EBS

EBS LIMITED

DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2012

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Company Information

DIRECTORS

Des Fitzgerald	Executive Director (Managing Director)
Bernard Byrne	Group Non-Executive Director
Fidelma Clarke	Group Non-Executive Director
Denis O'Callaghan	Group Non-Executive Director
Catherine Woods	Independent Non-Executive Director and Chairman
Tom Foley	Independent Non-Executive Director
Jim O'Hara	Independent Non-Executive Director

SECRETARY	Sarah McLaughlin
REGISTERED OFFICE	2 Burlington Road Dublin 4
REGISTERED NUMBER	500748
INDEPENDENT AUDITOR	KPMG Chartered Accountants and Registered Auditor 1 Harbourmaster Place International Financial Services Centre Dublin 1
BANKER	Allied Irish Banks, p.l.c. 7/12 Dame Street Dublin 2

Directors' Report

The Directors of EBS Limited present their Directors' report and annual financial statements of EBS Limited and its subsidiaries (the 'EBS Group' or the 'Group') for the year ended 31 December 2012. A statement of Directors' responsibilities in relation to the financial statements appears on page 13.

ACTIVITIES OF THE COMPANY

EBS Limited ('EBS' or 'the Company'), a private company limited by shares, domiciled in Ireland, is a member of the EBS Group and is a wholly owned subsidiary of Allied Irish Banks p.l.c., ('AIB p.l.c.' or the 'Parent').

EBS operates in the Republic of Ireland and has a countrywide network of 82 offices and a direct telephone based distribution division (EBS Direct). EBS' network gives it a physical presence in communities across Ireland and this is important in allowing it to provide a high quality service to its customers.

Prior to EBS becoming part of the AIB Group, EBS traded as EBS Building Society (the 'Society') for over 75 years. In 2010, the Society was recapitalised by the Minister for Finance (the 'Minister') in an amount of €875m (through the issue of special investment shares for €625m and a promissory note for €250m). In March 2011, the Minister announced that the Society was to be acquired by AIB Group to form one of the two "pillar banks" in Ireland, and accordingly on 1 July 2011 the Society was demutualised pursuant to an acquisition conversion scheme under the Building Societies Act 1989 (as amended). The effect of this was that the Society became a limited company and obtained a banking licence from the Central Bank of Ireland ('Central Bank'). The special investment shares that had been invested in the Society by the Irish Government were converted into €625m of ordinary shares held by the Minister. The Minister then transferred the entire issued share capital (€625m ordinary shares) in EBS to AIB p.l.c. on 1 July 2011. Under and in accordance with the Building Societies Act 1989 (as amended), on the conversion of the Society to EBS, the business, property, rights and liabilities of the Society, vested in EBS Limited. AIB p.l.c. operates EBS as a standalone, separately branded subsidiary with its own distribution network.

EBS is regulated by the Central Bank of Ireland and has an Irish banking licence under the Central Bank Act 1971 (as amended).

The AIB Group's corporate governance practices, which EBS was required to comply with from 1 July 2011, reflect Irish company law, the principles and provisions of the Combined Code on Corporate Governance (the 'Combined Code') to 31 December 2010, and certain provisions of the US Sarbanes Oxley Act of 2002. The AIB Group is subject to the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings ('Central Bank Code') which was introduced on 1 January 2011 and imposes minimum core standards upon all credit institutions licensed by the Central Bank.

EBS is a covered institution within the meaning of the Government Guarantee Scheme (the 'Scheme') and stood specified under the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (Statutory Instrument No. 416 of 2008) ('CIFS') for the period 30 September 2008 to 29 September 2010. EBS is a participating institution since 1 February 2010 under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ('ELG') which came into effect on 9 December 2009. In December 2012, the European Commission further extended the ELG issuance to the 30 June 2013. On 26 February 2013, the Irish Government announced that the ELG will end at midnight on 28 March 2013. After that date any new liabilities will not be covered by the Eligible Liabilities Guarantee Scheme. Liabilities incurred since January 2010 and before the scheme's end will continue to be guaranteed until maturity date.

As a separately licensed credit institution, EBS' corporate governance practices also reflect the relevant provisions of the Central Bank Code. Corporate Governance in EBS is exercised through a Board of Directors and a senior management team. The Board of Directors is comprised of 1 executive director, 3 group non executive directors and 3 independent non executive directors. The Board's policy is to comply with the highest standards of corporate governance as set out in the Central Bank Code. EBS is required to submit a compliance statement to the Central Bank annually confirming compliance with the Central Bank Code. For 2012, the compliance statement will be submitted to the Central Bank along with a copy of the 2012 Annual Report and Accounts following their sign-off by the Board.

BUSINESS REVIEW
The economic environment in Ireland continues to be very challenging generally and for the banking sector in particular. GDP grew by 0.9% in 2012, the second consecutive year of growth. Unemployment levels stabilised during the year and were 14.2% at December 2012 having peaked at 15.0% in February 2012 compared to 14.8% at December 2011 (Source: Central Statistics Office). While the impact of the Sovereign requirement for an EU/IMF loan and the related fiscal policy measures is causing financial stress among a greater number of borrowers, the positive trends in GDP and unemployment rates are to be welcomed.

The fall from peak (February 2007) in house prices according to the CSO Residential Property Price Index was 50% at December 2012 (the fall in Dublin is 56% with properties outside Dublin falling 47%).

At 31 December 2012 the Bank's Mortgage portfolio before impairments stood at €13.9bn (2011: €16.3bn) being Residential €13.6bn and Commercial €0.3bn (2011; Residential €15.4bn and Commercial €0.9bn). The decline in mortgage balances is a combination of loan sale transactions and customer repayments and redemptions during the year. During 2012 EBS sold portfolios of Residential Buy to Let loans €1.1bn and Commercial loans €0.7bn, incurring losses of €428m and €240m respectively.

EBS exited from the Commercial Lending market in 2008 and transferred all land and development and associated loans to NAMA in 2010 and 2011. This business has been discontinued.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012
The Group reported a loss after taxation of €736m for the year, €585m higher than the 2011 loss of €151m. The increase is mainly due to a loss of €668m on disposal of loans and advances to customers.

Net Interest Income
Net interest income is down €57m or 29%
Net interest income for the year is €143m compared to €200m in 2011. The net interest margin (including charges under the ELG scheme) is 0.82% compared to 1.03% for 2011. The net decrease of 21 basis points (bps) is due to:

- A decrease in lending margins, representing a decrease of 0.12%.
- A decrease in interest income due to change in accounting estimate of the average expected life of mortgages, representing a decrease of 0.09%
- An increase in retail funding costs, representing a decrease of 0.54%.
- A decrease in wholesale funding costs, representing an increase of 0.44%.
- A decrease in the cost of interest on debt securities in issue, representing an increase of 0.10%

Interest income on mortgage loans is €554m (2011: €656m), a decrease of €102m is mainly due a decrease in the loan book and lower average ECB rates for 2012.

Interest expense on customer accounts is €377m (2011: €314m). The increase year on year is due to higher rates paid in 2012 to attract and retain fixed retail and corporate funds.

Other Income/(Loss)

Other loss for the year is €654m compared to an income of €193m in 2011.
The main drivers for the increase are:

- A loss on disposal of €668m in relation to the sale of loans and advances with a carrying value of €1,513m during 2012
- Once off gain in 2011 of €159m from redemption of subordinated liabilities following liability management exercises
- A once off gain in 2011 of €27m on transfer of loans to NAMA, being €26m higher than 2012 gain arising on final valuation settlement.

Operating Expenses

Operating expenses are up €4m or 4.2%
Administrative expenses in 2012 are €89m compared to €85m in 2011. The increase is due to a provision for voluntary severance of €14m and an increase in defined benefit pension charge of €2m in 2012. Excluding this costs, administrative costs are down 14% due to lower staff numbers and core operating costs continuing to fall year on year.

Excluding losses on disposal of loans and the voluntary severance provision, the cost to income ratio for 2012 is 54% compared to 46% in 2011 on a like for like basis. The increase is due to lower net interest income in 2012.

Loss before Taxation

Loss before tax of €842m is up by €588m
The reported loss before tax of €842m is mainly attributable to the loss on disposal of €668m in relation to the sale of loans and advances with a carrying value of €1,513m during 2012 and impairments incurred on loans and advances to customers of €229m.

Impairment Charge on loans and advances to customers

The loan impairment provisions charge for loans and advances to customers for 2012 is €229m down from €530m in 2011. Total provisions held at December 2012 amount to €934m (2011: €949m). This total provision balance represents 6.7% of total loans and advances to customers (2011: 5.8%).

- The impairment charge has decreased principally due to deleverage of non-core assets during 2012.
- An increase in impaired balances due to a deterioration in the underlying book.
- Continued decrease in residential and commercial property prices, and
- An increase in the expected repossession rate.

The detailed breakdown of the impairment provisions stock together with impaired loans is set out below:

Group 2012	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	13,625	2,904	21.3%	689	180	869	29.9%	6.4%
Commercial Property	278	110	39.6%	27	38	65	59.1%	23.4%
Total	**13,903**	**3,014**	**21.7%**	**716**	**218**	**934**	**31.0%**	**6.7%**

Group 2011*	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	15,430	2,996	19.4%	614	124	738	24.6%	4.8%
Commercial Property	888	537	60.6%	143	68	211	39.2%	23.8%
Total	**16,318**	**3,533**	**21.7%**	**757**	**192**	**949**	**27.1%**	**5.9%**

Residential Loan Book Asset Quality

Residential loans more than 90 days past due or impaired increased from 19.6% at December 2011 to 21.7% at December 2012. Impaired loans were 21.3% at December 2012, up from 19.4% at December 2011. This reflects the ongoing impact of unemployment, the impact of the Sovereign requirements for an EU/IMF loan and the associated fiscal policy measures causing financial stress for a greater number of borrowers.

The economic conditions in the Republic of Ireland continue to be extremely challenging for our customers and the impact of high unemployment, fiscal policy measures and a stressed property market have led to increased default levels and consequently higher impairment charges. Management remain focussed on arrears management and have taken timely action to minimise losses including additional resources in terms of staff and processes.

EBS is fully committed to supporting customers in financial difficulty and has implemented the Central Bank's Code of Conduct on Mortgage Arrears to help support mortgage customers who are in arrears or are at risk of going into arrears. The protection of the Code applies to a property occupied as a family home by the borrower or a borrower's only residential property in the State.

Where possible, arrangements are entered into with borrowers that are experiencing financial difficulty in order for them to manage their mortgage repayments. If an arrangement is agreed the arrears are not adjusted other than where the borrower repays the outstanding arrears. Hence all loans regardless of arrangements in place are included in the past due category. In certain circumstances (where the borrower has indicated an intent and capacity to repay) the loan terms may be modified by for example capitalising the arrears, switching to interest only for an agreed period or extending the loan term when it represents the best option for the customer to return the loan to a performing status and when the option does not result in a worse outcome for EBS than the possible alternatives.

The level of provisions coverage on residential loans increased to 638bps at December 2012 up from 478bps at December 2011.

Commercial Loan Book Asset Quality

Commercial loans more than 90 days past due or impaired decreased from 67.6% at December 2011 to 47.5% at December 2012. Impaired loans were 39.6% at December 2012 down from 60.5% at December 2011. This reflects the deleveraging activity in 2012, but the underlying deterioration in asset quality is due to continuing weakness in the commercial property market and economic environment generally. The level of provisions coverage on commercial loans decreased marginally to 2,338bps at December 2012 from 2,376 bps at December 2011.

Mortgage Market

The residential mortgage market in Ireland stabilised, albeit at a low level, with total advances of €2.6bn in 2012 compared to €2.5bn in 2011. New residential lending for the EBS Group is €27m in 2012 down from €172m in 2011 reflecting a more conservative approach to new lending with new credit criteria being implemented however, EBS has announced it's intentions to lend up to €455m in new mortgage business for 2013.The overall mortgage market is much reduced, down c.93% from its peak in 2006. EBS' share of new mortgage lending in 2012 is 1.1% (2011: 6.6%) and the Group's share of outstanding retail mortgage balances is approximately 10.5% (2011: 10.6%).

Funding
The Group is funded through a combination of retail and wholesale deposits. EBS is committed to increasing the customer deposit base and reducing the dependence on wholesale funding, including funding from monetary authorities (including the European and Irish Central Banks) and reducing intergroup funding from our parent, AIB p.l.c.

Customer Funding

EBS' strategy is to obtain new retail funding balances and retain existing balances as they mature. EBS continues to have a strong franchise in the retail deposit market and at 31 December 2012 EBS has total customer accounts of €10,117m (2011: €8,541m). Despite the stabilisation of corporate and sovereign ratings in the Republic of Ireland pricing has remained intensely competitive however EBS has increased balances by €1,576m.

At 31 December 2012 retail balances were €7,431m, an increase of €645m in the year. EBS recorded retail inflows of €445m in the first six months of 2012, however in the second half of 2012 due to tightening of pricing and strong competition for retail funds, inflows were reduced to €200m.

Corporate deposits increased by €931m to €2,686m at December 2012 due to the successful campaign targeting the market for longer term deposit products as an alternative to Wholesale Funding in early 2012.

Retail funding represents 73% of customer balances with corporate funding representing 27%.

Wholesale Funding
Following the acquisition of EBS Limited by AIB Group in July 2011, EBS wholesale funding was limited to repo funding from market counterparties and the European Central Bank (ECB) and funding from AIB p.l.c. Over the course of 2012 EBS Limited wholesale funding balances were reduced by €3,722m due to increased customer funding and balance sheet deleveraging. Debt securities in issue reduced by €1,128m to €2,182m primarily due to a €1 billion EBS Mortgage Finance covered bond redemption in November 2012. Unsecured funding from AIB Group was reduced by €1,134m to €16m by December 2012 and ECB funding was €1,405m lower at €2,460m representing 16% of total funding (2011: €3,865 and 23%).

Capital
Regulatory Background
Following on from the Central Bank's 2011 Financial Measures Program (FMP) the regulatory capital requirements landscape has changed for EBS. The FMP which incorporated the Prudential Capital Assessment Review (PCAR) and Prudential Liability Assessment Review (PLAR) assessed the EBS's capital requirement at €1.5bn (being €1.2bn of a base requirement plus a buffer of €0.3bn for adverse deviations). Following the acquisition of EBS by AIB p.l.c on July 1st 2011 the €1.5bn of capital was provided to AIB p.l.c by the Irish Government in July 2011.

The required regulatory total capital limit confirmed by the Central Bank is 8% for EBS Limited and 9% for EBS Mortgage Finance Unlimited its wholly owned subsidiary.

The primary driver of the €1.5bn capital requirement for EBS arose from losses expected to be incurred by EBS on the deleverage c.€2.5bn of non core assets by December 2013 via open market sales in order to achieve the PLAR targeted loan to deposit ratio (LDR) of 122.5%.

Deleverage
EBS completed three deleverage transactions in 2012 resulting in the sale of non core loan assets with a value of €1.8bn. The first two transactions involved the sale of Retail Buy to Let assets on July 31 and October 1, 2012 with a total value of €1.1bn resulting in a loss of €0.4bn. The third transaction involved the sale of a portfolio of Commercial Buy to Let and Commercial Term Debt loans on November 15th, 2012 with a value of €0.7bn, resulting in a loss of €0.3bn. The total loss transactions was €0.7bn.

Capital Issue

In order to maintain adequate capital levels EBS issued €400m of ordinary shares to AIB p.l.c for cash in June 2012 prior to the completion of the deleverage transactions. EBS is dependant on it's parent AIB p.l.c for ongoing funding and capital support.

Outlook

During 2012 the Central Bank rescinded the PLAR LDR target of 122.5%. As a consequence no further asset sales are planned. With no further deleverage events planned the capital position of EBS at the end of 2012 was strong.

The Group capital ratios at 31 December are as follows:

	2012 €m	**2011 €m**
Core Tier 1 Capital	706	1,039
Non Core Tier 1 Capital	-	-
Tier 1 Capital	706	1,039
Tier 2 Capital	111	124
Total Capital	**817**	**1,163**
Risk Weighted Assets	8,914	9,883
Total Capital Ratio	9.2%	11.8%
Tier 1 Ratio	7.9%	10.5%
Core Tier 1 Ratio	7.9%	10.5%

The total capital ratio at December 2012 is 9.2% (2011: 11.8%), the reduction in the capital ratio is due to the losses incurred in 2012 offset by a reduction in risk weighted assets.

RISK MANAGEMENT

The risk management framework provides a firm-wide definition of risk and lays down the principles of how risk is to be identified, assessed, measured, monitored and controlled / mitigated and the associated allocation of capital against same. The Group categorises risks under a number of headings namely, strategic, operational, compliance and financial (including credit, liquidity and market) risks. Together, these form the Group's 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.

Further information in relation to the Risk factors affecting the Group are set out in the Risk Management Report.

FUTURE DEVELOPMENTS IN THE BUSINESS

We expect the operating environment to remain difficult throughout 2013. The Irish economy continues to face difficult challenges. While critical elements of the economy such as the export sector are performing strongly, and Government finances have stabilised, the current phase of economic contraction, falling employment and property asset values have yet to stabilise.

GOING CONCERN

The Directors have prepared these financial statements on the going concern basis which assumes that EBS will continue in operational existence for the foreseeable future having adequate funds to meet obligations as they fall due. EBS is dependent on its Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Parent.

The financial statements of Allied Irish Bank p.l.c (the "AIB Group") have been prepared on a going concern basis as the Directors of the AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the foreseeable future. In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans, cash flow and funding forecasts, capital resources projections, all of which have been prepared under base and stress scenarios. The AIB Group Directors have also considered the AIB Group's ability to access funding and liquidity. In addition, the AIB Group have considered the commitment of support provided to AIB by the Irish Government through the programme for restructuring the Irish banking system with AIB designated as one of the two 'Pillar Banks'.

The Directors of AIB Group are satisfied based on the clarity of confirmations received from the Central Bank of Ireland and public announcements by ECB, EU and IMF that in all reasonable circumstances the required liquidity and funding from the Central Bank/ ECB will be available to the Group during the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to EBS, the Directors of EBS consider that it is appropriate to prepare the financial statements on a going concern basis at this time.

DIRECTORS

The Directors at the date of this report are listed on page 3.

DIVIDENDS

The Directors' do not recommend payment of a dividend in the period to 31 December 2012 (2011: Nil).

DIRECTORS AND SECRETARY'S INTEREST IN SHARES

The beneficial interests of the Directors and the Secretary in office at 31 December 2012, and of their spouses and minor children, in the shares of group companies are set out below. The shares referred to are €0.01 ordinary shares in Allied Irish Banks, p.l.c., ("AIB") the holding company.

Ordinary shares	31 December 2012	1 January 2012*
Directors:		
Catherine Woods	Nil	Nil
Bernard Byrne	Nil	Nil
Fidelma Clarke	Nil	Nil
Tom Foley	100	100
Desmond Fitzgerald	Nil	Nil
Denis O'Callaghan	13,749	13,749
Jim O'Hara	Nil	Nil
Secretary:		
Sarah McLaughlin	377	377

** or date of appointment, if later.*

Share options

Details of the Directors' and the Secretary's options to subscribe for ordinary shares in AIB are given below. The vesting of these options to the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met by AIB. Subject thereto, the options outstanding at 31 December 2012 are exercisable at various dates between 2013 and 2015. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the Company's registered office.

	31 December 2012	1 January 2012	Options lapsed	Weighted average subscription price of options outstanding 31 December 2012
Directors:				€
Bernard Byrne	-	-	-	-
Fidelma Clarke	-	-	-	-
Desmond Fitzgerald	-	-	-	-
Denis O'Callaghan	10,500	20,500	10,000	14.3
Secretary				
Sarah McLaughlin	-	-	-	-

Independent Non-Executive Directors do not participate in share option plans. No options were granted or exercised during the year.

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2012.

Independent Non-Executive Directors do not participate in long term incentive plans.

Apart from the interests set out above, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2012 and 26 March 2013.

Directors and Secretary
The following Board changes occurred with effect from the dates shown:

- Mr. Jim O'Hara was appointed Independent Non-Executive Director on 26 June 2012;
- Mr. Desmond Fitzgerald was appointed Executive Director on 16 July 2012;
- Ms. Helen Dooley resigned as Secretary of the Company on 16 July 2012;
- Ms. Sarah McLaughlin was appointed Secretary of the Company on 16 July 2012;
- Mr. Eamonn Hackett resigned as a Group Non-Executive Director on 31 August 2012;
- Mr. Tom Foley was appointed Independent Non-Executive Director on 21 November 2012;
- Mr. Fergus Murphy resigned as Executive Director on 21 November 2012;
- Ms. Fidelma Clarke was appointed Group Non-Executive Director on 29 November 2012.

EVENTS SINCE THE YEAR END

Voluntary severance programme
In January 2013 EBS launched a voluntary severance programme which is expected to be available to all staff.

Eligible Liabilities Guarantee Scheme 2009
On 26 February 2013, the Minister for Finance announced that the Eligible Liabilities Guarantee Scheme 2009 will end for all new liabilities with effect from midnight on 28 March 2013. After this date, no new liabilities will be guaranteed under the Scheme. The ELG scheme was one of the measures taken by the Irish Government to stabilise the financial system at a time of unprecedented market turbulence, which is no longer evident.

The existing deposit guarantee scheme, which guarantees deposits of up to €100,000 per qualifying depositor, is unaffected by this announcement.

In the directors' view, there have been no events since the year end that have had a material effect on the financial position of the Bank.

BOOKS OF ACCOUNT
The Directors are responsible for ensuring that proper books and accounting records, as outlined in Section 202 of the Companies Act 1990, are kept by the Group. To achieve this, the Directors have employed accounting personnel with appropriate experience who report to the Board and ensure that the requirements of Section 202 of the Companies Act 1990 are complied with. Those books and accounting records are maintained by providing adequate resources to the finance function at the registered office of the ultimate parent company Allied Irish Banks, p.l.c..

INDEPENDENT AUDITOR
The auditor, KPMG, Chartered Accountants, have signified their willingness to continue in office under Section 160(2) of the Companies Act, 1963.

On behalf of the Board

Des Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

26 March 2013

Statement of Directors' Responsibilities

The Directors' are responsible for preparing the Group and parent company financial statements in accordance with applicable Irish law. Under that law the Directors' are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Company; the Companies Acts 1963 to 2012 provide in relation to such financial statements that references in the relevant part of the Act and to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Group and parent company's financial statements, the Directors' are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors' are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2012. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

On behalf of the Board:

Des Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

26 March 2013

Risk Management Report

1. Introduction

Since 1 July 2011 and over the course of 2012, EBS has been in the process of aligning and integrating its risk management structures and frameworks with AIB Group. EBS's risk profile remains at an elevated level, driven principally by the ongoing challenges of the external environment and a number of internal factors, both legacy and reflecting the level of organisational transformation currently underway.

EBS has a clearly defined Risk Governance structure and framework that is commensurate with the size, scale and complexity of the organisation. The governance and organisation framework through which EBS manages and seeks where possible to mitigate its risks is described below. The key risk factors to which the EBS is exposed are set out in the section below

2. Risk Management Framework

EBS Group assumes a variety of risks in undertaking its business activities. EBS defines risk as any event that could damage the core earnings capacity of the Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations or failure to maximise opportunities or capitalise on corporate strengths. Through its alignment with AIB Group, EBS has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core elements of which are set out in a revised Enterprise Risk Management Framework which was approved by the AIB Group Board in March 2012. This framework is in turn supported by a number of frameworks covering the management of specific risk categories (credit risk, operational risk, etc) which were reviewed and approved by the AIB Group Board over the course of 2012. EBS 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 shareholder value and the achievement of EBS' strategic objectives. The primary focus of the risk management framework is to ensure that the EBS achieves the optimal risk/reward return on any investment of people, time and resources. The core aspects of the EBS's risk management approach are described below.

3. Risk Appetite Statement and Risk Policies

The EBS Group's risk appetite is defined as the maximum amount of risk that the EBS is prepared to accept in order to deliver on its strategic and business objectives. EBS maintains its own risk appetite statement ("RAS") which was updated to align with the AIB Group RAS and approved by the Board in May 2012. The RAS is a blend of qualitative and quantitative limits and triggers linked to EBS's objectives. The RAS is reviewed at least annually by the Board and more frequently if required. EBS's risk profile is measured against its risk appetite and adherence to the risk limits is monitored on an ongoing basis and reported regularly to the EBS Chief Risk Officer and Board. Material breaches of risk appetite, if they occur, are escalated by the Board to the Central Bank.

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 EBS, and are monitored by specific business units with oversight by the relevant EBS risk committees. Material changes to these policies are assessed by the Management team on an annual basis and subsequently recommended to the Board for approval. Throughout 2012 EBS has been working with AIB Group to align its risk policies with those of AIB Group. This work will be completed in 2013.

4. Risk governance and risk management organisation

Risk management in the EBS Group is founded on a clearly defined risk governance structure at Board level. The Board approves the EBS strategy and is responsible for the system of internal control and for the effectiveness of the management of risks. The Board has ultimate responsibility for the governance of all risk taking activity in the EBS Group. The EBS Group has adopted a 'three lines of defence' framework in the delineation of accountabilities for risk governance. Under the three lines of defence model, primary responsibility for risk management lies with the business line management. The Risk Management Functions (both EBS and AIB Group) provide second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the AIB Group Internal Audit function which provides independent assurance to EBS on the effectiveness of the system of internal controls.

***** *Forms integral part of the audited financial statements*

Whilst the Board has ultimate responsibility for all risk taking activity within EBS, it has delegated a number of risk governance responsibilities to various committees (both Group and AIB Group) or key officers (both Group and AIB Group).

The Board was supported in 2012 by the work of the Board Audit and Compliance Committee (“BACC”). The BACC supported 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 in 2012. In addition it supported the work of the Board in relation to the EBS risk and control framework. Following a review of governance in late 2012, the decision has been taken to rename the BACC to Board Audit Committee (“BAC”) to align with AIB Group. The BAC will continue to meet regularly throughout the year.

The EBS Management Team comprises the senior executive managers of the EBS Group who have responsibility for the management of the business as a whole. The key objective of the Management Team is to support the Managing Director in effective day-to-day running of the bank’s business and in the delivery of the EBS Board-approved strategy. It has responsibility for implementing the strategic business plan of the EBS Group, in line with AIB Group strategic objectives and monitoring actual and projected performance including profitability, impairments and capital ratios.

The risk management framework is supported by its underlying Risk Committees which during 2012 comprised of 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 Managing Director, was responsible for identifying actions to support robust risk management in line with the EBS' risk appetite. Progress was monitored and reported regularly to the Board through the report of the Chief Risk Officer. Representatives from AIB Group Risk participated and attended each of the EBS Risk Committees as part of the alignment and oversight by AIB Group.

Following a review of governance in mid 2012, the roles and responsibilities of the Operations Management Committee and the Regulatory Compliance Committee were amalgamated to form the Operational Risk and Compliance Committee (“ORCC”). The ORCC which met monthly from June to December 2012 reviewed and monitored business operation and process risks and improvement initiatives across the organisation and ensured that there is an appropriate framework in place to support the objective of the Group to be compliant with all its regulatory compliance requirements. The Committee was responsible for evaluating the organisation’s appetite for operational and compliance risk and ensuring that it is well communicated and understood.

The Asset & Liability Committee (“ALCO”), which met monthly in 2012, was established to monitor EBS Group’s exposure to key market risks, i.e., liquidity risk, funding risk, interest rate risk in the banking book and foreign exchange risk. The Committee was responsible, in conjunction with AIB Group ALCO, for asset & liability management, monitoring the adequacy of the liquidity framework and buffers, and for recommending the appropriate EBS Group funding and capital policies and plans to the Board for approval in line with AIB Group policies and planning. The Committee monitored capital ratios, including projections and oversees the appropriate implementation of the capital policy.

The Credit Risk Committee, which met monthly in 2012, reviewed and adopted appropriate credit risk management policies for EBS and its subsidiaries, in line with the overall credit risk appetite of EBS and AIB Group. These policies comprise lending, debt management and counterparty credit. The Committee was also responsible for overseeing appropriate credit risk management structures and policies in line with the credit risk appetite of the group and 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 Risk Rating Approval Committee, which met semi-annually in 2012, was responsible for the ongoing validation and monitoring of risk rating systems, model performance and model output in terms of forecasting.

Following a further review of risk governance in late 2012, the roles and responsibilities of a number of EBS Risk Committees, namely the Credit Risk Committee and the Operational Risk and Compliance Committee, which were in place during 2012, have been amalgamated to form one Executive Risk Committee (“ERC”). The main purpose of the ERC which was established in January 2013 and will meet monthly, is to monitor, review and recommend an appropriate risk governance structure and risk appetite for EBS. In addition, the ERC is responsible for evaluating the adoption of AIB Group policies or alignment of EBS policies and providing recommendations to the Board in line with the overall risk appetite of the Group and AIB Group.

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The Committee is also responsible for monitoring the make up and performance of the loan books and the adequacy of provisions for impaired loans. The evaluation of Counterparty Credit Risk and limit setting is performed at AIB Group level.

In addition, the roles and responsibilities of the ALCO have been subsumed into the EBS Management team since January 2013. On a monthly basis, the Management Team dedicate a meeting to its asset & liability management responsibilities.

5. Risk Factors

EBS' approach to identifying and monitoring the principal risks and uncertainties it faces is informed by risk factors. All of EBS' activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed on a company wide basis. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of EBS' risk management framework. The principal risks and uncertainties facing the EBS fall under the following broad categories:

- Macro-economic and geopolitical risk;
- Macro-prudential, regulatory and legal risks to our business model; and,
- Risks related to our business operations, governance and internal control systems.

The risks pertaining to each of these categories are set out in summary form in the box below and described in more detail in subsequent pages.

