise established a target funding and loan to deposit ratio for the aggregate domestic banking system, including EBS, of 122.5% and consequently in order to reach the targeted ratio EBS is required to deleverage €2.5bn of non core assets (comprising a commercial and buy to let book) over the period to 2013.

It was announced on the 31 March 2011 that EBS requires €1.2bn of capital to meet the new target Core Tier 1 capital ratio of 10.5% under base and 6% under stress on the basis of the combined results of the PCAR assumptions and three year projected provisions estimates from Blackrock, before the addition of a conservative capital buffer. The additional capital buffer of €0.3bn was determined with €0.1bn representing equity and €0.2bn representing contingent capital. This brings the total capital requirement for EBS under the PCAR to €1.5bn.

On 31 March 2011, the Minister for Finance confirmed that the Banks will be recapitalised to the levels required under the PCAR, including where appropriate burden sharing with subordinated bondholders. The Central Bank has prescribed that capital must be raised by 31 July 2011.

1.4. Basis and Frequency of Disclosures

This disclosure document has been prepared by EBS in accordance with the requirements of Pillar III of the Basel 2 framework. Unless otherwise stated, all figures are as at 31 December 2010, our financial year-end. Disclosures included in the Annual Report and Accounts relating to activities post 31 December 2010 are also included within these Pillar III disclosures where relevant. Disclosures are issued on an annual basis and published as soon as practicable after the publication of the Annual Report and Accounts.

The EBS Annual Report and Accounts which provide a large part of this disclosure document have been prepared on an historical cost basis, except for freehold properties, available-for-sale financial assets and derivative contracts all of which are measured at fair value. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged. The EBS Annual Report and Accounts are prepared in euro ('€') and all values are rounded to the nearest one hundred thousand (€0.1m) except where otherwise indicated.

Disclosures have been prepared in line with all relevant regulatory requirements including the EBS Principles for Disclosure in times of stress.

Critical Accounting Judgements and Estimates

In preparing these accounts, management is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. Full details of the significant accounting policies are set out below. The Group believes that, of its significant accounting policies and estimation techniques, the following may involve a higher degree of judgement and complexity.

(1) Impairment losses on loans and advances

The Group lends money by means of secured residential and commercial lending. Where there is a risk that the Group will not receive full repayment of the amount advanced, provisions are made in the financial statements to reduce the carrying value of loans and advances to the amount expected to be recovered.

Management reviews the Group's loan portfolios to assess impairment at least quarterly. Impairment loss calculations involve the estimation of future cash flows of loans and advances based on observable data at the reporting date and historical loss experience for assets with similar credit risk characteristics. These calculations are undertaken on either a portfolio basis or separately for individually significant exposures. In applying the portfolio basis the Group makes use of various modelling techniques which are specific to different portfolio types.

The estimation of credit losses is inherently uncertain and depends on many factors such as unemployment, GDP, house price movements, collateral values, cash flows, structural changes within industries and other external factors. These assessments are made using a combination of specific reviews, statistical techniques based on previous loan loss experience and management's judgement. Certain aspects of this process may require estimation, such as the amounts and timing of future cash flows and the assessment of the realisable value of collateral held.

A number of loans are classified as held-for-sale to NAMA following notification by NAMA that they intended to acquire additional loans in 2011. In assessing the level of impairment provision required in respect of these loans we have applied the incurred cost model under IAS 39 for loan impairment provisioning. In addition on the basis that a constructive obligation exists under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an additional provision is required to reflect the likely net proceeds on disposal.

The Group considers that the provisions for loan impairments at 31 December 2010 were adequate and in accordance with IRFS based on information available at that time. However, actual losses may differ as a result of changes in collateral values, the timing and amounts of cash flows or other economic events.

(2) Employee benefits

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial value of the assets and liabilities of the scheme are calculated. This involves modelling their future growth and requires management, with the advice of an external actuary, to make assumptions as to price inflation, dividend growth, salary and pension increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. Further details are contained in note 31 to the 2010 annual report.

(3) Effective interest rate

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

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

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The effective interest calculation takes into account all fees, including those for early redemption, and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. All costs associated with mortgage incentive schemes are included in the effective interest calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate. This critical accounting policy is assessed on an annual basis and any changes are charged / credited to the income statement.

(4) Corporation taxes
The Group is subject to corporation taxes in two jurisdictions. Estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain at the reporting date. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in that period.

(5) Deferred taxation
IAS 12 provides that a deferred tax asset can be recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. The composition of the deferred tax asset in the Group and Society includes deferred tax on the AFS reserve, cash flow hedge reserve, retirement benefit, revaluation of properties and current year losses. The deferred tax asset on available-for-sale assets and cash flow hedge reserve moves in line with market prices and therefore can fluctuate year on year. The deferred tax asset on retirement benefits fluctuates in line with the movements in the value of the pension fund deficit. An increase in asset values with no movement in liabilities would reduce the deferred tax asset.

In assessing the recoverability of all deferred tax assets, management considers whether the deferred tax assets will be realised. The ultimate realisation of deferred tax assets is dependent on future taxable profits. Management considers projected future taxable income from its 5 year business plans and beyond in making that assessment. Where there are available profits against which the deferred tax can be utilised, a provision is made.

(6) Determination of fair value of financial instruments
The financial instruments on the statement of financial position subject to fair valuing in the Group and Society include available for - sale financial assets, derivatives and hedged items in a fair value hedge relationship. The best evidence of fair value is an observable market price in an active market. Where available, management uses active and observable market prices for fair valuing its available-for-sale financial assets.

The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement. The judgement includes assessing unobservable market data, determining the cash flows, identifying a risk free discount rate and applying a credit spread. All valuation techniques applied are based on some market data and are subject to review and approval.

(7) NAMA senior bonds designation and valuation
The basis for measurement, interest recognition and impairment of NAMA senior bonds are the same as those for all loans and receivables (see accounting policy numbers (h), (n) and (r)). As

there is no active market for the NAMA senior bonds, accordingly, the fair value on initial recognition was determined using a valuation technique.

The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included, but was not limited to: evaluating available market information; determining the cash flows generated by the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

The valuation technique and critical assumptions used were subject to internal review and approval. While EBS believes its estimate of fair value is appropriate, the use of different measurements, valuation techniques or assumptions could give rise to the NAMA senior bonds being measured at a different valuation at initial recognition, with a consequent impact on the income statement.

1.5. Scope of Disclosures

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 III disclosures have been prepared on a Group consolidated basis. There are no material 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 III disclosures. Full details of the principal subsidiary undertakings are included in Note 18 to the Annual Report and Accounts.

1.6. 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.

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

EBS Building Society is a participating institution under the Government’s Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the “ELG scheme”) which guarantees certain eligible liabilities (including deposits) of up to five years in maturity, EBS MF is excluded as covered bonds are not eligible under the ELG Scheme.

The terms of the prolongation and modification of the ELG scheme on 28 June 2010 provided that guaranteed liabilities under the ELG scheme can continue with similar conditions, albeit at a higher cost, to 29 September 2010. Beyond this date, the European Commission approved a modification to the scheme to provide for a prolongation of the issuance window from 29 September 2010 to 31 December 2010 in respect of all eligible liabilities.

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

The total amount of guaranteed deposits and senior unsecured debt raised by the Society as a covered institution under the Government Guarantee ELG scheme at 31 December 2010 amounted to €5,121.7m(December 2009: €11,837.5m under both ELG and CIFS schemes).

1.8. Location and Verification

These disclosures have been approved by the Board and are published on the Group’s corporate website (www.ebs.ie). All information disclosed is subject to external audit (where they are equivalent to those prepared under accounting requirements for inclusion in the Group’s Annual Report and Accounts) except for the following disclosures which are subject to internal verification and review:

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1.9. Disclaimer

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 failure to foresee or manage events which result in unnecessary material financial loss or damage to the Society's reputation, or failure to maximise opportunities or capitalise on corporate strengths. The Group recognises that the effective management of risk and its system of internal control is essential to the minimisation of volatility against forecasted financial performance, the preservation of customer 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 clearly defined risk governance structure at Board level. The Board approves the strategy of the Group and is responsible for the system of internal control and for the effectiveness of the management of risks. It 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 and evaluating potential risks to the strategic objectives of the Group and evaluating the risk management policies and practices. The Chief Risk Officer, who reports on business risks, emerging risk issues and provides a regular update on key risk indicators to the Board, has an indirect 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, and in assessing adherence with laws and regulations. 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 & Compliance Committee.

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. The Risk and Compliance function, which forms the second line of defence, 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 Internal Audit function, which forms the third line of defence, 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.

2.2. Risk Management Framework

The risk management framework provides a firm-wide definition of risk and lays down the principles of how risk is to identified, assessed, measured, monitored and controlled / mitigated and the associated allocation of capital against same. 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 Group 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 2010.

EBS has developed and implemented a risk management framework that is commensurate with the size, scale and complexity of the organisation. It is in line with industry practice and meets

Central Bank specific requirements and EU supervisory standards. The key elements of this framework are:

(i) There is a clearly defined risk governance structure which is regularly updated. The Board has established five permanent sub committees to consider certain aspects of governance in detail. Each committee through its chair reports to the Board at the earliest scheduled Board meeting. The risk governance framework, risk universe, roles, reporting lines and risk committees are documented in a risk manual which forms part of the induction of new Board members. The risk manual is updated at regular intervals throughout the year. The risk governance framework has been developed in line with the recently published European Banking Authority Guidelines on Internal Governance (CP41) and Remuneration Practices (CP42) and the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings.

(ii) Strategies, goals, objectives, authority limits and reporting mechanisms are clearly defined and against which performance is monitored.

(iii) The Board has clearly defined its risk appetite in a risk appetite statement which incorporates risk limits for all key aspects of the business of the Group. The risk appetite statement is reviewed at least annually by the Board and more frequently if required. Risk policies and procedures are updated where appropriate to reflect the limits of risk appetite. 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. Material changes to these policies are Board approved on an annual basis. Adherence to the risk limits set by the Board is monitored on an ongoing basis and reported to the Chief Risk Officer.

(iv) The risk management framework is supported by its underlying Group 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, whose membership is approved by the CEO, 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.

(v) Through a stress testing framework, EBS measures its vulnerabilities to loss under stressed market conditions and considers those results when agreeing financial budgets and on an ongoing basis for monitoring and reviewing risk appetite and risk contingency plans. The stress testing framework, which forms an integral part of the overall governance and risk management culture of EBS has been developed in line with the European Banking Authority (EBA) revised guidelines on stress testing which are required to be implemented by 1st January 2011. The stress testing program incorporates stress tests at both an individual risk level (bottom up approach) and at a holistic organisation wide level (integrated top down approach) that cover a range of risks and business areas. The stress testing program facilitates the development of risk mitigation or contingency plans across a range of stressed conditions that are used to support the organisation from a risk appetite, capital and liquidity management perspective. Contingency plans also reflect operational response considerations where appropriate.

2.2.1. Risk Committees

(i) The Group Asset & Liability Committee, which meets twice monthly or more frequently as required, was established to monitor the Society'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 & 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, which meets monthly, 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 make up and performance of the loan books, the credit quality of counterparts, the level of mortgage insurance in place and the adequacy of provisions for impaired loans. 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, which meets quarterly, 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.

(iv) The Group Operations Management Committee, which meets monthly, 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, which meets monthly, ensures that there is an appropriate framework in place to support the objective of the Group to clearly be compliant with all its regulatory requirements. It is responsible for monitoring adherence to applicable regulations across the Group, and for evaluating the impact of new regulations and ensuring that EBS is prepared for their implementation in the approved timeline.

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. 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 & Compliance Committee, incorporates the work of the Fraud unit, and forms the third, independent, line of defence in terms of risk management.

(i) The Risk function comprises (i) Risk Analytics, which develops and maintains risk models and risk rating systems and provides independent management information regarding loan book performance and adherence to credit policy, and independent credit review of adherence to procedures; (ii) Treasury Risk (middle office) which provides independent management information to both internal and external stakeholders such as the Central Bank, Department of Finance, NTMA etc regarding adherence to market risk policies and day to day treasury operations; (iii) Operational Risk, which monitors operational risk trends, losses and near misses and which incorporates Information Security which reports independently of Information Technology; (iv) Enterprise Risk, which supports the development and maintenance of a risk management framework to mitigate against unforeseen risk events materialising and (v) Regulatory Compliance, which is responsible for advising and facilitating the business in identifying, managing and monitoring its regulatory obligations and prudential regulatory requirements.

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 Internal Audit function, which forms the third line of defence, 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 note 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, loans and advances held for sale, 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 new lending business and the issuing of funds, loan management and independent review and monitoring.
The Board sets approval limits and delegated authority within these limits is assigned to individuals and committees based on risk materiality and underwriting experience. Loans are sourced through the network of EBS offices, franchised agencies, direct channel and brokers. Line responsibility rests with the Director of Distribution. All underwriting is centralised, and reports to the Chief Credit Officer. Loan disbursement is managed by the Operations area reporting to the Director of Operations, IT, People and Communications. Credit Risk and Credit Review monitor new lending trends and adherence to risk appetite limits and report to the Chief Risk Officer. The Group Credit Risk Committee monitors new lending trends, loan quality and loan performance.

Given the deterioration in credit quality throughout 2010 in both the retail and commercial markets, both credit management and credit risk management have been a key area of focus over the past three years. 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 credit risk stress testing to assess on an ongoing basis the ability of the Group to withstand various idiosyncratic and systemic stress scenarios. Credit contingency plans are developed and updated on a continual basis reflecting the results of the stress tests.

Given the economic environment, the 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).

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	
	2010 €m	2009 €m	2010 €m	2009 €m
Non-derivative financial assets				
Cash and balances with central banks	236.2	180.6	250.2	196.5
Loans and advances held-for-sale	37.9	750.6	37.9	750.6
Available-for-sale financial assets	3,943.2	3,972.2	2,575.2	2,924.8
Loans and advances to credit institutions	2,981.3	3,717.4	180.8	957.7
Loans and advances to customers	10,865.9	11,659.8	16,472.9	16,473.5
Interest accrued	57.9	39.5	46.6	37.6
Derivatives				
Interest rate swaps	73.2	80.3	49.1	37.2
Cross currency interest rate swaps	7.8	11.3	7.8	11.3
Equity swaps	1.5	1.5	1.5	1.5
Loan commitments (not unconditionally cancellable)	68.0	216.5	81.3	252.2

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

In 2010, EBS developed a collateral management framework which provides improved insight into and efficient use of existing 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.

Collateral with a fair value of €13.3m (2009: €19.4m) is held against possession cases. In addition the Society has put in place a number of Credit Support Annexes (CSA's) covering in approximately 91% 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. The performing and non performing split disclosed in the notes to the accounts is based on the proportion of performing versus non performing accounts as a percentage of the total loan balance in the relevant category such as residential or commercial.

Additional information on the risk obligor basis is also provided. The risk obligor basis is determined based on the cumulative balances per obligor, which can relate to more than one account, as a percentage of the total loan balance by category. All obligors are graded. Grades 1 to 6 are deemed to be performing, grade 7 is watchlist and grades 8 and 9 are non-performing. For the purpose of the performing, non performing split grade 7 is deemed to be performing.

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 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. Credit quality of treasury financial assets is monitored on an ongoing basis by both the Group Credit Risk Committee and the Asset & Liability Committee. All new investments of the Liquid Asset Portfolio and Reserve Investment Portfolio may only be made to counterparts rated A or higher at the time of purchase.

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 €15,881.5m (2009: €15,516.1m) commercial assets amount to €934.1m (2009: €1,002.6m) and held-for-sale financial assets to €65.6m (2009: €912.8m).

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 grades and loss functions mapping all portfolios into a 9-point grading system. Grading outputs are reported monthly to 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 all 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. Performing loans are defined to be neither past due nor impaired and up to 90 days or more in arrears. Within the performing loans pool, loans with a probability of default (PD) in excess of 30% and loans with a loan given default (LGD) of greater than 25% where the PD exceeds 5% are categorised as watch risk loans.

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	
	2010	2009	2010	2009
Residential assets				
Performing loans	90.1%	93.4%	91.6%	94.8%
Non-performing loans	9.9%	6.6%	8.4%	5.2%
	100.0%	100.0%	100.0%	100.0%

Of the Group Residential assets at 31 December 2010, 7.7% of Homeloans and 13.1% of Buy to Let loans were non-performing (2009:4.9% and 7.8% respectively). On a risk grade obligor basis, 11.4% (2009: 7.1%) of Society Residential assets and 9.4% (2009: 5.6%) of Group Residential assets are non-performing.

Out of total performing residential loans, 3.5% of Group (2009: 3.6%) and 3.3% of Society loans (2009: 3.5%) 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	2010	2009
Commercial assets		
Performing loans	92.9%	95.7%
Non performing loans	7.1%	4.3%
	100.0%	100.0%

On a risk grade obligor basis, 51.5% (2009: 20.8%) of Commercial assets are non-performing. Loans on watch comprise 14.8% of performing loans (2009: 5.7%).

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 2011.

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

Group and Society	2010	2009
Loans and advances held-for-sale		
Performing loans	49.2%	60.9%
Non performing loans	50.8%	39.1%
	100.0%	100.0%

Of the loans and advances held-for-sale at 31 December 2010, 100% of Land & Development loans and 50.0% of associated loans were non-performing (2009: 52.0% and 22.7% respectively).

On a risk grade obligor basis, 100% (2009: 54.2%) of loans and advances held-for-sale are non-performing. Loans on watch as a percentage of performing loans at 31 December 2010 was 0% (2009: 23.2%).

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:

(i) Counterparty Limit Report – Limit Detail Report (Daily)
(ii) Internal Rating Counterparty Report (weekly)
(iii) ALCO Risk Limit report – Counterparty Credit Policy (monthly)
(iv) GCRC - Country Limit exposure (monthly)
(v) ALCO & GCRC - Concentration exposure (monthly)

3.1.5. Definitions

3.1.5.1 Definition of impaired

Impairment Provisioning
A loan or portfolio of loans is impaired and an impairment loss is incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of an asset or group of assets.

Objective evidence can include both:

(i) Micro conditions – for example a breach in the repayment contract, i.e. arrears on the account, and
(ii) Macro conditions – for example an adverse change in economic conditions.

An impairment loss event is an event which has an impact on the expected cash flows of the asset. Where the event has been incurred and has been identified, an individual provision is required. Where the loss has been incurred but has not yet been identified, a collective provision is required.

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 individual assets where there is no objective evidence of individual impairment yet, but where impairment has been incurred, i.e. Impaired But Not Reported (IBNR). In this way, all assets are reviewed.

For Residential Loan Assets, EBS assess loans for impairment where; loans which are €0.01 or more in arrears and where the arrears is not of a technical nature, OR where there is other evidence of impairment, for example, where the property is in possession of the Society or the Credit Team has identified the loan as a 'Watch Risk'. Categories of loans that will be classed as impaired regardless of arrears include: loans where the property is in possession of the Society and loans where fraudulent activity is suspected.

For Commercial Loan Assets, EBS defines impairment as loans which have an internal credit grading of 7, 8 or 9 (i.e., they are on a watch list, are in default or where EBS is already holding a provision).

For Treasury Assets (counterparty credits) EBS defines impairment as, credits where there is a failure to make a scheduled payment within five working days, OR credits which are impacted by a major credit event such as something which has gone from investment to sub-investment grade for investments of more than three months in duration.

Significant assets in EBS are defined as assets with an overall current value of more than €1.5m. This applies to all assets – both loan and advances and treasury assets. Assets which are impaired and which are significant are reviewed on a case by case basis by Credit. In addition Credit reviews loans:
(i) where the property is in possession of the Society; or
(ii) where fraudulent activity is suspected or proven.
Assets which are not significant (less than €1.5m in exposure) but impaired (24 or more payments past due) are reviewed on statistical basis.

Individual Provisions
For loan assets, EBS calculates provisions by reviewing the expected future cashflows of the assets against the underlying value of the security plus recovery costs, taking into account the likely recovery period. The cashflows are discounted for periods which are more than twelve

months hence, and the discount interest rate is adjusted to take account of unamortised costs and fees received. These adjustments are calculated on the basis of the residential and commercial portfolios separately. Individual assessments of the borrowers/obligors concerned are undertaken by the relevant lending business area whose expert judgement is also brought to bear in assessing the current value of the collateral and the likely outcome in the case. These assessments are independently reviewed by Credit Management and provisions are evaluated at Group Credit Risk Committee.

For Homeloans and Retail Buy to Let loans 24 months or more in arrears and not already assessed individually, individual cashflow assessments are not done. Instead the result of a statistical calculation is the assigned individual provision.

Collective Provisions
All loans where the individual provision is zero, whether or not an individual assessment is completed, are part of the collective provision calculation.

The calculation has three key components reflecting the three stages in the movement of a loan to loss: probability of default (PD); probability of repossession given default (PRGD); and loss given repossession (LGR).

Default is defined to be 3 (monthly) payments or more in arrears, i.e., at least 90 days past due. If a loan is already in default then its PD is 1, otherwise it is a number between 0 and 1 measuring the likelihood of the loan moving into default in the coming 12 months. The rate of default is adjusted to take into account expected movements in external macroeconomic factors (such as unemployment and GDP).

The movement from default to repossession is assessed based on observed portfolio cure rates (which represents the repossession rate is one minus the cure rate). The rate varies according to the number of payments missed – the deeper in default a loan is, the more likely it is that loss will result. It also varies widely across the portfolios, being much higher for Commercial lending.

The calculation of incurred loss is driven largely by expectation of property values at disposal.

In these disclosures, 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 reporting 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 original 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 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.

Impairment provisions in respect of loans and advances held-to-sale to NAMA are charged to the income statement from the date the loans were classified as held-for-sale.

The provisions for loan impairments table below is set out in Note 16 to the 2010 Annual Report and Accounts.