Macro-economic and geopolitical risk

1. Ireland depends materially on financial support from the International Monetary Fund (IMF), the European Union ("EU") and the European Central Bank ("ECB") and may be adversely affected by the conditions attached to the financial support provided by these institutions.
2. EBS' access to funding and liquidity is adversely affected by the financial instability within the Eurozone.
3. Contagion risks could disrupt markets and adversely affect EBS Group's financial condition.
4. Constraints on liquidity, and market reaction to factors affecting Ireland and the Irish economy, have created an exceptionally challenging environment for the management of EBS Group's liquidity.
5. EBS Group's markets, particularly for retail deposits, are at risk from more intense competition.
6. EBS' business may be adversely affected by a further deterioration in economic and market conditions.
7. General economic conditions continue to be very challenging for our mortgage and other lending customers and increase the risk of payment default.
8. The depressed Irish property prices may give rise to increased losses experienced by EBS Group.

Macro-prudential, regulatory and legal risks to our business model

1. Powers continue to be conferred on the Irish Minister of Finance.
2. EBS Group may be subject to rigorous and demanding Government supervision and oversight.
3. EBS Group is subject to the risk of having insufficient capital resources to meet increased minimum regulatory requirements.
4. EBS Group business activities must comply with increasing levels of regulatory requirements introduced as a result of failings in financial markets.
5. EBS Group's participation in the NAMA Programme gives rise to certain residual risks.
6. EBS Group may be impacted by further fiscal policy / budget measures introduced by the Irish Government.
7. The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate and the value realised by EBS Group for its assets may be materially different from the current or estimated fair value.
8. EBS Group's deferred tax assets are substantially dependent on the generation of future profits over an extended number of years

Risks related to business operations, governance and internal control systems

1. The EBS Group is subject to inherent credit risks in respect of customers and counterparties which could adversely affect the Group's results, financial condition and future prospects.
2. EBS Group faces heightened operational risks.
3. Risks relating to the restructuring of EBS Group.
4. There is always a risk of litigation arising from the EBS Group's business activities.

These principal risks and uncertainties should not be considered as exhaustive and other factors not yet identified, or not currently considered material, may impact the EBS Group.

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5.1 Macro-economic and geopolitical risk

1. **Ireland depends materially on financial support on the International Monetary Fund (“IMF”), the European Union (“EU”) and the European Central Bank (“ECB”) and may be adversely affected by the conditions attaching to the financial support provided by these institutions.**

The IMF/EU/ECB Programme of Financial Support for Ireland provides financial assistance to the Irish State. The Programme includes a fundamental downsizing and reorganisation of the banking sector, complemented by the availability of capital to underpin bank solvency. The Irish State committed to ‘ensure continued compliance with the minimum core tier 1 capital ratio of 10.5% for all PCAR banks’. In addition, the Irish State must report on a series of actions agreed with the EU /IMF on financial sector reforms in Ireland under headings such as deleveraging, funding and liquidity monitoring, asset quality, reorganisation and financial supervision

The support is therefore dependent upon the implementation of further restructuring and the restoration of the long-term viability of the financial services sector, including deleveraging and restructuring. (Whilst the deleveraging is primarily focussed on none-core activity within EBS Group, there is a risk that a failure to achieve the targets may result in core assets being deleveraged which would impact future financial performance).

A failure to successfully implement the provisions and achieve the fiscal targets within the timeframe envisaged could lead to a termination of the financial support which could have a material adverse effect on the financial sector in Ireland and on the activities and performance of the EBS Group.

2. **EBS’ access to funding and liquidity is impacted by the financial instability within the Eurozone.**

Economic, monetary and political conditions remain unstable within a number of the euro-zone members. There is a risk that EU/euro-zone members may not be able to support their debt burdens and meet future financial obligations, which may then be reflected in the downgrade of sovereign credit ratings. This would subsequently impact the cost and availability of funding to EU members and European banks.

EBS is dependent to a significant extent on its parent the AIB Group for funding and liquidity support. The Irish sovereign ratings have a direct impact on AIB Group’s rating due to the funding dependency. AIB Group’s credit rating is key in attracting and retaining corporate deposits. Any future downgrade may threaten AIB Group’s deposit base and may restrict any future access to wholesale funding markets, with consequent impacts on the EBS Group.

3. **Contagion risks could disrupt the markets and impact the EBS Group’s financial condition and results of operations**

Contagion risk to the markets in which the Group operates continues to exist and dislocations caused by the interdependency of financial market participants continues to be a source of material risk to the Group’s financial condition and results of operations.

The Group has been exposed to increased counterparty risk as a result of the failure of financial institutions during the global economic crisis. Defaults by, or even reductions in the perceived creditworthiness of, one or more corporate borrowers, or financial institutions, or the financial services industry generally have led to market-wide liquidity problems, losses and defaults. Such defaults could lead to further losses or defaults by such borrowers and/or institutions, which could adversely affect the Group’s results of operations, financial condition and future prospects.

Another source of potential contagion risk relates to the Euro. The withdrawal of a single or group of countries from the Euro, or the disorderly break-up of the Euro would have a significant impact on the stability of the European financial landscape, and with it that of the Irish financial system and Irish banks. It would be likely to lead to a significant loss of customer deposits as well as creating some immediate operational and business hurdles for EBS which would threaten its viability.

4. **Constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy have created an exceptionally challenging liquidity environment for the EBS Group**

As noted above, the EBS is wholly dependent on its parent the AIB Group for funding and liquidity support. The AIB Group has been operating under an exceptionally challenging liquidity environment for the last four years.

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Wholesale market conditions have restricted AIB (as well as EBS) funding access to short duration, mainly secured funding.

However, there has been recent improvement in market sentiment towards Irish issuers and AIB Group plans to re-engage in a balanced and measured manner to ensure viable funding levels whilst building confidence with external investors.

The on-going availability of customer deposits to fund the loan portfolio is subject to potential changes in certain factors outside the Group's control, such as a deterioration in the outlook for either the Irish economy in general, the financial services industry or EBS Group. Any deterioration in the outlook for the EBS Group, or in banking businesses generally, could lead to further losses of deposits over a short period of time.

To meet its funding requirements, the Group has accessed a range of central bank liquidity facilities, including certain additional liquidity schemes introduced by central banks for market participants during periods of dislocation in the funding markets. At an AIB Group level this has included a switch from short term ECB drawings into two 3-year Longer-Term Refinancing Operations ("LTROs") in December 2011 and March 2012. In accessing central bank and other secured lending facilities, the AIB Group has relied significantly on its Qualifying Liquid Assets.

On-going deleveraging and an increase in customer deposits have reduced the Group's reliance on ECB funding and central bank liquidity facilities with the Group now preparing for the expiry of the Eligible Liabilities Guarantee ("ELG") Scheme.

The Financial Measures Programme, which requires each domestic Irish bank to meet liquidity requirements including targets set for Basel III ratios, Net Stable Funding Ratio ("NSFR") and Liquidity Coverage Ratio ("LCR") require continued deleveraging measures such as the run off and disposal of non-core assets. For EBS Group these are monitored and maintained at an AIB Group level.

However, in the unlikely event that the AIB Group exhausts its stock of available collateral, it would be necessary to seek alternative sources of funding, including continued support by the Irish Government.

5. **EBS' markets, particularly for retail deposits, is at risk from more intense competition**

The EBS Group faces intense competition for retail deposits across all of its markets. In the absence of wholesale funding, the Group needs to retain and grow its retail deposits to support future growth. While EBS believes it is positioned to compete effectively, there can be no assurance that existing or increased competition will not adversely affect the Group in one or more of the markets in which it operates.

6. **EBS' business may be adversely impacted by a further deterioration in economic and market conditions**

The deterioration of the Irish economy has significantly and adversely affected the Group's financial condition and performance in recent years. Although economic activity, following a very deep recession, had regained some momentum in Ireland and internationally, global activity had weakened again.

A renewed downturn in the economic performance of the Irish economy could further adversely affect the Group's financial condition and results of operations. This could include further reductions in business activity, lower demand for products and services, reduced availability of credit, increased funding costs, decreased asset values, and additional write-downs and impairment charges. This would have a material impact on the Group's plans for recovery and deleveraging.

The Group's financial performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates may no longer be accurate given the general economic instability.

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7. **General economic conditions for our mortgage customers continue to be very challenging and increase the risk of payment default**

EBS remains heavily exposed to the Irish property sector.

The high level of unemployment, coupled with a general reduction in disposable income (including increased taxes and pay reductions) has had an adverse impact on borrowers' ability to repay loans which is evidenced by the increasing arrears on residential property mortgages.

Furthermore, since 2011 a number of initiatives and regulations were introduced following the Inter-Departmental Working Group on Mortgage Arrears, including the publication of the 'Keane Report', the Code of Conduct on Mortgage Arrears, the Consumer Protection Code 2012 and the 2012 Code of Conduct for Business Lending to Small and Medium Enterprises and the requirement for Mortgage Arrears Resolution Strategies. Collectively, these have led to a need for more sophisticated mortgage arrears management strategies, in particular, the application of forbearance measures which were introduced in 2012. The impact of these measures has yet to be seen, but it does increase the risk of potential loan losses which the Group would not otherwise incur as it may lead to a lack of willingness (as opposed to ability) to repay loans. Furthermore, there is a risk that the reforms of Irish bankruptcy law may result in more customers choosing this as a debt solution.

Overall this increases the risk of further impairment to the Group's mortgage portfolios, and may lead to higher costs, additional write-downs and lower profitability.

8. **The depressed Irish property prices may give rise to increased losses experienced by EBS Group.**

Since the beginning of 2007, the Irish residential property market has undergone a material negative correction as regards mortgage lending activity and residential property prices.

The Group's exposure to credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices that are not sufficient to recover the full amount of the loan exposure that is due, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently being experienced.

Any such losses could have a material adverse effect on the Group's future performance and results of operations. In addition, exposure to particularly vulnerable sectors of the Irish economy, in particular property and construction, could result in reduced valuations of the assets over which security has been taken and reduced recoverability.

Furthermore, an increase in interest rates in the Group's main markets may lead to, amongst other things, further declines in collateral values, higher repayment costs and reduced recoverability which together with the aforementioned risks may adversely impact the Group's earnings or require an increase in the expected cumulative impairment charges.

5.2 Macro-prudential, regulatory and legal risks to our business model

1. **Powers continue to be conferred on the Irish Minister of Finance**

The Credit Institutions (Stabilisation) Act 2010 conferred powers on the Irish Minister of Finance to direct the affairs of and restructure credit institutions and reorganise their assets and liabilities. Pursuant to the Act, directors are required to act in a manner that is aligned to the interests of the State in the performance of their duties, having regard to public interest considerations specified in the Act. The provisions of the Act were to cease to have effect on 31 December 2012 unless otherwise extended. The Act was extended and remains in effect until the end of 2014, unless further extended in due course.

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2. **EBS Group may be subject to rigorous and demanding Government supervision and oversight.**

As a result of the recapitalisation of AIB Group by the Irish Government, the EBS Group is subject to a set of obligations outlined under a number of Subscription and Placing Agreements impacting on EBS Limited's governance, remuneration, operations and lending activities. These obligations are in addition to certain commitments and restrictions to the operation of the AIB Group's business under the Credit Institutions (Financial Support) Scheme 2008 (" the CIFS Scheme"), the NAMA Programme and the ELG Scheme, all of which may serve to limit the Group's operations and place significant demands on the reporting systems and resources of the Group.

The AIB Group is substantially owned by an agency of the Irish State and accordingly, subject to EU state aid rules, controlled by the Irish State. Such ownership or control may affect EBS' operations, financial condition and future prospects due to in an increase in the level of involvement in the management and/or affairs of AIB Group. This may include pursuing product and pricing strategies to achieve wider public policy objectives which may come into conflict with the commercial objectives of EBS. Such interventions may have a negative impact on the operations of the EBS Group.

3. **EBS is subject to the risk of having insufficient capital resources to meet minimum regulatory requirements.**

EBS' target capital requirement, as part of the AIB Group, is currently a Core Tier 1 ratio of 4% and a total capital ratio of 8%, not including an allowance for an additional protective buffer. As at December 2012 EBS achieved a Core Tier 1 ratio of 7.9% and a total capital ratio of 9.2% which is significantly above the required level.

AIB has carried out extensive forward-looking stress tests on its capital adequacy position, including two EBA stress tests carried out in the second half of 2011, the latter of which had a threshold of 9% Core Tier 1 ratio and included an additional stress on sovereign exposures. EBS formed part of these stress tests. The published results of both EBA stress tests confirmed that AIB Group did not require additional capital.

However, given the levels of uncertainty in the current economic climate there is the possibility that further losses over and above what is currently forecast could materialise. In the event that such losses may be significantly greater than forecasted, EBS' capital position could be eroded to the extent that it has insufficient capital resources to meet the target regulatory requirements.

4. **EBS Group's business activities must comply with increasing levels of regulatory requirements introduced as a result of failings in financial markets.**

In 2012, the unprecedented level of new regulations, issued by both by the Central Bank of Ireland and the EU, continued through a number of new and revised Codes and Directives:

- The first compliance statement under the Corporate Governance Code for Credit Institutions and Insurance firms which was introduced in 2011 was required to be submitted. The Code sets out the minimum requirements an institution must meet to promote strong and effective governance; and
- The revised Consumer Protection Code came into effect on 1 January 2012 with consideration given until 30 June 2012 for full compliance where system changes were required.

Change programmes were initiated across the Group to implement these new requirements spanning all business areas, processes and systems and we are operating fully to these codes now.

The Personal Insolvency Act, which was signed into law in December 2012, provides for the introduction of new non-judicial debt settlement and for amendments to the Bankruptcy Act. It is expected that in quarter 1 2013 the newly established Insolvency Service of Ireland will issue relevant guidelines and publications and that in quarter 2 the Insolvency Service will begin to appoint Personal Insolvency Practitioners. A key risk arises from potential changes in customer behaviour and attitude to debt obligations given that the new legislation allows for the agreed settlement of unsecured debt and the settlement/restructuring of secured debts up to a maximum of €3 million. The inclusion of secured debt in the non-judicial process is unprecedented, and therefore, it is difficult to gauge its impact. While the Personal Insolvency Arrangement ("PIA") requires prior co-operation and engagement by Private Dwelling House ("PDH") borrowers under the MARP process, this requirement does not apply to other secured debtors. These factors could impact on the potential number of customers applying

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through the insolvency process, with potential negative consequences for the Group in terms of resourcing, impairment provisions and capital adequacy, with ensuing adverse Government, media and consumer reactions. It is recognised that Personal Insolvency Practitioners (“PIP”), who have yet to be authorised, will play a key role in the effective implementation of the legislation as will the guideline living standards for applicants. While the Insolvency Service has given indications as to its intended approach in relation to these factors, there remains uncertainty that the controls will be adequate to mitigate the downside risk of changes to customer behaviour.

A number of new legislative proposals are currently being considered by the Oireachtas (the Irish National Parliament) including the Central Bank (Supervision and Enforcement Bill) 2011 and the Credit Reporting Bill 2012. Together with the high level of existing regulations, the challenge of managing regulatory compliance increased substantially in 2012. The changing regulatory standards have posed a concomitant demand on the Group in terms of the deployment of business and IT resources which are expected to continue in 2013. Delivering this level of change has placed and will continue to place added risk on the organisation, including the challenge to meet tight delivery timelines in the face of competing priorities and resource demands.

The EBS Group is subject to financial services laws, regulations and policies changes in supervision and regulation, in Ireland has and will continue to have a material impact on the Group’s business, products and services offered and the value of its assets.

Future changes in government policy, central bank monetary authority policy, EU/Eurozone policies, legislation or regulation or their interpretation relevant to the financial services industry in the markets in which EBS operates may adversely affect its product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements. Any changes in the regulation of selling practices and solvency, funding and capital requirements could have a significant impact on the Group’s results of operations, financial condition and future prospects.

Furthermore, new regulatory obligations regarding functional and operational arrangements within EBS may also have an adverse impact on the Group’s results, financial condition and prospects.

5. **EBS’ participation in the NAMA Programme gives rise to certain residual risks.**

In 2011, €77.0m in loans and advances were transferred to NAMA. This is in addition to the €836.4m in 2010. There were no transfers to NAMA in 2012 The residual risks relating to this transaction include:

- Section 93 of the NAMA Act (Clawback of overpayments) provides that where a participating institution receives an amount to which it was not entitled, that the participating institution will repay such amount to NAMA. Any payments to NAMA in relation to such "Clawback" may have an adverse effect on EBS.
- Section 135 of the NAMA Act [and Clause 9.2 of NAMA’s Acquisition Terms and Conditions] directs EBS to provide a series of indemnities to NAMA relating to the transferred assets. Any payment by EBS to NAMA in respect of the indemnities may have an adverse effect on EBS.
- Furthermore, Section 225 of the NAMA Act provides, that on the dissolution or restructuring of NAMA, that the Minister for Finance may require that a report and accounts be prepared. In the event that NAMA shows that an aggregate loss has been incurred during the period since its establishment, the Irish Minister for Finance may impose a surcharge on EBS, as a participating institution (under additional legislation which would be enacted). The surcharge is to be apportioned to each participating institution on the basis of the book value of the assets acquired from that participating institution and is not to exceed the amount of the underlying loss, if any, incurred by NAMA. Any surcharge due to be paid by a participating institution in accordance with the Act may not exceed 100 per cent of the corporation tax, if any, due and payable by that participating institution for the accounting period(s). No surcharge will become payable until either (a) 10 years after the passing of the NAMA Act; or (b) NAMA is dissolved or restructured, or there is a material alteration of NAMA’s functions, whichever is last to occur.

In addition, credit exposure to NAMA arises from the senior and subordinated NAMA bonds acquired by EBS in consideration for the transfer of assets to NAMA.

Any of these events may serve to limit EBS’ operations and could have a material adverse effect on the Group’s results of operations, financial condition and future prospects.

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6. **EBS may be impacted by further fiscal policy / budget measures introduced by the Irish Government.**

The current and future budgetary policy in Ireland and taxation and other measures adopted by Ireland to meet its obligations to the EU may have an adverse impact on borrowers' ability to repay their loans and hence the Group's business.

7. **The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate and the value realised by EBS for its assets may be materially different from the current or estimated fair value.**

Under IFRS, EBS Group recognises at fair value: (i) derivative financial instruments; (ii) financial instruments at fair value through profit or loss; (iii) certain hedged financial assets and financial liabilities; and (iv) financial assets classified as available for sale ("AFS). The best evidence of fair value is quoted prices in an active market. Generally, to establish the fair value of these instruments, EBS relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. Where quoted prices on active markets are not available, EBS uses valuation techniques which require it to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex and the assumptions, judgements and estimates, EBS is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, appropriate credit spreads, residential and commercial property price appreciation and depreciation, and relative levels of defaults.

Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had, and could continue to have, an adverse effect on the Group's results of operations and financial condition.

The financial markets have experienced stressed conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity.

Those stress conditions resulted in the Group recording significant fair value write-downs in the preceding four years. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant changes in the fair values of the Group's exposures, even in respect of exposures such as credit market exposures, for which it has previously recorded fair value write-downs. In addition, the value ultimately realised by the Group may be materially different from the current or estimated fair value. Any of these factors could require us to recognise further fair value write-downs or recognise impairment charges, any of which may adversely affect its results of operations, financial condition and prospects.

8. **EBS Group's deferred tax assets are substantially dependent on the generation of future profits over an extended number of years.**

The Group's business performance may not reach the level assumed in the projections that support the carrying value of the deferred tax assets. Lower than anticipated profitability within Ireland would lengthen the anticipated period over which the Irish tax losses would be utilised.

The value of the deferred tax related to the unutilised tax losses constitutes a substantial portion of the total deferred tax assets recognised on the Group's statement of financial position. A significant reduction in anticipated profit or changes in tax legislation, regulatory requirements, accounting standards or relevant practices could adversely affect the basis for full recognition of the value of these losses, which would adversely affect the Group's results, financial condition including capital and future prospects.

New capital adequacy rules, consistent with Basel III principles, are proposed within the EU draft Capital Requirements Regulation (part of the Capital Requirements Directive IV package). Assuming implementation in substantially unchanged form, the new rules will, inter alia, require the Group to deduct from its common equity capital, the value of most of the Group's deferred tax assets, including all deferred tax assets arising from unused tax losses.

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5.3 Risks related to business operations, governance and internal control systems

1. **EBS Group is subject to inherent credit risks in respect of customers and counterparties which could adversely affect the Group's results, financial condition and future prospects.**

Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of the Group's businesses. In addition to the credit exposures arising from loans to individuals and Corporates, the Group also has an exposure to credit risk arising from loans to financial institutions, its trading portfolio, available-for-sale financial investments, derivatives and from off-balance sheet guarantees and commitments.

The Group has been exposed to increased counterparty risk as a result of the risk of financial institution failures during the global economic crisis.

The Group is also exposed to credit risks relating to sovereign issuers. Concerns in respect of Ireland and other sovereign issuers, including other European Union Member States, have adversely affected and could continue to adversely affect the financial performance of the Group.

2. **EBS Group faces heightened operational risks.**

The Group faces a heightened operational risk profile given the current economic environment and in the context of taking forward the significant organisational restructuring programme including its integration into the AIB Group and the impact of an ongoing voluntary severance programme.

One of its key operational risks is people risk. EBS' efforts to restore and sustain the stability of its business on a long-term basis depend in part on the availability of skilled management and the continued service of key members of staff both at its head office and at each of its business units. Failure by the Group to staff its day-to-day operations appropriately, or the further loss of one or more key Senior Executives, and failure to replace them in a satisfactory and timely manner, could have an adverse effect on the Group's results, financial condition and prospects.

Under the terms of the recapitalisation by the Irish Government and the terms of the ELG Scheme, the Group is required to comply with certain executive pay and compensation arrangements. As a result of these restrictions, the Group cannot guarantee that it will be able to attract, retain and remunerate highly skilled and qualified personnel competitively in a highly competitive market. If the Group fails to attract and appropriately develop, motivate and retain highly skilled and qualified personnel, its business and results of operations may be adversely affected.

Delivering this level of change has placed and will continue to place added risk on the organisation, including the challenge to meet tight delivery timelines in the face of competing priorities and resource demands. Negative public or industry opinion can result from the actual or perceived manner in which the Group conducts its business activities or from the restructuring. Negative public or industry opinion may adversely affect the Group's ability to keep and attract customers and, in particular, corporate and retail depositors, the loss of which would, in each case, adversely affect the Group's business, financial condition and prospects.

Any weakness in the Group's risk controls or loss mitigation action in respect of operational risk could have a material adverse effect on the Group's financial condition and operations.

3. **Risks relating to the restructuring of EBS Group.**

AIB Group's strategy is to establish a new core bank with a restructured balance sheet. This will be achieved through the separation and progressive disposal and winding down of non-core assets through its deleveraging plan with a target loan to deposit ratio of 122.5% by December 2013.

In May 2011, AIB Group dismantled its former divisional structures which were replaced with a "one bank" model.

Following a further strategy review announced in July 2012, AIB Group has re-affirmed its commitment to a 'one bank' strategy. However, this strategy will be implemented via a further revised and simpler organisational structure. AIB will, in future, operate around three points of focus – the domestic core bank (including EBS), the

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UK comprising businesses in Great Britain ("GB") and Northern Ireland ("FTB"), and the newly created Financial Solutions Group ("FSG"). This revised structure is currently being implemented.

EBS Group's resulting business and organisational restructuring represents a significant change programme and brings with it a number of key execution risks, including the impact on labour relations as a consequence of the rollout of a severance program.

In addition, the implementation of the cost reduction and business rationalisation programme developed by AIB Group to re-align its cost base and become a more focused and streamlined organisation may result in EBS incurring significant additional costs (including redundancy costs). The programme will take time to implement and may negatively impact on the profitability of the EBS Group in the shorter term.

4. **There is always a risk of litigation arising from the EBS Group' business activities.**

EBS Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which EBS may be involved are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation. Adverse regulatory action or adverse judgments in litigation could result in restrictions or limitations on EBS Group's operations or result in a material adverse effect on EBS Group's reputation or results of operations.

6. Risk Disclosures

The risk management framework provides a firm-wide definition of risk and lays down the principles of how risk is to be identified, assessed, measured, monitored and controlled / mitigated and the associated allocation of capital against same. EBS Group categorises risks under a number of headings namely, strategic, operational, compliance and financial (including credit, liquidity and market) risks. Together, these form the EBS Risk Universe. This helps EBS to assess and manage risk on an enterprise wide, holistic basis. The Risk Universe is continuously reviewed and updated reflecting the changing risk environment.

6.1 Strategic Risk

Strategic risk management comprises the EBS's values and beliefs, integration risk, change readiness, strategic plan management, remuneration, third party relationship management, brand management, distribution strategy, leadership and communication. Strategic risk also encompasses external trends which cannot be controlled but which could have a significant impact on the EBS'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 on a regular basis.

6.2 Operational Risk

Operational risk is the current or prospective risk of loss arising from inadequate or failed internal processes or systems, human error or external events.

The EBS Operational Risk function 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 Executive Risk Committee. The core focus of Operational Risk management is to support the delivery of optimal products and services to 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 & crisis management, third party servicing and outsourcing. Group Operational Risk supports the business in conducting regular self-assessments of the risks in individual functions, in key processes and in significant projects, including the ongoing integration with AIB p.l.c.

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, are monitored on an ongoing basis and progress against actions is reported on a regular basis to the senior management team and the Board.

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6.3 Credit risk management

Credit risk management in the EBS Group is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. Given the continued deterioration in credit quality throughout 2012 in the retail market, both credit management and credit risk management have continued to be a key area of focus during 2012. Resourcing, structures, policy and processes continue to be reviewed in order to ensure that the EBS is best placed to manage asset quality in this severe downturn.

The EBS Executive Risk Committee (ERC) is responsible for reviewing appropriate credit risk management structures, forbearance strategies and policies in line with the credit risk appetite of the Group and AIB 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 EBS' loan assets.

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

The EBS Group in conjunction with AIB 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 ERC.

Credit risk on lending activities to customers and banks *

EBS Group lends to personal, retail customers and banks. Credit risk arises on the drawn amount of loans and advances, but also as a result of loan commitments, such as undrawn loans.

Credit risk also arises in EBS' available-for-sale portfolio where counterparties are banks, sovereigns or structured debt. These credit risks are identified and managed in line with the credit management framework of the EBS Group.

Credit risk on derivatives *

The credit risk on derivative contracts is the risk that EBS' counterparty in the contract defaults prior to maturity at a time when EBS has a claim on the counterparty under the contract. EBS would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by EBS Group to reduce interest rate risk and currency risk. Risks associated with derivatives are managed from a credit, market and operational perspective. The credit exposure is treated in the same way as other types of credit exposure and is included in customer limits. The total credit exposure consists partly of the current replacement cost and partly of the potential future exposure. The potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract.

Country risk *

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable to fulfil or are precluded from fulfilling their obligations to EBS Group due to economic or political circumstances.

Country risk is managed by setting appropriate maximum risk limits to reflect each country's overall creditworthiness. These limits are informed by independent credit information from international sources. Risks and limits are monitored on an ongoing basis.

Settlement risk *

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. The settlement risk on many transactions is substantially mitigated when effected via assured payment systems, or on a delivery-versus-payment basis. Each counterparty is assessed in the credit process and clearing agents, correspondent banks and custodians are selected with a view to minimising settlement risk.

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Credit concentration risk *

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to EBS Group's capital, total assets, earnings or overall risk level to threaten its health or ability to maintain its core operations.

Risk identification and assessment *

All customer requests for credit are subject to a credit assessment process.

Depending on the size and nature of the credit, the assessment process is assisted by standard application formats in order to assist the credit decision maker in making an informed credit decision. The credit approval authority is dependent on the size of the credit application and the grade of the borrower.

Delegated authority is a key risk management tool. The EBS Board determines the credit authority (i.e. approval limit) for the EBS Executive Risk Committee which approves delegated approval authority within the limits set by the Board. Delegated authorities below Committee levels are clearly defined and are explicitly linked to levels of seniority and experience within EBS.

Another key tool used to assess credit risk is credit grading or credit scoring for each borrower or transaction both prior to approval of the credit exposure and subsequently. The methodology used produces a quantitative estimate of the likelihood of default for the borrower, typically referred to as a 'grade'. This assessment is carried out at the individual borrower or transaction level.

In the retail book, which is characterised by a large number of customers with similar characteristics, risk assessment is largely informed through statistically-based scoring techniques. Mortgages are assessed centrally with particular reference to affordability and assisted by scoring models. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios.

In the commercial property book (much diminished in size following deleveraging activity in 2012) the grading systems utilise a combination of objective information, essentially financial data and qualitative assessments of non-financial risk factors such as management quality and competitive position within its sector/industry.

Credit concentration risk is identified and assessed at single name counterparty level and at portfolio level. The Board-approved credit policies set the maximum limit by grade for exposures to individual counterparties or group of connected counterparties. Portfolio concentrations are identified and monitored by exposure and grade using internal sector codes.

Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within EBS and in turn facilitate appropriate management action and decision making.

Risk management and mitigation *

A framework of delegated authorities supports EBS Group's management of credit risk. Credit approval is exercised by an independent credit function. Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality.

Changes in the objective information (i.e. financial and business variables as described under risk identification and assessment) are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality graded loans or 'Criticised' loans. EBS has adopted the AIB Group definitions of grade quality, where criticised loans includes "Watch" (Grade 8),"Vulnerable" (Grade 9) and "Impaired" loans (Grade 10). These are defined as follows:

Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflows.
Vulnerable: Credit where repayment is in jeopardy from normal cashflows and may be dependent on other sources.
Impaired: A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

EBS Group's criticised advances are subject to more intense assessment and review, due to the increased risk associated with them.

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The credit management process is underpinned by an independent system of credit review. Independent credit review teams assess the application of credit policies, processes and procedures across all areas of EBS. In 2012 EBS adopted AIB Group Credit Policies as a result credit policy and credit management standards are controlled and set centrally with input from EBS. Levels of concentrations by geography, sector and product are set through the Risk Appetite Statement which is required to be approved by the Board on an annual basis.

Forbearance strategies
EBS Group considers each request from customers who are experiencing cash flow difficulties on a case by case basis against the individual borrowers' current and likely future financial circumstances, their willingness to resolve these issues, as well as the legal and regulatory obligations.

EBS Group is implementing the standards as set out by the Central Bank of Ireland in the Codes of Conduct in relation to customers in difficulty, ensuring these customers are dealt with in a professional and timely manner.