	Society				Group			
		2010 €m		2009 €m		2010 €m		2009 €m
PROVISION FOR LOAN IMPAIRMENTS								
Individual provision for loan impairments								
At 1 January		42.6		70.0		44.4		70.0
Charge for impairment losses								
Loans and advances held-for-sale	-		81.3		-		81.3	
Commercial assets	66.4		14.8		66.4	0.0	14.9	
Residential assets	99.0		19.5		109.7		21.2	
Total charge for impairment losses	165.4	165.4	115.6	115.6	176.1	176.1	117.4	117.4
Transfer to Loans and advances held-for-sale to NAMA (note 16)		(10.8)		(142.6)		(10.8)		(142.6)
Loans and advances written back (off)		0.3		(0.4)		0.3		(0.4)
At 31 December		197.5		42.6		210.0		44.4
Collective provision for loan impairments								
At 1 January		83.3		42.7		104.2		43.8
Charge for impairment losses								
Loans and advances held-for-sale	-		2.1		-		2.1	
Commercial assets	5.8		12.7		5.8		12.7	
Residential assets	68.0		46.3		96.3		65.2	
Total charge for impairment losses	73.8	73.8	61.1	61.1	102.1	102.1	80.0	80.0
Transfer to and from Loans and advances held-for-sale to NAMA (		4.4		(19.6)		4.4		(19.6)
Loans and advances written off		(0.8)		-		(0.7)		-
Transfer of impairment to subsidiary		(1.6)		(0.9)		-		-
At 31 December		159.1		83.3		210.0		104.2
Total provision for loan impairments at 31 December		356.6		125.9		420.0		148.6

In addition further loan impairment provisions were charged in 2010 in relation to Loans and Advances Held for Sale to NAMA as shown in the table below extracted from Note 16 to the 2010 Annual Report and Accounts.

	2010 €m	2009 €m
PROVISION FOR LOAN IMPAIRMENTS ON LOANS AND ADVANCES HELD-FOR-SALE TO NAMA		
Group and Society		
Individual provision for loan impairments		
At 1 January	142.6	-
Charge for impairment losses	102.0	-
Transfer from loans and advances to customers (note 17)	10.8	142.6
Impairment provisions utilised	(227.7)	-
	27.7	142.6
Collective provision for loan impairments		
At 1 January	19.6	-
Charge for impairment losses	14.8	-
Transfer (to) from loans and advances to customers (note 17)	(4.4)	19.6
Impairment provisions utilised	(30.0)	-
	-	19.6
Total provision for loan impairments	27.7	162.2

The total loss after release of impairment provisions on loans transferred to NAMA during 2010 amounted to €275.6m as shown in the table below extracted from Note 10 to the 2010 Annual Report and Accounts.

	2010 €m	2009 €m
Analysis of loss on transfer of assets to NAMA		
Group and Society		
Nominal amount of loans transferred to NAMA	836.4	-
Impairment provisions utilised (note 16)	(257.7)	-
Carrying value of assets transferred to NAMA	578.7	
Nominal amount of consideration received	(331.0)	-
Costs associated with transfer and fair value adjustments on securities received	27.9	-
Loss on transfer of assets to NAMA	275.6	-

3.1.6.2 Assets carried at fair value

The Group assesses at each reporting 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 other comprehensive income 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.

In 2010 we recognised an impairment provision of €11.4m on an available for sale financial asset in light of the increased risk of counterparties engaging in liability management exercises. In 2009 we recorded a write back of €2.5m.

3.1.7. Portfolios

Residential Assets

Group residential assets amount to €15,881.5m (2009: €15,516.1m) and Society residential assets amount to €9,334.0m (2009: €9,692.0m).

Residential assets	Society		Group	
	2010	2009	2010	2009
Not impaired:				
Neither past due nor impaired:	82.0%	86.3%	83.2%	87.6%
Past due :				
Up to 30 days	3.9%	3.9%	4.3%	4.1%
30 to 60 days	1.7%	1.5%	1.9%	1.6%
60 to 90 days	1.2%	1.0%	1.3%	1.0%
90+ days	7.4%	6.0%	6.8%	4.8%
Impaired but not past due	1.1%	0.6%	0.7%	0.4%
Past due and individually significantly impaired:				
Past due up to 90 days	0.3%	0.1%	0.2%	0.1%
Past due 90 to 180 days	0.1%	-	0.1%	-
Past due over 180 days	2.1%	0.5%	1.3%	0.3%
Possessions	0.2%	0.1%	0.2%	0.1%
Total	100.0%	100.0%	100.0%	100.0%

Commercial Assets

Group and Society commercial assets amount to €934.1m (2009: €1,002.6m).

Commercial assets		
Group and Society	2010	2009
Not impaired:		
Neither past due nor impaired:	46.0%	67.2%
Past due :		
Up to 30 days	2.1%	1.8%
30 to 60 days	0.9%	0.6%
60 to 90 days	0.5%	0.5%
90+ days	2.7%	1.7%
Impaired but not past due	38.2%	25.0%
Past due and individually significantly impaired:		
Past due up to 90 days	5.2%	0.6%
Past due 90 to 180 days	1.3%	0.3%
Past due over 180 days	3.1%	2.2%
Possessions	-	0.1%
Total	100.0%	100.0%

Loans and advances held-for-sale

Group and Society Loans and advances held-for-sale to NAMA amount to €65.6m (2009: €912.8m).

Loans and advances held-for-sale to NAMA

Group and Society	2010	2009
Not impaired:		
Neither past due nor impaired	-	31.3%
Past due :		
Up to 30 days	-	1.3%
30 to 60 days	-	0.5%
60 to 90 days	-	2.7%
90+ days	-	2.6%
	0.0%	
Impaired but not past due	38.1%	19.9%
	0.0%	
Past due and individually significantly impaired:	0.0%	
Past due up to 90 days	11.1%	5.2%
Past due 90 to 180 days	50.8%	10.4%
Past due over 180 days	-	25.8%
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 €2,323.0m (2009: €1,843.1m) and €1,384.8m (2009: €1,255.0m) respectively.

The carrying value of loans and advances to customers for the Group and Society that are impaired at the reporting date is €908.4m (2009: €427.4m) and €874.8m (2009: €416.0m) respectively.

The carrying value of loans and advances held-for-sale to NAMA for the Group and Society that are past due but not impaired at the reporting date is nil (2009: €65.5m).

The carrying value of loans and advances held-for-sale to NAMA for the Group and Society that are impaired at the reporting date is €65.6m (2009: €562.6m).

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 nil (2009: €2.6m). EBS provides moratoriums on an exceptional basis only.

The Group does not disclose the fair value of collateral held against past due or impaired financial assets as it would be operationally impracticable to do so.

Arrangements are entered into with borrowers that are experiencing financial difficulty to help them manage their mortgage repayments. Where an arrangement is agreed, the arrears on the loan are not adjusted by the Society other than where the borrower repays the outstanding arrears in full. Hence, all loan arrears, regardless of arrangements in place, are included in the past due category. In certain, circumstances (where the borrower has demonstrated intent and an ability to repay), EBS will agree to capitalise arrears for repayment over the remainder of the term of the loan.

Table 1: Distribution of Past Due and Impaired exposures by Geography as at 31st Dec 2010

Geographic Breakdown	Past Due Exposure %	Impaired Exposures %
Ireland	98.98%	95.29%
UK	0.02%	1.79%
Rest of Europe	1.00%	2.91%

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 following table's 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 2010	Cash & Balances with central banks	Govt and other eligible bills	AFS financial assets	Derivatives	Loans & advances to credit institutions	Commitments and contingent liabilities
	€m	€m	€m	€m	€m	€m
Balances at 31 Dece	250.2	1,040.9	1,840.2	58.4	180.8	1,581.3
Aaa	100.0%	-	14.7%	22.4%	5.5%	94.9%
Aa3 to Aa1	-	4.4%	28.7%	62.0%	43.4%	-
A3 to A1	-	-	20.1%	9.3%	31.2%	-
Lower than A3	-	95.6%	36.5%	6.3%	19.5%	-
Unrated	-	-	-	-	0.4%	5.1%

Society 2010	Cash & Balances with central banks	Govt and other eligible bills	AFS financial assets	Derivatives	Loans & advances to credit institutions	Commitments and contingent liabilities
	€m	€m	€m	€m	€m	€m
Balances at 31 Dece	236.2	1,040.9	2,902.3	82.5	2,981.3	1,568.0
Aaa	100.0%	-	0 8.5%	14.6%	0.3%	95.7%
Aa3 to Aa1	-	4.4%	30.8%	40.5%	0.8%	-
A3 to A1	-	-	11.6%	6.1%	1.5%	-
Lower than A3	-	95.6%	49.1%	38.8%	97.4%	0.0%
Unrated	-	-	-	-	-	4.3%

Group 2009	Cash & Balances with central banks	Govt and other eligible bills	AFS financial assets	Derivatives	Loans & advances to credit institutions	Commitments and contingent liabilities
	€m	€m	€m	€m	€m	€m
Balances at 31 Dece	196.5	208.3	2,924.8	50.0	957.7	1,152.2
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	Derivatives	Loans & advances to credit institutions	Commitments and contingent liabilities
	€m	€m	€m	€m	€m	€m
Balances at 31 Dece	180.6	208.3	3,972.2	93.1	3,717.4	1,116.5
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 (CSAs) covering in excess of approximately 91% 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 approximately 9% of derivatives not covered by CSAs 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 based ('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. Treasury Assets are monitored on a daily basis.

Commitments and contingent liabilities include the Society's obligations to the Central Bank of Ireland 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 funding and liquidity risk 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'). Expected changes to the liquidity framework (upcoming Bank for International Settlements and European Banking Authority regulations in 2011) will be incorporated into Group Policies upon finalisation by the relevant authorities. The Group has conducted stress tests in advance of these expected changes. Funding contingency plans are continually under review in light of unprecedented market and EBS specific events.

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 Central Bank and on a monthly basis to ALCO and the Board. Any breaches of limits are escalated immediately in line with the escalation procedure.

EBS was one of the Irish institutions included in the Covered Institutions (Financial Support) (CIFS) scheme which ran from September 2008 to September 2010. EBS also joined the Eligible Liability Guarantee (ELG) Scheme in early February 2010. These schemes greatly assisted EBS in securing long term and short term wholesale funding throughout 2009 and the early part of 2010. As at 31st December 2010, EBS had raised a total of €1,025.0m in 5 year fixed term funding under the terms of the ELG. Such funding would not have been possible without the government guarantee as provided under the ELG scheme. The cost of the ELG scheme for 2010 was €34.6m and the cost of the CIFS scheme for 2010 was €5.6m.

As a result of the worsening liquidity position and very limited access to the capital markets the EBS Board approved a number of funding and liquidity contingency measures in July 2010 designed to increase the EBS pool of usable collateral to facilitate secured funding from quarter 3 2010 onwards. These measures increased the pool of collateral available but due to a series of negative market events in the latter part of 2010 as outlined below, EBS was unable to gainfully utilise this additional collateral.

The liquidity position of EBS deteriorated in late quarter 4 2010 as a result of a number of factors including the downgrading of the Group and the Irish Sovereign, the EU/IMF assistance programme and market uncertainty around the impact of the general election. These factors combined to cause a collapse of market confidence in Ireland and all Irish domestic credit institutions including EBS. This collapse in turn led to some wholesale customers withdrawing deposits in late November and early December 2010. EBS thereupon increased it's reliance on the Monetary Authorities for required funding. Given the market access difficulty for both the Irish Sovereign and Irish Bank, the liquidity position has gone below regulatory ratio requirements. The Central Banks has been informed of any breaches.

This sudden loss of liquidity during this period caused the Group to breach the regulatory liquidity requirements on a small number of occasions since that time and into 2011.

As at 31st December 2010 EBS Group had a total of €4,880.0m in secured funding from the European & Irish Monetary Authorities.

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 2010							
Financial liabilities							
Deposits by central b	3,182.3	1,700.0	-	-	-	-	4,882.3
Deposits by credit ins	501.7	377.7	-	-	-	-	879.4
Customer accounts	2,948.3	1,781.0	1,536.3	1,826.4	1,069.9	495.8	9,657.7
Derivative financial in	0.0	1.1	4.1	11.9	34.7	84.6	136.4
Debt securities in issu	61.9	65.4	88.1	147.8	1,061.4	2,225.4	3,650.0
Subordinated liabilitie	-	0.7	-	103.5	-	112.3	216.5
Loan commitments	28.2	51.1	0.5	1.5	-	-	81.3
Total financial liabil	6,722.4	3,977.0	1,629.0	2,091.1	2,166.0	2,918.1	19,503.6
31 December 2009							
Financial liabilities							
Deposits by central b	451.9	251.2	1010.2	803	-	-	2,516.3
Deposits by credit ins	979.5	551.3	95.0	319.3	-	-	1,945.1
Customer accounts	3,269.9	1,672.5	1,076.2	2,381.6	972.8	595.2	9,968.2
Derivative financial in	4.6	2.1	5.0	13.9	40.6	97.7	163.9
Debt securities in issu	622.9	790.6	97.6	2,052.6	185.7	2,247.5	5,996.9
Subordinated liabilitie	-	0.5	-	3.4	100.0	110.7	214.6
Loan commitments	117.8	125.5	8.0	0.9	-	-	252.2
Total financial liabil	5,446.6	3,393.7	2,291.9	5,574.7	1,299.1	3,051.1	21,057.1

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 2010							
Financial liabilities							
Deposits by central b	3,182.3	1,700.0	-	-	-	-	4,882.3
Deposits by credit ins	519.0	378.7	-	6.3	-	250.0	1,154.0
Customer accounts	3,207.5	1,781.0	1,536.3	1,826.4	1,069.9	1,440.9	10,862.0
Derivative financial in	0.0	1.1	4.1	11.9	34.7	103.4	155.2
Debt securities in issu	61.9	65.4	87.1	109.0	61.4	1,230.3	1,615.1
Subordinated liabilitie	-	0.7	-	103.5	-	112.3	216.5
Loan commitments	22.6	43.4	0.5	1.5	-	-	68.0
Total financial liabil	6,993.3	3,970.3	1,628.0	2,058.6	1,166.0	3,136.9	18,953.1
31 December 2009							
Financial liabilities							
Deposits by central b	451.9	251.2	1010.2	803	-	-	2,516.3
Deposits by credit ins	979.5	552.2	95.0	325.7	-	250.0	2,202.4
Customer accounts	3,495.1	1,672.5	1,076.2	2,381.6	972.8	1,633.8	11,232.0
Derivative financial in	4.6	2.1	5.0	13.9	40.6	127.4	193.6
Debt securities in issu	622.9	790.6	96.6	2,013.8	185.7	244.5	3,954.1
Subordinated liabilitie	-	0.5	-	3.4	100.0	110.7	214.6
Loan commitments	97.5	110.1	8.0	0.9	-	-	216.5
Total financial liabil	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 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. Liquidity is managed on a behavioural basis based on back tested historical performance and stress tested on an ongoing basis. 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.

EBS does not engage in proprietary trading i.e. does not trade on its own account. Group Treasury manages market 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 Interest Rate Risk in the Banking Book (IRRBB) 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. The Group has in place small operational foreign currency open position limits which are monitored on a daily basis.

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 2010

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	250.2		-	-	-	-		-		250.2
										0.0
Loans and advances held-for-sale	59.5		-	-	6.1	-		(27.7)		37.9
Available-for-sale financial assets	1,376.1		561.4	413.3	0.0	224.4		0.0		2,575.2
NAMA senior bonds	305.9		-	-	0.0	-		-		305.9
Loans and advances to credit institutions	180.8		-	-	-	-		-		180.8
Loans and advances to customers	13,420.9		217.8	393.7	2,565.1	217.2		(341.8)		16,472.9
Other assets	-		-	-	-	-		264.0		264.0
Total assets	**15,593.4**		**779.2**	**807.0**	**2,571.2**	**441.6**		**(105.5)**		**20,086.9**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES										
Deposits by central banks	4,880.0		-	-	-	-		-		4,880.0
Deposits by credit institutions	876.2		-	-	-	-		-		876.2
Customer accounts	4,795.9		1,490.6	1,702.4	1,424.8	7.1		-		9,420.8
Debt securities in issue	387.2		72.0	41.3	2,097.5	970.0		-		3,568.0
Subordinated liabilities	66.4		-	100.0	51.8	-		-		218.2
Non controlling interests	-		-	-	-	-		82.3		82.3
Other liabilities	-		-	-	-	-		431.4		431.4
Total liabilities	**11,005.7**		**1,562.6**	**1,843.7**	**3,574.1**	**977.1**		**513.7**		**19,476.9**
Derivatives	(464.9)		979.5	861.7	(1,235.3)	(141.0)		-		-
Interest rate sensitivity gap	**4,122.8**		**196.1**	**(175.0)**	**(2,238.2)**	**(676.5)**		**(619.2)**		**610.0**
Cumulative gap	**4,122.8**		**4,318.9**	**4,143.9**	**1,905.7**	**1,229.2**		**610.0**		**610.0**

Interest rate sensitivity gap analysis 2009

Group

Non - trading book	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
ASSETS							
Cash and balances with central banks	196.5	-	-	-	-	-	196.5
Loans and advances held-for-sale to NAMA	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	13,330.5	429.5	445.0	2,178.9	135.9	(46.3)	16,473.5
Other assets	-	-	-	-	-	202.5	202.5
Total assets	**14,938.2**	**674.2**	**1,840.1**	**3,684.6**	**374.5**	**(6.0)**	**21,505.6**
LIABILITIES							
Deposits by central banks	700.0	0.0	1800.0		0.0	0.0	2,500.0
Deposits by credit institutions	1,737.4	94.5	102.0	-	-	-	1,933.9
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
Subordinated liabilities	60.0	-	-	150.1	-	5.1	215.2
Non controlling interests	125.0	-	-	-	125.0	(4.8)	245.2
Other liabilities	-	-	-	-	-	496.0	496.0
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	**(2,128.9)**	**2,613.4**	**(1,394.6)**	**1,797.6**	**10.1**	**(502.3)**	**395.3**
Cumulative gap	**(2,128.9)**	**484.5**	**(910.1)**	**887.5**	**897.6**	**395.3**	**395.3**

In the tables 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 €4,591.6m (2009: €6,573.4m), exposed to cash flow interest rate risk are €15,600.8m (2009: €14,938.2m) and not exposed to interest rate risk are €105.5m (2009: (€6.0m)).

The financial liabilities exposed to fair value interest rate risk are €7,957.5m (2009: €8,260.7m), exposed to cash flow interest rate risk are €11,005.7m (2009: €12,353.3m) and not exposed to interest rate risk are €513.7m (2009: €496.3m).

There are some limitations associated with the above analysis, mainly due to market effects, over aggregation and 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 Group also 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 these stress tests are presented to ALCO on a monthly basis. EBS makes assumptions for future cash-flows based on regular back-testing results.

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

	100 bps parallel shift (increase/ decrease)			
		2010 €'000		**2009** €'000
Banking book portfolio				
Average for the period	-/+	4,571	-/+	3,947
Maximum for the period	-/+	11,488	-/+	8,365
Minimum for the period	-/+	51	-/+	172
Reserve investment portfolio				
Average for the period	-/+	9,856	-/+	15,249
Maximum for the period	-/+	12,163	-/+	17,837
Minimum for the period	-/+	7,424	-/+	12,393

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 their 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 exchange rates that may have an adverse effect on the economic value of the Group and Society. The size of the foreign currency open positions are kept within small operational limits.

Group and Society: *Assets (including derivatives) denominated in currency other than Euro:*	**2010** €m	**2009** €m
Sterling	438.5	393.6
US Dollars	81.6	263.5
Swiss Franc	-	-
Japanese Yen	-	7.5
Czeck Krona	61.2	57.9
Total	581.3	722.5
Liabilities (including derivatives) denominated in currency other than Euro:		
Sterling	438.8	392.5
US Dollars	80.8	263.7
Swiss Franc	-	-
Japanese Yen	-	7.5
Czeck Krona	61.2	57.9
Total	580.8	721.6

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 or liability is also marked to market.

Group:		2010			2009		
	Accounting classifications	Carrying value €m	Fair value €m	Unrecognised gain / (loss) €m	Carrying value €m	Fair value €m	Unrecognised gain / (loss) €m
ASSETS							
Cash and balances w	Amortised cost	250.2	250.2	-	196.5	196.5	-
Derivative financial in	Fair value	58.4	58.4	-	50.0	50.0	-
Loans and advances	Amortised cost	37.9	37.9	-	750.6	639.0	(111.6)
Available-for-sale fina	Available-for-sale	2,575.2	2,575.2	-	2,924.8	2,924.8	-
NAMA senior bonds	Loans and receivables	305.9	301.1	(4.8)	-	-	-
Loans and advances	Loans and receivables	180.8	180.8	-	957.7	957.4	(0.3)
Loans and advances	Loans and receivables	16,472.9	15,212.7	(1,260.2)	16,473.5	15,922.2	(551.3)
LIABILITIES							
Deposits by central b	Amortised cost	4,880.0	4,880.0	-	2,500.0	2,500.0	-
Deposits by credit ins	Amortised cost	876.2	876.2	-	1,933.9	1,933.9	-
Customer accounts	Amortised cost	9,420.8	9,138.2	282.6	9,830.2	9,781.8	48.4
Derivative financial in	Fair value	136.4	136.4	-	163.9	163.9	-
Debt securities in issu	Amortised cost	3,568.0	2,849.6	718.4	5,889.8	5,756.2	133.6
Subordinated liabilitie	Amortised cost	218.2	63.5	152.8	215.2	185.3	29.9

Society:		2010			2009		
	Accounting classifications	Carrying value €m	Fair value €m	Unrecognised gain / (loss) €m	Carrying value €m	Fair value €m	Unrecognised gain / (loss) €m
ASSETS							
Cash and balances w	Amortised cost	236.2	236.2	-	180.6	180.6	-
Derivative financial in	Fair value	82.5	82.5	-	93.1	93.1	-
Loans and advances	Loans and receivables	37.9	37.9	-	750.6	639.0	(111.6)
Available-for-sale fina	Available-for-sale	3,943.2	3,943.2	-	3,972.2	3,972.2	-
NAMA senior bonds	Loans and receivables	305.9	301.1	(4.8)	-	-	-
Loans and advances	Loans and receivables	2,981.3	2,981.3	-	3,717.4	3,717.1	(0.3)
Loans and advances	Loans and receivables	10,865.9	10,031.6	(834.3)	11,659.8	11,309.6	(350.2)
LIABILITIES							
Deposits by central b	Amortised cost	4,880.0	4,880.0	-	2,500.0	2,500.0	-
Deposits by credit ins	Amortised cost	1,139.6	1,139.6	-	2,183.9	2,183.9	-
Customer accounts	Amortised cost	10,621.3	10,302.7	318.6	11,082.8	11,034.4	48.4
Derivative financial in	Fair value	155.2	155.2	-	193.6	193.6	-
Debt securities in issu	Amortised cost	1,567.7	1,289.1	278.6	3,895.5	3,761.0	134.5
Subordinated liabilitie	Amortised cost	218.2	63.5	152.8	215.2	185.3	29.9

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

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

iii. the Group has used a discount cashflow methodology to arrive at the fair value for loans and advances to customers. The model used at 31 December 2010 has discounted the expected cashflows on the mortgage book based on the current market rate adjusted for various loan to value bands. An additional credit spread was included for the portion of the loans that are greater than 90% loan to value and an additional credit spread was included for buy to let and commercial loans.

iv. NAMA Senior Bonds - the Society applied a valuation technique to determine the fair value of the bonds which referenced the market price quoted by the Central Bank of Ireland.

v. 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.

vi. Carrying value and fair value for loans and advances held-for-sale to NAMA are based on an incurred loss model which is consistent with the net proceeds on disposal.

vii. Customer accounts are fair valued using a favourable source of funds methodology. The value of retail deposits in this context is measured by the estimated present value of the difference or spread between the cost of deposit accounts and current long-term wholesale funding.

viii. Debt securities in issue are fair valued using a quoted market valuation.

ix. Sub-ordinated liabilities are fair valued using an active market price.