The types of forbearance solutions employed at AIB Group level for mortgage customers who are in difficulty and which provide short term relief include: interest only, part capital and interest, moratorium, capitalisation of arrears, term extension and deferred interest scheme. EBS Group has developed a Mortgage Arrears Resolution Strategy (MARS) in line with AIB Group strategy for dealing with customers in difficulty or likely to be in difficulty.

The strategy is built on three key factors:
i) Segmentation – identifying customers in difficulty,
ii) Sustainability – customer assessment and
iii) Suitable Treatment – identifying solutions.

The core objective is to ensure that arrears solutions are sustainable in the long term for both the customer and for EBS Group and comply with the spirit and the letter of all regulatory requirements. Additional long term forbearance options introduced in 2012 are being offered to customers in difficulty where appropriate.

Credit risk mitigants *
In relation to individual exposures, while the perceived strength of a borrower's repayment capacity is the primary factor in granting a loan, EBS Group uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and advances to customers are as follows:

Home mortgages: EBS Group takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and subject to a legal charge in favour of EBS Group.

Corporate/commercial lending: EBS exited the commercial lending in 2008, however for property related lending that remains on EBS books a charge over the property being financed is in place. This includes investment and residential properties. As part of the ongoing assessment of collateral EBS Group uses an AIB Group Property Valuations standard. All EBS Group lending is property related lending.

EBS Group enters into master netting agreements for derivatives with certain counterparties, to ensure that in the event of default, all amounts outstanding with those counterparties will be settled on a net basis.

EBS Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit grade. Each bank is assessed for the appropriate exposure limit within the policy.

Risk monitoring and reporting
Credit managers pro-actively manage EBS Group's credit risk exposures at transaction and relationship level. Credit risk at a portfolio level is monitored and reported regularly to senior management and the Board.

Single name counterparty concentrations are monitored at transaction level and managed within the Risk Appetite Statement. Large exposures and portfolio concentrations are reported regularly to senior management and the Board.

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6.4 Regulatory Compliance Risk

Regulatory Compliance risk is the risk that EBS Group fails to meet the standards and requirements of the Central Bank of Ireland (CBI) in relation to the provision of financial services to consumers and to the adherence of standards, regulations and guidelines as set out by the CBI.

During 2012, the EBS Regulatory Compliance function integrated fully into the AIB Group Compliance function. The role of AIB Group Compliance function 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 EBS' reputation. The function independently evaluates adherence to key regulations and reports same to the Executive Risk Committee.

The terms and conditions of the Government Guarantee Scheme 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. AIB Group Compliance 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.

6.5 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.

EBS is dependent to a significant extent on its parent the AIB Group for funding and liquidity support and EBS' liquidity risk has been incorporated into the AIB p.l.c. centralised risk management model in line with AIB p.l.c. common approach to Treasury Risk management. Under this centralised approach the management of Liquidity and related activities are overseen and controlled by AIB Treasury.

EBS applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the Central Bank 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'). Funding contingency plans are continually under review in light of unprecedented market and EBS specific events,

EBS 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. These activities are conducted in conjunction with AIB Group Asset & Liability Management.

Key measures used for managing liquidity risk are the liquidity ratios, calculated and reported on a daily basis internally to the Treasury Front Office and to AIB Group, on a weekly basis for consolidation into the AIB Group Regulatory Liquidity Reports and on a monthly basis to the EBS Management team and bi-monthly to the EBS 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. EBS continues to be one of the Irish covered institutions that are part of the Eligible Liability Guarantee (ELG) Scheme. This scheme assisted EBS in attracting and maintaining customer funding in times of great economic uncertainty. The cost of the ELG scheme for 2012 was €55m (see note 2). On 26 February 2013, the Minister for Finance announced that the Eligible Liabilities Guarantee Scheme 2009 will end for all new liabilities with effect from midnight on 28 March 2013. After this date, no new liabilities will be guaranteed under the Scheme.

AIB Group Treasury, is responsible for the daily management of liquidity for EBS, supported by a dedicated EBS Treasury team, i.e., to ensure that resources are available at all times to meet EBS' obligations arising from the daily business of the bank. EBS reports its Liquidity positions to the Central Bank as part of the AIB Consolidated Liquidity Reporting. The EBS Management team monitors these risks and reports on key developments to the EBS Limited Board on a regular basis via the Chief Risk Officers report.

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Since October 2011 when the Central Bank revoked the requirement for EBS Group to comply with the "Requirements for the Management of Liquidity Risk" regulatory document and the EBS Liquidity Ratios are therefore reflected in the AIB Group Consolidated Liquidity Reports.

6.6 Market Risk *

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 EBS' 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 is in the process of aligning the measurement methods and reporting of its market risk exposures to those employed by the AIB Group.

EBS does not engage in proprietary trading i.e. does not trade on its own account. EBS Treasury manages market risks using gap and sensitivity analysis in conjunction with AIB Group Treasury. Derivatives such as interest rate and foreign currency swap agreements and equity index options are used to hedge these market risks. The EBS Management team 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 EBS' 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, EBS 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. EBS has in place small operational foreign currency open position limits which are monitored on a daily basis.

6.7 Financial risks *

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

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6.7.1 Credit exposure *

The following table sets out the maximum exposure to credit risk that arises within EBS and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value.

Maximum exposure to credit risk *

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

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Non-derivative financial assets				
Cash and balances with central banks	8	147	8	147
Available-for-sale financial assets	4,545	4,125	1,568	1,716
Loans and advances to credit institutions	3,906	3,772	883	444
Loans and advances to customers	5,994	7,580	12,969	15,369
NAMA senior bond	305	347	305	347
Items in transit	24	42	26	43
Interest accrued	53	56	44	50
Derivative financial instruments	226	183	190	160
Loan commitments (not unconditionally cancellable)	80	109	104	140

EBS Group holds collateral against derivative financial instruments and the fair value of this collateral at 31 December 2012 is €21m (2011: €52m). Available for sale financial assets for 2012 includes €7m of impaired assets (2011: €4m).

The following table shows the fair value of collateral held for loans and advances to customers at end 2012 and 2011.

Group Collateral Held: Loans and Advances to Customers *

	2012			2011		
	Residential mortgages €m	Commercial mortgages €m	Total €m	Residential mortgages €m	Commercial mortgages €m	Total €m
Impaired loans	2,230	100	2,330	2,421	302	2,723
Past due but not impaired	790	36	826	805	89	894
Non impaired / non past due	8,346	125	8,471	9,961	213	10,174
Total loans	**11,366**	**261**	**11,627**	**13,187**	**604**	**13,791**

Company Collateral Held: Loans and Advances to Customers

	2012			2011		
	Residential mortgages €m	Commercial mortgages €m	Total €m	Residential mortgages €m	Commercial mortgages €m	Total €m
Impaired loans	1,267	100	1,367	1,499	302	1,801
Past due but not impaired	302	36	338	363	89	452
Non impaired / non past due	3,097	125	3,222	3,834	213	4,047
Total loans	**4,666**	**261**	**4,927**	**5,696**	**604**	**6,300**

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Residential mortgages *

While EBS considers a borrower's repayment capacity to be paramount in granting any loan, EBS also takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property which is acceptable as collateral and the loan to property value relationship. Collateral valuations are required at time of origination of each residential mortgage. The fair value at December 2012 of residential mortgages is based on the property values at origination and applying the CSO (Ireland) index to these values to take account of price movements in the interim. The collateral values above include all loans regardless of balance outstanding. Additional information in relation to LTV and Days Past Due profiles for residential mortgages is noted below.

Commercial property *

EBS has not issued new Commercial property lending since 2008, except for the purpose of loss mitigation.

The PLAR exercise in 2011 outlined the measures to be implemented to steadily deleverage the banking system and established a target funding and loan to deposit ratio. Consequently in order to reach the targeted ratio the Group is required to deleverage €2.5bn of non core assets (comprising the commercial and unencumbered buy to let books) over the period to 2013. This deleverage of assets has been the main driver in the decline in the Non-Core book (approximately €0.6bn of Commercial assets have been deleveraged from the non-core book, see note 6 for further details).

The fair value at December 2012 of commercial mortgages is based on the property values at origination and applying the CSO (Ireland) index to these values to take account of price movements in the interim or valuation based on management's judgement.

Provisioning for impairment

The accounting policies of loans and advances to customers are outlined in Accounting Policies section. 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:

- Micro conditions – for example a breach in the repayment contract, i.e. arrears on the account, and
- 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. In this way, all assets are reviewed.

For Residential Loan Assets, EBS assesses 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 an issue may arise in relation to a loan or group of loans such as a legal claim etc. Categories of loans that will be classed as impaired regardless of arrears include: loans where the property is in possession of EBS 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 are 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 non-retail loan and treasury assets: the threshold for Retail assets is set at €0.75m. Assets which are impaired and which are significant are reviewed on an individual case basis.

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The loan value threshold is not applied to loans
- where the property is in possession of the Group; or
- where fraudulent activity is suspected or proven.

All such loans are also assessed individually for provision.

All loans greater than 90 days past due are deemed impaired, regardless of significance.

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 employment and GNP).

The rate of movement from default to repossession is assessed 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 this note, impaired assets are those for which an individual provision has been made.

Impairment Sensitivities

Altering the key assumptions for provisions has varying impacts on the overall provision numbers. The following table shows the relative impacts of standardised changes.

Factor 2012	
1. Probability of Default: Interest Rate changes	- A 1% increase in Standard Variable Rate leads to a 0.5% increase in collective provisions for Homeloans.
2. Probability of Default: Macroeconomic factors	- A 2% fall in employment leads to a 0.8% increase in collective provisions for Retail assets (Homeloans and Buy-to-Lets) - The GDP and GNP numbers alone have little influence.
3. Roll rate from repossession to loss: Higher roll rates assumed	- An increase in 4% of the repossession rate will result in a 7.3% movement in stock of provisions.
4. Loss Given repossession: Higher reductions in house prices from peak	- An increased peak to trough assumption (changing to 58% from 55%) increases collective provisions by 9.2%.

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Factor 2011	
1. Probability of Default: Interest Rate changes	- A 1% increase in Standard Variable Rate leads to a 2.5% increase in collective provisions for Homeloans.
2. Probability of Default: Macroeconomic factors	- A 2% fall in employment leads to a 4.3% increase in collective provisions for Retail assets (Homeloans and Buy-to-Lets) - The GDP and GNP numbers alone have little influence.
3. Roll rate from repossession to loss: Higher roll rates assumed	- An increase in 5% of the repossession rate will result in a 10.6% movement in stock of provisions.
4. Loss Given repossession: Higher reductions in house prices from peak	- An increased peak to trough assumption (changing to 58% from 55%) increases collective provisions by 6.4%.

6.7.2 Credit Profile *

Credit quality *

The following table includes total EBS Group loans and advances to customers gross of impairment provisions split on a core/non-core basis. Core includes home loans and non core includes buy-to-let and commercial loans. The numbers presented are inclusive of unearned income and related provisions and deferred acquisition costs. The 2011 comparatives have been represented throughout this section and throughout the risk disclosures, on this basis, the net impact is an increase of €74m to the Group and €38m to the gross reported Company loan and advances to customers.

Group	2012			2011		
	Core	Non-Core	Total	Core	Non-Core	Total
Loans and advances to customers	€m	€m	€m	€m	€m	€m
Residential mortgages	13,017	608	13,625	13,572	1,858	15,430
Commercial property	-	278	278	-	888	888
Total	**13,017**	**886**	**13,903**	**13,572**	**2,746**	**16,318**

In the Core portfolio the Residential mortgages further declined during 2012 due to weaker customer demand and as a result of loan repayments. While this is also the case in the Non-Core portfolio the main driver in the decline in the Non-Core book has been deleveraging of assets.

This occurred in two separate deleveraging exercises which involved the sale of Retail Buy to Let assets on July 31 and October 1, 2012 with a total carrying value of €1.1bn resulting in a loss of €0.4bn.

Asset quality in the Group has been affected by an increase in the level of arrears, with 66.7% of the combined loan book maintaining a satisfactory payment profile in 2012 (net of asset deleverage) compared with 66.9% for 2011. The change in loan quality is reflected in a higher level of provisions, detailed below.

Company	2012			2011		
	Core	Non-Core	Total	Core	Non-Core	Total
Loans and advances to customers	€m	€m	€m	€m	€m	€m
Residential mortgages	5,125	500	5,625	5,324	1,367	6,691
Commercial property	-	278	278	-	888	888
Total	**5,125**	**778**	**5,903**	**5,324**	**2,255**	**7,579**

Asset quality in the Company has been affected by an increase in the level of arrears, with 58.6% of the combined loan book maintaining a satisfactory payment profile in 2012 (net of asset deleverage) compared with 56.2% for 2011. The change in loan quality is reflected in a higher level of provisions, detailed below.

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Group Impairment Provisions	2012 Core €m	2012 Non-Core €m	2012 Total €m	2011 Core €m	2011 Non-Core €m	2011 Total €m
Statement of financial position provisions	715	219	934	461	488	949
Statement of financial position provisions as a % of loans and advances	5.5%	24.7%	6.7%	3.4%	17.8%	58%
Specific provision as a % of impaired loans	22.0%	37.0%	23.8%	18.4%	27.3%	21.6%
Impairment charge as a % of total loans	1.8%	(0.9%)	1.3%	2.0%	9.9%	3.3%

Group loans and advances to customers amounted to €13,903m (2011: €16,318m) at 31 December 2012 and have decreased by €2,415m since December 2011 largely as a result of a deleverage of €1.8bn, loan repayments and weak customer demand. 33.3% or €4,620m of total Group loans and advances to customers are criticised of which €3,014 or 21.7% is impaired.

Statement of financial position impairment provisions of €934m (2011: €949m) provide cover on impaired loans of 31.0% and on total loans of 6.7%.

The 2012 income statement impairment provisions charge, including the MIG benefit of €13m (2011: €3m) amounts to €229m (2011: €530m) or 1.6% (2011: 3.3%) of the year end balances.

The EBS Group impairment provision charge excluding MIG benefit for 2012 is (€15m) or (5.4%) for borrowers in the Commercial property sector (negative due to deleveraging), and €257m or 1.8% for Residential Mortgages.

The EBS Group impairment provision for 2012 is €65m or 23.4% for borrowers in the Commercial property sector, and €869m or 6.3% for Residential mortgages.

Company Impairment Provisions	2012 Core €m	2012 Non-Core €m	2012 Total €m	2011 Core €m	2011 Non-Core €m	2011 Total €m
Statement of financial position provisions	386	196	582	240	448	688
Statement of financial position provisions as a % of loans and advances	7.5%	25.2%	9.9%	4.5%	19.9%	9.1%
Specific provision as a % of impaired loans	22.3%	35.0%	24.6%	17.2%	27.1%	22.1%
Impairment charge as a % of total loans	2.6%	(1.9%)	2.0%	1.8%	10.8%	4.5%

Company loans and advances to customers amounted to €5,903m at 31 December 2012 and have decreased by €1,676m since December 2011 largely as a result of asset deleverage, but also due to loan repayments and weak customer demand. 41.4% or €2,446m of total Company loans and advances to customers are criticised of which €1,738m or 29.4% is impaired.

Statement of financial position provisions of €582m provide cover on impaired loans of 33.5% and on total loans of 9.9%.

The 2012 income statement provision charge, including the MIG benefit of €8m amounts to €117m (2011: €340m) or 2.0% (2011: 4.5%) of year end balances.

The Company impairment provision for 2012 is €65m or 23.4% for borrowers in the Commercial Property sector and €517m or 9.2% for residential mortgages.

Residential mortgages *

Residential mortgages amounted to €13,625m at 31 December 2012. This compares to €15,430m at 31 December 2011, with the decrease as a result of loan repayments, weak customer demand and the deleveraging of approximately €1.2bn of residential assets during 2012 (of which of approximately €1.1bn were buy-to-let mortgages). The split of the residential mortgage book was owner-occupier, €13,017m and buy-to-let,

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€608m. The income statement impairment provision charge for 2012 was €242m or 1.8% for Residential mortgages. The statement of financial position impairment provisions of €869m were held at 31 December 2012, split €689m specific and €180m collective.

Group	2012			2011		
Residential mortgage – Total	**Owner-occupier (Core) [1] €m**	**Buy-to-let (Non-Core) €m**	**Total €m**	**Owner-occupier (Core) [1] €m**	**Buy-to-let (Non-Core) €m**	**Total €m**
Mortgage Book						
Total Residential Mortgages	13,017	608	13,625	13,572	1,858	15,430
Not Past due and not in arrears	9,514	237	9,751	10,469	1,005	11,474
Arrears						
1 - 30 days past due but not impaired	568	15	583	648	51	699
31 - 60 days past due but not impaired	213	6	219	163	14	177
61 - 90 days past due but not impaired	116	4	120	58	6	64
91 - 180 days past due but not impaired	42	2	44	-	7	7
181 - 365 days past due but not impaired	-	1	1	-	6	6
Over 365 days past due but not impaired	1	2	3	-	7	7
Impaired Loans						
Impaired Loans	*2,563*	*341*	*2,904*	*2,234*	*762*	*2,996*
of which impaired and not in arrears	199	104	303	145	198	343
of which impaired and in arrears	*2,364*	*237*	*2,601*	*2,089*	*564*	*2,653*
- of which 1 - 30 days past due	74	17	91	53	37	90
- of which 31 - 60 days past due	65	11	76	139	66	205
- of which 61 - 90 days past due	74	12	86	184	48	232
- of which 91 - 180 days past due	367	17	384	468	108	576
- of which 181 - 365 days past due	551	38	589	546	100	646
- of which over 365 days past due	1,233	142	1,375	699	205	904
Total Arrears (30+ days past due and/or impaired)	2,935	356	3,291	2,455	802	3,257
90+ DPD Arrears (90+ days past due and/or impaired)	2,606	346	2,952	2,234	782	3,016
Provisioning						
Statement of financial position specific provisions	563	126	689	403	211	614
Statement of financial position IBNR provisions	152	28	180	58	66	124
Income statement specific provisions YTD	143	30	173	35	68	103
Income statement specific IBNR provisions YTD	94	(25)	69	230	94	324
Specific provisions / impaired loans cover			**23.7%**			**20.5%**

[1] The Owner Occupier category represents the Core portfolio.

The portfolio has experienced an increase in arrears reflecting the impact of a harsher economic climate on borrowers' repayment affordability. The level of loans >90 days in arrears or impaired was 21.7% at 31 December 2012 compared with 19.6% at 31 December 2011.

The level of loans >90 days in arrears or impaired in the owner occupier book has increased significantly since 31 December 2011 from €2,234m (16.5% of mortgages) to €2,606m or 20.0% at 31 December 2012.

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Unemployment, wage cuts and high levels of personal debt continued to be the principal drivers of increased arrears.

The level of loans >90 days in arrears or impaired in the Buy-to-Let ('BTL') portfolio has moved significantly from €782m or 42.1% at 31 December 2011 to €346m or 56.9% at 31 December 2012, this was influenced by the deleveraging of higher quality assets and falling rents during 2012.

Total owner occupier and BTL impaired loans were €2,904m at 31 December 2012. Total specific provisions of €689m provided cover of 23.7% of impaired loans and have been raised having assessed the peak to trough fall in house prices in Ireland (55.0%). Collective statement of financial position provisions of €180m are held for the performing book (71.6% of residential mortgage book) based on management's view of incurred loss in this book. The total income statement charge for 2012 was €242m (specific €173m and collective - €69m).

Company	**2012**			**2011**		
Residential mortgage – Total	**Owner-occupier (Core) [(1)] €m**	**Buy-to-let (Non-Core) €m**	**Total €m**	**Owner-occupier (Core) [(1)] €m**	**Buy-to-let (Non-Core) €m**	**Total €m**
Mortgage Book						
Total Residential Mortgages	5,125	500	5,625	5,324	1,367	6,961
Not Past due and not in arrears	3,451	177	3,628	3,780	656	4,436
Arrears						
1 - 30 days past due but not impaired	208	13	221	254	40	294
31 - 60 days past due but not impaired	76	5	81	74	9	83
61 - 90 days past due but not impaired	43	3	46	28	4	32
91 - 180 days past due but not impaired	14	2	16	-	7	7
181 - 365 days past due but not impaired	-	1	1	-	6	6
Over 365 days past due but not impaired	1	2	3	-	7	7
Impaired Loans						
Impaired Loans	*1,331*	*298*	*1,629*	*1,186*	*635*	*1,821*
of which impaired and not in arrears	67	90	157	36	176	212
of which impaired and in arrears	*1,264*	*208*	*1,472*	*1,150*	*459*	*1,609*
- of which 1 - 30 days past due	33	17	50	9	30	39
- of which 31 - 60 days past due	28	10	38	52	54	106
- of which 61 - 90 days past due	29	10	39	77	37	114
- of which 91 - 180 days past due	156	13	169	233	81	314
- of which 181 - 365 days past due	260	29	289	286	70	356
- of which over 365 days past due	758	129	887	493	187	680
Total Arrears (30+ days past due and/or impaired)	1,465	311	1,776	1,288	668	1,956
90+ days past due Arrears (90+ days past due and/or impaired)	1,346	303	1,649	1,186	659	1,845
Provisioning						
Statement of financial position specific provisions	296	104	400	196	175	371
Statement of financial position IBNR provisions	90	27	117	44	62	106
Income statement specific provisions YTD	87	26	113	(9)	62	53
Income statement specific IBNR provisions YTD	47	(28)	19	105	71	176
Specific provisions / impaired loans cover			**24.6%**			**20.9%**

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Residential mortgages amounted to €5,625m at 31 December 2012. This compares to €6,691m at 31 December 2011, with the decrease as a result of deleveraging (€1.2bn) in 2012, loan repayments and weak customer demand. The split of the residential mortgage book was owner-occupier €5,125m and buy-to-let €500m. The income statement impairment charge for 2012 was €132m or 2.3% for Residential mortgages. Statement of financial position provisions of €517m were held at 31 December 2012, split €400m specific and €117m for collective.

The portfolio has experienced an increase in arrears reflecting the impact of a harsher economic climate on borrowers' repayment affordability. The level of loans >90 days in arrears or impaired was 29.3% at 31 December 2012 compared with 26.5% at 31 December 2011.

The level of loans >90 days in arrears or impaired in the owner occupier book has increased significantly since 31 December 2011 from €1,186m (22.3% of mortgages) to €1,346m or 26.3% at 31 December 2012. Unemployment, wage cuts and high levels of personal debt continued to be the principal drivers of increased arrears.

The level of loans >90 days in arrears or impaired in the Buy-to-Let ("BTL") portfolio has moved significantly from €655m or 47.9% at 31 December 2011 to €303m or 60.5% at 31 December 2012 and was influenced by the deleveraging of higher quality assets and falling rents.

Total owner occupier and BTL impaired loans were €1,629m at 31 December 2012. Total specific provisions of €400m provided cover of 24.6% of impaired loans and have been raised having assessed the peak to trough fall in house prices in Ireland (55%). Collective statement of financial position provisions of €116m are held for the performing book (60.4% of residential mortgage book) based on management's view of incurred loss in this book. The total income statement charge for 2012 was €132m (specific €113m and collective €19m).

EBS has received a number of requests for forbearance from customers who are experiencing cash flow difficulties. EBS considers these against the borrowers' current and likely future financial circumstances, their willingness to resolve these issues, as well as the legal and regulatory obligations. As part of that process loans are tested for impairment and where appropriate, the loans are downgraded to impaired status and provisions raised.

Group Asset Quality – Residential Mortgages

	2012				**2011**			
	Core	**Non-Core**	**Total**		**Core**	**Non-Core**	**Total**	
	€m	**€m**	**€m**	**%**	**€m**	**€m**	**€m**	**%**
Satisfactory	9,043	182	9,225	67.7	9,943	852	10,795	70.0
Watch	*1,005*	*67*	*1,072*	7.9	*1,116*	*199*	*1,315*	8.5
Vulnerable	*406*	*18*	*424*	3.1	*279*	*45*	*324*	2.1
Impaired	*2,563*	*341*	*2904*	21.3	*2,234*	*762*	*2,996*	*19.4*
Criticised	3,974	426	4,400	32.3	3,629	1,006	4,635	30.0
Total	**13,017**	**608**	**13,625**	**100**	**13,572**	**1,858**	**15,430**	**100**

Company Asset Quality – Residential Mortgages

	2012				**2011**			
	Core	**Non-Core**	**Total**		**Core**	**Non-Core**	**Total**	
	€m	**€m**	**€m**	**%**	**€m**	**€m**	**€m**	**%**
Satisfactory	3,267	132	3,399	60.4	3,581	555	4,136	61.8
Watch	*378*	*55*	*433*	*7.7*	*433*	*142*	*575*	*8.6*
Vulnerable	*149*	*15*	*164*	2.9	*123*	*35*	*158*	*2.4*
Impaired	*1,331*	*298*	*1,629*	29.0	*1,187*	*635*	*1,822*	*27.2*
Criticised	1,858	368	2,226	39.6	1,743	812	2,555	38.2
Total	**5,125**	**500**	**5,625**	**100**	**5,324**	**1,367**	**6,691**	**100**

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Commercial Property *

Loans and advances to customers in the Commercial property sector are outlined below. All EBS Commercial property lending is classed as non-core. EBS exited this market in early 2008.

Provisions for Commercial Property	2012 Total €m	2011 Total €m
Total Commercial Loans	278	888
>30 days past due or impaired	137	620
>90 days past due or impaired	132	600
Of which impaired	110	537
Statement of financial position specific provisions	27	143
Statement of financial position collective provisions	38	68
Income statement specific provisions	7	70
Income statement collective provisions	(20)	40
Statement of financial position provisions as a % of loans and advances	23.4%	23.7%
Specific provision as a % of impaired loans	24.5%	26.6%
Impairment charge as a % of total loans	(4.7%)	12.5%

Group and Company Asset Quality	2012 Non-Core Total €m	%	2011 Non-Core Total €m	%
Satisfactory	59	21.2	122	13.8
Watch	*77*	*27.7*	*165*	*18.5*
Vulnerable	*32*	*11.5*	*64*	*7.2*
Impaired	*110*	*39.6*	*537*	*60.5*
Criticised	219	78.8	766	86.2
Total	**278**	**100.0**	**888**	**100.0**

At 31 December 2012 EBS Commercial property portfolio was €278m. Total Criticised loans were €219m (78.8%) of the portfolio and €110m (39.6%) were impaired loans. Statement of financial position specific provisions of €27m providing cover of 10.0% are held for this portfolio (2011: €143m and 16%) with total provisions to total loans of 23.4% (2011: 23.7%). The EBS provision charge in 2012 was (€13m) or 4.7% of loan balances down from €110m or 12.5% of total loans in 2011.

The decrease in criticised loans and provisions cover in EBS compared with 2011 is due to the deleveraging of non-core buy-to-let and commercial assets.

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6.7.3 Asset Quality *

The following tables show criticised loans for the total loan book split into core and Non-Core assets. Criticised loans include watch, vulnerable and impaired loans.

Group	2012				2011			
	Core	Non-Core	Total		Core	Non-Core	Total	
	€m	€m	€m	%	€m	€m	€m	%
Satisfactory	9,043	240	9,283	66.7%	9,943	973	10,916	66.9
Watch	*1,005*	*145*	*1,150*	8.3%	1,116	364	1,480	9.0%
Vulnerable	*406*	*50*	*456*	3.3%	279	109	388	2.4%
Impaired	*2,563*	*451*	*3,014*	21.7%	2,234	1,300	3,534	21.7%
Criticised loans	3,974	646	4,620	33.3%	3,629	1,773	5,402	33.1%
Gross loans	13,017	886	13,903	100.0%	13,572	2,746	16,318	100.0%
Criticised as a % of total gross loans	30.5%	72.9%	33.2%		26.7%	64.6%	33.1%	
Impaired as % of total gross loans	19.7%	50.9%	21.7%		16.2%	47.3%	21.7%	

EBS Group's criticised loans and advances to customers amounted to €4,620m or 33.3% of total customer loans. EBS criticised loans have decreased by €782m since 31 December 2011. The main driver of the decreases in criticised loans has been the impact of the deleveraging of assets. This was off set by the continuing lack of activity in the property sector and consequent impact on the housing sector, together with increased unemployment and reduced earnings which negatively affected borrowers' ability to repay loans.

Total impaired loans	2012		2011	
	€m	%	€m	%
Impaired loans – Core	2,563	18.4	2,234	13.7
Impaired loans – Non Core	451	3.3	1,300	8.0
Total	**3,014**	**21.7**	**3,534**	**21.7**

EBS impaired loans were down €520m in 2012 to €3,014m (or 21.7% of total loans) mainly in the residential mortgage portfolio. This is due to the deleveraging of assets of varying quality, which has been offset by the underlying deterioration in the book.

Company	2012				2011			
	Core	Non-Core	Total		Core	Non-Core	Total	
	€m	€m	€m	%	€m	€m	€m	%
Satisfactory	3,267	190	3,457	58.6%	3,581	677	4,258	56.2%
Watch	*378*	*134*	*512*	8.7%	*433*	*307*	740	9.8%
Vulnerable	*149*	*47*	*196*	3.3%	*123*	*100*	223	2.9%
Impaired	*1,331*	*407*	*1,738*	29.4%	*1,187*	*1,171*	2,358	31.1%
Criticised loans	1,858	588	2,446	41.4%	1,743	1,578	3,321	43.8%
Gross loans	5,125	778	5,903	100.0%	5,324	2,255	7,579	100.0%
Criticised as a % of total gross loans	36.3%	75.5%	41.4%		32.7%	70.0%	43.8%	
Impaired as % of total gross loans	26.0%	52.3%	29.4%		22.3%	51.9%	31.1%	

EBS' criticised loans and advances to customers amounted to €2,446 or 41.4% of total customer loans. EBS criticised loans have decreased by €875m since 31 December 2011. The main drivers of the decrease in criticised loans has been the deleveraging of assets, this has been offset by the impact of the continuing lack of

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activity in the property sector and consequent impact on the housing sector, together with increased unemployment and reduced earnings which negatively affected our borrowers' ability to repay loans.