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 96% of all outstanding derivatives. The CSA's allows for a Mark to Market process. The net gross positive fair value of contracts, netting benefits, netted current credit exposure is captured in this process.

In relation we have a Global Master Repo Agreement (GMRA) in place with all of our Repo counterparts. 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. EBS does have credit exposure after the Repo Margining process under repo deals equal to the amount of haircut applied by the counterpart. EBS takes account of this exposure when measuring the credit exposure to Repo counterparts.

EBS does not engage in credit derivative trades.

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

EBS seeks to manage 'wrong-way' 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 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 tests both weekly & monthly which measure the impact of credit rate changes. 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. 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's role is to mitigate the risks of current or prospective risk to earnings and capital arising from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and / or the voiding of contracts and can diminish the group's reputation. 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 & Compliance Committee which receives regular updates on progress.

The terms and conditions of the Government Guarantee identify additional levels of oversight and scrutiny for the duration of the scheme. This oversight is 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 (via a quarterly assessment of compliance) that the business is in adherence with the requirements of this 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 Central Bank. The objective of Basel II is to more closely align bank regulatory 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 Capital Forum which reports to the Asset and Liability Committee.

In early 2010, the Central Bank announced an increase in the minimum core tier 1 ratio requirement for Irish banks and building societies from 4% to 8%. The Central Bank then conducted an extensive assessment of the capital requirement for the Society as part of an industry-wide review, and concluded that EBS would need an additional €875m of capital to be in place at the end of 2010 to meet a core tier 1 target of 8%. In late November, as part of the EU/IMF aid package, the Central Bank prescribed a further increase in the core tier 1 ratio to 12%, and announced that EBS would require additional capital of €438m by the end of February 2011. On 9 February 2011, the Minister of Finance announced that the capital injection into all Irish banks, including EBS, would be postponed until after the general election on 25 February 2011.

In January 2011, the Central Bank initiated a Financial Measures Programme, which incorporated the PCAR and PLAR exercises. The PCAR exercise enabled the Central Bank to perform a thorough and conservative assessment of bank’s asset quality and earnings together with incorporating incremental three year projected provisions estimates based on Blackrock identified stress loan losses. The PCAR exercise was carried out to determine the required amount of capital to achieve a 10.5% Core Tier 1 capital ratio under base and a 6% Core Tier 1 ratio under stress.

It was announced on the 31 March 2011 that EBS requires €1.2bn of capital to meet the new target Core Tier 1 capital ratio of 10.5% under base and 6% under stress on the basis of the combined results of the PCAR assumptions and three year projected provisions estimates from Blackrock, before the addition of a conservative capital buffer. The additional capital buffer of €0.3m was determined with €0.1m representing equity and €0.2m representing contingent capital. This brings the total capital requirement for EBS under the PCAR to €1.5bn. The Minister for Finance confirmed on 31 March 2010 that all banks would be recapitalised to PCAR levels. The Central Bank has indicated that capital must be raised by 31 July 2011

The Minister for Finance has committed that this capital will be made available by the Government.

Special Investment Shares and Government Capital Investment

At our Special General Meeting in December 2009, changes in EBS's rules were endorsed to allow the Minister for Finance to provide capital to the Society. Recapitalisation took place in the first half of 2010 with the issuance of €100m Special Investment Shares (SIS) and a €250m Promissory Note. A further €525m of capital was subsequently invested by way of SIS in December which brought the total Government investment at the end of 2010 to €875m.

During the first half of 2010, EBS Building Society benefited from derogations from certain regulatory capital requirements granted on a temporary basis by the Central Bank.

The Group's regulatory capital comprises;

(i) Tier 1 capital, which includes special investment shares and promissory note investments by the Irish government, general reserve capital, innovative and non innovative Tier 1 securities which are classified as non controlling 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.

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

5.1. Total Available Capital

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

	2010 €m	2009 €m
Core tier 1 capital		
Special investment share	623.7	-
General reserve	209.4	463.8
Intangible assets	(21.9)	(24.8)
Other regulatory adjustments	14.7	(5.1)
Core tier 1 capital	825.9	433.9
Non controlling interests	82.3	245.2
Total tier 1 capital	908.2	679.1
Tier 2 capital		
Qualifying subordinated liabilities	187.7	198.1
Collective allowances for impairment	123.2	123.8
Revaluation reserves	0.1	0.3
Other regulatory adjustments	-	21.5
Tier 2 capital	311.0	343.7
Total regulatory capital	1,219.2	1,022.8

Other regulatory adjustments comprise a pension adjustment for €17.4m offset by AFS and Cashflow Hedge valuation differences €2.7m.

Risk Weighted Assets	**2010 €m**	**2009 €m**
Exposure Classes Excluding Securitisation Positions	9,344.8	9,628.0
Securitisation Positions	219.9	220.0
Capital Requirement for Operational Risks	293.8	288.0
Total	9,858.5	10,136.0
Capital Ratio's		
Tier 1	9.2%	6.7%
Total Capital	12.4%	10.1%

Capital Allocation
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 special investment shares and promissory note investments by the Irish government, general reserve capital, innovative and non innovative Tier 1 securities which are classified as non controlling 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 non-controlling interests are outlined in the table below:

			2010 €m	2009 €m
NON CONTROLLING INTERESTS				
Group				
At 1 January			245.2	245.0
Amortisation of upfront costs through reserves			-	0.2
Profit on purchase of capital securities (before costs)			(92.2)	-
Purchase of capital securities			(70.7)	-
At 31 December	0.0	0.0	82.3	245.2

In 2005, EBS Capital No. 1 SA (‘EBS Capital’) issued 125,000 class B shares in the form of non step-up perpetual capital securities (‘Capital Securities’). The Capital Securities were purchased by Chess Capital Securities plc (‘Chess’), an entity that is not under the control of the EBS Group. The purchase of Capital Securities was funded by the issue of "Chess Eurobonds". In 2007, EBS Capital issued another 125,000 class B shares and these were purchased by Green Island Capital Securities plc (‘Green Island’), an entity that is not under the control of the EBS Group. The Capital Securities are recognised in the financial statements as non controlling interests. The purchase of Capital Securities was funded by the issue of "Green Island Eurobonds".

The issuance in 2005 is classified for regulatory capital purposes as Innovative Tier 1 capital and the issuance of securities in 2007 is classified as Non Innovative Tier 1 capital. The obligations of EBS Capital No. 1 SA to pay dividends are guaranteed by EBS Building Society only when dividends have been declared by EBS Capital No. 1 SA.

On 1 June 2010 both Chess and Green Island launched a tender offer to purchase for cash from investors the outstanding Eurobonds and a corresponding offer was made by EBS Building Society to Chess and Green Island to purchase the Capital Securities (class B shares) held by each entity.

On 21 June 2010 Chess announced the acceptance of €87,147,000 of capital securities at a price of €440 for each €1,000. On 21 June 2010 Green Island announced the acceptance of €78,942,000 of capital securities at a price of €410 for each €1,000. These purchases settled on 23 June 2010 and consequently EBS Building Society purchased an equivalent amount of Capital

Securities (class B shares) from Chess and Green Island. EBS Building Society incurred costs of €2.5m in respect of the transaction.

The difference between the carrying value of the non controlling interest and the consideration paid on the purchase of the capital securities, less costs of €2.5m associated with the transaction, results in a gain of €89.7m recognised directly in the consolidated general reserves of the Group in accordance with IFRS.

	2010	2009
Purchase of capital securities by Society	€m	€m
Chess – Nominal value €87,147,000 at €440 for €1,000	38.3	-
Green Island – Nominal value €78,942,000 at €410 for €1,000	32.4	-
Total	70.7	-

There are no profits or losses attributable to non controlling interests for the current or prior year.

5.3. Tier 2 Capital

Tier 2 capital 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 £14.6m
19 December 2002	Nov-19	Fixed rate	6.44%	Dec-14	GBP £30.0m
14 December 2004	Dec-14	Variable	euribor +105bps	Mar-11	€60m
28 November 2006	Nov-16	Variable	euribor +35bps	Dec-11	€100m

The interest expense on the subordinated bonds amounted to €5.7m (2009: €6.8m) 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.

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 exposures.

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

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

(ii) 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[1], 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 2010 and 31 December 2009.

	2010	2009
Mortgage Exposures	**€m**	**€m**
Secured on Real Estate Property	554.3	588.2
Unsecured Lending	0.3	0.6
High Risk	1.5	38.2
Past Due	136.7	97.8
	692.8	724.8
Other Exposure Classes		
Central Govt & Central Banks	-	-
Financial Institutions	32.5	30.3
Securitisation Positions	17.6	17.6
Covered Bonds	6.6	3.1
	56.7	51.0
Other		
Fixed and Other Assets	15.7	12.1
Total Credit Risk Minimum Capital Requirement	765.2	787.9

[1] 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 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 2010. The positions at 31 December 2009 and 31 December 2008 are included for comparison purposes.

Total Minimum Capital Requirement	**2010**	**2009**
	€m	**€m**
Credit Risk	765.2	787.9
Market Risk	-	-
Operational Risk	23.5	23.0
	788.7	810.9
Total Own Funds	1,219.2	1,022.8
Excess over Pillar 1 Capital Requirement	430.5	211.9

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 amounted to a 9% increase to the calculated risk weighted asset figure. This requirement was removed effective 31st December 2010, reflective of an increase in Core Tier 1 minimum requirements from 4% to 8%.

7. Stress Testing Activities

7.1. Underlying Business Model & Strategy

Ireland has experienced what may be considered its most difficult period in modern economic history with the collapse of the property market and a severe economic downturn. While it had been predicted that 2010 would be tough, it would have been impossible to foresee the extent of the challenges faced by the country, especially in the latter half of the year. The Irish financial crisis which began in 2008 had, by the end of 2010, become the subject of global headlines. A solution to the economic challenges faced by the country has naturally been the key priority for the Government.

EBS's core business is consistent with that of a traditional building society business, i.e., taking in deposits from savers and using these deposits to fund residential mortgages and providing ancillary services such as bancassurance with the core strategy being 'Customer Served'. EBS expanded its business to include the provision of finance for commercial property lending in the early 1990s and finance for land and development from the mid 2000s. EBS ceased development finance lending in April 2008 and commercial investment lending mid 2008, effectively ceased lending for residential investment property lending at end 2010 and has substantially reduced new lending for owner occupiers in 2011. In tandem with this, EBS has renewed its focus on its core business of mortgage lending and savings with 20% of new deposits typically being placed with EBS in 2010.

The following management strategy has been pursued by EBS over the past two years. This strategy may change on foot of the announced merger between EBS and AIB which is due to take place before end Q3 2011.

(i) The commercial real estate book is being wound down under tight control by the Asset Recovery Unit in EBS.
(ii) Net lending does not exceed savings inflows.
(iii) There is natural deleverage of loan book as repayments and redemptions are higher than advances over next three years. In addition, Non Core assets totalling €2.5bn will be disposed of over the period to 2013.
(iv) A programme of repricing of new business and back book business to restore profitability has been underway for some time.
(v) There is quarterly reforecasting and stress testing of sensitivities to the balance sheet and income statement.
(vi) EBS continues to manage contingent liquidity and funding strategy. As at 31December 2010, EBS had €3.2bn of unencumbered collateral, comprising residential mortgage assets and debt securities, available for contingency liquidity purposes.

7.2. Impacts of EBS Activities under Stress

Liquidity
EBS was one of the Irish institutions included in the Covered Institutions (Financial Support) Scheme 2008 ('CIFS') which ran from September 2008 to September 2010. EBS also joined the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG) in early February 2010. These schemes greatly assisted EBS in securing long term and short term wholesale funding throughout 2009 and the early part of 2010. As at 31 December 2010, EBS had raised a total of €1bn in 5 year fixed term funding under the terms of the ELG scheme. Such funding would not have been possible without the Government Guarantee as provided under the ELG scheme.

As a result of the worsening liquidity position and very limited access to the capital markets, the EBS Board approved a number of funding and liquidity contingency measures in July 2010 designed to increase the EBS pool of usable collateral to facilitate secured funding from quarter 3 2010 onwards. These measures increased the pool of collateral available but due to a series of negative market events in the latter part of 2010 as outlined below, EBS was unable to gainfully utilise this additional collateral.

The liquidity position of EBS deteriorated in late quarter 4 2010 as a result of a number of factors including the downgrading of the Group and the Irish Sovereign, the EU/IMF assistance programme and market uncertainty around the impact of the general election. These factors combined to cause a collapse of market confidence in Ireland and all Irish domestic credit institutions including EBS. This collapse in turn led to some wholesale customers withdrawing deposits in late November and early December 2010. EBS thereupon increased its reliance on the Monetary Authorities for required funding. Given the market access difficulty for both the Irish Sovereign and Irish banks, the liquidity position has gone below regulatory ratio requirements. The Central Bank has been informed of any breaches.

This sudden loss of liquidity during this period caused the Group to breach the regulatory liquidity requirements on a small number of occasions since that time and into 2011.

A Prudential Liquidity Assessment Process (PLAR) exercise was conducted by the Irish Regulatory Authority in Q1 2011 in conjunction with a Prudential Capital Assessment process (PCAR). The focus of the PLAR was the measures to be implemented to steadily deleverage the banking system and reduce reliance on the funding from Monetary Authorities. The PLAR exercise established a target funding and loan to deposit ratio for the aggregate domestic banking system, including EBS, of 122.5% and consequently in order to reach the targeted ratio EBS is required to deleverage €2.5bn of non-core assets (comprising our commercial property and residential investment portfolios) over the period to 2013.

Funding
During 2010, EBS increased its reliance on the Eurosystem for funding and at year end the Society had received deposits of €3.4bn based on mortgage collateral provided. In addition, in December 2010, EBS also received funding from the Central Bank of Ireland in the amount of €1.5bn based on mortgage collateral provided.

As at 31 December 2010, EBS Group had a total of €4,880.0m in secured funding from the European and Irish Monetary Authorities.

Capital
As a result of the losses expected on transfer of loans to NAMA and the higher impairment charges resulting from a deterioration in the economic environment in 2010 EBS required €875m of capital to bring our core tier 1 ratio to 8%, as stipulated by the Central Bank. To date the Government has invested €875m in EBS.

The Central Bank performed a Prudential Capital Assessment Review (PCAR) and a Prudential Liquidity Assessment Review (PLAR) during the first quarter of 2011. It was announced on 31 March 2011 that EBS requires a further €1.2bn of capital to meet the new target core tier 1 capital ratio of 10.5% under the PCAR base case and 6% under the stress case on the basis of the combined results of the PCAR and PLAR assumptions and three year projected provisions estimates of expected losses from Blackrock (the consultants appointed by the Central Bank in relation to the PCAR process), before the addition of a conservative capital buffer. The capital buffer is €0.3bn with €0.1bn representing equity and €0.2bn representing contingent capital. This brings the total capital requirement for EBS under the PCAR to €1.5bn.

On 31 March 2011, the Minister for Finance confirmed that Irish domestic banks and building societies will be recapitalised to the levels required under the PCAR including, where appropriate, burden sharing with subordinated bondholders.
The Central Bank has indicated that capital must be raised by 31 July 2011. This recapitalisation will bring our core Tier 1 ratio to c.22%.

Asset Quality
During 2010, EBS transferred €836.4m of loans to NAMA, comprising land and development, commercial and associated residential exposures, resulting in a loss of €275.6m in 2010. NAMA have requested the transfer of an additional €65.6m of loans in 2011, for which EBS has made an impairment provision on an incurred loss basis which is consistent with the expected net proceeds on disposal.

The continued economic downturn and collapse in the property market during 2010 led to an increase in the level of loan impairment provisions which were increased to 2.5% of total loan book (2.0% of residential loan book and 10.9% of the commercial loan book) resulting in loan impairment charges of €273.2m (residential €201.0m and commercial €72.2m).

Profitability
Notwithstanding the difficult year and environment, EBS savings and mortgage business continued to perform strongly in the market and delivered an operating profit of €56.4m. The financial outcome at an operating level reflects this positive overall business performance, however the effect of further impairment charges in relation to previously written loans has resulted in the Group incurring a post tax loss of €589.6m for the year including the impact of NAMA. Excluding the impact of NAMA in 2010, the Group incurred a loss of €197.2m.

Outlook
Separately, on 31 March 2011, the Minster for Finance announced the future banking landscape in Ireland and its intention to combine the operations of AIB and EBS to build a second pillar bank from the strengths of both institutions. Work is well advanced to effect this merger.

7.3. Measures taken to manage Activities under stress

Arising from the material changes to our landscape in which EBS operates and the regulatory and other requirements of external stakeholders in 2010, EBS implemented a number of improvements in its risk and control systems. External stakeholders include the Central Bank, NAMA, Dept of Finance, EU and our external auditors KPMG. The management of these risk control initiatives / reviews is reflective of the way EBS manages, measures and integrates risk into the decision making processes of the Society.

Risk Appetite Defined
(i) A Risk Appetite Statement was documented and approved by the Board in July 2010 and updated in December 2010. It provides explicit Board guidance on risk appetite and the level of risk that the Group is prepared to accept in pursuit of its objectives.
(ii) Risk limits are set and performance against these limits was monitored and reported to the Board each month for evaluation.

Liquidity & Funding Risk Management
(i) In response to the adverse funding conditions being experienced in the markets in 2010, the EBS Board approved a revised Funding Contingency Plan in July 2010. This plan was further updated throughout the year and progress was monitored regularly by the Board.

(ii) EBS undertook monthly stress testing for liquidity purposes and reported through the Asset and Liability Committee (ALCO) and the Board. Liquidity and funding risk policies were reviewed on an ongoing basis.

(iii) A Collateral Management & Integration project was completed in Q3 2010 which brought all mortgage collateral usage under one enhanced operational framework (covered bonds, securitisation, Mortgage Backed Promissory Note (MBPN), ELA). Additionally, EBS successfully passed the CBI led audit of our MBPN program for 2010.

Capital Risk Management

(i) EBS established a Capital Forum in H2 2010, whose role is to monitor amongst other items the : (1) EBS Capital plan and policy (2) Capital forecasting and modelling (3) Changes to Regulatory reporting arising from CRD and other developments.

(ii) EBS has further refined the existing RAROC model in tandem with the 2011 budget.

Credit Risk Management

(i) Residential Lending Policies were updated throughout 2010 in line with the revised Risk Appetite of the organisation.

(ii) Improvements in resources and technology were undertaken to improve credit management capabilities against a backdrop of continued economic deterioration and limited capital.

(iii) Practices and procedures have been revised in line with the revised Code on Mortgage Arrears and the Expert Working Group on Mortgage Arrears.

(iv) The Arrears Support Unit was further augmented. Additional experienced resources recruited to bolster existing teams and external best practice benchmarking evaluations were undertaken.

(v) Commercial credit expertise & resources was strengthened throughout the year with significant replacement recruitment (including additional legal support).

(vi) A quarterly provisioning exercise was undertaken, and credit risk analysis and reporting substantially enhanced.

(vii) The Credit Department was separated from Risk in H2 2010 and a Chief Credit Officer (COO) appointed.

Other Risk Management

(i) Holistic Stress Testing – A stress test working group was established to oversee EBS's adherence with the EBA GL32 stress testing requirements. A stress testing framework and policy has been developed and approved by the Board. Holistic stress testing capability developed and run in tandem with the budget setting process.

(ii) Restructuring and enhancement of Compliance function and role throughout 2010. New structure and resources were employed. A process was put in place to ensure that EBS was in adherence with the requirements of the Government Guarantee and Eligible Liabilities Guarantee schemes. A Prudential Compliance Universe for the Group was also developed.

(iii) Enhancements have been made in relation to the reporting of risk across the business. The Chief Risk Officer report has been augmented throughout the year and credit risk reporting on loan book performance and credit management has also been enhanced throughout the year.

8. Remuneration

8.1. Remuneration Policy & Practices

The EBS Group policy is designed to attract, retain, motivate and reward our people to achieve the organisation's objectives within agreed risk, ethical practice, audit and cost parameters. The policy has been updated to reflect new regulatory requirements such as CRD III and EBA Guidelines on Remuneration Policy and Practices.

The Board of Directors of EBS is responsible for the Remuneration policy of EBS, recognising the input and recommendations made by the Remuneration Committee in relation to remuneration policy and practices, its implementation and review.

The **Board** is responsible for:

(i) The periodic review (at least annually) and approval of the Remuneration Policy (including material changes) and for its implementation.

(ii) Reviewing the assessment of the overall remuneration system i.e. (i) that it operates as outlined in EBS policies and procedures and (ii) is compliant with regulations, principles and standards and if deficiencies are noted, putting a timely remedial plan in place.