Total impaired loans	2012		2011	
	€m	%	€m	%
Impaired loans – Core	1,331	22.5	1,187	15.7
Impaired loans – Non Core	407	6.9	1,171	15.5
Total	**1,738**	**29.4**	**2,358**	**31.1**

EBS' impaired loans were down €621m in the year to €1,738m (or 29.4% of total loans) mainly in the non core portfolio mortgage portfolio. This is due the deleveraging of assets, which has been offset by the underlying deterioration in the book.

Past due but not impaired

Balances due on loans categorised as past due but not impaired loans decreased by €60m in 2012 compared with 2011 as a result of deleveraging and transition to past due status.

Group	2012				2011			
	Core	Non-Core	Total	%	Core	Non-Core	Total	%
	€m	€m	€m		€m	€m	€m	
Neither past due nor impaired	9,514	369	9,883	71.1%	10,469	1,249	11,718	71.8%
Past due but not impaired	940	67	1,007	7.2%	869	198	1,067	6.5%
Impaired – no provision	114	21	135	1.0%	111	81	192	1.2%
Impaired - provision held	2,449	429	2,878	20.7%	2,123	1,218	3,341	20.5%
Gross loans and advances	**13,017**	**886**	**13,903**	**100.0%**	**13,572**	**2,746**	**16,318**	**100.0%**
Provision for impairment	(715)	(219)	(934)		(461)	(488)	(949)	
Total loans and advances after provisions	**12,302**	**667**	**12,969**		**13,111**	**2,258**	**15,369**	

Loans neither past due nor impaired have decreased from 71.8% of loan balances in 2011 to 71.1% as at December 2012. The value of loans past due has increased from 28.2% in 2011 to 28.9% in 2012.

Company	2012				2011			
	Core	Non-Core	Total	%	Core	Non-Core	Total	%
	€m	€m	€m		€m	€m	€m	
Neither past due nor impaired	3,452	309	3,761	63.7%	3,782	903	4,685	61.8%
Past due but not impaired	342	63	405	6.9%	356	180	536	7.1%
Impaired – no provision	68	20	88	1.5%	84	71	155	2.0%
Impaired - provision held	1,263	386	1,649	27.9%	1,102	1,101	2,203	29.1%
Gross loans and advances	**5,125**	**778**	**5,903**	**100.0%**	**5,324**	**2,255**	**7,579**	**100.0%**
Provision for impairment	(386)	(196)	(582)		(240)	(448)	(688)	
Total loans and advances after provisions	**4,739**	**582**	**5,321**		**5,084**	**1,807**	**6,891**	

Balances due on loans categorised as past due but not impaired loans decreased by €131m in 2012 compared with 2011 as a result of deleveraging and transition to past due status.

Loans neither past due nor impaired have increased from 61.8% of loan balances in 2011 to 63.7% as at December 2012. The value of loans past due has decreased from 38.2% in 2011 to 36.3% in 2012.

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Aged analysis of loans and advances which are past due but not impaired

Residential loans up to 90 days past due are not categorised as impaired. Non-core loans are assessed on a case by case basis.

Group	2012				2011			
	Core	Non-Core	Total	%	Core	Non-Core	Total	%
	€m	€m	€m		€m	€m	€m	
1–30days	568	15	583	60.2%	648	79	727	68.1%
31–60days	213	6	219	22.6%	163	25	188	17.6%
61–90days	116	4	120	12.4%	58	14	72	6.7%
91–180days	42	2	44	4.5%	-	34	34	3.2%
181–365days	1	-	1	0.1%	-	23	23	2.2%
>365days	-	2	2	0.2%	-	23	23	2.2%
Total	**940**	**29**	**969**	**100.0%**	**869**	**198**	**1,067**	**100%**

Company	2012				2011			
	Core	Non-Core	Total	%	Core	Non-Core	Total	%
	€m	€m	€m		€m	€m	€m	
1–30days	208	13	221	60.2%	254	68	322	60.1%
31–60days	76	5	81	22.1%	74	21	95	17.7%
61–90days	43	3	46	12.5%	28	11	39	7.3%
91–180days	14	2	16	4.4%	-	34	34	6.3%
181–365days	-	1	1	0.3%	-	23	23	4.3%
>365days	1	1	2	0.5%	-	23	23	4.3%
Total	**342**	**25**	**367**	**100.0%**	**356**	**180**	**536**	**100%**

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 collective basis.

Group 2012 *	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	13,625	2,904	21.3%	689	180	869	29.9%	6.4%
Commercial Property	278	110	39.6%	27	38	65	59.1%	23.4%
Total	**13,903**	**3,014**	**21.7%**	**716**	**218**	**934**	**31.0%**	**6.7%**

Group 2011*	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	15,430	2,996	19.4%	614	124	738	24.6%	4.8%
Commercial Property	888	537	60.6%	143	68	211	39.2%	23.8%
Total	**16,318**	**3,533**	**21.7%**	**757**	**192**	**949**	**27.1%**	**5.9%**

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Company 2012 *	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	5,625	1,629	29.0%	400	117	517	31.7%	9.2%
Commercial Property	278	110	39.4%	27	38	65	59.1%	23.3%
Total	**5,903**	**1,739**	**29.4%**	**427**	**155**	**582**	**33.7%**	**9.9%**

Company 2011 *	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
	€m	€m	€m	€m	€m	€m		
Residential	6,691	1,821	27.2%	371	106	477	26.2%	7.1%
Commercial Property	888	537	60.5%	143	68	211	39.3%	23.8%
Total	**7,579**	**2,358**	**31.1%**	**514**	**174**	**688**	**29.2%**	**9.1%**

Global and domestic economic markets continued to experience difficulties throughout 2012 which impacted negatively on the Group and Company's lending portfolios.

6.7.4 Forbearance

The main types of forbearance arrangements for residential mortgages only is analysed below.

Owner Occupier Mortgages

	2012*		2012*	
	Total loans in forbearance		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m
Temporary Restructures				
Interest Only	5,119	808	1,788	292
Deferred Interest Scheme	10	3	4	1
Other	297	36	138	18
Temporary Restructures Sub-total	**5,426**	**847**	**1,930**	**311**
Permanent Restructures				
Arrears capitalisation	1,362	193	946	130
Term extension	3,579	317	593	48
Split mortgage	8	-	4	1
Permanent Restructures Sub-total	**4,949**	**510**	**1,543**	**179**
Total	**10,375**	**1,357**	**3,473**	**490**

** Forms integral part of the audited financial statements*

	2011		2011	
	Total loans in forbearance		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m
Temporary Restructures				
Interest Only	4,906	794	1,620	258
Deferred Interest Scheme	2	1	-	-
Other	239	27	85	10
Temporary Restructures Sub-total	**5,147**	**822**	**1,705**	**268**
Permanent Restructures				
Arrears capitalisation	643	97	278	41
Term extension	3,199	284	410	32
Permanent Restructures Sub-total	**3,842**	**381**	**688**	**73**
Total	**8,989**	**1,203**	**2,393**	**341**

Buy-to-let Mortgages

	2012*		2012*	
	Total loans in forbearance		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m
Temporary Restructures				
Interest Only	318	98	158	67
Other	25	10	14	8
Temporary Restructures Sub-total	**343**	**108**	**172**	**75**
Permanent Restructures				
Arrears capitalisation	11	8	8	8
Term extension	66	7	17	1
Permanent Restructures Sub-total	**77**	**15**	**25**	**9**
Total	**420**	**123**	**197**	**84**

	2011		2011	
	Total loans in forbearance		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m
Temporary Restructures				
Interest Only	1,032	233	389	107
Other	35	10	18	6
Temporary Restructures Sub-total	**1,067**	**243**	**407**	**113**
PERMANENT RESTRUCTURES				
Arrears capitalisation	16	3	9	1
Term extension	336	43	49	5
Permanent Restructures Sub-total	**352**	**46**	**58**	**6**
Total	1,419	289	465	119

Total Mortgages

** Forms integral part of the audited financial statements*

	2012*		2012*	
	Total loans in forbearance		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m
Temporary Restructures				
Interest Only	5,437	908	1,946	359
Deferred Interest Scheme	10	3	4	1
Other	322	46	152	26
Temporary Restructures Sub-total	**5,769**	**957**	**2,102**	**386**
Permanent Restructures				
Arrears capitalisation	1,373	201	954	137
Term extension	3,645	324	610	50
Split mortgage	8	-	4	1
Permanent Restructures Sub-total	**5,026**	**525**	**1,568**	**188**
Total	**10,795**	**1,482**	**3,671**	**574**

	2011		2011	
	Total loans in forbearance		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m
Temporary Restructures				
Interest Only	5,938	1,027	2,009	365
Deferred Interest Scheme	2	1	-	-
Other	274	37	103	16
Temporary Restructures Sub-total	**6,214**	**1,065**	**2,112**	**381**
Permanent Restructures				
Arrears capitalisation	659	100	287	42
Term extension	3,535	327	459	37
Permanent Restructures Sub-total	**4,194**	**427**	**746**	**79**
Total	**10,408**	**1,492**	**2,858**	**460**

The types of forbearance measures that are currently considered for mortgage customers are interest only, part capital and interest, moratorium, arrears capitalisation, term extension and deferred interest scheme. EBS has developed a Mortgage Arrears Resolution Strategy (‘MARS’) for dealing with customers in difficulty or likely to be in difficulty.

Of the total residential mortgage book of €13,625m, 10.0% are subject to forbearance measures as at 31 December 2012, compared to 9.7% as at 31 December 2011. €575m (38.8%) of the loans under forbearance were >90 days past due or impaired as at 31 December 2012, compared to 31.0% as at 31 December 2011

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Residential Mortgages in Forbearance - index linked LTV

2012*	Owner Occupier €m	BTL €m	Total €m
Less than 50%	82	8	90
50% - 70%	104	11	115
71% - 80%	77	12	89
81% - 90%	84	10	94
91% - 100%	108	8	116
101% - 120%	241	28	269
121% - 150%	354	30	384
Greater than 150%	309	16	325
Total	**1,359**	**123**	**1,482**

2011	Owner Occupier €m	BTL €m	Total €m
Less than 50%	81	23	104
50% - 70%	111	33	144
71% - 80%	72	18	90
81% - 90%	85	23	108
91% - 100%	110	28	138
101% - 120%	232	65	297
121% - 150%	309	73	382
Greater than 150%	203	26	229
Total	**1,203**	**289**	**1,492**

Credit profile of Residential Mortgages in Forbearance

Forbearance stock - past due but not impaired

2012*	Owner Occupier €m	BTL €m	Total €m
1 – 30 days	109	3	112
31 – 60 days	56	-	56
61 – 90 days	26	1	28
91 – 180 days	11	1	11
181 – 365 days	-	-	-
> 365 days	-	-	-
Total	**202**	**5**	**207**

2011	Owner Occupier €m	BTL €m	Total €m
1 – 30 days	123	11	134
31 – 60 days	47	5	52
61 – 90 days	18	-	18
91 – 180 days	-	3	3
181 – 365 days	-	-	-
> 365 days	-	1	1
Total	**188**	**20**	**208**

** Forms integral part of the audited financial statements*

Forbearance stock - impaired

2012*	Owner Occupier €m	BTL €m	Total €m
Not past due	76	39	115
1 – 30 days	35	4	39
31 – 60 days	25	5	30
61 – 90 days	20	4	24
91 – 180 days	96	6	102
181 – 365 days	112	16	128
> 365 days	115	9	124
Total	**479**	**83**	**562**

2011	Owner Occupier €m	BTL €m	Total €m
Not past due	32	28	60
1 – 30 days	13	7	20
31 – 60 days	38	22	60
61 – 90 days	50	9	59
91 – 180 days	110	23	133
181 – 365 days	72	14	86
> 365 days	26	16	42
Total	**341**	**119**	**460**

Forbearance stock - summary

2012*	Owner Occupier €m	BTL €m	Total €m
Past due but not impaired	202	5	207
Impaired	480	83	563
Neither past due nor impaired	677	34	711
Total	**1,359**	**123**	**1,482**

2011	Owner Occupier €m	BTL €m	Total €m
Past due but not impaired	188	20	208
Impaired	341	119	460
Neither past due nor impaired	674	150	824
Total	**1,203**	**289**	**1,492**

6.7.5 Residential Repossessions *

Residential Mortgages - Repossessions			**2012**			
Movements in residential repossessions	**Owner occupier**		**Buy to let**		**Total**	
	No. of properties	**Loan balance at repossession €m**	**No. of properties**	**Loan balance at repossession €m**	**No. of properties**	**Loan balance at repossession €m**
Opening stock 1 January 2012	69	24	10	1	79	25
Repossessions in 2012	22	4	8	5	30	9
Disposals	(36)	(11)	(7)	(4)	(43)	(14)
Closing stock 31 December 2012	**55**	**17**	**11**	**2**	**66**	**20**

** Forms integral part of the audited financial statements*

	Owner occupier	Buy to let	Total
	No. of properties	No. of properties	No. of properties
Of which at 31 December 2012:			
Voluntary Surrenders	14	7	**21**
Enforcement of security	8	1	**9**
Total	**22**	**8**	**30**

Residential Mortgages – Repossessions					**2011**	
Movements in residential repossessions	**Owner occupier**		**Buy to let**		**Total**	
	No. of properties	**Loan balance at repossession €m**	**No. of properties**	**Loan balance at repossession €m**	**No. of properties**	**Loan balance at repossession €m**
Opening stock 1 January 2011	44	17	5	1	49	18
Repossessions in 2011	30	8	5	-	35	8
Disposals	(5)	(2)	-	-	(5)	(2)
					-	-
Closing stock 31 December 2012	**69**	**23**	**10**	**1**	**79**	**24**

	No. of properties	No. of properties	No. of properties
Of which at 31 December 2011:			
Voluntary Surrenders	14	4	**18**
Enforcement of security	16	1	**17**
Total	**30**	**5**	**35**

EBS held 66 properties at year end, representing a decrease of 13 compared with 2011. The EBS Group disposed of 43 properties during 2012 recognising a loss on disposal of €9.7m.

Stock / Activity	**Number of disposals**	**Balance outstanding at sale €m**	**Gross sales proceeds €m**	**Cost to sell €m**	**Loss on sale €m**	**Weighted Average LTV at sale %**
2012						
Owner Occupier	36	11	4	1	7	253%
Buy-to-let	7	4	1	-	2	278%
Total repossessions	**43**	**15**	**5**	**1**	**9**	**259%**
2011						
Owner Occupier	5	2	1	-	1	244%
Buy-to-let	-	-	-	-	-	-
Total repossessions	**5**	**2**	**1**	**-**	**1**	**244%**

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6.7.6 Residential mortgage lending - index linked LTV

Residential mortgage lending - Total

The property values used in the completion of the following loan to value ('LTV') tables are determined with reference to the most recent valuation indexed to the Central Statistics Office ('CSO') Residential Property Price Index.

2012*	Owner Occupier	BTL	Total
	€m	€m	€m
Less than 50%	1,206	48	1,254
50% - 70%	1,161	48	1,209
71% - 80%	749	32	781
81% - 90%	859	45	904
91% - 100%	980	49	1,029
101% - 120%	2,478	100	2,578
121% - 150%	2,890	143	3,033
Greater than 150%	2,694	143	2,837
Total	**13,017**	**608**	**13,625**

2011	Owner Occupier	BTL	Total
	€m	€m	€m
Less than 50%	1,487	186	1,673
50% - 70%	1,354	211	1,565
71% - 80%	860	111	971
81% - 90%	998	141	1,139
91% - 100%	1,155	154	1,309
101% - 120%	2,748	358	3,106
121% - 150%	2,872	457	3,329
Greater than 150%	2,098	240	2,338
Total	**13,572**	**1,858**	**15,430**

38.1% of the owner-occupier and 36.4% of the buy-to-let mortgages were in positive equity at 31 December 2012. In terms of the total portfolio, 61.9% was in negative equity at 31 December 2012, reflecting the continuing decline in residential property prices in Ireland in 2012. The weighted average indexed loan to value ratio for the total book was 113.1% at 31 December 2012 whilst the indexed loan to value ratio for the impaired book was higher at 130.6%. The indexed loan to value ratio of new loans advanced during 2012 was 70.0%.

Residential - Neither past due nor impaired

The following tables profile the residential mortgage portfolio that is neither past due nor impaired by the indexed loan to value ratio's at 31 December 2012 and 2011.

2012*	Owner Occupier	BTL	Total
Neither past due nor impaired	€m	€m	€m
Less than 50%	1,037	26	1,063
50% - 70%	949	19	968
71% - 80%	603	11	614
81% - 90%	693	16	709
91% - 100%	776	20	796
101% - 120%	1,943	30	1,973
121% - 150%	1,983	35	2,018
Greater than 150%	1,530	80	1,610
Total	**9,514**	**237**	**9,751**

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2011	Owner Occupier €m	BTL €m	Total €m
Less than 50%	1,317	129	1,446
50% - 70%	1,137	126	1,263
71% - 80%	714	68	782
81% - 90%	819	76	895
91% - 100%	931	82	1,013
101% - 120%	2,194	181	2,375
121% - 150%	2,049	219	2,268
Greater than 150%	1,308	124	1,432
Total	**10,469**	**1,005**	**11,474**

Among loans neither past due, nor impaired, 42.7% of the owner-occupier and 38.9% of the buy-to-let mortgages were in positive equity at 31 December 2012. In terms of the total portfolio, 57.3% was in negative equity at 31 December 2012, reflecting the continuing decline in residential property prices in Ireland in 2012.

90 days past due or impaired
LTV ratio of residential mortgage lending (index linked) which are 90 days past due. The following tables profile the residential mortgage portfolio that was > 90 days past due and /or impaired by the indexed loan to value ratios at 31 December 2012 and 2011.

2012* >90 days past due and/or impaired	Owner Occupier €m	BTL €m	Total €m
Less than 50%	111	20	131
50% - 70%	151	27	178
71% - 80%	102	19	121
81% - 90%	107	27	134
91% - 100%	142	25	167
101% - 120%	361	69	430
121% - 150%	672	99	771
Greater than 150%	960	60	1,020
Total	**2,606**	**346**	**2,952**

2011	Owner Occupier €m	BTL €m	Total €m
Less than 50%	102	51	153
50% - 70%	141	76	217
71% - 80%	99	39	138
81% - 90%	126	59	185
91% - 100%	150	67	217
101% - 120%	377	161	538
121% - 150%	605	221	826
Greater than 150%	634	108	742
Total	**2,234**	**782**	**3,016**

23.5% of the owner-occupier and 34.1% of the buy-to-let mortgages were in positive equity at 31 December 2012. In terms of the total portfolio, 75.2% was in negative equity at 31 December 2012, reflecting the continuing decline in residential property prices in Ireland in 2012.

Residential Mortgage Lending with Fair Value Collateral

Residential Mortgage lending – Total
The property values used in the completion of the following Group loan to value ('LTV') tables are determined with reference to the most recent valuation indexed to the Central Statistics Office ('CSO') Residential Property Price Index.

In the tables below, for loans with an LTV <100% the outstanding loan value is deemed to be the collateral value. For loans with an LTV >100%, the value of collateral is indexed valuations based on the CSO property valuation for Residential Property.

** Forms integral part of the audited financial statements*

2012*	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	1,206	48	1,254
50% - 70%	1,161	48	1,209
71% - 80%	749	32	781
81% - 90%	859	45	904
91% - 100%	980	49	1,029
Partially Collateralised			
Book Value	8,061	386	8,447
Value of Collateral	*5,916*	*273*	6,189
Total	**10,871**	**495**	**11,366**

2011	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	1,402	185	1,587
50% - 70%	1,354	211	1,565
71% - 80%	860	111	971
81% - 90%	998	140	1,138
91% - 100%	1,155	154	1,309
Partially Collateralised			
Book Value	7,719	1,056	8,775
Value of Collateral	5,847	769	6,616
Total	**11,616**	**1,571**	**13,187**

Residential Mortgage lending – Neither past due nor impaired

The following Group tables profile the residential mortgage portfolio that is neither past due nor impaired by the indexed loan to value ratios at 31 December 2012 and 2011.

2012* Neither past due nor impaired	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	1,037	26	1,063
50% - 70%	949	19	968
71% - 80%	603	11	614
81% - 90%	693	16	709
91% - 100%	776	20	796
Partially Collateralised			
Book Value	5,456	145	5,601
Value of Collateral	*4,103*	*93*	4,196
Total	**8,161**	**185**	**8,346**

2011	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	1,231	129	1,360
50% - 70%	1,137	126	1,263
71% - 80%	714	68	782
81% - 90%	819	76	895
91% - 100%	930	82	1,012
Partially Collateralised			
Book Value	5,552	524	6,076
Value of Collateral	4,283	365	4,648
Total	**9,114**	**846**	**9,960**

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Residential Mortgage lending – Past due not impaired

The following Group tables profile the residential mortgage portfolio that is past due not impaired by the indexed loan to value ratios at 31 December 2012 and 2011.

2012* Past due not impaired	**Owner Occupier** **€m**	**BTL** **€m**	**Total** **€m**
Fully Collateralised			
Less than 50%	61	2	63
50% - 70%	65	3	68
71% - 80%	45	3	48
81% - 90%	60	2	62
91% - 100%	64	4	68
Partially Collateralised			
Book Value	645	15	660
Value of Collateral	*471*	*10*	481
Total	**766**	**24**	**790**

2011	**Owner Occupier** **€m**	**BTL** **€m**	**Total** **€m**
Fully Collateralised			
Less than 50%	69	6	75
50% - 70%	75	13	88
71% - 80%	47	4	51
81% - 90%	53	8	61
91% - 100%	74	7	81
Partially Collateralised			
Book Value	550	52	602
Value of Collateral	*409*	*40*	*449*
Total	**727**	**78**	**805**

Residential Mortgage lending – 90 days past due or impaired

The following tables profile the Group residential mortgage portfolio that was >90 days past due or impaired by the indexed loan to value ratios at 31 December 2012 and 2011.

2012* 90 days past due or impaired	**Owner Occupier** **€m**	**BTL** **€m**	**Total** **€m**
Fully Collateralised			
Less than 50%	111	20	131
50% - 70%	151	27	178
71% - 80%	102	19	121
81% - 90%	107	27	134
91% - 100%	142	25	167
Partially Collateralised			
Book Value	1,993	228	2,221
Value of Collateral	1,366	170	1,536
Total	**1,979**	**288**	**2,267**

2011	**Owner Occupier** **€m**	**BTL** **€m**	**Total** **€m**
Fully Collateralised			
Less than 50%	102	51	153
50% - 70%	141	75	216
71% - 80%	99	39	138
81% - 90%	126	58	184
91% - 100%	150	67	217
Partially Collateralised			
Book Value	1,615	491	2,106
Value of Collateral	1,156	372	1,528
Total	**1,774**	**662**	**2,436**

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Residential Mortgage lending – Impaired

The following tables profile the Group residential mortgage portfolio that was impaired by the indexed loan to value ratios at 31 December 2012 and 2011.

2012* **Impaired**	**Owner Occupier** **€m**	**BTL** **€m**	**Total** **€m**
Fully Collateralised			
Less than 50%	108	20	128
50% - 70%	148	26	174
71% - 80%	101	17	118
81% - 90%	105	27	133
91% - 100%	140	25	164
Partially Collateralised			
Book Value	1,961	226	2,187
Value of Collateral	*1,343*	*169*	*1,512*
Total	**1,945**	**284**	**2,229**

2011	**Owner Occupier** **€m**	**BTL** **€m**	**Total** **€m**
Fully Collateralised			
Less than 50%	102	50	152
50% - 70%	141	72	213
71% - 80%	99	39	138
81% - 90%	126	57	183
91% - 100%	150	65	215
Partially Collateralised			
Book Value	1,616	480	2,096
Value of Collateral	*1,156*	*364*	*1,520*
Total	**1,774**	**647**	**2,421**

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Vintage analysis – Residential and Impaired

The following table profiles the Republic of Ireland residential mortgage book and impaired residential mortgage book at 31 December 2012 and 2011 by year of origination.

Loan Origination Profile of Residential Mortgages (before provision for impairment)	TOTAL 2012*							
	Residential Mortgage Loan Book		Loans >90 days in arrears but not impaired at year end		Loans classified as impaired at year end		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m	Number of loans	Balance €m	Number of loans	Balance €m
1996 and before	5,624	152	25	1	758	29	783	30
1997	2,080	68	4	-	219	10	223	10
1998	2,461	92	5	-	272	14	277	14
1999	3,099	138	5	-	373	26	378	26
2000	3,310	193	10	-	407	31	417	32
2001	3,552	266	10	1	496	47	506	47
2002	5,054	449	7	1	722	77	729	77
2003	6,226	602	22	2	1,049	124	1,071	127
2004	8,094	957	31	4	1,314	196	1,345	199
2005	11,850	1,532	29	4	2,109	350	2,138	353
2006	15,091	2,327	54	10	3,132	623	3,186	632
2007	14,275	2,300	55	10	3,514	639	3,569	651
2008	13,909	2,205	57	9	2,979	544	3,036	553
2009	8,403	1,177	25	3	923	144	948	148
2010	7,089	1,050	17	3	307	47	324	50
2011	757	106	-	-	11	3	11	3
2012	147	11	-	-	3	-	3	-
Total	**111,021**	**13,625**	**356**	**48**	**18,588**	**2,904**	**18,944**	**2,952**

** Forms integral part of the audited financial statements*

Loan Origination Profile of Residential Mortgages (before provision for impairment)	TOTAL December 2011							
	Residential Mortgage Loan Book		Loans >90 days in arrears but not impaired at year end		Loans classified as impaired at year end		Loans >90 days in arrears and/or impaired at year end	
	Number of loans	Balance €m	Number of loans	Balance €m	Number of loans	Balance €m	Number of loans	Balance €m
1996 and before	6,652	187	-	-	765	29	765	29
1997	2,547	86	-	-	241	11	241	11
1998	2,919	123	-	-	290	21	290	21
1999	3,570	171	4	-	372	26	376	26
2000	3,691	227	1	-	393	31	394	31
2001	3,880	304	-	-	490	46	490	46
2002	6,026	549	2	-	743	78	745	78
2003	7,136	725	2	1	1,064	134	1066	135
2004	9,282	1,157	4	1	1,350	219	1354	220
2005	13,513	1,850	10	4	2,166	417	2176	421
2006	16,820	2,774	11	7	3,105	650	3116	657
2007	15,644	2,538	8	4	3,405	643	3413	647
2008	14,697	2,341	5	2	2,791	521	2796	523
2009	8,787	1,229	2	1	793	130	795	131
2010	7,272	1,069	-	-	235	38	235	38
2011	767	100	-	-	10	2	10	2
Total	**123,203**	**15,430**	49	20	**18,213**	**2,996**	**18,262**	**3,016**

6.7.7 Analysis of loans and advances to customers by contractual residual maturity and interest rate sensitivity*

The following tables analyse gross loans to customers by maturity and interest rate sensitivity. Approximately 16.9% of EBS loan portfolio is provided on a fixed rate basis. The interest rate risk exposure is managed by Global Treasury at AIB Group level within agreed policy parameters

Loans and advances to customers

	Fixed	Variable	Total	Within 1 year	After 1 year but within 5 years	After 5 Years	Total
	€m	€m	€m	€m	€m	€m	€m
2012	2,016	11,887	13,903	3,027	182	13,694	13,903
2011	3,136	13,182	16,318	2,502	305	13,511	16,318

6.7.8 Cross-border outstandings *

Cross-border outstandings are based on the country of domicile of the borrower and comprise placings with banks and money at call and short notice, loans to customers and other monetary assets. EBS monitors geographic breakdown based on the country of the borrower and the guarantor of ultimate risk. Cross-border outstandings exceeding 1% of total assets, in 2012 comprise Spanish government and senior bank bonds amounting to €184m (2011: €226m).

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6.7.9 Large exposures *

At 31 December 2012, EBS Group's top 50 exposures amounted to €190m, and accounted for 1.4% (€467m and 2.9% at 31 December 2011) of the on-balance sheet total gross loans and advances to customers. No single customer exposure exceeds regulatory guidelines.

6.7.10 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 tables present an analysis of Treasury asset counterparties based on EBS' internal ratings mapped to an external rating agency scale. Where the counterparty is government guaranteed we have used the sovereign rating.

	Cash & Balances with Central Banks €m	Govt. & Other Eligible Bills €m	AFS Financial Assets €m	Derivatives €m	Loans & Advances to Credit Institutions €m	Commitments & Contingent Liabilities €m
Group 2012						
Balances at 31 December 2012	8	721	1,152	190	883	104
Aaa	100.0%	-	22.8%	22.9%	2.4%	-
Aa3 to Aa1	-	-	5.2%	49.4%	18.1%	-
A3 to A1	-	-	17.0%	3.3%	6.2%	-
Lower than A3	-	100.0%	55.0%	24.4%	73.3%	-
Unrated	-	-	-	-	-	100.0%
Company 2012						
Balances at 31 December 2012	8	721	4,129	226	3,906	80
Aaa	100.0%	-	6.4%	19.1%	0.5%	-
Aa3 to Aa1	-	-	5.6%	41.5%	0.6%	-
A3 to A1	-	-	4.7%	2.8%	0.4%	-
Lower than A3	-	100.0%	83.3%	36.6%	98.5%	-
Unrated	-	-	-	-	-	100.0%
Group 2011						
Balances at 31 December 2011	147	738	1,325	160	444	140
Aaa	100.0%	-	20.6%	12.4%	5.9%	-
Aa3 to Aa1	-	4.1%	6.5%	35.8%	22.6%	-
A3 to A1	-	-	20.5%	44.9%	13.8%	-
Lower than A3	-	95.9%	52.4%	6.9%	57.7%	-
Unrated	-	-	-	-	-	100.0%
Company 2011						
Balances at 31 December 2011	147	738	3,734	183	3,772	108
Aaa	100.0%	-	7.3%	8.5%	0.7%	-
Aa3 to Aa1	-	4.1%	14.8%	48.8%	-	-
A3 to A1	-	-	7.3%	7.2%	1.6%	-
Lower than A3	-	95.9%	70.6%	35.5%	97.7%	-
Unrated	-	-	-	-	-	100.0%

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EBS has put in place a number of Credit Support Annexes (CSAs) covering in excess of approximately 96% 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 4% 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 EBS' obligations to the Central Bank and loan commitments.