(iii) Ensuring that the remuneration policy is consistent with, and promotes, sound and effective risk management. The policy should discourage excessive risk-taking and should enable EBS to maintain a strong capital base.

(iv) Overseeing and determining the remuneration of the members of the Management Team (including Executive Directors) and identified staff. – i.e. those staff deemed to have a material impact on the risk profile of the firm. The list of identified staff has been compiled in line with the definitions as outlined in CRD III and EBA Guidelines on Remuneration and are outlined within the Board approved Remuneration Policy.

The **Remuneration Committee** (REMCO) composition:

(i) Five Non-Executive Directors, of which at least one member must have sufficient expertise and professional experience concerning risk management and control activities, in order to align the remuneration structure with the institution's risk and capital profiles.

(ii) The Chair of the Board Risk Committee is a member of REMCO

(iii) A majority of members who qualify as independent. The Chairperson is an independent non-executive director.

(iv) The following are attendees of the REMCO:

  a. CEO
  b. Director – People, Operations, IT and Communications
  c. Chief Risk Officer (the Chief Risk Officer will attend at least twice annually and / or when risk is being evaluated.)

5. The Society Secretary is the Secretary of the REMCO.

The responsibilities of REMCO are set out in the EBS Board Manual. They include:

(i) Periodic review and recommendation to the Board for approval of the Remuneration policy, (including material changes) and any recommendations regarding remuneration practices.

(ii) Ensuring that the remuneration policy is consistent with, and promotes, sound and effective risk management. The policy should not encourage excessive risk-taking and should enable EBS to achieve and maintain a strong capital base.

(iii) Preparation of recommendations to the Board on the remuneration of the members of the Management Team (CEO, Executive Directors and Management Directors) and identified staff Overseeing the annual review of remuneration completed by the Risk/Control functions. This review will include an assessment of the overall remuneration policy and system to ensure (ii) that it operates as outlined in EBS policies and procedures and (ii) is compliant with regulations, principles and standards. If deficiencies are noted, a timely remedial plan must be put in place.

(iv) Exercising competent and independent judgement on remuneration practices and policies and the incentives created for managing risk, capital and liquidity.

(v) Ensuring that the remuneration system properly takes account of all types of risks, liquidity and capital levels as well as being consistent with the long-term sound and prudent management of EBS.

(vi) Reviewing a number of possible scenarios to test how the remuneration system will react to internal and external events, and back test it as well (i.e. the outputs of stress tests).

(vii) Appointing external consultants on remuneration as it deems appropriate. Consultants appointed report directly to REMCO in writing and orally. Where REMCO seeks legal advice on any matter the advice is received in writing, and retained together with the minutes of the meeting at which such legal advice was reviewed.

(viii) Precluding any member of Management Team or identified staff from attending REMCO when their own remuneration is being discussed. However, they may be asked to attend, if required, when REMCO is evaluating the remuneration of one or more of their direct reports.

To ensure REMCO is fully up to date with best practice in areas such as risk, reward and performance management, all members of the REMCO will undergo annual professional development under one of the following headings: remuneration practices, enterprise risk, performance management or pensions.

To ensure the appropriate involvement of the Risk / Internal control and other competent functions, the Remuneration Committee collaborates with other Board sub-committees whose activities have an impact on the design and proper functioning of remuneration policy and practices.

Board Risk Committee

The Chair of the Board Risk Committee is a member of REMCO to ensure the alignment of risk containment measures, strategic objectives and remuneration practices.

More specifically, the BRC is responsible for:

(i) Conducting a detailed evaluation of the Board-approved Risk Appetite Statement and recommending any material changes to the Board for approval.

(ii) Identifying and evaluating the top 10 key risks associated with the approved organisational objectives in any calendar year. (Performance measures for individuals will be based on both the organisations objectives and associated risks)

(iii) Reviewing the risk-adjustments to variable remuneration based on risk-adjustment return on Risk Adjusted Return on Capital and other qualitative measures.

(iv) Participating in the hindsight review of deferred variable remuneration for identified staff members.

Board Governance Committee

The Board Governance Committee shall, each year, receive a report from the Group Compliance function regarding the operation of the REMCO and the adherence, in governance terms, to the Remuneration Policy.

Board Audit & Compliance Committee

The Board Audit & Compliance Committee is responsible for ensuring that an annual independent review of EBS's remuneration structure is undertaken and evaluating the output of same. The review focuses on assessing the impact of the Remuneration Structure on EBS's adherence with legislation, regulations and internal Policies

8.2. Performance and Risk Adjustment

On an annual basis, the Board approves the list of identified staff i.e. those staff deemed to have a material impact on the risk profile of the firm. This list of identified staff has been compiled in line with the definitions of identified staff as outlined in CRD III and EBA Guidelines on Remuneration and are outlined within the Board approved Remuneration Policy.

Performance measures are set and monitored to ensure that staff performance is aligned with the overall business strategy, long-term interests and quantified risk tolerances of EBS. Performance measures are set annually for all staff. These performance measures (also known as “Objectives”) are a mixture of (i) key business objectives derived from the EBS 5-year business plan and (ii) risk containment measures in line with the Board approved Risk Appetite Statement.

Performance measures for the Management Team are set by the Remuneration Committee. Thereafter, objectives are cascaded down from direct report to direct report and are relevant to the staff member’s area of influence. Objectives are formally documented, shared and agreed with the individual staff member concerned to ensure performance expectations are transparent.

Performance is then measured against the achievement of these objectives on an annual basis (i.e. it is assessed in the first quarter of the year following the year of assessment). Quantitative and qualitative measures (e.g. compliance with risk appetite statements, limits, results of audits) are used to evaluate performance; including liquidity, funding and capital adequacy measures.

Staff members are normally awarded variable remuneration on the basis of their assessed performance but variable remuneration has been suspended in EBS for all staff since 2009.

The activities in the area do not expose the Society to any potential breaches of the Board approved Risk Appetite Statement (RAS), i.e., it is aligned to the overall risk appetite of the organisation.

The suspension of variable remuneration may be reviewed when the organisation returns to an acceptable level of profitability and the capital and liquidity positions are secure. Notwithstanding that variable remuneration is suspended, the above performance measurement and assessment process is in place and is applicable to all staff.

If and when variable remuneration for identified staff is reintroduced:

(i) It will take into account the overall risk appetite, risk profile, capital and liquidity position of the organisation, incorporating quantified risk tolerances (in a multi-year time horizon) and incorporates malus / clawback over this time horizon where deemed appropriate. For identified staff, where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the credit institution and when assessing individual performance, financial and non-financial criteria are taken into account. For identified staff, the assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the credit institution and its business risks.

(ii) It will be reduced or eliminated where there is a concern that variable remuneration may impact on the ability of EBS to strengthen its capital base. The fixed portion of remuneration accounts for a significantly high proportion of total remuneration, so as to allow the possibility that no variable remuneration component may be paid if necessary.

(iii) For identified staff, performance will be assessed at the award stage to determine the variable remuneration component /amount for that staff member.

- The performance and risk adjustment measures used to calculate variable remuneration will include: (a) the cost and quantity of capital required to support the risks taken (b) the cost and quantity of the liquidity risk assumed in the conduct of business, and (c) consistency with the timing and likelihood of potential future revenues incorporated into current earnings included in future compensation approach.
- The risk adjustment element will be strong enough to adequately reduce excessive risk taking incentives provided by short-term performance measures.
- Only 50% of any variable remuneration award (applicable to both the upfront and deferred portion) will be payable in cash. The remainder will be in other instruments and be subject to an appropriate retention period.
- A minimum of 40% of the variable remuneration award will be deferred for a minimum period of 3 years. This deferred award will be scheduled for release to the employee at end of the deferred period, subject to review by the Board and assessment over a multi-year time horizon. Any individual having been granted a deferred variable remuneration award, who then choose of their own volition to leave the employment of EBS before the deferred award is due for payment, will forgo the deferred award and will not receive any payment.
- In relation to deferred variable remuneration, Malus provisions will apply (malus refers to the potential non-payment of previously awarded deferred variable remuneration): Prior to the release of deferred variable remuneration to the employee, the REMCO will re-evaluate the performance and decisions made by the identified employee in the year for which the award was granted in light of the then current impact of this performance and decisions (e.g. if a decision was made in 2010, which at the time seemed a correct and prudent three years ago but with hindsight in this is no longer the case, then the 40% deferred variable remuneration will not paid in full to the employee.) The new hindsight award assessment will be evaluated against the employees own decisions at the time, the impact on their business unit at the time and the current effect on the overall organisation. The REMCO will then recommend to the Board, if appropriate, a revised payout level of the originally deferred variable remuneration.
- In relation to paid variable remuneration, Clawback provisions will apply (clawback refers to the variable remuneration already paid): Where part of the variable remuneration or the remaining deferred variable remuneration has been paid to the identified employee and it comes to light that in hindsight serious errors of judgement were made e.g. misleading information was used in the performance assessment or where deliberate wrong doing is found the REMCO will reassess the paid bonus and recommend to the Board an appropriate level of Clawback from the individual concerned up to and including the full return of the variable remuneration paid (it should be noted that the implementation of Clawback will NOT have any implications for the organisation’s right to take action under the Disciplinary Procedure where deliberate wrong doing is found).

(iv) EBS is a non-complex institution which is not publicly traded and therefore has no instruments for shares or share-linked variable remuneration. Notwithstanding the above, EBS is seeking to apply this requirement to variable remuneration awards for identified staff where possible, if and when variable remuneration is re-introduced. EBS will seek to investigate the options in relation to non-cash instruments by year-end 2011. Depending on the results of this investigation, EBS will make the necessary arrangements and policy changes.

8.3. Aggregate Quantitative Information

Summary quantitative information in relation to remuneration for the list of 23 identified staff members i.e. those staff deemed to have a material impact on the risk profile of the firm is outlined below:

Remuneration Category	Amount
Basic Pay	3,441,156
Car Payments	375,007
Contractual Retention Payments	33,600
Club Subscriptions	33,000
Benefit in Kind	73,395
Total	€3,956,158

There was no outstanding deferred remuneration during the financial year. Likewise there were no new sign-on and severance payments made during the financial year.

9. Credit Risk – Standardised Approach

For the purposes of calculating risk weighted assets, EBS has designated Moody's as its nominated ECAI.

Table 1: Distribution of credit exposures by Geography as at 31st Dec 2010

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	1,829	273	5	14,046	1,608	12	191	304	18,268
UK (inc NI)		360		102	13	-	114		589
Rest of Europe	4,929	464		19	16		224		5,651
North America		123							123
Rest of World		90							90
Total Exposures	6,758	1,309	5	14,167	1,636	12	530	304	24,721
Average Exposure over the Period	4,909	2,313	8	14,508	1,417	165	533	272	24,126

Table 2: Distribution of credit exposures by Industry as at 31st Dec 2010

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				46	37	-			83
Industrial/Mixed Use				220	128	3			351
Other Property				7	1	0			9
Property / Development						0			0
Residential Mortgages			5	13,620	1,307	7			14,939
Retail / Mixed Use				274	150	1			425
Institutions and Sovereign	6,758	1,309			13		530		8,610
Other								304	304
Total Exposures	**6,758**	**1,309**	**5**	**14,167**	**1,636**	**12**	**530**	**304**	**24,721**

Table 3: Distribution of credit exposures by Maturity as at 31st Dec 2010

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	5,053	295	0	52	36	5	-		5,442
3_6mths	146	39	0	12	17	2	-		215
6_12mths	25	252	0	26	14	1	-		318
1 < 3 years	315	509	1	95	13	-	173		1,105
3 < 5 years	407	107	2	151	11	0	326		1,004
5 < 10 years	-	5	2	891	117	1	31		1,046
10 years +	567	25	1	12,940	1,429	3	-	68	15,034
No Maturity	245	77	-	-	-	-		236	558
Total Exposures	**6,758**	**1,309**	**5**	**14,167**	**1,636**	**12**	**530**	**304**	**24,721**

Table 4: Distribution of credit exposures by credit quality step as at 31st Dec 2010

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	5,174	754					237		6,165
Step 2	-	209					15		
Step 3	762	681					191		
Step 4		193							
Step 5		204			13				217
Step 6									-
Total Rated	5,936	2,040	-	-	13	-	443	-	6,382
Unrated		91	5	14,167	1,623	12	87	304	
Total Exposures	**5,936**	**2,131**	**5**	**14,167**	**1,636**	**12**	**530**	**304**	**24,721**

Table 4.b: Distribution of credit exposures after credit risk mitigation by credit quality step as at 31st Dec 2010

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	5,174	754					237		6,165
Step 2	-	209					15		
Step 3	1,584	137					191		
Step 4		41							
Step 5		78			13				91
Step 6									-
Total Rated	6,758	1,218	-	-	13	-	443	-	6,256
Unrated		91	5	14,167	1,623	12	87	304	
Total Exposures	**6,758**	**1,309**	**5**	**14,167**	**1,636**	**12**	**530**	**304**	**24,721**

10. Disclosures for Securitisations

10.1. Securitisations

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 or Haven Mortgages (EBS Group).

EBS Group is currently engaged with three securitisation vehicles, the core rationale for these engagements was for liquidity purposes and in one instance maximising capital efficiency. The RMBS transactions the EBS Group has engaged in are as follows:

1. Emerald 4 - Maximisation of capital efficiency & liquidity;
2. Emerald 5 - Liquidity;
3. Mespil 1 RMBS - Liquidity.

Emerald 4 is an external securitisation and the bonds issued are held by third party investors.

As at year end 2010 the structure of the bonds outstanding in Emerald 4 is as follows;

	Total Outstanding	Held by EBS
Class A Notes	€962.9m	€85m
Class B Notes	€32.1m	Zero
Class C Notes	€35m	Zero
Loan Loss Reserve	€16.5m	€16.5m

Both Emerald 5 and Mespil 1 RMBS are internal retained deals whereby EBS Building Society has purchased the bonds issued by the securitisation vehicles. EBS subsequently uses these bonds to pledge as collateral with the ECB or other Monetary Authorities to obtain funding.

The structure of the bonds outstanding in Emerald 5 at year end 2010 is as follows;

	Total Outstanding	Held by EBS
Class A Notes	€1,917.6m	€1,917.6m
Class B Notes	€125m	€125m
Subordinated Loan	€93.75m	€93.75m

The Emerald 5 transaction bonds structure was re-engineered in early 2011, at month end April 2011 the transaction structure was as follows;

	Total Outstanding	Held by EBS
Class A Notes	€1,529.6m	€1,529.6m
Class B Notes	€125m	€125m
Class Z Loan	€358m	€358m
Subordinated Loan	€30.2m	€30.2m

As at year end 2010 the structure of the bonds outstanding in Mespil 1 RMBS is as follows;

	Total Outstanding	Held by EBS
Class A1 Notes	€150.1m	€150.1m
Class A2 Notes	€300m	€300m
Class A3 Notes	€300m	€300m
Class Z Loan	€250m	€250m
Subordinated Loan	€10m	€10m

For Regulatory capital purposes EBS has elected to risk weight the securitisation exposures to Emerald 4 (which includes the subordinated loan, the first loss and any other exposures to the vehicle) at 1250%, in accordance with the CRD. For Emerald 5 and Mespil the mortgages continue to the risk weighted in accordance with the CRD. The following table outlines the risk weighted assets relating to Emerald 5 and Mespil 1 RMBS which amount to 3,025.2m in total.

Exposure Type	Risk Weight	Emerald 5 (€m's)	Mespil (€m's)	Total Retained Balances (€m)
Residential Mortgages	35%	1418.3	682.7	2101.0
Residential Mortgages	75%	450.5	316.9	767.4
Residential Mortgages	100%	135.5	0.0	135.5
Residential Mortgages	150%	21.3	0.0	21.3
Total		**2025.6**	**999.6**	**3025.2**

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

Please note EBS Group restricts itself to purchasing or selling RMBS notes or bonds which are secured on mortgages originated by group entities and sold directly to the securitisation vehicle. It does not hold any exposure to notes or bonds secured on mortgages originated by non Group entities.

In relation to securitisation transactions EBS group is not obliged to support any losses in respect of the mortgages subject to non-recourse funding other than the 'securitisation risks' arising from:

1. any obligation on the part of EBS Group to re-purchasing mortgages previously sold to a securitisation vehicle due to a breach of any representations or warranties;
2. providing credit support or liquidity support which is integral to the a securitisation transaction structure;
    a. provision of sub-ordinated loan(s) to fund Loan Loss Reserve;
    b. purchase of RMBS notes at various levels in the structure of the transaction;
    c. provision of Liquidity Facility(s);
    d. subordination of servicer fee's and payment of deferred consideration in the revenue waterfall.
3. providing operational support services to the securitisation company;
    a. Mortgage servicing (including Credit Management);
    b. Cash Bond Administration;
    c. Corporate Services;

There is also potential market risk arising from the re-sale of residential mortgage backed securities (RMBS) previously purchased from a market counterparty. This is addressed via treasury risk mitigants regarding the management of market risk on investment portfolio.

EBS Treasury & Capital Markets personnel are always integral to the initial transaction structuring process leading up to the sale of mortgages by the group to a securitisation company and issue of notes and bonds by that entity to investors. Group securitisation risk is mitigated through the appointment of a highly reputable and experienced structuring advisor bank(s) and legal counsel to jointly manage the transaction process, draft the related contractual documentation and provide legal opinion(s). Group risk appetite is to use established market securitisation structuring techniques and avoid 'exotic' structures. As required reputable external counterparties are used, when available, in regards the provision of:

1. Interest rate risk hedging;
2. provision of liquidity Facilities;
3. mortgage collection accounts and GIC/reserve bank accounts;
4. standby operational service roles.

Management of the aforementioned Group securitisation risks principally occurs via the following:

Mortgage Re-purchase	• Original mortgage pool selection process, pool audit and legal review of mortgage documentation to insure representations & warranties could be made as part of mortgage sale agreement. • Monthly asset pool monitoring and surveillance processes to insure compliance with terms of original loan sale agreements.
Credit Support	• Subordinated loan is risk weighted at 1250% for capital adequacy purposes • Holdings of rated bonds or notes are risk weighted at appropriate levels for capital adequacy purses. • Regular monitoring of the performance of the transaction as a whole and the underlying mortgage pool performance to determine if prospective loan losses in excess of the subordinated loan amount could result in other losses to EBS Group.
Liquidity Support	• Regular monitoring of the cash generating capacity of the transaction as a whole, underlying mortgage pool performance and rating triggers specified in the transactions to determine if liquidity supports will be required.
Operational Services	• Specialist securitisation service processes are documented, service delivery is monitored and reported internally (ALCO and OMC) and to the Board of the respective securitisation vehicles. • Only experienced personnel who participated in the execution of securitisation transactions are used in performing specialist services such as Cash Bond Administration. • Where the providers of outsourced services do not meet minimum rating requirements as specified in the transaction documents or by ECAI's suitable risk mitigants are employed including the appointment of replacement or standby service providers.

The accounting policy of the securitised assets is disclosed in the Annual Report and Accounts.

10.2. Accounting Disclosure of Securitisations

At 31 December 2010 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.

Under the terms of the securitisation, the rights of the providers of the related funds are limited to the loans in the securitised portfolios and any related income generated by the portfolios, without recourse to EBS.

Under the terms of the securitisation, the rights of the providers of the related funds are limited to the loans in the securitised portfolios and any related income generated by the portfolios, without recourse to EBS.

Emerald Mortgages No.4 plc

The total carrying amount of the original residential property transferred by the Society to Emerald Mortgages No.4 plc ("Emerald 4") as part of the securitisation amounts to €1,500m (2009: €1,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2010 is €968.3m (2009: €1,032.1m). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €945.0m (2009: €953.0m) and is also disclosed in note 27 of the Annual Report & Accounts. EBS held €85m of the Class A notes which were purchased in August 2009 as part of a public tender operation. The carrying amount of the loan note in the Society issued to Emerald 4 amounts to €972.7m (2009: €1,025.6m) and is also disclosed in note 26 of the Annual Report & Accounts
.
The Society participates in the securitisation through the provision of administration services and unsecured loan financing of €16.5m (2009: €16.5m), which is subordinated to the interest of the bond holders.

Table: Amount of Exposures Securitised as at 31st Dec 2010

Exposure Type	Securitisation Type	Balance of Securitisied Mortgages	Past Due	Default	Impaired Exposures	Losses Recognised
Residential Mortgages	Traditional	€968.9m	€101.5m	€44.3m	€2.2m	Zero

Emerald Mortgages No.5 unlimited

The total carrying amount of the original residential property transferred by the Society to Emerald Mortgages No.5 unlimited ("Emerald 5") as part of the securitisation amounts to €2,500m (2009: €2,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2010 is €2,021.8m (2009: €2,152.3m). Bonds were issued by Emerald 5 to EBS Building Society but these are not shown on the Group or Society statement of financial position as these bonds are eliminated on consolidation under IAS 39 ("Financial Instruments: Recognition and Measurement") in the Society and under SIC 12 ("Consolidation – Special Purpose Entities") in the Group.

The Society participates in the securitisation through the provision of administration services and unsecured loan financing of €93.8m (2009: €93.8m), which is subordinated to the interest of the bond holders.

Mespil 1 RMBS Limited

On 27 October 2010, Mespil 1 RMBS Limited ("Mespil") was established. EBS Building Society and Haven Mortgages Limited transferred €290.0m and €710.1m of advances secured on residential property to this vehicle. EBS issued a subordinated loan of €11.3m in December 2010 to Mespil. The amount of transferred secured loans that the Group continues to recognise at 31 December 2010 is €999.6m in relation to the transfers from EBS Building Society and Haven Mortgages Limited (2009: Nil). Bonds were issued by Mespil to EBS Building Society but these are not shown on the Group or Society statement of financial position as these bonds are eliminated on consolidation under IAS 39 ("Financial Instruments: Recognition and Measurement") in the Society and under SIC 12 ("Consolidation – Special Purpose Entities") in the Group.

The Society participates in the securitisation through the provision of administration services and unsecured loan financing of €11.3m (2009: Nil), which is subordinated to the interest of the bond holders.

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