6.7.11 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.

EBS is dependent to a significant extent on its parent the AIB Group for funding and liquidity support and EBS' liquidity risk has been incorporated into the AIB p.l.c. centralised risk management model in line with AIB p.l.c. common approach to Treasury Risk management. Under this centralised approach the management of Liquidity and related activities are overseen and controlled by AIB Treasury.

EBS applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the Central Bank 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'). Funding contingency plans are continually under review in light of unprecedented market and EBS specific events,

EBS 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. These activities are conducted in conjunction with AIB Group Asset & Liability Management.

Key measures used for managing liquidity risk are the liquidity ratios, calculated and reported on a daily basis internally to the Treasury Front Office and to AIB Group, on a weekly basis for consolidation into the AIB Group Regulatory Liquidity Reports and on a monthly basis to the EBS Management team and bi-monthly to the EBS 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. EBS continues to be one of the Irish covered institutions that are part of the Eligible Liability Guarantee (ELG) Scheme. This scheme assisted EBS in attracting and maintaining customer funding in times of great economic uncertainty. The cost of the ELG scheme for 2012 was €55m (2011: €63m) (see note 2). On 26 February 2013, the Minister for Finance announced that the Eligible Liabilities Guarantee Scheme 2009 will end for all new liabilities with effect from midnight on 28 March 2013.

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Exposure to liquidity risk *
The following table analyses gross contractual maturities of financial liabilities including interest payable at the next interest payment date held by the Group.

Group

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
31 December 2012							
Financial liabilities							
Deposits by central banks	1,161	700	-	-	-	600	2,461
Deposits by credit institutions	180	58	-	-	-	-	238
Customer accounts	2,792	1,630	1,695	2,186	927	1,459	10,689
Derivative financial instruments	30	22	13	18	12	91	186
Debt securities in issue	32	83	24	7	139	1,951	2,236
Loan commitments	6	2	2	3	1	90	104
Total financial liabilities	**4,201**	**2,495**	**1,734**	**2,214**	**1,079**	**4,191**	**15,914**
31 December 2011							
Financial liabilities							
Deposits by central banks	2,076	1,790	-	-	-	-	3,866
Deposits by credit institutions	1,301	128	-	-	-	-	1,429
Customer accounts	2,342	1,499	1,173	1,595	1,554	770	8,933
Derivative financial instruments	3	4	11	32	56	113	219
Debt securities in issue	45	80	6	1,097	43	2,130	3,401
Loan commitments	10	2	2	8	1	117	140
Total financial liabilities	**5,777**	**3,503**	**1,192**	**2,732**	**1,654**	**3,130**	**17,988**

The following table analyses gross contractual maturities of financial liabilities held by the Group.

Company

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	1 to 2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
31 December 2012							
Financial liabilities							
Deposits by central banks	1,161	700	-	-	-	600	2,461
Deposits by credit institutions	237	58	-	-	-	-	295
Customer accounts	2,792	1,630	1,695	2,186	927	2,306	11,536
Derivative financial instruments	51	21	13	18	12	65	180
Debt securities in issue	32	83	24	7	89	1,105	1,340
Loan commitments	6	2	2	3	1	66	80
Total financial liabilities	**4,279**	**2,494**	**1,734**	**2,214**	**1,029**	**4,142**	**15,892**
31 December 2011							
Financial liabilities							
Deposits by central banks	2,076	1,790	-	-	-	-	3,866
Deposits by credit institutions	1,318	128	-	-	-	-	1,446
Customer accounts	2,342	1,499	1,173	1,595	1,554	1,662	9,825
Derivative financial instruments	3	4	10	33	40	138	228
Debt securities in issue	45	79	6	59	44	1,188	1,421
Loan commitments	9	2	2	8	1	86	108
Total financial liabilities	**5,793**	**3,502**	**1,191**	**1,695**	**1,639**	**3,074**	**16,894**

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The previous tables show the undiscounted cash flows (other than for derivatives) on each of the Group and EBS Limited'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.

6.7.12 Market risk *

Interest rate sensitivity gap analysis 2012

The tables overleaf give an indication of the interest rate re-pricing 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.

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Group

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 2 years	Over 2 year but not more than 3 years	Over 3 year but not more than 4 years	Over 4 year but not more than 5 years	Over 5 years	Non Interest Bearing	Trading	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
ASSETS											
Cash and balances with central banks	4	-	-	-	-	-	-	-	4	-	**8**
Loans and advances to Banks	883	-	-	-	-	-	-	-	-	-	**883**
Loans and advances to customers	12,095	313	753	300	204	112	52	74	-934	-	**12,969**
Available-for-sale financial assets	38	112	363	130	647	28	6	242	2	-	**1,568**
NAMA senior bonds	305	-	-	-	-	-	-	-	-	-	**305**
Other assets	-	-	-	-	-	-	-	-	523	63	**586**
Total assets	**13,325**	**425**	**1,116**	**430**	**851**	**140**	**58**	**316**	**(405)**	**63**	**16,319**
LIABILITIES											
Deposits by banks	2,628	70	-	-	-	-	-	-	-	-	**2,698**
Customer accounts	4,928	1,211	2,695	594	162	214	291	22	-	-	**10,117**
Debt securities in issue	-	48	31	99	1,158	-	-	846	-	-	**2,182**
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	62	-	**62**
Other liabilities	-	-	-	-	-	-	-	-	521	62	**583**
Shareholders equity	-	-	-	-	-	-	-	-	677	-	**677**
Total liabilities	**7,556**	**1,329**	**2,726**	**693**	**1,320**	**214**	**291**	**868**	**1,260**	**62**	**16,319**
Derivatives affecting interest rate sensitivity	(4,051)	929	1,606	298	592	101	534	(10)	-	-	**-**
Interest rate sensitivity gap	**1,718**	**25**	**(4)**	**35**	**123**	**27**	**301**	**(562)**	**(1,665)**	**1**	**-**
Cumulative gap	**1,718**	**1,743**	**1,739**	**1,774**	**1,897**	**1,924**	**2,225**	**1,663**	**(2)**	**(1)**	**-**

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Interest rate sensitivity gap analysis 2011

Group

	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 2 years	Over 2 year but not more than 3 years	Over 3 year but not more than 4 years	Over 4 year but not more than 5 years	Over 5 years	Non Interest Bearing	Trading	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
ASSETS											
Cash and balances with central banks	142	-	-	-	-	-	-	-	5	-	**147**
Loans and advances to Banks	444	-	-	-	-	-	-	-	-	-	**444**
Loans and advances to customers	13,202	194	802	1,285	329	196	170	140	(949)	-	**15,369**
Available-for-sale financial assets	83	230	20	458	280	383	26	230	6	-	**1,716**
NAMA senior bonds	347	-	-	-	-	-	-	-	-	-	**347**
Other assets	-	-	-	-	-	-	-	-	462	52	**514**
Total assets	**14,218**	**424**	**822**	**1,743**	**609**	**579**	**196**	**370**	**(476)**	**52**	**18,537**
LIABILITIES											
Deposits by banks	5,231	61	-	-	-	-	-	-	-	-	**5,292**
Customer accounts	2,471	1,542	2,411	1,432	423	159	101	2	-	-	**8,541**
Debt securities in issue	950	219	1,047	50	-	1,019	-	25	-	-	**3,310**
Retirement Benefit Liabilities	-	-	-	-	-	-	-	-	28	-	**28**
Other liabilities	-	-	-	-	-	-	-	-	474	54	**528**
Shareholders equity	-	-	-	-	-	-	-	-	838	-	**838**
Total liabilities	**8,652**	**1,822**	**3,458**	**1,482**	**423**	**1,178**	**101**	**27**	**1,340**	**54**	**18,537**
Derivatives affecting interest rate sensitivity	(3,163)	1,798	1,675	(505)	(205)	615	(140)	(75)			
Interest rate sensitivity gap	**2,403**	**400**	**(961)**	**(244)**	**(19)**	**16**	**(45)**	**268**	**(1,816)**	**(2)**	
Cumulative gap	**2,403**	**2,803**	**1,842**	**1,598**	**1,579**	**1,595**	**1,550**	**1,818**	**2**	**-**	

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In the tables above the assets and liabilities are allocated to time buckets based on the next re-pricing date of the individual assets and liabilities underlying the categories above.

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 *

EBS conducts daily stress testing on the Banking Book Portfolio, evaluating the exposure of the Group and EBS 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 EBS 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 the EBS Management team on a monthly basis. EBS is in the process of aligning such stress testing methodologies to those employed by AIB Group.

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)			
		2012 €m		2011 €m
Banking book portfolio				
Average for the period	- / +	3	- / +	2
Maximum for the period	- / +	7	- / +	9
Minimum for the period	- / +	-	- / +	1
Reserve investment portfolio				
Average for the period	- / +	17	- / +	16
Maximum for the period	- / +	17	- / +	18
Minimum for the period	- / +	15	- / +	14

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 EBS Group Treasury in conjunction with AIB Group Treasury. The use of derivatives to manage interest rate risk is described in note 32.

Exposure to other market risks

Foreign exchange risk *

The Group and EBS 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 EBS Limited. The size of the foreign currency open positions is kept within small operational limits.

Group and Company

	2012	2011
Net of Assets and Liabilities (including derivatives) denominated in currency other than Euro:		
Sterling	1	1
Total	**1**	**1**

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

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positions through the use of derivatives. The Group and EBS have no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

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 the EBS Management team.

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

		2012			2011		
	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 with central banks	Amortised cost	8	8	-	147	147	-
Derivative financial assets	Fair value	190	190	-	160	160	-
Available-for-sale financial assets	Available-for-sale	1,568	1,568	-	1,716	1,716	-
NAMA senior bonds	Loans and advances	305	307	2	347	351	4
Loans and advances to credit institutions	Loans and advances	883	883	-	444	444	-
Loans and advances to customers	Loans and advances	12,969	11,936	(1,033)	15,369	13,278	(2,091)
LIABILITIES							
Deposits by central banks	Amortised cost	2,698	2,698	-	5,292	5,292	-
Customer accounts	Amortised cost	10,117	9,758	359	8,541	8,628	(87)
Derivative financial instruments	Fair value	186	186	-	219	219	-
Debt securities in issue	Amortised cost	2,182	2,404	(222)	3,310	2,318	992

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Company

	Accounting Classifications	2012 Carrying Value €m	2012 Fair Value €m	2012 Unrecognised gain / (loss) €m	2011 Carrying Value €m	2011 Fair Value €m	2011 Unrecognised gain / (loss) €m
ASSETS							
Cash and balances with central banks	Amortised cost	8	8	-	147	147	-
Derivative financial assets	Fair value	226	226	-	183	183	-
Available-for-sale financial assets	Available-for-sale	4545	4545	-	4,125	4,125	-
NAMA senior bonds	Loans and advances	305	307	2	347	351	4
Loans and advances to credit institutions	Loans and advances	3,906	3,906	-	3,772	3,772	-
Loans and advances to customers	Loans and advances	5,994	5,563	(431)	7,580	6,727	(853)
LIABILITIES							
Deposits by central banks and banks	Amortised cost	2,756	2,756	-	5,308	5,308	-
Customer accounts	Amortised cost	10,983	10,625	358	9,459	9,372	87
Derivative financial instruments	Fair value	180	180	-	228	228	-
Debt securities in issue	Amortised cost	1,286	1,367	(81)	1,369	1,454	(85)

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

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value.

(iii) the Group has used a discounted cashflow methodology to arrive at the fair value for loans and advances to customers. The model used at 31 December 2012 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 - EBS 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) 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.

(vii) Debt securities in issue are fair valued using a quoted market valuation.

While the Group believe that its estimate of fair value is appropriate, the use of different measurements or assumptions could lead to different fair values.

Fair value measurements *

Group and Company 2012

	Company		Group	
	Available-for-sale financial assets	Derivative financial instruments	Available-for-sale financial assets	Derivative financial instruments
Level 1	29.2%	-	84.5%	-
Level 2	70.8%	100%	15.4%	100%
Level 3	-	-	0.1%	-

Group and Company 2011

	Company		Group	
	Available-for-sale financial assets	Derivative financial instruments	Available-for-sale financial assets	Derivative financial instruments
Level 1	36.5%	-	87.6%	-
Level 2	63.4%	100.0%	12.0%	100.0%
Level 3	0.1%	-	0.4%	-

The fair value hierarchy set out above reflects the significance of the inputs used in making the fair value measurements. Level 1 relates to quoted prices in active markets. Level 2 relates to inputs other than quoted prices that are observable either directly or indirectly. Level 3 relates to inputs which use unobservable market data. As required, the level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level of input. There are no transfers between levels 1, 2 or 3 in Group or Company in respect to assets held at 31 December 2012.

The movements in level 3 assets and derivatives between 31 December 2011 and 31 December 2012 is attributable to income statement and equity losses, with regards to NAMA subordinated bonds.

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The following table analysis the movement in the available-for-sale financial assets in level 3.

Level 3 – Available-for-sale Financial Assets *

Group and Company	**2012***	**2011**
Balance at 1 January	6	8
Total (losses):		
Income Statement	(3)	(5)
Equity	(1)	-
Purchases	-	3
Balance at 31 December	**2**	**6**

On transfer of loans to NAMA 5% of the consideration received by the Company was in the form of NAMA subordinated bonds, which are classified as equity securities. These are unlisted securities and they are valued using valuation techniques which use unobservable market data. The implementation of valuation techniques involves a considerable degree of judgement. While the Group believe that its estimate of fair value is appropriate, the use of different measurements or assumptions could lead to different fair values. The differences between the fair value at initial recognition and the amount that was determined at 31 December 2012 using a valuation technique incorporating significant unobservable data was charged to the Income Statement under provision for impairment of AFS financial assets.

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Independent Auditors Report to the members of EBS Limited

We have audited the group and company financial statements (''financial statements'') of EBS Ltd for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, the consolidated and company statements of changes in shareholder's equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement page 13 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2012 and of its loss for the year then ended;
- the parent company statement of financial position gives a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the parent company's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

Matters on which we are required to report by the Companies Acts 1963 to 2012

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The parent company statement of financial position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Killian Croke
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
International Financial Services Centre
Dublin 1
Ireland

26 March 2013

Accounting Policies

1.1 Reporting Entity

EBS Limited ('EBS' or the 'Company') formerly EBS Building Society (the 'Society'), is domiciled in Ireland and its registered address is 2 Burlington Road, Dublin 4, Ireland.

The consolidated financial statements include the financial statements of EBS Limited and its subsidiary undertakings and where appropriate, certain special purpose entities. These are collectively referred to as the 'Group', and are made up to the end of the financial year. The Group is primarily involved in the provision of mortgage lending, savings, investments and insurance arrangement services to customers.

The Group's immediate and ultimate parent is AIB p.l.c.

1.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRS') both as issued by the International Accounting Standards Board ('IASB') and subsequently adopted by the European Union ('EU') and applicable for the year ended 31 December 2012. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described. The financial statements also comply with the Companies Acts 1963 to 2012 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended) and the Asset Covered Securities Acts 2001 and 2007. The EBS company financial statements have been prepared in accordance with both IFRS as issued by the IASB and subsequently adopted by the EU as applicable for the year ended 31 December 2012 and with Irish Statute. In publishing the EBS company financial statements together with the Group financial statements, EBS has taken advantage of the exemption in paragraph 2 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 not to present its parent company income statement, statement of comprehensive income and related notes that form part of these approved financial statements.

1.3 Basis of Preparation

The financial statements are presented in euro (€), which is the functional currency of the parent company and all of its subsidiaries, rounded to the nearest million (€1m), except where otherwise indicated.

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, and the consolidated and company statement of changes in shareholders' equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1.

Comparative figures have been adjusted where necessary to conform with changes in presentation where additional analysis has been provided in the current year. This has resulted in the reclassification of €1m in administrative expenses to other operating loss line in the Income Statement for 2011 and a reclassification of €65m in customer accounts to deposits by central banks and banks line in the statement of financial position.

1.4 Going Concern

The Bank's activities are subject to risk factors as set out in the Risk Management Report. The continued financial crisis has increased these risk factors. The financial statements have been prepared on a going concern basis.

In making its going concern assessment, the Bank's Directors have considered the economic, political and market risks and uncertainties currently impacting Irish financial institutions, including EBS Group (the 'Group'). In particular these relate to challenges in terms of liquidity, funding and capital. The Bank is dependent on the financial support from its parent, Allied Irish Banks p.l.c, to meet its capital requirements and ultimately its funding requirements. Since 1 July 2011 EBS Group has received the full support of AIB p.l.c. in meeting the necessary capital and funding requirements and for the full year 2012 the Bank has received the full support of EBS in meeting its necessary capital and funding requirements.

The financial statements have been prepared on a going concern basis on the basis of the assessment of the above mentioned risks and the commitment from Allied Irish Banks p.l.c. to support the funding and capital needs of the EBS Group and similarly the commitment from EBS to support the funding and capital needs of the Bank. In making this assessment the Directors have considered the basis on which AIB Group concluded that it is appropriate to prepare its own financial statements for the year ended 31 December 2012 on a going concern basis.

Extract from the AIB p.l.c. Annual report and financial statements for the year ended 31 December 2012 (on this extract the Group refers to AIB Group)

Going concern

The financial statements for the year ended 31 December 2012 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans, cash flow and funding forecasts, capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government, through the programme for restructuring the Irish banking system, with AIB designated as one of the two 'Pillar Banks'. Furthermore, the Directors have considered the outlook for the Irish economy, taking into account such factors as progress on improving the fiscal situation and the support provided by the EU/IMF to Ireland and the fact that the economy returned to a modest growth path in 2011-2012. The Directors also considered the eurozone sovereign debt crisis taking into account the developments taken at an EU level that lead to a marked easing of the crisis and improvement of conditions in eurozone financial markets during the second half of 2012

Background

The deterioration in the Irish economy in the period 2008-2010 culminated in the EU/IMF Programme of Financial Support for Ireland at the end of 2010. The EU/IMF Programme provided for the restructuring and reorganisation of the Irish banks. The subsequent Financial Measures Programme published by the Central Bank in March 2011 set a PCAR requirement for AIB (including EBS Limited ("EBS")) to raise capital amounting to €14.8 billion, which was met by July 2011. Since then, there has been a modest rise in Irish GDP, however it is all accounted for by the exports as domestic demand has continued to contract. Overall, the economic backdrop remains challenging and growth is expected to pick up only modestly in the next two years. This will continue to present significant risks and challenges for the Group in the years ahead.

Since 2010, AIB has had limited access to wholesale funding and has been dependent on secured funding from the European Central Bank ("ECB"). Market volatility remained elevated and liquidity depressed during 2012 driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew and the overall global macroeconomic environment remained uncertain.

At different stages since the beginning of 2011, European countries and leaders reaffirmed their commitment to the euro, culminating in July 2012, when ECB President, Mario Draghi, pledged that the ECB would do whatever is necessary to protect the eurozone. The ECB followed this statement by announcing that it was willing to implement a new unlimited bond buying programme in the secondary market to support 'under pressure' sovereign bond markets in the euro area. This announcement led to a sharp fall in yields in peripheral eurozone debt markets and a marked easing of tensions in the eurozone financial system.

The various support measures adopted for the euro since the beginning of 2011 and the pronouncements of the ECB demonstrate the strong commitment of EU institutions and the euro area Member States to do whatever is necessary to preserve the euro.

Capital

In March 2011, following the Financial Measures Programme (FMP) the Central Bank announced new minimum capital target ratios for AIB of 10.5% core tier 1 capital, in a base scenario and 6% core tier 1 capital in a stressed scenario. These target ratios form the basis of the Group's capital management policy and are the capital adequacy requirements effective as at 31st December 2012. The Group's core tier 1 ratio at 31 December 2012 is 15.8% (2011: 17.9%). The Group's total capital ratio at 31 December 2012 is 18.3% (2011: 20.5%).

In October 2012, AIB published the results of the final assessment of the December 2011 capital exercise co-ordinated by the European Banking Authority (EBA) under the supervision of the Central Bank of Ireland (CBI). The published results confirmed that as at June 2012, AIB met the 9% core tier 1 ratio including the sovereign buffer as stated in the EBA December 2011 recommendation.

The Irish Government, as AIB's principal shareholder, has previously confirmed its recognition of AIB as a pillar bank, given its key role in supporting the Irish economy. In support of this role, it has ensured that AIB has been sufficiently capitalised to meet the capital targets set by the Central Bank of Ireland through its 2011 PCAR and PLAR assessment.

AIB are awaiting the authorities' finalisation of Basel III requirements which will impact on the Group's regulatory capital measurement and regulatory capital ratios. Sign off by the European Parliament is expected in April 2013.

The Directors believe that the impact on the Group's capital position from the phased implementation of CRD IV during the period of assessment will be managed within the Group's existing capital resources.

The Directors have reviewed the capital and financial plans for the period of assessment, and although AIB consumes capital over the life of the plan they believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario.

Liquidity and funding

Customer deposits at 55% (up from 47% at 31 December 2011) are the single most important element of the Group's funding mix. Customer deposit accounts increased by € 5 billion in the full year 2012, or net € 3 billion including the run-off of Offshore deposits of € 2 billion following the announcement of the closure of that business. Growth was experienced across all business areas during this period, as sentiment towards Ireland and Irish banks improved. During 2012, AIB UK (AIB (GB) and FTB) withdrew from the Eligible Liabilities Guarantee ("ELG") scheme. The Group welcomed the announcement of the Minister for Finance on 26 February 2013 that the ELG scheme would be withdrawn for new liabilities with effect from midnight on the 28 March 2013 and is prepared for its withdrawal. Wholesale funding markets continued to be challenging in 2012, however, it was a year having a contrasting second half compared to the first half. Irish sovereign bonds performed very strongly in the second half of 2012 enabling a successful return to the term funding markets for the National Treasury Management Agency ("NTMA"). This has continued into 2013 with further term issuance by the NTMA and the successful resumption of short term treasury bill auctions.

In the first half of 2012, AIB successfully issued a secured funding transaction backed by UK residential mortgage assets. Given the significant improvement in sentiment towards Ireland in the second half of 2012 it enabled the Group's issue of a covered bond from its Irish mortgage pool in November 2012. AIB also issued a second covered bond in January 2013.

The key factors influencing the Group's capacity for asset growth and its future shape will be:

- *The performance of the economy;*
- *Retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment;*
- *Gaining access to unsecured wholesale term markets; and*
- *Action to deleverage non-core assets.*

The above are paramount to increasing the Group's pool of available liquid assets and to the Group's overall funding/liquidity strategy.

The Group continues to reduce its dependence on Central Bank/ECB support. Central Bank/ECB support amounted to € 22 billion at 31 December 2012, down from € 31 billion at 31 December 2011. This was due to asset deleveraging, loan amortisation and continued weak demand for credit, the redemption of NAMA senior bonds and increased deposits, partially offsest by maturing secured and unsecured bonds (Covered Bonds and Medium Term Notes ('MTN') respectively). In addition, AIB ceased issuance of its Own Use Bank Bonds (i.e. self-issued MTN under the Government guarantee) in the first half of 2012.

Notwithstanding the 2012 improvements, it is expected that the Group will continue to be reliant on the monetary authorities for funding during the assessment period. However, AIB's continued access to Central Bank funding support as required is considered to be assured due to its position as one of the two 'Pillar Banks'.

The Directors are satisfied based on the AIB's position as one of the two 'Pillar Banks' that in all reasonable circumstances, the required liquidity and funding from the Central Bank/ECB will be available to the Group during the period of assessment.

The Directors, therefore consider that the funding and liquidity position of AIB is assured during the assessment period.

Conclusion
On the basis of the above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

On the basis of the continued availability of funding from A.I.B. p.l.c. to EBS Group the Directors of the Bank consider that it is appropriate to prepare the financial statements on a going concern basis at this time.

1.5 Critical Accounting Judgements and Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment, retirement benefit liabilities; effective interest rate; corporation taxes; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; and the NAMA bonds valuation. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income. 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 employment rate, GNP, 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.

The Group considers that the provisions for loan impairments at 31 December 2012 were adequate 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.

The provisions for impairment on loans and receivables at 31 December 2012 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements.

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and when appropriate, loans are transferred to specialist units to help avoid default, or where in default, to help minimise loss. The credit rating triggers the impairment assessment and if relevant the raising of specific provisions on individual loans where there is doubt about their recoverability.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by credit and risk management on a regular basis. The Group assess and approves its provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate AIB Group levels being approved by the Audit Committee and the Board.

Key assumptions underpinning the Group's estimates of collective and IBNR provisioning are back tested with the benefit of experience and revisited for currency on a regular basis.

Specific provisions
A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in the Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. Specific provisions are created for cases that are individually significant (i.e. above certain thresholds), and also collectively for assets that are not individually significant.

The amount of an individually assessed specific provision required is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant loans are collectively evaluated for impairment. As this process is model driven, based on historic loan recovery rates, the total amount of the Group's impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. However, the recovery rates are updated at a minimum on a yearly basis.

Changes in the estimate of the value of security and the time it takes to receive those cash flows could have a significant effect on the amount of impairment provisions required and on the income statement expense and balance sheet position, for example, in assessing the value of residential property held as collateral for impaired mortgage loans in Ireland, EBS uses a 'peak to trough' house price decline of 55% as a base. In certain circumstances, realisation costs of 10% to 24% are also deducted. For larger impaired loans (individually significant) other factors such as recent transactional evidence and/or local knowledge are considered, which can result in higher discounts to collateral values. CSO statistics for December 2012 outline a 'peak to trough' decline of 49.6% for residential property, nationally. If prices were to decline by a further 5% from AIB's assumed values (to reach 58% peak to trough) and this decline fell directly through to the collateral values of its impaired mortgage loans in Ireland, the additional impairment provision impact would be in the range of approximately € 45 million to € 50 million.

EBS also applies a 'repossession rate' to the EBS mortgage portfolio. A 1% favourable change in the 'repossession rate' would reduce the impairment provision by approximately €8-9 million.

The construction and property loan portfolio continues to be adversely impacted by the downturn in both the Irish and UK economies. Collateral values have significantly reduced and, particularly in Ireland, market activity is very low in the sector. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a very high degree of uncertainty.

Incurred but not reported provisions
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant (i.e. individually insignificant). 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 under the collective incurred but not reported ('IBNR') assessment. A collective impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. 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.

Forbearance
The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. The longer-term advanced forbearance strategies are currently in the process of being rolled to relevant residential mortgage customers in Ireland, accordingly, a higher level of judgement and estimation is involved in determining their effects on impairment provisions.

(2) Retirement benefit liabilities
The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. In relation to the defined benefit schemes, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

In calculating the scheme liabilities and the charge to the income statement, the directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group's actuaries which include price inflation, pension increases, earnings growth and the longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used. The assumptions adopted for the Group's pension schemes are set out in Note 26 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

(3) Effective interest rate
Interest income and expense is 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 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

The Group's accounting policy for deferred tax is set out in accounting policy number 1.15. Details of the Group's deferred tax assets and liabilities are contained in note 19.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability and sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long-term future profitability because of the period over which recovery extends.

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:

- financial support provided by the Irish Government to AIB Group as agreed with the EU/IMF;
- Irish Government's committed support to AIB and its nomination of AIB Group as one of two pillar banks in the smaller reconstructed Irish banking sector;
- financial support provided to the Irish State under the EU/IMF programme
- absence of any expiry dates for Irish;
- non-enduring nature of the loan impairments at levels which resulted in recent years' losses;
- updated restructuring plan submitted to the European Commission in September 2012, targeting a return to profitability in 2014, as before;
- External forecasts for Ireland indicate continued economic recovery through the period of the medium-term financial plan.

Against this, there are a number of uncertainties inherent in any long-term financial assumptions and projections and other negative evidence, including:

- continued funding and margin pressures;
- reduced size of the Group's operations following re-structuring; and
- recent reductions in a number of external forecasts of near-term economic growth rates in Ireland
- Instability in the Eurozone and in the Irish and global economies.

The Group's strategy and its medium term financial plan sets out a return to profitability by 2014.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term and beyond, in the relevant Irish Group companies against which to use the tax losses. Assuming a sustainable market return on equity over the long term for future profitability levels in Ireland, it will take an extended time period, in excess of 20 years, to absorb such tax losses.

The amount of recognised deferred tax assets arising from unused tax losses amounts to €254 million.

IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position would not be an accurate guide to the fair value of those assets.

(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 Company 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.

Where quoted market prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques which require 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.

1.6 Adoption of new accounting standards
The following amendments to standards have been adopted by the Group during the year ended 31 December 2012 (note 15 loans and advances to customers).

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)
This amendment to IFRS 7 requires certain disclosures in respect of all transferred financial assets that are not derecognised in their entirety and transferred assets that are derecognised in their entirety but with which there is continuing involvement including the possible effects of any risks that may remain with the transferor of the assets. These disclosures are being made in the Bank's financial statements for the year ended 31 December 2012. This requirement has an impact on the shares in group undertaking.

1.7 Basis of Consolidation
Subsidiary undertakings and special purpose entities
A subsidiary is one where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases.

A special purpose entity is an entity created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

In accordance with Standings Interpretations Committee (SIC) 12, the Group continues to recognise the securitised assets as loans and advances to customers on the statement of financial position and income from securitised assets continues to be recognised as Group income.

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in the income statement as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree, if any, over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

It is Group policy to account for the transfer of businesses or investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction. This policy includes transfers of businesses between the Group and other entities under the control of the Irish Government.

For third party acquisitions, assets acquired and liabilities assumed are measured at their acquisition date fair values

Transactions eliminated on consolidation
Intra-group balances and any unrealised income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

1.8 Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.9 Interest Income and Expense Recognition

Interest income and expense is 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 financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The relevant period is assessed on an annual basis and resulting changes are charged / credited to the income statement.The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income 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 calculation takes into account all fees, including those for early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

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

Interest income and expense presented in the income statement includes:-

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method; and
- Interest on financial investments available-for-sale on an effective interest method; and
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense.

1.10 Fee and Commission Income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over the period the service is provided.

1.11 Net Trading Income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes.

1.12 Operating Leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

1.13 Employee Benefits

Retirement benefit obligations

The Group provides employees with post retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. All defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit are shown as liabilities. Actuarial gains and losses are recognised immediately in other comprehensive income net of deferred tax.

The cost of providing defined benefit pension schemes to employees, comprising the current service cost, past service cost, curtailments, the expected return on scheme assets, and the change in the present value of scheme liabilities arising from the passage of time is charged to the income statement within personnel expenses.

The cost of the Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits
Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably.

Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without the realistic possibility of withdrawal, to a formal plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

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

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

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

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

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

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

1.15 Income Tax, including Deferred Income Tax

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

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

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

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

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, temporary differences are not provided for assets and liabilities the initial recognition of which affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

1.16 Impairment of Property, Plant and Equipment and Intangible Assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review.

Intangible assets not yet available for use are subject to an annual impairment review. The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset’s recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised.

1.17 Impairment of Financial Assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets are impaired. A financial asset or portfolio of financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the reporting date ('a loss event'), and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets are impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   i. adverse changes in the payment status of borrowers in the portfolio;
   ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant (i.e. individually insignificant). 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 under the collective incurred but not reported ('IBNR') assessment. A collective impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. 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.

Collective evaluation of impairment

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and collective), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future repayment behaviour for a group of financial assets that are collectively evaluated for impairment is assessed on the basis of the 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.

The methodology and assumptions used for estimating repayment behaviour and loss are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss

For loans and advances and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. 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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related

provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Assets acquired in exchange for loans and advances in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of an asset. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset and not as an impairment of the original instrument.

Loans renegotiated and forbearance

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

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. A request for a forbearance solution acts as a trigger for an impairment test under IAS 39 as it may confirm that a loss event has occurred. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk section on page 29.

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance loans classified as impaired may be upgraded from impaired status to performing status where the borrower displays a satisfactory performance following the period of restructure of the loan, comprising a minimum period of six months consecutive payments of the new contractually agreed terms, typically being full principal and interest. The upgrade is subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Bank continues to be enforceable. Where loans are upgraded from impaired, they are included in the Bank's collective assessment for impairment provisioning (IBNR).

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised as an additional impairment provision. Interest accrues on the new loan based on the current market rates.

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Bank in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement as a further impairment.

Non-forbearance renegotiation

Occasionally, the Bank may temporarily amend the contractual repayments term on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39.AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement as interest income/expense.

Where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting of IBNR assessment purposes.

Collateralised financial assets
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, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

Past due loans
When a borrower fails to make a contractually due payment, a loan is deemed to be past due. “Past due days” is a term used to describe the equivalent cumulative numbers of days that a missed payment is overdue. For loans paying interest in advance, past due days commence from the close of business on the last day of the month in which a payment is due but not received. For loans paying interest in arrears, past due days commence from the close of business on the day on which a payment is due but not received. When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Loans and advances renegotiated
Loans and advances renegotiated are those facilities outstanding at the reporting date that, during the financial year have had their terms renegotiated, resulting in an upgrade from 90+ days past due or impaired status to performing status.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

Financial investments available-for-sale
In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had previously been recognised in other comprehensive income is recognised in the income statement as a reclassification adjustment. Reversals of impairment of equity securities are not recognised in the income statement and increases in the fair value of equity securities after impairment are recognised in other comprehensive income.

In the case of debt securities classified as available-for-sale, impairment is assessed on the same criteria as for all other financial assets. Impairment is recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the income statement. Any subsequent increase in the fair value of an available-for-sale debt security is included in other comprehensive income unless the increase in fair value can be objectively related to an event that occurred after the impairment was recognised in the income statement, in which case the impairment loss or part thereof is reversed.

1.18 Determination of Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Financial assets are initially recognised at fair value, and with the exception of financial assets at fair value through profit or loss, the initial fair value includes direct and incremental transaction costs.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions on an arm’s length basis. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques which use, to the extent possible, observable market data, include the use of recent arm’s length transactions, reference to other similar instruments, option pricing models and discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets
Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions on an arm’s length basis, in active markets.

Valuations for negotiable instruments, such as debt and equity securities, are determined using bid prices for asset positions and offer prices for liability positions. Where securities are traded on an exchange, the fair value

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

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

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

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

Certain financial instruments may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant.

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

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

1.19 NAMA senior bonds designation and valuation

NAMA senior bonds are designated as loans and receivables as they meet the criteria to be so designated.

The bases for measurement, interest recognition and impairment for NAMA senior bonds are the same as those for loans and receivables (see accounting policy numbers 1.9, 1.17 and 1.20). There is no active market for the NAMA senior bonds, accordingly, the fair value at take on was determined using a valuation technique.

The absence of quoted prices in an active market required an 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 procedures. While the Group believes its estimates of fair value are appropriate, the use of different measurements, valuation techniques or assumptions could have given rise to the NAMA senior bonds being measured at a different valuation at initial recognition, with a consequent impact on the income statement.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables.

1.20 Financial Assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and advances; and available-for-sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available-for-sale equity securities are recognised in the income statement when the entity's right to receive payment is established. Impairment losses and translation differences on monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category can have two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or are financial guarantee contracts.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and advances are initially recognised at fair value including direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available-for-sale

Available-for-sale financial assets are non-derivative financial investments that are designated as available- for-sale and are not categorised into any of the other categories described above. Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a reclassification adjustment. Assets reclassified from the held for trading category are recognised at fair value.

Parent Company financial statements: Investment in subsidiary undertakings

The Company accounts for investments in subsidiary undertakings that are not classified as held-for-sale at cost less provisions for impairment. If the investment is classified as held-for-sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

Dividends from a subsidiary undertaking are recognised in the income statement, when the Company's right to receive the dividend is established.

Acquisitions of businesses or investments in subsidiary undertakings between members of the Group are measured at their carrying value at the date of the transaction, except where prohibited by company law or IFRS.

1.21 Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value and the related transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement within net trading income.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or re-measurement of a financial liability is recognised in profit or loss.

1.22 Property, Plant and Equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic life.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long leasehold property	50 years
Short leasehold property	life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years[(1)]
Office properties	up to 15 years[(1)]
Computers and similar equipment	3 – 7 years
Fixtures and fittings and other equipment	5 – 10 years

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement.

It is Group policy not to revalue its property, plant and equipment.

[(1)]Subject to the maximum remaining life of the lease.

1.23 Intangible Assets

<u>*Computer software and other intangible assets*</u>

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 10 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual

basis.

1.24 Derivatives and Hedge Accounting

Derivatives, such as interest rate swaps, forward rate agreements, currency swaps, cross currency interest rate swaps and equity index options are used for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

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

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

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

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

Hedging

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

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

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group discontinues hedge accounting when:

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

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting
Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available-for-sale items the fair value hedging adjustment remains in equity, until the hedged item affects the income statement and is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is re-classed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to the income statement.

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

1.25 Collateral and Netting
The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral
The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from banks or other counterparties in the case of cash collateral received. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross on the statement of financial position.

1.26 Sale and Repurchase Agreements
Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain

with the Group. The liability to the counterparty is included separately on the statement of financial position as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method.

1.27 Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

1.28 Shareholders' Equity

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

Ordinary Share capital

Ordinary share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, convertible non-voting shares and preference shares of the entity.

Dividends and distributions

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

Available-for-sale reserves

Available-for-sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of financial investments available-for-sale at fair value.

Cash flow hedge reserves

Cash flow hedge reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

Capital contribution

Capital contribution represents the initial principal amount net of costs of a promissory note issued by the Minister for Finance to EBS.

General reserves

General reserves represent retained earnings of the parent company and subsidiaries. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

1.29 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. For management and reporting purposes the Group's activities are organised into one reportable segment based on the internal reports that are regularly reviewed by the Chief Operating Decision Maker ('CODM'). The Board of Directors is considered to be the CODM.

The Group operates solely in the Republic of Ireland.

1.30 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

1.31 Prospective Accounting Changes

The following new accounting standards and amendments to existing standards approved by the IASB in 2010 and 2011, but not early adopted by the Group, will impact the Group's financial reporting in future periods.

The following will be applied in 2013 and 2014:

Amendments to IAS 1 – Presentation of Items in Other Comprehensive Income

The amendments to IAS 1 were issued in June 2011 and are applicable to annual periods beginning on or after 1 July 2012. These amendments require companies preparing financial statements in accordance with IFRSs to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement.

(i) Consolidation Standards

In May 2011, the IASB published a set of five standards dealing with consolidation, joint ventures and their related disclosures. Each of the five standards is effective for annual periods beginning on or after 1 January 2013, with retrospective application required.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

FRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 'Consolidated financial statements' and IFRS 11 'Joint arrangements'; it also replaces the disclosure requirements currently found in IAS 28 'Investments in Associates'.

IAS 27 Separate Financial Statements (revised 2011)

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other sections of IAS 27 are replaced by IFRS 10. IAS 27 is renamed 'Separate financial statements' and is now a standard dealing solely with separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (revised 2011)

This standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 (revised 2011) does not include any disclosure requirements; these are included in IFRS 12 Disclosure of Interests in Other Entities.

(ii) IFRS 13 Fair Value Measurement

This standard, which applies prospectively for annual periods beginning on or after 1 January 2013, establishes a single source of guidance for fair value measurements under IFRSs. IFRS 13 requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. This information will be required for both financial and non-financial assets and liabilities. The impact of the standard may result in additional disclosures but is not expected to have a financial impact for the Group.

(iii) IAS 19 Employee Benefits

Amendments to IAS 19 Employee Benefits were published by the IASB in June 2011 and are effective for annual periods beginning on or after 1 January 2013 with retrospective application required. These amendments result in changes to accounting for defined benefit pension plans. There are also a number of other changes, including modification to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans.

The accounting options for defined benefit pensions available under current IAS 19 have been eliminated however, as the Group already recognises full actuarial gains and losses immediately, the removal of the option to defer gains and losses will not impact its financial statements. The main change to IAS 19 that will impact on the financial statements of the Group in 2013 is the amendment to replace the interest cost on scheme benefit obligations and expected return on plan assets with an interest charge (or income) on the net pension liability (or asset).

(iv) Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, and Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7.

In December 2011, the IASB issued amendments to IAS 32 and IFRS 7 which clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP.

The amendments to IFRS 7 will require more extensive disclosures than are currently required. The amended offsetting disclosures are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013.

The amendments to IAS 32 clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The IAS 32 changes are effective for annual periods beginning on or after 1 January 2014 and apply retrospectively

The following will be applied in 2015:

IFRS 9 Financial instruments
In 2009, the IASB commenced the implementation of its project plan for the replacement of IAS 39. This consists of three main phases:

Phase 1: Classification and measurement
In November 2009, the IASB issued IFRS 9 Financial Instruments, covering classification and measurement of financial assets, as the first part of its project to replace IAS 39 and simplify the accounting for financial instruments. The new standard endeavours to enhance the ability of investors and other users of financial information to understand the accounting for financial assets and to reduce complexity.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IA S 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

In October 2010, the IASB reissued IFRS 9 incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for de-recognition of financial assets and financial liabilities. IFRS 9 does not change the basic accounting model for financial liabilities under IAS 39.Two measurement categories continue to exist: fair value through profit or loss (‘FVTPL’) and amortised cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied.

IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which should be presented in other comprehensive income, and the remaining amount of change in the fair value of the liability which should be presented in profit or loss in the income statement.

The basic premise for the de-recognition model in IFRS 9 (carried over from IAS 39) is to determine whether the asset under consideration for de-recognition is:
- an asset in its entirety; or
- specifically identified cash flows from an asset (or a group of similar financial assets); or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets); or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).
- A financial liability should be removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.
- All derivatives, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognised in profit or loss unless the entity has elected to treat the derivative as a hedging instrument in accordance with IAS 39, in which case the requirements of IAS 39 apply.

Phase 2: Impairment methodology
An exposure draft issued by the IASB in November 2009 proposes an “expected loss model” for impairment. Under this model, expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, not just after a loss event has been identified. The expected loss model avoids what many see as a mismatch under the incurred loss model – front-loading of interest revenue (which includes an amount to cover the lender’s expected loan loss) while the impairment loss is recognised only after a loss event occurs. The impairment phase of IFRS 9 is subject to on-going deliberations and has not yet been finalised.

Phase 3: Hedge accounting
In September 2012, the IASB posted on its website a review draft of the proposed hedge accounting requirements that will be incorporated into IFRS 9. The draft proposes a model that aims to align hedge accounting with risk management activities; and addresses inconsistencies and weaknesses in the existing model in IAS 39. This phase is expected to be finalised in the first quarter of 2013.

Since significant aspects of the standard have yet to be finalised, it is impracticable for the Bank to quantify the impact of IFRS 9 at this stage.

The new standard is still subject to EU endorsement.

Consolidated Income Statement

For the Year Ended 31 December 2012

	Note	For the year ended 31 December 2012 €m	31 December 2011 €m
Interest income and similar income	2	701	779
Interest expense and similar charges	2	(558)	(579)
Net Interest Income		**143**	**200**
Net fees and commissions income	3	13	9
Net trading income	4	3	4
Gain on redemption of subordinated liabilities	5	-	159
Gain on transfer of loans and advances held-for-sale to NAMA	9	1	27
Other operating loss	6	(671)	(6)
Total Other Income		**(654)**	**193**
Total Operating Income		**(511)**	**393**
Administrative expenses	7	(89)	(85)
Amortisation of intangible assets	18	(5)	(5)
Depreciation of property, plant and equipment	17	(5)	(5)
Total Operating Expenses	**7**	**(99)**	**(95)**
Operating profit (loss) before impairment losses and taxation		**(610)**	**298**
Provisions for impairment of loans and advances held-for-sale to NAMA		-	(10)
Provisions for impairment of available-for-sale financial assets	12	(3)	(12)
Provisions for impairment of loans and advances to customers	15	(229)	(530)
Total Impairment losses		**(232)**	**(552)**
Operating loss before taxation		**(842)**	**(254)**
Taxation	8	106	103
Loss for the year		**(736)**	**(151)**

The loss for the year is wholly attributable to the equity holders of EBS.

Des Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

Jim O'Hara, Non-Executive Director

Sarah McLaughlin, Company Secretary

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2012

	Note	2012 €m	2011 €m
Loss for the year		**(736)**	**(151)**
Comprehensive (loss) income, net of taxation			
Net movement in cash flow hedge reserve	8	19	9
Net movement in available-for-sale reserve	8	189	7
Net actuarial movement in retirement benefits	8	(33)	(18)
Comprehensive loss for the year, net of taxation		175	(2)
Total comprehensive loss for the year		**(561)**	**(153)**

Des Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

Jim O'Hara, Non-Executive Director

Sarah McLaughlin, Company Secretary

Group and Company Statement of Financial Position

At 31 December 2012

Company 2012 €m	Company 2011 €m		Note	Group 2012 €m	Group 2011 €m
		Assets			
8	147	Cash and balances with central banks	10	8	147
226	183	Derivative financial instruments	32	190	160
4,545	4,125	Available-for-sale financial assets	12	1,568	1,716
305	347	NAMA senior bonds	13	305	347
3,906	3,772	Loans and advances to credit institutions	14	883	444
5,994	7,580	Loans and advances to customers	15	12,969	15,369
313	196	Deferred taxation	19	254	172
26	48	Other assets	20	36	58
138	116	Prepayments and accrued income		53	60
-	4	Current taxation		-	4
15	16	Intangible assets and goodwill	18	17	20
537	537	Shares in Group undertakings	16	-	-
35	40	Property, plant and equipment	17	36	40
16,048	**17,111**	**Total assets**		**16,319**	**18,537**
		Liabilities			
2,756	5,308	Deposits by central banks and banks	21	2,698	5,292
10,983	9,459	Customer accounts	22	10,117	8,541
180	228	Derivative financial instruments	32	186	219
27	12	Provisions for liabilities and commitments	25	27	13
298	230	Accruals and deferred income		269	217
156	100	Other liabilities	24	101	79
1,286	1,369	Debt securities in issue	23	2,182	3,310
62	28	Retirement benefit liabilities	26	62	28
15,748	**16,734**	**Total liabilities**		**15,642**	**17,699**
		Shareholders' equity			
249	249	Capital contribution	29	249	249
1,324	924	Ordinary share capital	28	1,324	924
(376)	(556)	Reserves		1	(207)
(897)	(240)	General reserve		(897)	(128)
300	**377**	**Shareholders' equity**		**677**	**838**
16,048	**17,111**	**Total liabilities and shareholders' equity**		**16,319**	**18,537**

Des Fitzgerald, Managing Director

Catherine Woods, Non-Executive Director

Jim O'Hara, Non-Executive Director

Sarah McLaughlin, Company Secretary

Group and Company Statement of Cash Flows

For the Year Ended 31 December 2012

Company 2012 €m	Company 2011 €m		Note	Group 2012 €m	Group 2011 €m
		Cash flows from operating activities			
(624)	(14)	Loss for the year		(736)	(151)
		Adjustments for:			
5	5	Depreciation of property, plant and equipment	17	5	5
3	4	amortisation of intangibles	18	5	5
122	355	Provisions for impairment of financial assets	12,15	232	551
(1)	(27)	(Gain)/Loss on disposal of loans and advances held-for-sale to NAMA	9	(1)	(27)
-	12	Provisions for impairments of shares in Group undertakings	16	-	-
1	1	Pension expense		1	1
(31)	(1)	Fair value movement on hedging derivatives		(5)	1
(49)	(37)	Fair value movement on hedged items		(47)	(30)
516	-	Loss on disposal of loans		668	-
90	(118)	Income tax credit	8	(106)	(103)
-	2	Interest expense on subordinated liabilities		-	2
32	**182**	**Operating Income before changes in working capital and provisions**		**16**	**254**
(105)	10	Net decrease (increase) in loans and advances to credit institutions		(466)	(245)
3	(3)	Net (increase) decrease in mandatory reserve balance		3	(3)
955	2,888	Net decrease (increase) in loans and advances to customers		1,507	570
-	14	Net decrease in held-for-sale financial assets to NAMA		-	14
1	(51)	Net increase in other assets		30	(20)
(2,552)	(716)	Net (decrease) increase in deposits from central banks and banks		(2,594)	(405)
1,524	(1,167)	Net decrease in amounts due to customers		1,576	(949)
(65)	(18)	Net decrease in other liabilities		116	(7)
1	2	Effect of exchange translations and other adjustments		1	2
(206)	**1,141**	**Cash generated from (used in) operations before taxation**		**189**	**(789)**
4	2	Income taxes refunded		3	2
(202)	**1,143**	**Net cash generated from (used in) operating activities**		**192**	**(787)**
		Cash flows from investing activities			
-	(1)	Purchase of property, plant and equipment	17	(1)	(1)
(2)	(3)	Purchase of intangible assets	18	(2)	(3)
-	(143)	Investment in subsidiaries	16	-	-
(220)	(200)	Net (increase) decrease in available-for-sale financial assets		376	855
(222)	**(347)**	**Net cash (outflow) inflow from investing activities**		**373**	**851**
		Cash flows from financing activities			
-	(212)	Redemption of subordinated liabilities		-	(212)
400	300	Issuance of ordinary share capital		400	300
(82)	(186)	Redemption of debt securities		(1,127)	(238)
-	-	Cost of redemption of non controlling interests		-	(11)
(1)	(1)	Interest expense on subordinated liabilities		(1)	(2)
317	**(99)**	**Net cash outflow from financing activities**		**(728)**	**(163)**
(107)	**697**	**Net increase (decrease) in cash and cash equivalents**		**(163)**	**(99)**
3,822	3,125	Cash and cash equivalents at 1 January		239	338
3,715	**3,822**	**Cash and cash equivalents at 31 December**	**11**	**76**	**239**

Consolidated Statement of Changes in Shareholders’ Equity

Group

At 31 December 2012

	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Capital Contribution	Special Investment Shares	Ordinary Share Capital	General Reserve	Total Shareholders’ Equity	Non Controlling Interests	Total Shareholders’ Equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2011	**(185)**	**(38)**	**249**	**624**	**-**	**(30)**	**620**	**82**	**702**
Total comprehensive income for the period	7	9	-	-	-	(169)	**(153)**	-	**(153)**
Conversion of special investment shares	-	-	-	(624)	624	-	**-**	-	-
Issue of ordinary shares	-	-	-	-	300	-	**300**	-	**300**
Purchase/Redemption of non controlling interests, including costs	-	-	-	-	-	-	**-**	(11)	(11)
Net gain on purchase of non controlling interests	-	-	-	-	-	71	**71**	(71)	-
At 31 December 2011	**(178)**	**(29)**	**249**	**-**	**924**	**(128)**	**838**	**-**	**838**
Total comprehensive income for the year	189	19	-	-	-	(769)	**(561)**	-	**(561)**
Issue of ordinary shares	-	-	-	-	400	-	**400**	-	**400**
At 31 December 2012	**11**	**(10)**	**249**	**-**	**1,324**	**(897)**	**677**	**-**	**677**

Company Statement of Changes in Shareholders' Equity

Company

At 31 December 2012

	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Capital Contribution	Special Investment Shares	Ordinary Share Capital	General Reserve	Total Shareholders' Equity
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2011	**(521)**	**(38)**	**249**	**624**	**-**	**(209)**	**105**
Total comprehensive income for the period	(6)	9	-	-	-	(31)	**(28)**
Conversion of special investment shares	-	-	-	(624)	624	-	-
Issue of ordinary shares	-	-	-	-	300	-	**300**
Purchase/Redemption of non controlling interests, including costs	-	-	-	-	-	-	-
Net gain on purchase of non controlling interests	-	-	-	-	-	-	-
At 31 December 2011	**(527)**	**(29)**	**249**	**-**	**924**	**(240)**	**377**
Total comprehensive income for the year	161	19	-	-	-	(657)	**(477)**
Issue of ordinary shares	-	-	-	-	400	-	**400**
At 31 December 2012	**(366)**	**(10)**	**249**	**-**	**1,324**	**(897)**	**300**

Notes to the Financial Statements

1. REPORTING BY BUSINESS SEGMENTS AND GEOGRAPHICAL LOCATION

For management and reporting purposes the Group's activities are organised in one reportable segment based on the information provided internally to the chief operating decision maker. The chief operating decision maker is considered to be the Board of Directors. The principal activities of the Group involve the provision of mortgage lending, savings, investments and insurance arrangement services to customers.

For management reporting purposes AIB Group includes EBS across Core and Non-Core segments. EBS Wholesale Treasury is reported in the AIB Group accounts as part of the Group Treasury within the Core segment, the assets identified for deleverage are reported as part of Non-Core and the remainder of the EBS business is reported as Core under the EBS segment.

2. NET INTEREST INCOME

	For the year ended	
	31 December 2012 €m	**31 December 2011 €m**
Interest Income and similar income		
Other interest income	39	27
Interest received from Parent company	43	7
Available-for-sale financial assets	63	84
Interest on loans and receivables to banks	2	5
Interest on loans and receivables to customers	554	656
Total Interest Income and similar income	**701**	**779**
Interest Expense and similar charges		
Interest on deposits by banks	(32)	(57)
Interest on customer accounts	(377)	(314)
Interest on debt securities in issue	(97)	(127)
Interest paid to Parent company	(3)	(16)
Other	(49)	(65)
Total Interest Expense and similar charges	**(558)**	**(579)**
Net Interest Income	**143**	**200**

Interest expense includes €55m (2011: €63m) in respect of charges payable under the Credit Institutions (Eligible Liabilities Guarantee) scheme ('ELG'). The cost of this scheme is directly attributable to the issuance of specific funding and is therefore included in interest expense.

Included within various captions under interest income for the year ended 31 December 2012 is a total of €97m (2011: €121m) accrued on impaired financial assets.

Included within loans and advances to customers under interest income for the year ended 31 December 2012 is a credit of €13m for the Group (2011: €32m) due to a change in the accounting estimate of the average expected life of mortgages.

3. NET FEES AND COMMISSIONS

	For the year ended 31 December 2012 €m	31 December 2011 €m
Fees and Commission Income		
Fees and commissions receivable	15	15
Fees and commissions receivable from Group companies	3	-
Fees and Commission Income	**18**	**15**
Fees and Commissions Expense		
Fees and commissions payable	(4)	(5)
Fees and commissions payable to Group companies	(1)	(1)
Fee and Commission Expense	**(5)**	**(6)**
Net Fees and Commission Income	**13**	**9**

Commission income relates to fees earned by the Group on insurance and investment advisory services provided to its customers.

4. NET TRADING INCOME

	For the year ended 31 December 2012 €m	31 December 2011 €m
Net Trading Income/(Loss)		
Debt securities and interest rate contracts	4	4
Equity securities and index contracts	(1)	-
Net Trading Income/(Loss)	**3**	**4**

Net gain on fair value hedging instruments held in a qualifying fair value hedging relationship recognised in net trading income is €1m (2011: net loss €1m).

Net gain recognised on derivatives held at fair value through the income statement is €6m (2011: net gain €1m).

5. GAIN ON REDEMPTION OF SUBORDINATED LIABILITIES

During 2011, EBS engaged in liability management exercises to buy back its outstanding subordinated liabilities. On 2 February 2011, EBS announced an invitation to the holders of the then outstanding subordinated notes (the 'Notes') to tender any and all of their Notes for purchase by EBS for cash. On 23 February 2011, EBS repurchased 70% of the Notes issued between 1999 and 2006. The remaining 30% of the Notes were subsequently redeemed in June 2011. The repurchase and redemption of the notes were completed at discounts of 70% and 82.5%. The combination of the February and June 2011 transactions resulted in full extinguishment of all of the outstanding subordinated liability resulting in a gain of €159m recognised in the income statement, being the carrying value less the consideration paid, and costs.

The following table sets out the gain on these transactions.

	For the year ended 31 December 2012 €m	Discount	Take up Rate	For the year ended 31 December 2011 €m
Gain on redemption of subordinated liabilities				
Feb-11				
€100m Dated Subordinated Floating Rate Notes due November 2016	-	70.0%	72.6%	51
€60m Subordinated Floating Rate Notes due December 2014	-	70.0%	67.1%	28
GBP £30m Step-Up Fixed Rate Subordinated Notes due 19 December 2019	-	70.0%	50.0%	12
GBP £15m Step-Up Fixed Rate Subordinated Notes due 26 November 2019	-	70.0%	100.0%	13
Jun-11				
€100m Dated Subordinated Floating Rate Notes due November 2016	-	82.5%	27.4%	23
€60m Subordinated Floating Rate Notes due December 2014	-	82.5%	32.9%	16
GBP £30m Step-Up Fixed Rate Subordinated Notes due 19 December 2019	-	82.5%	50.0%	13
February and June 2011				
Transaction costs written off	-	-	-	(2)
Gain on derivative breakage	-	-	-	5
Total		73.0%	100.0%	159

Transaction costs include legal and other advisor fees directly incurred by EBS on repurchase and redemption of subordinated liabilities.

The subordinated debt denominated in GBP was designated in a fair value hedge and the adjustment to the carrying value of the subordinated debt was €5m at the date of redemption. This increased the carrying value and hence the gain on redemption of the bonds.

6. OTHER OPERATING LOSS

	For the year ended	
	31 December 2012 €m	31 December 2011 €m
Loss on disposal of financial instruments	(3)	(8)
Loss on disposals of loans and advances to customers	(668)	-
Miscellaneous operating income	-	2
	(671)	**(6)**

During 2012 securities held in the available-for-sale portfolio were sold giving rise to a loss of €3m (2011: €8m loss).

Loss on the disposal of Loans and advances to customers
In 2012, EBS Group disposed of loans and advances to customers with a value of €1.8bn, resulting in a loss on disposal of €668m. The loans and advances to customers were derecognised from group and individual company financial statements.

This occurred in two separate deleveraging exercises, the first of which was comprised of approximately €1.1bn of buy-to-let mortgages, the second was comprised of approximately €0.6bn of Commercial assets and €0.1bn of residential assets.

7. TOTAL OPERATING EXPENSES

	For the year ended 31 December 2012 €m	31 December 2011 €m
Personnel expenses	50	43
Other Administrative expenses	39	42
Total Administrative expenses	89	85
Amortisation of intangibles (note 18)	5	5
Depreciation of property, plant and equipment (note 17)	5	5
Total Operating Expenses	**99**	**95**

	For the year ended 31 December 2012 €m	31 December 2011 €m
Personnel expenses comprise:		
Wages and salaries	30	33
Voluntary Severance	14	-
Social welfare costs and health insurance	4	4
Defined benefit and defined contribution pension costs (note 26)	4	2
Other indirect staff costs	(2)	4
	50	**43**

The average number of full time equivalents employed by EBS in the financial year was 619 (2011: 618)

Full details of directors' remuneration are given in the related party transaction note (note 35).

An analysis of the auditor's fees is set out below.

Auditors' remuneration

	For the year ended 31 December 2012 €m	31 December 2011 €m
Fees & expenses paid to our statutory auditors are analysed as follows:		
Audit of individual and Group financial statements	-	-
Other assurance services	-	-
Other non-audit services	-	2
	-	**2**

Auditors' remuneration (including value added tax) in 2012 for audit services is €0.2m (2011: €0.2m) and for non audit services is €0.1m (2011: €2m). Fees for non audit services consist primarily of fees in connection with with letters of comfort and advice on technical accounting matters.

The Board Audit and Compliance Committee review's, on an ongoing basis, the level of fees and is satisfied that it has not affected the independence of the auditors.

8. TAXATION

The taxation credit for the year is as follows:

	For the year ended 31 December 2012 €m	For the year ended 31 December 2011 €m
The taxation credit for the year is as follows:		
Corporation tax charge	-	1
Deferred tax credit	(106)	(104)
	(106)	**(103)**

The reconciliation of total tax on income at the standard Irish corporation tax rate to the Group's actual tax charge is analysed as follows:

	2012 €m	2011 €m
Loss before tax at 12.5% (2011: 12.5%)	(106)	(32)
Addbacks and income not taxable at standard rates	-	(20)
Recognition of prior years unrecognised tax losses	-	(51)
	(106)	**(103)**

Income tax recognised in other comprehensive income

	2012 Before Tax €m	2012 Tax (expense) benefit €m	2012 Net of Tax €m	2011 Before Tax €m	2011 Tax (expense) benefit €m	2011 Net of Tax €m
Net movement in Cash flow hedge reserve	22	(3)	19	10	(1)	9
Net movement in Available-for-sale reserve	216	(27)	189	8	(1)	7
Net actuarial loss on retirement benefits	(37)	4	(33)	(17)	(1)	(18)
	201	**(26)**	**175**	**1**	**(3)**	**(2)**

9. GAIN ON TRANSFER OF LOANS AND ADVANCES HELD-FOR-SALE TO NAMA

Analysis of loss on transfer of assets to NAMA

	31 December 2012 €m	For the year ended 31 December 2011 €m
Nominal amount of loans transferred to NAMA	-	77
Impairment provisions utilised	-	(40)
Carrying value of assets transferred to NAMA	-	37
Nominal amount of consideration received	-	(38)
Increase in Tranche 4 and 5 valuations	-	(19)
Reversal of prior period loss – loans returned from NAMA	(1)	(6)
Costs associated with transfer and fair value adjustments on securities received	-	(1)
Gain on transfer of assets to NAMA	**(1)**	**(27)**

During 2012, the Group transferred €nil (2011: €77m) of mortgage assets to NAMA. The tables below outlines the nominal amount of the loans transferred to NAMA and the nominal amount of consideration received in 2011. The reversal of prior period loss of €1m in 2012 relates to the fund settlement in relation to all the loans transferred to NAMA.

2011

	Transfer Date	Nominal amount of loans transferred €m	Nominal amount of consideration received €m	Original Discount applied €m
Tranche 6	30 September 2011	77	38	50.6%
		77	**38**	**50.6%**

The consideration received is in the form of Government guaranteed senior unsecured floating rate notes for approximately 95% of the consideration and the remaining 5% is in a callable perpetual subordinated fixed rate bond issued by National Asset Management Limited, see notes 12 and 13 for further information.
The tranche transferred in December 2010 was on the basis of an accelerated sale at a discount of 67.9%. Final due diligence was completed during 2011 and the valuation of the loans transferred was increased by €19m resulting in a revised haircut from 67.9% to 64.3% and a reversal of the loss of €19m previously recognised in 2010. The revised cumulative discount applied to all loans transferred to NAMA during 2010 and 2011 is 57.5%.

In addition NAMA returned loans of €10m to EBS which they had previously acquired at a haircut of 66.8%. The loss on these loans, recognised in 2010 was reversed generating a credit to the Income Statement in 2011 of €6.5m.

10. CASH AND BALANCES WITH CENTRAL BANKS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Cash in hand	4	5	4	5
Balances with Central Banks other than mandatory reserve deposits	4	142	4	142
Total cash and balances with Central Banks	**8**	**147**	**8**	**147**

11. CASH AND CASH EQUIVALENTS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
For the purposes of the cash flow statement the cash and cash equivalents comprise the following:				
Cash and balances with Central Banks	8	147	8	147
Loans and receivables to credit institutions	49	62	68	92
Loans and advances to credit institutions (Group Undertakings)	3,658	3,613	-	-
	3,715	**3,822**	**76**	**239**

Cash and cash equivalents include balances with original maturities of less than 3 months and balances with Central Banks exclude the mandatory reserve deposits.

Restricted cash in the Company and the Group is included in note 14.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Irish Government Securities	416	359	416	359
Euro Govt Securities	-	30	-	30
Euro Bank Securities	3,894	3,443	917	1,034
Non Euro Bank Securities	35	50	35	50
Other Investments	198	238	198	238
Equity securities - Unquoted	2	5	2	5
	4,545	4,125	1,568	1,716

Equity securities comprise the fair value of callable perpetual fixed rate bonds received as consideration from NAMA for the transfer of assets and the investment in Irish Credit Bureau shares by EBS.

Available-for-sale financial assets – contractual maturity analysis

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Maturing within three months	147	127	147	127
Maturing between three months and one year	812	176	366	176
Maturing between one and five years	3,104	3,575	811	1,196
Maturing between five and ten years	480	240	242	212
	4,543	**4,120**	**1,566**	**1,711**

At 31 December 2012 an impairment charge of €3m (2011: €12m) was recognised on available-for-sale financial assets. As equity securities have no contractual maturity date they are not included in the table above.

Unrealised gains/losses not recognised in income statement on available-for-sale assets

	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/(losses)
	€m	€m	€m	€m
Group – 31 December 2012				
Debt securities				
Irish Government Securities	416	26	-	**26**
Euro Govt Securities	-	-	-	**-**
Euro Bank Securities	917	23	(36)	**(13)**
Non Euro Bank Securities	35	-	(3)	**(3)**
Other Investments	198	3	-	**3**
Total Debt Securities	**1,566**	**52**	**(39)**	**13**
Equity Securities				
Equity securities - Unquoted	2	-	-	**-**
Total Equity Securities	**2**	**-**	**-**	**-**
Total financial investments available for sale	**1,568**	**52**	**(39)**	**13**
Company – 31 December 2012				
Debt securities				
Irish Government Securities	416	26	-	**26**
Euro Govt Securities	-	-	-	**-**
Euro Bank Securities	3,894	56	(501)	**(445)**
Non Euro Bank Securities	35	-	(3)	**(3)**
Other Investments	198	3	-	**3**
Total Debt Securities	**4,543**	**85**	**(504)**	**(419)**
Equity Securities				
Equity securities - Unquoted	2	-	-	**-**
Total Equity Securities	**2**	**-**	**-**	**-**
Total financial investments available for sale	**4,545**	**85**	**(504)**	**(419)**
Group – 31 December 2011				
Debt securities				
Irish Government Securities	359	-	(49)	**(49)**
Euro Govt Securities	30	-	-	**-**
Euro Bank Securities	1,034	6	(115)	**(109)**
Non Euro Bank Securities	50	-	(9)	**(9)**
Other Investments	238	-	(37)	**(37)**
Total Debt Securities	**1,711**	**6**	**(210)**	**(204)**
Equity Securities				
Equity securities - Unquoted	5	-	-	**-**
Total Equity Securities	**5**	**-**	**-**	**-**
Total financial investments available for sale	**1,716**	**6**	**(210)**	**(204)**
Company – 31 December 2011				
Debt securities				
Irish Government Securities	359	-	(49)	**(49)**
Euro Govt Securities	30	-	-	**-**
Euro Bank Securities	3,443	6	(464)	**(458)**
Non Euro Bank Securities	50	-	(9)	**(9)**
Other Investments	238	-	(37)	**(37)**
Total Debt Securities	**4,120**	**6**	**(559)**	**(553)**
Equity Securities				
Equity securities - Unquoted	5	-	-	**-**
Total Equity Securities	**5**	**-**	**-**	**-**
Total financial investments available for sale	**4,125**	**6**	**(559)**	**(553)**

13. NAMA SENIOR BONDS

Group and Company	2012 €m	2011 €m
At 1 January	347	306
Nominal value of bonds acquired from NAMA during the year	-	54
Fair value adjustments of bonds received during the period	-	(1)
Amortisation of discount	1	1
Redemption of bonds	(43)	(13)
NAMA senior bonds	**305**	**347**

EBS received as consideration for assets transferred to NAMA, a combination of Government guaranteed bonds ('NAMA senior bonds'), issued by NAMA and guaranteed by the Minister for Finance (amounting to 95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (amounting to 5% of the nominal consideration). The NAMA subordinated bonds are classified as equity instruments within available-for-sale financial assets.

The basis for measurement, impairment and interest recognition are the same as those for loans and advances as set out in the accounting policies 1.9, 1.17, 1.19 and 1.20

At initial recognition, the bonds were measured at fair value. The bonds carry a guarantee of the Irish Government; however, they are not marketable instruments. The only secondary market activity in the instruments is their sale and repurchase ('repo') to the European Central Bank ('ECB') within the regular Eurosystem open market operations. The bonds are not traded in the market and there are no comparable bonds trading in the market.

The fair value on initial recognition was determined using a valuation technique, as follows:

The absence of quoted prices in an active market requires increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the bond instrument which market participants would factor into an appropriate valuation technique determining the cash flows for 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 estimates of fair value are 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.

During 2011 EBS received €54m of senior bonds from NAMA being €38m in respect of Tranche 6 assets transferred, €19m to reflect the increase in the valuation of loans transferred under Tranches 4 and 5 and €3m returned in respect of assets transferred from NAMA to EBS. The estimated fair value of NAMA Senior Bonds at December 2012 €307m (2011: €351m). Further information is set out in note 9.

At 31 December 2012, these bonds were assessed for impairment in line with the accounting policy 1.17 "Impairment of Financial Assets". There was no objective evidence to suggest that the carrying value is higher than the fair value, therefore no impairment loss is recognised.

During 2012 NAMA redeemed €43m bonds at par (2011: €13m).

14. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Analysed by remaining maturity:	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Repayable on Demand	3,639	3,772	616	444
3 months or less	150	-	150	-
1 year or less but over 3 months	104	-	104	-
5 years or less but over 1 year	13	-	13	-
	3,906	**3,772**	**883**	**444**

Mandatory reserve deposits are not available for use in the Group's day-to-day operations.

At 31 December 2012, in addition to the mandatory reserve deposits, the Group has €484m (2011: €330m) included in loans and advances to credit institutions which is not available for its own use. This amount relates to funds held on behalf of EBS Mortgage Finance, Emerald Mortgages No.4 plc, Emerald Mortgages No.5, Mespil 1 RMBS Limited and credit support annex's (CSA's).

At 31 December 2012, in addition to the mandatory reserve deposits, EBS has €299m (2011: €69m) included in loans and advances to credit institutions which is not available for its own use. This amount relates to funds held on behalf of Emerald Mortgages No. 4 plc, EBS Mortgage Finance and CSA's. The Company collects repayments from borrowers on behalf of Emerald 4 and EBS Mortgage Finance. These funds are transferred to designated bank accounts in the name of EBS over which these entities have a legal charge.

At 31 December 2012 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €3,254m (2011: €3,614m).

15. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS – ANALYSIS BY SECTOR

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Loans and receivables to customers	5,903	7,579	13,903	16,318
Loans to subsidiaries and special purpose vehicles	673	689	-	-
Total loans and advances to customers before provisions	6,576	8,268	13,903	16,318
Less provision for loan impairments	(582)	(688)	(934)	(949)
Total loans and advances to customers after provisions	**5,994**	**7,580**	**12,969**	**15,369**

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Repayable on demand	1,904	1,541	3,011	2,333
Repayable in less than three months	4	75	6	98
Repayable in more than three months but less than one year	6	66	10	71
Repayable in more than one but less than five years	562	174	182	305
Repayable in more than five years	4,100	6,412	10,694	13,511
Total loans and advances to customers before provisions	6,576	8,268	13,903	16,318
Less provision for loan impairments	(582)	(688)	(934)	(949)
Total loans and advances to customers after provisions	**5,994**	**7,580**	**12,969**	**15,369**

Included in Group loans and advances to customers is €6,859m (2011: €7,572m) of loans in the covered bond bank, EBS Mortgage Finance, €3,539m (2011: €3,899m) of loans held through securitisation vehicles Emerald No.4, Emerald No.5 and Mespil 1 RMBS Limited and nil (2011: nil) collateral pledged under the mortgage backed promissory note programme (refer to note 34). Unencumbered loans available as collateral for repo purposes, as at 31 December 2012, were €59m (2011: €636m). Loans to directors are disclosed in Note 35.

Fair value of the collateral held for Residential Mortgages is €11,366m at 31 December 2012 (2011: €13,187m) based on the CSO house price index.

Fair value of the collateral held for Commercial Mortgages is €261m at 31 December 2012 (2011: €604m) based on the property valuations at origination and applying the CSO (Ireland) index to these values to take account of price movements in the interim or valuation based on management's judgement.

PROVISION FOR LOAN IMPAIRMENTS

Group

		Group 2012 €m		Group 2011 €m
Individual provision for loan impairments				
At 1 January		757		208
Charge for impairment losses				
Commercial assets	6		68	
Residential assets	187		97	
Total charge for impairment losses	193	193	165	165
Transfer from collective impairment provision		-		386
Transfer to loans and advances held-for-sale to NAMA		-		(2)
Impairment provision utilised on deleverage		(234)		-
At 31 December		716		757
Collective provision for loan impairments				
At 1 January		192		210
Charge for impairment losses				
Commercial assets	(21)		40	
Residential assets	70		328	
Total charge for impairment losses	49	49	368	368
Transfer to individual impairment provision		-		(386)
Impairment provision utilised on deleverage		(23)		-
At 31 December		218		192
Total provision for loan impairments at 31 December		**934**		**949**

The impairment charge recognised in the Income Statement has decreased to €229m (2011: €530m). This is described in detail in the Directors' Report on page 6.

During 2011, the criteria for determining the individual, and therefore collective provisions was amended. This resulted in €386m of collective provisions being transferred to Individual provisions.

Commercial consists of commercial term debt loans and residential consists of home loans, retail and commercial buy-to-let loans.

The impairment charge recognised in the Group income statement for loans and advances to customers of €229m (2011: €530m) is based on total charges above of €242m (2011: €533m) net of €13m (2011: €3m) settlement received from Genworth in respect of mortgage indemnity insurance on a pool of loans which were greater than 6 months in arrears.

Company

		2012 €m		2011 €m
Individual provision for loan impairments				
At 1 January		514		195
Charge for impairment losses				
Commercial assets	6		68	
Residential assets	120		49	
Total charge for impairment losses	126	126	117	117
Transfer from collective impairment provision		-		204
Transfer to loans and advances held-for-sale to NAMA		-		(2)
Impairment provision utilised on deleverage		(212)		-
At 31 December		428		514
Collective provision for loan impairments				
At 1 January		174		159
Charge (credit) for impairment losses				
Commercial assets	(21)		40	
Residential assets	20		179	
Total charge for impairment losses	(1)	(1)	219	219
Transfer to individual impairment provision		-		(204)
Impairment provision utilised on deleverage		(19)		-
At 31 December		154		174
Total provision for loan impairments at 31 December		**582**		**688**

The impairment charge recognised in the Company Income Statement was €117m (2011: €333m).

During 2011, the criteria for determining the individual and therefore collective provisions was amended. This resulted in €204m of collective provisions being transferred to Individual provisions.

Commercial consists of commercial term debt loans and residential consists of home loans, retail and commercial buy-to-let loans.

The impairment charge recognised in the company income statement for loans and advances to customers of €117m (2011: €333m) is based on total charges above of €125m (2011: €335m) net of €8m (2011: €2m) settlement received from Genworth in respect of mortgage indemnity insurance on a pool of loans which were greater than 6 months in arrears.

CONTINUING INVOLVEMENT IN SECURITISED ASSETS

At 31 December 2012 the Group and EBS 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 Company 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.

Emerald Mortgages No.4 plc
The total carrying amount of the original residential property transferred by EBS to Emerald Mortgages No.4 plc ('Emerald 4') as part of the securitisation amounted to €1,500m (2011: €1,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2012 is €868m (2011: €915m). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €846m (2011: €892m) and is also disclosed in note 23. The fair value of the transferred loans and external bonds at 31 December 2012 was €805m and €388m respectively.
The carrying amount of the loan note in EBS issued to Emerald 4 amounts to €872m (2011: €918m) and is also disclosed in note 22.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €17m (2011: €17m), which is subordinated to the interest of the bond holders.

Emerald Mortgages No.5
The total carrying amount of the original residential property transferred by EBS to Emerald Mortgages No.5 ('Emerald 5') as part of the securitisation amounted to €2,500m (2011: €2,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2012 is €1,716m (2011: €2,004m). The fair value of these of these loans at 31 December 2012 was €1,582m. Bonds were issued by Emerald 5 to EBS but these are not shown on the Group or Company statement of financial position as these bonds are eliminated on consolidation under IAS 39 ("Financial Instruments: Recognition and Measurement") in EBS and under SIC 12 ("Consolidation – Special Purpose Entities") in the Group.

Mespil 1 RMBS Limited
The total carrying amount of the original residential property transferred by EBS and Haven to Mespil 1 RMBS Limited ('Mespil') as part of the securitisation amounted to €1,001m (EBS €290m; Haven €711m).

The amount of transferred secured loans that the Group continues to recognise as at 31 December 2012 is €955m (2011: €981m) in relation to the transfers from EBS and Haven Mortgages Limited. The fair value of these of these loans at 31 December 2012 was €847m.

Bonds issued by Mespil to EBS are not shown on the Group or Company statement of financial position as these bonds are eliminated on consolidation under IAS 39 ("Financial Instruments: Recognition and Measurement") in EBS and under SIC 12 ("Consolidation – Special Purpose Entities") in the Group.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €10m (2011: €10m), which is subordinated to the interest of the bond holders.

16. SHARES IN GROUP UNDERTAKINGS

Company	**2012 €m**	**2011 €m**
At 1 January	537	406
Investment in subsidiary	-	160
Impairment of investment	-	(12)
Share redemption	-	(17)
At 31 December	**537**	**537**

In 2011 a subordinated loan to a SPV amounting to €60m has been reclassed from loans and advances to customers.

Principal subsidiary undertakings:
All subsidiaries are 100% wholly owned unless otherwise stated.

(i) EBS indirectly holds 100% of the ordinary share capital in Hinsona Limited, incorporated in the Republic of Ireland. The company leases a property on behalf of the Group. The registered address of the company is 2 Burlington Road, Dublin 4.

(ii) EBS holds 1 €1 ordinary share (100%) in Haven Mortgages Limited, incorporated in the Republic of Ireland. The company trades as a mortgage lender. The registered address of the company is 2 Burlington Road, Dublin 4.

(iii) EBS holds 476,540,000 (2011: 476,540,00) €1 ordinary shares (100%) in EBS Mortgage Finance incorporated in the Republic of Ireland on 30 October 2008 and regulated as a designated credit institution. EBS Mortgage Finance does not sell mortgage loans directly to the public. Instead it has an origination agreement with EBS whereby EBS continues to sell mortgage loans directly to the public and subsequently sells these loans to EBS Mortgage Finance for an appropriate consideration. The registered address of the company is 2 Burlington Road, Dublin 4. On 21 December 2011 €160m of ordinary shares were issued by EBS Mortgage Finance to EBS.

EBS assessed its investments in Group undertakings for impairment at 31 December 2012 in accordance with IAS 36 - Impairment of Assets. The carrying value is compared to the recoverable amount, which is the higher of value in use or fair value less costs to sell. The value in use being EBS' share of the future cash flows expected to be generated exceeds the carrying value for each investment.

In February 2011 an additional impairment of €11.4m was recognised on the capital securities and an impairment charge of €1.0m was recognised on Class A shares. This was due to the reduction in the fair value of the capital securities held by EBS being permanent. This impairment charge brought the carrying value to €16.6m. EBS Capital redeemed all of the capital securities in June 2011 and EBS has reflected the €16.6m redemption in its shares in Group Undertakings above.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	2012					2011				
	Freehold €m	Long Leasehold €m	Short Leasehold €m	Fixtures & Fittings computer equip & motor vehicles €m	Total €m	Freehold €m	Long Leasehold €m	Short Leasehold €m	Fixtures & Fittings computer equip & motor vehicles €m	Total €m
Cost or Valuation										
At 1 January	30	10	19	23	**82**	30	10	19	23	**82**
Additions	-	-	-	1	**1**	-	-	-	1	**1**
Disposals	-	-	-	(1)	**(1)**	-	-	-	(1)	**(1)**
Impairment	(1)	-	-	-	**(1)**	-	-	-	-	**-**
At 31 December	**29**	**10**	**19**	**23**	**81**	**30**	**10**	**19**	**23**	**82**
Accumulated Depreciation										
At 1 January	7	3	14	18	**42**	6	3	12	16	**37**
Charge for year	1	1	2	1	**5**	1	-	2	2	**5**
Disposals	-	-	-	(1)	**(1)**	-	-	-	-	**-**
Impairment	(1)	-	-	-	**(1)**	-	-	-	-	**-**
At 31 December	**7**	**4**	**16**	**18**	**45**	**7**	**3**	**14**	**18**	**42**
Net book amounts at 31 December	**22**	**6**	**3**	**5**	**36**	**23**	**7**	**5**	**5**	**40**

Company

	2012					2011				
	Freehold €m	Long Leasehold €m	Short Leasehold €m	Fixtures & Fittings computer equip & motor vehicles €m	Total €m	Freehold €m	Long Leasehold €m	Short Leasehold €m	Fixtures & Fittings computer equip & motor vehicles €m	Total €m
Cost or Valuation										
At 1 January	30	10	19	22	**81**	30	10	19	22	**81**
Additions	-	-	-	-	**-**	-	-	-	1	**1**
Reclassification	(1)	-	-	-	**(1)**	-	-	-	-	**-**
Disposals	-	-	-	(1)	**(1)**	-	-	-	-	**-**
At 31 December	**29**	**10**	**19**	**21**	**79**	**30**	**10**	**19**	**23**	**82**
Accumulated Depreciation										
At 1 January	7	3	14	17	**41**	6	3	12	16	**37**
Charge for year	1	1	2	1	**5**	1	-	2	2	**5**
Reclassification	(1)	-	-	-	**(1)**	-	-	-	-	**-**
Disposals	-	-	-	(1)	**(1)**	-	-	-	-	**-**
At 31 December	**7**	**4**	**16**	**17**	**44**	**7**	**3**	**14**	**18**	**42**
Net book amounts at 31 December	**22**	**6**	**3**	**4**	**35**	**23**	**7**	**5**	**5**	**40**

Land and buildings to the value of €31m (2011 €35m) are occupied by the Group for its own activities. The carrying value of land and buildings comprises Freeholds of €22m (2011: €23m), Long Leaseholds of €6m (2011: €7m) and Short Leaseholds of €3m (2011: €5m). The value of land and buildings under the historical cost basis are consistent with market values at year end.

During 2011, a change in accounting policy resulted in reporting the property valuations under a deemed cost basis. EBS were previously reporting under a revaluation basis.

At 31 December 2012, the Directors' reviewed property, plant and equipment for impairment in accordance with IAS 36 and concluded that impairment provisions were not required for 2012.

18. INTANGIBLE ASSETS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Computer software (and development costs)				
Cost				
At 1 January	70	67	76	73
Additions - internally generated	2	3	2	3
At 31 December	**72**	**70**	**78**	**76**
Amortisation				
At 1 January	54	50	56	51
Charge for year	3	4	5	5
At 31 December	**57**	**54**	**61**	**56**
Net book amounts at 31 December	**15**	**16**	**17**	**20**

Computer software costs are amortised on a straight line basis over a period not exceeding ten years and all are in use at 31 December 2012.

19. DEFERRED TAXATION

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
At 1 January	196	81	172	71
Current year tax losses	88	117	106	104
Deferred tax through equity	29	(2)	(24)	(3)
At 31 December	**313**	**196**	**254**	**172**
The amounts provided in relation to deferred taxation are as follows:				
Retirement benefits	8	4	8	4
Amortised income	-	-	3	3
Available-for-sale financial assets	51	25	(2)	25
Unutilised tax losses	251	164	277	176
Other	3	3	3	4
Total gross deferred tax liabilities	-	-	(35)	(40)
	313	**196**	**254**	**172**

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in critical accounting policies.

At 31 December 2012 recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €254m (2011: €172m). These are expected to be recovered after more than 12 months. The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available-for-sale securities, cash flow hedges and actuarial gain/loss on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment of loans and advances, amortised income and assets used in the course of business.

20. OTHER ASSETS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Items in transit - debit	24	42	26	43
Sundry debtors	2	1	10	10
Fair Value of hedged assets	-	5	-	5
	26	**48**	**36**	**58**

21. DEPOSITS BY CENTRAL BANKS AND BANKS

Deposits By Central Banks and Banks – Analysis by Counterparty

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
ECB repurchase agreements	2,460	3,865	2,460	3,865
Due to other banks	222	276	222	277
Due to Group undertaking	58	17	-	-
Due to Parent company	16	1,150	16	1,150
	2,756	**5,308**	**2,698**	**5,292**
Balances placed by monetary authorities				
ECB repurchase agreements – average	3,176	3,542	3,176	3,542
ECB repurchase agreements – maximum	4,515	4,850	4,515	4,850
CBI repurchase agreements – average	-	233	-	233
CBI repurchase agreements – maximum	-	1,600	-	1,600

CONTRACTURAL MATURITY ANALYSIS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Repayable on Demand	68	17	10	-
3 months or less	2,088	5,291	2,088	5,292
5 years or less but over 1 year	600	-	600	-
	2,756	**5,308**	**2,698**	**5,292**

Borrowings from the ECB fell from the levels seen throughout 2011 as improved customer funding permitted repayments to the ECB. All borrowings from Central Banks are fully collateralised. Further information on collateral provided is included in note 34.

22. CUSTOMER ACCOUNTS

CUSTOMER ACCOUNTS – CONTRACTUAL MATURITY ANALYSIS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Repayable on demand	1,428	2,069	1,428	2,069
Repayable in less than three months but not on demand	3,130	1,704	3,136	1,704
Repayable in more than three months but less than one year	3,518	2,651	3,518	2,651
Repayable in more than one year but less than five years	1,908	2,116	1,908	2,116
Repayable in more than five years	999	918	127	1
	10,983	**9,459**	**10,117**	**8,541**

Customer Accounts – Analysis by Sector

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Retail	7,431	6,786	7,431	6,786
Corporate	2,680	1,755	2,686	1,755
Securitisation	872	918	-	-
	10,983	**9,459**	**10,117**	**8,541**

The securitisation balances in the Company relate to loan notes issued to Emerald No.4 plc, secured on residential property, which are eliminated on consolidation. These are also referred to in note 15.

23. DEBT SECURITIES IN ISSUE

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Bonds and medium term notes	1,252	1,310	2,148	3,251
Commercial certificates of deposit	34	59	34	59
	1,286	**1,369**	**2,182**	**3,310**
Maturity Profile – Debt Securities in Issue:				
Repayable in 3 months or less	48	56	48	56
Repayable in no more than 1 year but over 3 months	31	57	31	1,055
Repayable in more than 2 years but not more than 5 years	1,207	1,231	1,257	1,282
Repayable in more than 5 years	-	25	846	917
	1,286	**1,369**	**2,182**	**3,310**

Details of Debt Securities in Issue by currency are as follows:

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
EURO	1,245	1,295	2,141	3236
GBP	41	74	41	74
	1,286	**1,369**	**2,182**	**3310**

The securitised bonds in the Group relate to bonds issued from Emerald Mortgages No. 4 plc, a securitisation vehicle, to third party investors. These are also referred to in Note 15. Details of debt securities pledged as collateral against Group and Company borrowings is provided in note 34.

During the year ended 31 December 2012 and 31 December 2011 no new debt securities were issued by the Group.

24. OTHER LIABILITIES

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Funding liabilities fair value hedge	48	35	48	36
Items in transit	33	26	33	26
Other liabilities	75	39	20	17
	156	**100**	**101**	**79**

Other liabilities comprise Government guarantee scheme charges and trade creditors.

25. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Provisions				
At 1 January	13	12	13	13
Amounts charged to income statement	21	8	21	8
Amounts written back to income statement	(5)	(6)	(5)	(6)
Provisions utilised	(2)	(2)	(2)	(2)
At 31 December	**27**	**12**	**27**	**13**

Provisions recognised include amounts in respect of voluntary severance scheme onerous leases, customer repayments in respect of PPI and legal claims. The total expected to be settled within one year amounts to €16m (2011: €9m) for the Group and company.

In January 2013 EBS launched a voluntary severance programme which is expected to be available to all staff, €14m was provided in relation to this.

26. RETIREMENT BENEFITS LIABILITY

Group and Company

Defined contribution schemes:
The assets of the schemes are held separately from those of the Group. The total cost charged to the income statement in staff costs in the Group is €1m (2011: €1m). These represent contributions payable to these plans by the Group.

Defined benefit schemes:
The Group operates a number of defined benefit pension schemes. The assets of the schemes are held separately from those of the Group and all schemes are funded. The charge to the group is €3m (2011: €1m).

The amounts recognised in the statement of financial position are determined as follows:

	2012 €m	2011 €m
Present value of pension obligations	(197)	(143)
Fair value of plan assets	135	115
Liability in the statement of financial position	**(62)**	**(28)**
Movement in the present value of pension obligations:		
At 1 January	(143)	(130)
Current service costs	(2)	(2)
Interest cost	(7)	(7)
Participants' contributions	(2)	(2)
Actuarial losses	(46)	(5)
Benefits paid from plan	3	3
At 31 December	**(197)**	**(143)**
Movement in the fair value of plan assets:		
At 1 January	115	112
Expected return on plan assets	6	8
Employer contributions	6	7
Participants' contributions	2	2
Actuarial (losses) gains	9	(11)
Benefits paid from plan	(3)	(3)
At 31 December	**135**	**115**

	2012 €m	2011 €m
The amounts recognised in the income statement are as follows:		
Defined Benefit Schemes		
Current service costs	(2)	(2)
Interest cost	(8)	(7)
Future expected return on plan assets	6	8
Total expenses (included in staff costs)	**(4)**	**(1)**
Pension Plan assets:		
The Fair value of the pension plan assets	135	115
The actual return on pension plan assets	15	(3)

Pension Plan Assets at 31 December

	2012		2011	
	Percentage of plan assets	Future expected return on plan assets	Percentage of Plan assets	Future expected return on plan assets
Asset Category				
Equity securities	46.8%	**6.5%**	64.2%	7.5%
Debt securities	44.5%	**2.8%**	34.9%	3.7%
Real estate and other	0.5%	**5.5%**	0.5%	6.0%
Others	8.2%	**0.5%**	0.4%	1.0%
Total	**100.0%**	**4.3%**	**100.0%**	**5.5%**

The expected rates of return on individual asset classes are estimated using current and projected economic and market factors.

The principal actuarial assumptions used for calculating the pension obligations were as follows:

	2012	2011
Rate of inflation	2.0%	2.0%
Discount rate	4.0%	5.2%
Expected long term return on plan assets	5.5%	7.1%
Future salary increases	3.5%	3.2%
Future pension increases	2.0%	2.0%

Contributions are determined in accordance with the advice of Mercer, using the projected unit credit method. The most recent valuations were carried out as of 1 January 2011 and showed that the actuarial value of the schemes assets represented 72% of the benefits that had accrued to members after allowing for expected future increases in earnings. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection.

None of the pension plans assets are invested in the Company's or Group's own financial instruments.

The main post retirement mortality assumptions used at 31 December 2012 were 108% PNML00 with age rating -1 for active, deferred members and pensioners, with future mortality improvements for active and deferred members.

On this basis the life expectancy for a male pensioner aged 65 at 31 December 2012 was 23.2 years (2011: 22.9 years) and for a female pensioner aged 65 years was 24.6 years (2011: 24.5 years). Based on the assumed mortality improvements in 15 years time the life expectancy for a male pensioner aged 65 years will have increased to 25.2 years (2011: 25.1 years) and for a female pensioner then aged 65 years will have increased to 26.4 years (2011: 26.3 years).

There are inherent uncertainties around the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. An increase or decrease in the discount rate of 20 basis points would reduce or increase the scheme liabilities by 4.4%

The contributions to be paid in 2013 are estimated to be €5.1m. The death in service premiums in 2013 are estimated to be €0.3m

EBS funded payment of the Pension Levy in 2012. Further consideration is being given to whether the cost of the Pension Levy will be absorbed by EBS or the individual Defined Benefit pension plans.

History of Experience Gains and Losses

	2012	2011	2010	2009	2008
Difference between the expected and actual return on plan assets:					
(i) Amount (€m)	(9)	11	(6)	(12)	(45)
(ii) % of plan assets	(6.0%)	9.7%	(6.0%)	(12.0%)	(62.0%)
Experience (gains) losses on plan liabilities:					
(i) Amount (€m)	(1)	(8)	(2)	(3)	4
(ii) % of present value of plan liabilities	(0.6%)	(5.6%)	(1.0%)	(2.0%)	4.0%

Defined benefit pension plans

	2012 €m	2011 €m	2010 €m	2009 €m	2008 €m
Present value of obligations	(197)	(143)	(130)	(112)	(112)
Scheme assets	135	115	113	95	73
Deficit in schemes	**(62)**	**(28)**	**(17)**	**(17)**	**(39)**

27. SUBORDINATED LIABILITIES

Group and Company

During 2011, EBS engaged in liability management exercises to buy back its outstanding subordinated liabilities. On 2 February 2011, EBS announced an invitation to the holders of the then outstanding subordinated notes (the 'Notes') to tender any and all of their Notes for purchase by EBS for cash. On 23 February 2011, EBS repurchased 70% of the Notes issued between 1999 and 2006. The remaining 30% of the Notes were subsequently redeemed in June 2011. The repurchase and redemption of the notes were completed at a discount ranging from 70% to 82.5%. The combination of the February and June 2011 transactions resulted in full extinguishment of all the outstanding subordinated liability resulting in a gain of €159m recognised in the Income Statement, being the carrying value less the consideration paid, and costs. Further information in relation to the gain on buy backs is set out in note 5

Analysis of movement in subordinated liabilities

	2012 €m	2011 €m
At 1 January	-	212
Exchange rate movements	-	-
Repurchase of subordinated liabilities	-	(148)
Redemption of subordinated liabilities	-	(64)
At 31 December	-	**-**

28. ORDINARY SHARE CAPITAL

Group and Company

	2012 €	2011 €
Authorised:		
2,000,000,000 ordinary shares of €1 each	2,000,000,000	1,000,000,000
Issued and fully paid:		
1,325,000,000 ordinary shares of €1 each	1,325,000,000	925,000,000

On 1 July 2011 EBS converted the special investment shares held by the Minister for Finance to ordinary shares following the conversion of EBS from a building society to a limited company. There were 1,000,000,000 ordinary shares authorised in €1 denominations and 625,000,000 €1 shares acquired by AIB p.l.c. directly from the Minister for Finance. Costs of €1.3m relating to the issuance of the special investment shares were transferred to ordinary share capital. Further information on the demutualisation of EBS and the issuance of special investment shares is set out in the accounting policies section.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of EBS. AIB p.l.c. is the sole holder of the issued share capital.

On 27 July 2012 EBS issued a further 400,000,000 €1 ordinary shares at par for cash to AIB p.l.c. These shares rank pari passu with the other ordinary shares issued.

Group and Company

	2012 €m	2011 €m
At 1 January	924	-
Conversion from special investment shares to Ordinary Shares	-	625
Transfer of costs relating to issuance of special investment shares	-	(1)
Issue of ordinary share capital	400	300
At 31 December	**1,324**	**924**

29. CAPITAL CONTRIBUTION

Group and Company

	2012 €m	2011 €m
At 31 December	**249**	**249**

A Promissory Note in the initial principal amount of €250m was issued by the Minister for Finance to EBS on 17 June 2010 pursuant to the Minister's powers under the Credit Institutions (Financial Support) Act, 2008. The Promissory Note is an unconditional promise in writing on behalf of the Minister for Finance to pay a defined sum of money to EBS on each instalment date as requested by EBS. On each adjustment date, being, if specified by the Minister, the date on which NAMA serves a completion notice or such other date as the Minister may specify, or if earlier the date of completion of a corporate transaction (i.e. a merger or sale) the Promissory Note may be adjusted to enable EBS meet its target core tier 1 and total capital ratios. In the case of an adjustment, the Promissory Note may be changed by the Minister to provide for that adjustment. The Promissory Note is payable in instalments of 10% of the principal outstanding amount per annum. Interest accrues on the Promissory Note at an agreed coupon rate and may be adjusted by the Minister at any time. No dividends can be paid by EBS during the term of the Promissory Note.

The Promissory Note is recognised as an available-for-sale financial asset in the statement of financial position at its fair value (note 12).

The related capital arising on recognition of the Promissory Note is recognised as a capital contribution in shareholders' equity. Under the Promissory Note there is no obligation on EBS to make any repayments, returns or distributions on the capital contribution received.

There was no change to the terms of the Promissory Note on the acquisition of EBS by AIB p.l.c.

30. LEASING COMMITMENTS

Group and Company

	2012 €m	2011 €m
At 31 December, future minimum payments under non cancellable operating leases relating to land and buildings are as follows:		
Payments to be made in:		
Less than one year	7	7
Between one and five years	22	26
After five years	12	15
	41	**48**

These leases have average lives of between 25 and 35 years with renewal options included in the contracts. The actual amount incurred on operating lease charges in 2012 was €7m (2011: €7m).

31. CAPITAL COMMITMENTS

Group and Company

	2012 €m	2011 €m
Capital expenditure contracted but not provided for	-	-
Capital expenditure authorised but not contracted	1	1

32. DERIVATIVE FINANCIAL INSTRUMENTS

Group
Group operations are exposed to the risk of interest rate fluctuations to the extent that assets and liabilities mature or re-price at different times or in differing amounts. Derivatives allow the Group to modify the re-pricing characteristics of assets and liabilities in a cost efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives.

Derivatives fluctuate in value as interest or exchange rates rise or fall just as all assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of statement of financial position items, the appreciation or depreciation of the derivatives as interest or exchange rates change, will generally be offset by the unrealised appreciation or depreciation of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, currency swaps and equity index swaps. The Group only engages in derivative activity for hedging purposes, although all swaps are considered to be effective hedges in economic terms, due to the nature of some it is not possible to establish a ‘Fair Value’ or ‘Cash Flow’ hedging relationships under IAS 39, such swaps are classified as "Held at fair value through the income statement".

Derivative instruments are contractual agreements whose value is derived from the price movements in underlying assets, interest rates, exchange rates or indices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposure. The Board approves policy with respect to credit risk, market risk and liquidity risk and has delegated its monitoring and control responsibilities to the Group Asset and Liability Committee. However the Board continues to retain ultimate responsibility for these risks. Membership of the Group Asset and Liability Committee consists of senior management as well as Management Team members.

Fair value hedges
The Group hedges part of its existing interest rate and foreign currency risk resulting from any potential movement in the fair value of fixed rate assets or liabilities and movement in fair value of assets and liabilities denominated in foreign currencies using interest rate and cross-currency interest rate swaps. The fair value excluding accrued interest of these swaps at 31 December 2012 was €11m (2011: (€12m)).

Cash flow hedges
The Group also hedges part of its existing interest rate risk from any potential movement in variable cash flows using interest rate swaps. The fair value excluding accrued interest of these swaps at 31 December 2012 was €18m (2011: (€40m)).

Group

	2012			2011		
	Notional amount	Fair values		Notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€m	€m	€m	€m	€m	€m
Derivatives held for trading						
Interest rate swaps	3,100	64	60	2,311	51	52
Cross currency interest rate swaps	-	-	-	25	1	-
Interest rate contracts total	**3,100**	**64**	**60**	**2,336**	**52**	**52**
Currency swaps	44	-	1	49	-	1
Foreign exchange derivatives total	**44**	**-**	**1**	**49**	**-**	**1**
Equity index options	7	1	1	9	1	-
Equity index contracts total	**7**	**1**	**1**	**9**	**1**	**-**
Total trading contracts	**3,151**	**65**	**62**	**2,394**	**53**	**53**
Derivatives classified as fair value hedging						
Interest rate swaps	1,963	85	61	2,909	75	80
Derivatives classified as cashflow hedges						
Interest rate swaps	7,632	40	63	6,112	32	86
Total hedging contracts	**9,595**	**125**	**124**	**9,021**	**107**	**166**
Total derivative financial instruments	**12,746**	**190**	**186**	**11,415**	**160**	**219**

Company

	2012			2011		
	Notional amount	Fair values		Notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€m	€m	€m	€m	€m	€m
Derivatives held for trading						
Interest rate swaps	8,219	100	54	8,067	74	61
Cross currency interest rate swaps	-	-	-	25	1	-
Interest rate contracts total	**8,219**	**100**	**54**	**8,092**	**75**	**61**
Currency swaps	44	-	1	49	-	1
Foreign exchange derivatives total	**44**	**-**	**1**	**49**	**-**	**1**
Equity index options	7	1	1	9	1	-
Equity index contracts total	**7**	**1**	**1**	**9**	**1**	**-**
Total trading contracts	**8,270**	**101**	**56**	**8,150**	**76**	**62**
Derivatives classified as fair value hedging						
Interest rate swaps	1,963	85	61	2,909	75	80
Derivatives classified as cashflow hedges						
Interest rate swaps	7,632	40	63	6,112	32	86
Total hedging contracts	**9,595**	**125**	**124**	**9,021**	**107**	**166**
Total derivative financial instruments	**17,865**	**226**	**180**	**17,171**	**183**	**228**

The Group holds derivative financial instruments for hedging purposes only, however there are instances where some of these instruments fail to meet IAS 39 criteria for application of hedge accounting and are classified as held at fair value through the income statement.

The weighted average remaining term of the Group's cash flow hedges is 2.3 years (2011: 2.7 years). The maximum remaining term of any individual cash flow hedge is 8.2 years (2011: 9.2 years).

Fair value is 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 using observable data have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore can not be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Group's financial position or to make comparisons with other institutions.

The derivative maturity table below analyses the asset, liability and embedded derivatives fair value amounts by maturity bucket.

Derivative Maturity Table – at 31 December 2012

Group

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	72	76	41	189
Equity index contracts	1	-	-	1
Total assets	**73**	**76**	**41**	**190**

Derivative Maturity Table – at 31 December 2011

Group

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	103	54	2	159
Foreign exchange contracts	1	-	-	1
Total assets	**104**	**54**	**2**	**160**

Derivative Maturity Table – at 31 December 2012

Company

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	99	85	41	225
Equity index contracts	1	-	-	1
Total assets	**100**	**85**	**41**	**226**

Derivative Maturity Table – at 31 December 2011

Company

	Less than 1 year €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate contracts	100	80	2	182
Foreign exchange contracts	1	-	-	1
Total assets	**101**	**80**	**2**	**183**

33. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company

(i) At 31 December 2012 Group and Company loan approvals not advanced, as calculated under the Basel II definition, amount to €13m (2011: €20m) and €13m (2011: €20m) respectively.

(ii) Contingent liability / contingent asset – NAMA

On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institutions. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

(iii) TARGET 2 – Gross settlement system
EBS migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2.

On 15 February 2008, a first floating charge was placed in favour of the Central Bank of Ireland over all EBS' right, title, interest and benefit, present and future, in and to:

(i) the balances now or at any time standing to the credit of EBS' account held as a TARGET 2 participant with the Central Bank ('the Charged Property'); and

(ii) certain segregated securities ('the Charged Property') listed in an Eligible Securities Schedule kept by EBS for the purpose of participating in TARGET 2.

These floating charges contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, EBS shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof: or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

34. PLEDGED COLLATERAL

	Company 2012 €m	Company 2011 €m	Group 2012 €m	Group 2011 €m
Government bonds	-	190	-	190
NAMA senior bonds	-	355	-	355
Debt securities	845	1,080	845	1,080
Asset backed securities (own issue)	2,162	2,849	-	-
	3,007	**4,474**	**845**	**1,625**

Pledged collateral can be collateral pledged to the ECB, Central Bank of Ireland (CBI) or to market counterparties. ECB pledged collateral is comprised of financial assets that are pledged to the ECB as part of sale & repurchase (repo) agreements. These financial assets are ECB eligible assets in the form of (a) government bonds, (b) treasury bills (c) debt securities issued by monetary financial institutions, (d) asset backed securities (own issue) in the form of Emerald Mortgages No.5, Mespil and covered bonds issued by EBS Mortgage Finance. CBI pledged collateral is comprised of retail homeloan assets in the form of a Mortgage Backed Promissory Note (MBPN) that is pledged to the CBI as part of sale & repurchase (repo) agreements. Market counterparty pledged collateral are financial assets pledged as collateral as part of a sale & repurchase agreement (repo) with other credit institutions as market counterparts. These financial assets are in the form of government bonds and debt securities issued by monetary financial institutions. All of these repos are covered by repo master agreements and are subject to daily repo margin processes.

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where EBS acts as an intermediary.

The transferee has a right by contract or custom to sell or re-pledge the collateral under certain circumstances. These circumstances would arise if EBS breaches the standard securities lending and borrowing agreements.

The Group had €0.3bn (2011: €1.1bn) of unencumbered contingent collateral available at 31 December 2012 comprising residential mortgage assets of €0.1bn (2011: €0.9n) and debt securities of €0.2bn (2011: €0.2bn).

35. RELATED PARTY TRANSACTIONS

Group

Details of the principal subsidiary undertakings are shown in Note 16. In accordance with IAS 24 - related party disclosures, transactions or balances between group entities that have been eliminated on consolidation are not reported.

The Irish Government and Government related entities

The Irish Government has taken a range of measures to stabilise the Irish banking system since the commencement of the financial crisis in 2008. These measures have included the injection of equity and preference share capital into AIB p.l.c. As a result of these capital injections, the Irish Government, through the NPRFC, now holds 99.8% of the ordinary shares of AIB p.l.c. and €3.5bn in 2009 Preference Shares. In addition, the Minister for Finance holds €1.6bn of contingent capital notes.

As a result of the various measures taken by the Irish Government (specifically the guarantee schemes, the Direction Order, and the capital injections) the Irish Government is a related party to AIB p.l.c. and therefore EBS. Details regarding these measures, as well as others taken in the context of the Irish banking crisis, are set out below.

The Minister for Finance (the ‘Minister’) and/or the Central Bank of Ireland has considerable rights and powers over the operations of the AIB Group (and other financial institutions) arising from the various stabilisation measures.

These rights and powers include, inter alia:

- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration of payment dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemption of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB p.l.c., having regard to capital ratios, market share and the Group’s balance sheet growth.

(a) Irish Government Guarantee Schemes:

EBS and its subsidiary EBS Mortgage Finance are covered institutions under the Government's Credit Institutions (Finance 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 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.

The European Commission approved the extension of the ELG issuance period to the 30 June 2012 in December 2011 and again in June 2012 for the period to 31 December 2012 as six months is the maximum period permitted for state aid approval under the European Commission’s policy on guarantee schemes in the financial sector. In December 2012, the European Commission further extended the ELG issuance to the 30 June 2013. On 26 February 2013, the Irish Government announced that the ELG will end at midnight on 28 March 2013. After that date no new liabilities will be covered by the Eligible Liabilities Guarantee Scheme. Liabilities incurred since January 2010 and before the scheme's end will continue to be guaranteed until their next maturity, which can last for five years.

The total amount of guaranteed deposits and senior unsecured debt raised by EBS as a covered institution under the Government Guarantee ELG scheme at 31 December 2012 amounted to €5,487m (December 2011: €4,156m).

In 2012, €55m was charged to EBS under the ELG scheme (2011: €63m).

On 31 May 2011 the Minister exercised his powers under the ELG Scheme Agreement with EBS to direct the EBS Board to procure that EBS exercises its rights (including, but not limited to, its current and future rights as a holder of the Qualifying Majority of Capital Securities issued by EBS Capital) to enable the early redemption of the Capital Securities in full at a discount for the sole purpose of increasing the EBS Group’s core tier 1 capital ratio to minimise the capital burden on the State.

(b) Promissory Note

On 17 June 2010 a Promissory Note in the initial principal amount of €250m was issued by the Minister for Finance to EBS pursuant to the Minister's powers under the Credit Institutions (Financial Support) Act, 2008. Further information on the promissory note is included in note 29. Interest earned on the Promissory Note for the year ending 31 December 2012 amounted to €13m (2011: €13m).

The terms and conditions regarding the Promissory Note and Capital Contribution have remained unchanged.

(c) National Asset Management Agency (NAMA)

The Irish Government set up an asset relief scheme in 2009 under the auspices of the National Asset Management Agency in Ireland. EBS is a participating institution in NAMA.

Senior unsecured floating rate notes and callable perpetual subordinated fixed rate bonds were received as consideration from NAMA for the transfer of loans and advances. Further information on this is included in notes 9, 12 and 13. Interest earned on these bonds in 2012 amounted to €4m (2011: €6m).

(d) Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU/IMF Programme for Ireland ('the Programme'). This will allow the Minister for Finance ("the Minister") to take the actions required to bring about a domestic retail banking system that is proportionate to and focused on the Irish economy.

The Act provides broad powers to the Minister (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. The Act applies to banks which have received financial support from the State, building societies and credit unions. Given the exceptional nature of the powers contained in the Act, the powers are time-limited and were scheduled to expire on 31 December 2012. However, in January 2013, the Minister extended the period of effectiveness of the Act for a further period of two years until 31 December 2014.

The powers provided in the Act allow the Minister to implement key aspects of the agreed Programme for bank restructuring and include the issue of direction orders, special management orders, subordinated liabilities orders and transfer of assets and liabilities orders. In addition, the Act gives the Minister broad powers in relation to directors and officers and their appointment/removal/duties. Various other terms are also imposed on relevant financial institutions as a condition for financial support.

(e) Funding Support

EBS received funding from the ECB throughout the year through the ECB Monetary Policy Operation Sale and Repurchase Agreements. This funding amounted to €2,460m at 31 December 2012 (2011: €3,865m). Other funding supports from the Central Bank, which had been in operation at 31 December 2010, were not availed of by EBS from May 2011 onwards.

(f) Central Bank and Credit Institutions (Resolution) Act 2011

The Central Bank and Credit Institutions (Resolution) Act 2011 was signed into law on 20 October 2011 and became effective on 28 October 2011.

This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Act give the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants and to move their deposits and loans to other banks. It provides for the establishment of a Credit Institution Resolution Fund which would provide a source of funding for the resolution of financial instability or in the event of an imminent serious threat to the financial stability of an authorised credit institution. Authorised credit institutions will be obliged to contribute to the resolution fund.

The Act provides for the establishment of "Bridge-Banks" for the purposes of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible.

The Central Bank will also be empowered to make special management orders in relation to an authorised credit institution or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

The legislation is expected to, in due course, replace the provisions of the Credit Institutions (Stabilisation) Act 2010 outlined above which ceases to have effect on 31 December 2014 or at a later date substituted by resolution of both Houses of the Oireachtas.

(g) Government related entities

As a result of the capital received from Government in 2010 and the participation in the Government guarantee scheme, the Government is recognised as a related party, as defined under the accounting standards.

In the normal course of business the Group has various transactions with the Government, state departments and semi-state bodies and state owned financial institutions including the holding of securities issued by the Government and semi-state bodies of €697m (December 2011: €738m).

At 31 December 2011 deposits by banks and state owned financial institutions included deposits of nil (December 2011: nil) placed by the National Treasury Management Agency (NTMA).

During 2009 and 2010 the Government acquired 100% of shares in Anglo Irish Bank Corporation limited ('Anglo'), acquired a controlling interest in Irish Nationwide Building Society, Allied Irish Bank plc and acquired a significant influence over Bank of Ireland. As the Government also took a controlling interest in the Society, balances between the Group and each of the other aforementioned institutions are considered to be related party transactions. These institutions together with Irish Life and Permanent Plc are members of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ('ELG Scheme').

The following table sets out the aggregate balance between the Group and these financial institutions.

As at 31 December	Available-for-sale financial assets €m	Derivative financial instruments (Assets) €m	Loans and advances to credit institutions €m	Deposits by credit institutions €m	Derivative financial instruments (Liabilities) €m
2012	605	30	606	16	7
2011	629	10	78	1,151	8

(h) Subsidiaries and special purpose vehicles

Company

A number of transactions are entered into with subsidiaries and special purpose vehicles in the normal course of business by EBS. Loans to related parties include subsidiaries and securitisation vehicles and deposits from related parties include non-recourse funding from securitisation vehicles. The interest charged to related parties is at normal commercial rates appropriate to the transaction. There is no provision for doubtful debts relating to amounts owed by subsidiaries.

	2012 €m	2011 €m
Loans to related parties		
At 1 January	4,152	3,476
Net movement in loans during the year	(370)	676
At 31 December	3,782	4,152
Deposits from related parties		
At 1 January	3,129	3,569
Net movement in deposits during the year	(120)	(440)
At 31 December	3,009	3,129
Permanent interest bearing shares		
At 1 January	-	250
Issued in the year	-	(250)
At 31 December	-	-
Included in the Income Statement		
Interest income on loans	5	6
Interest expense on loans	145	158
Interest expense on permanent interest bearing shares	-	(2)
Other income	41	70
Derivative financial instruments with subsidiary (EBS Mortgage Finance)		
Interest rate swaps		
Notional Principal amount	6,913	7,676
Assets (Fair value)	35	54
Liabilities (Fair value)	35	55
Net Trading Income	10	4

(i) Transactions with parent company AIB p.l.c.

A number of transactions were also entered into with the ultimate parent, AIB p.l.c., in the normal course of business. These include loans, deposits, derivatives and available-for-sale assets.

	2012 €m	2011 €m
Loans		
At 1 January	78	-
Net movement in loans during the year	520	78
At 31 December	598	78
Available-for-sale financial asset		
At 1 January	238	-
Net movement in deposits during the year	(36)	238
At 31 December	202	238
Derivative financial instruments (assets fair value)		
At 1 January	10	-
Issued in the year	20	10
At 31 December	30	10
Deposits from related parties		
At 1 January	1,151	-
Net movement in deposits during the year	(1,135)	1,151
At 31 December	16	1,151
Derivative financial instruments (liabilities fair value)		
At 1 January	8	-
Issued in the year	(1)	8
At 31 December	7	8
Derivative financial instruments		
Notional Principal amount	6,953	2,925
Included in the Income Statement		
Interest income	43	8
Interest expense	(3)	(17)
Net Trading Income	6	-
Administrative expenses	(1)	(1)

(j) Transactions with key management personnel

For the purpose of IAS 24 related part disclosures, 'key management personnel' comprises executive and non executive directors.

Loans to the key management personnel are made in the ordinary course of business. No current directors in office during 2012, had loan facilities with EBS Limited and its subsidiaries during the year ended 31 December 2012. The following amounts represent the transactions and outstanding balances with the Group:

	2012 €m	2011 €m
At 31 December:		
Fergus Murphy resigned 21 November 2012 (maximum liability in 2012: €0.5m (2011: €0.6m)	-	0.5
Transactions during the period:		
Loan advances	-	-
Loan repayments	0.1	0.2
Interest on loans	-	0.1
The savings balances for key management personnel amount to (maximum in 2012: €0.1m (2011: €0.2m))	**0.1**	**0.1**

(k) Compensation of key management personnel:

Total compensation to key management personnel is as follows:
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	2012 €m	2011 €m
Fees	0.1	0.3
Salary and other benefits	0.5	0.7
Pension benefits	0.2	0.3
	0.8	**1.3**

Details of executive directors are as follows:

	Salary		Benefits		Total	
Executive Directors	**2012 €m**	**2011 €m**	**2012 €m**	**2011 €'000**	**2012 €m**	**2011 €m**
Des Fitzgerald (1)	0.1	-	-	-	0.1	-
Fergus Murphy (2)	0.3	0.3	0.1	0.1	0.4	0.4
Emer Finnan (3)	-	0.3	-	-	-	0.3
	0.4	**0.6**	**0.1**	**0.1**	**0.5**	**0.7**

(1) Des Fitzgerald was appointed a Director of EBS on 16 July 2012.
(2) Fergus Murphy ceased to be a Director of EBS on 21 November 2012.
(3) Emer Finnan ceased to be a Director of EBS on 20 December 2011.

Benefits provided to the Executive Directors were the provision of car allowances, contributions to health insurance, subsidised home loans and club subscriptions. Subsidised home loans to Executive Directors are on the same terms and conditions as loans to other eligible EBS management and staff. Executive Directors do not receive any additional reward for their work as members of the EBS Board.

Des Fitzgerald and Fergus Murphy have personal defined contribution pension schemes. In 2012, €38,183 was paid to a defined contribution scheme on behalf of Des Fitzgerald in respect of the period from the date of his appointment as Director to 31 December 2012 and €116,455 (2011: €147,000) was paid on behalf of Fergus Murphy in respect of the period from 1 January 2012 to 15 July 2012.

The remuneration of the Independent Non Executive Directors in 2012 is set out below:

	2012 €'000	2011 €'000
Martin Donnellan	-	14.5
Pat McCann	-	21.3
Liam Mulvihill	-	14.5
Linda O'Shea Farren	-	14.5
Barbara Patton	-	14.5
Ann Riordan	-	15.6
Jim Ruane	-	36.0
Anthony Spollen	-	14.5
Ethna Tinney	-	12.1
Philip Willamson	-	109.0
Catherine Woods	29.0	14.5
James O'Hara	14.9	-
Tom Foley	3.3	-
	47.2	**281.0**

At 31 December 2012, the Board of Directors is comprised of Denis O'Callaghan, Bernard Byrne, Catherine Woods, Tom Foley, James O'Hara, Fidelma Clarke and Des Fitzgerald.

The remuneration of Group Non Executive Directors (Denis O'Callaghan, Bernard Byrne, and Fidelma Clarke) is borne by the Parent.

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2012.

Independent Non-Executive Directors do not participate in long term incentive plans.

Apart from the interests set out above, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2012 and 26 March 2013.

36. CAPITAL MANAGEMENT

Regulatory capital
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 Asset and Liability Committee.

On 18 July 2011 the Central Bank of Ireland confirmed that EBS was required to meet an 8% total capital ratio.

In December 2011, AIB p.l.c. provided €300m of capital to EBS and in July 2012 a further €400m on the issuance of Ordinary Share Capital. Further details are in note 28.

The Group's regulatory capital comprises:

Tier 1 capital, which includes ordinary share capital and promissory note investments by the Irish government, general reserve capital, 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.

Tier 2 capital, comprises collective impairment allowances.

Within these tiers, limits are set for different components of 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.

The Group's policy is to ensure that sufficient capital is in place to meet regulatory requirements.

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

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

	2012 €m	2011 €m
Core Tier 1 capital		
Ordinary share capital	1,324	924
Special investment share	-	-
General reserve	(648)	121
Intangible assets	(17)	(20)
Other regulatory adjustments	47	14
Total Tier 1 Capital	706	1,039
Tier 2 Capital		
Collective allowances for impairment	111	124
Tier 2 Capital	111	124
Total Regulatory Capital	**817**	**1,163**

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.

37. REGULATORY COMPLIANCE

During December 2011, EBS Mortgage Finance breached the large exposures limit. This arose due to the acquisition of loans from EBS in November 2011. The issue was resolved and the exposures were brought back within limits in January 2012. There were no other issues in 2012

EBS was in breach of the regulatory liquidity ratios on a number of occasions throughout 2011. The Central Bank and senior management were kept fully informed of the situation on an ongoing basis in line with the agreed procedure with the Central Bank. The breaches occurred as the Statement of Financial Position was being restructured.

At all times during 2012 EBS had capital in excess of its required capital ratio.

38. OTHER INFORMATION

At 31 December 2012 the Group reserve ratio is 4.1% (2011: 5.6%) and the liquidity ratio is 17.4% (2011: 14.2%). These are required to be disclosed under certain covenants entered into by EBS.

In accordance with section 40(1) of the Asset Covered Securities Act 2001 (as amended), EBS, as parent entity to the designated mortgage credit institution EBS Mortgage Finance, is reporting the following information as at 31 December 2012:

(i) The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2012 is €3,150m of which €50m was held by third parties and €3,100m by the Company.

(ii) The total amounts of principal outstanding in respect of the mortgage credit assets and substitution assets comprised in the cover assets pool relating to the mortgaged covered securities as at 31 December 2012 in issue is €5,779m (2011: €6,668m).

39. EVENTS SINCE THE REPORTING DATE

The following are the significant non-adjusting events that have taken place since 31 December 2012:

Eligible Liabilities Guarantee Scheme 2009
On 26 February 2013, the Minister for Finance announced that the Eligible Liabilities Guarantee Scheme 2009 will end for all new liabilities with effect from midnight on 28 March 2013. After this date, no new liabilities will be guaranteed under the Scheme. The ELG scheme was one of the measures taken by the Irish Government to stabilise the financial system at a time of unprecedented market turbulence, which is no longer evident.

The existing deposit guarantee scheme, which guarantees deposits of up to €100,000 per qualifying depositor, is unaffected by this announcement. The cost of the ELG scheme has been significant, €55 million in 2012 and €63 million in 2011.

In January 2013 EBS launched a voluntary severance programme which is expected to be available to all staff.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 26 March 2013.