EBS LIMITED *(formerly EBS Building Society)*

DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2011

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Company Information

DIRECTORS

EBS Limited

Fergus Murphy	Chief Executive	
Bernard Byrne	Non Executive Director	
Emer Finnan	Executive Director	(resigned 20 December 2011)
Eamonn Hackett	Non Executive Director	
Denis O'Callaghan	Non Executive Director	
Jim Ruane	Non Executive Director	(resigned 31 December 2011)
Philip Williamson	Chairman - Non Executive Director	(resigned 31 December 2011)
Catherine Woods	Non Executive Director	

All of the above directors were appointed on 1 July 2011 and are currently serving on the Board unless otherwise stated.

EBS Building Society

Fergus Murphy	Chief Executive
Martin Donnellan	Non Executive Director
Emer Finnan	Executive Director
Pat McCann	Non Executive Director
Liam Mulvihill	Non Executive Director
Linda O'Shea Farren	Non Executive Director
Barbara Patton	Non Executive Director
Ann Riordan	Non Executive Director
Jim Ruane	Non Executive Director
Anthony Spollen	Non Executive Director
Ethna Tinney	Non Executive Director
Philip Williamson	Chairman - Non Executive Director

All of the above directors resigned on 30 June 2011 apart from Ethna Tinney who resigned on 26 May 2011.

SECRETARY	Helen Dooley
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

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 2011. A statement of Directors' responsibilities in relation to the financial statements appears on page 15.

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 14 owned branches, 76 agency branches 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 €875.0m (through the issue of special investment shares for €625.0m and a promissory note for €250.0m). 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 €625.0m of ordinary shares held by the Minister. The Minister then transferred the entire issued share capital (€625.0m 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 June 2010 the ELG scheme was prolonged and modified to cover issuances up to 31 December 2010 for certain liabilities; in September 2010 it was further prolonged and modified to cover balances until 30 June 2011; in June 2011 it was further prolonged and modified to cover balances until 31 December 2011 and in December 2011 it was further prolonged and modified to cover balances until 30 June 2012.

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 non executive directors and 1 independent non executive director. 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 confirming compliance with the Central Bank Code during 2011.

EBS is a participating institution under the National Asset Management Agency Act 2009. In September 2011 EBS transferred the final tranche of loans to NAMA and no further loan transfers are anticipated.

BUSINESS REVIEW

The economic environment in Ireland continues to be very challenging generally and for the banking sector in particular. GDP increased by 1.3% to 0.9% in 2011 after a negative GDP of 0.4% in 2010 and 7.6% in 2009. Unemployment increased from 13.6% at December 2010 to 14.2% at December 2011 (Source: ESRI QEC Winter 2011/Spring 2012). The impact of the Sovereign requirement for an EU/IMF loan and the related austerity measures is causing financial stress among a greater number of borrowers.

Following the acquisition of EBS by AIB p.l.c. to form a pillar bank, the directors of both entities completed a strategic review to determine the future role of EBS within the wider AIB Group. A number of scenarios were considered for both the immediate term and medium term. The scenario which provided the best economic outcome for the AIB Group was to retain EBS as a separate brand with its own distribution network and product suite focussed on retail savings, investments, residential mortgage lending and associated protection products. The back office administration will be integrated into the existing corresponding functions in the AIB Group and progress has already been achieved in this regard. The integration is expected to enhance the value of the AIB Group through the use of the EBS Brand, distribution network and the customer funding balances.

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 line is in the process of being wound down.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The Group reported a loss after taxation of €151.1m for the year, an improvement of €436.8m over the 2010 loss of €587.9m. The improvement is mainly due to €408.9m of lower losses and impairments on loans transferred to and held-for-sale to NAMA as the bulk of the loans transferred in 2010, together with gains achieved on the redemption of subordinated debt liabilities of €159m, offset by higher impairment charges on loans and advances to customers.

The Group reported an operating profit (before impairment losses and taxation) for the year of €297.5m up from an operating loss of €219.3m in 2010, an improvement of €516.8m.

<u>Net Interest Income</u>

Net interest income is up €76.4m or 62%

Net interest income for the year is €200.3m compared to €123.9m in 2010. The net interest margin (including charges under the ELG scheme) is 1.03% compared to 0.59% (restated) for 2010. The net increase of 44 basis points (bps) is due to:

- An increase in lending margins, representing an increase of 0.55%.
- An increase in interest income due to the change in accounting estimate of the average expected life of mortgages, representing an increase of 0.16%.
- An increase in wholesale funding costs, representing a decrease of 0.03%.
- An increase in retail funding costs, representing a decrease of 0.08%.
- Increased ELG scheme costs, representing a decrease of 0.16%.

Interest income on mortgage loans is €662.1m (2010: €530.5m), an increase of €131.6m mainly due to higher average ECB rates for 2011 and lending margin increases. During 2011 the standard variable rate moved in line with ECB rates and in April 2011 EBS further increased the standard variable rate by 60bps. The 60bps increase was necessary to restore margins towards sustainable levels given the increased cost of funding. In addition there was a credit in 2011 of €32.0m (2010: Nil) due to a change in the accounting estimate for the average expected economic life of mortgage loans, there was no such change in 2010.

Interest expense on customer accounts is €311.5m (2010: €299.1m). The increase year on year is due to higher rates paid in 2011 to attract and retain fixed retail funds.

The cost of retail and wholesale funding, including the cost of ELG also remained high during the period due to continued intense competition.

Other Income/(Loss)

Other income is up €443.3m

Other income for the year is €193.7m compared to a loss of €249.6m in 2010. The main drivers for this increase are:

- A gain of €159.0m on the redemption of subordinated liabilities following liability management exercises in February and June 2011.
- A gain of €26.8m on loans transferred to NAMA compared to a loss of €275.6m in 2010. This one off gain was due to the increase in valuations of previous tranches transferred to NAMA and loans transferred back from NAMA to EBS which represents a write back of the loss recognised in 2010 on these loans.
- A reduction in fees and commissions expense of €5.6m being the charge under the Credit Institutions (Financial Support) Scheme incurred in 2010. This scheme ended in September 2010.
- A reduction in other operating income of €23.9m due to a loss of €8.1m on disposal of subordinated bonds held in an Irish financial institution in 2011 compared to a gain on disposal of available-for-sale assets in 2010 of €8.2m and the once off receipt of €6.9m in 2010 being the proceeds of an insurance claim.

Operating Expenses

Operating expenses are up €2.9m or 3.1%

Administrative expenses in 2011 are €86.6m compared to €83.3m in 2010. The increase is due to a number of non discretionary costs and once off costs such as increased regulatory charges (PCAR / PLAR), costs incurred on sale process and the conversion of EBS Building Society to EBS Limited, offset by lower payroll costs due to a reduction in headcount. Excluding these non discretionary and once off items administrative costs are down by 8.4% on 2010. Staff numbers and core operating costs continued to fall during the year as EBS maintained a focus on managing the cost base to support the achievement of the strategic goals.

The cost to income ratio for 2011 is 24.5%. The 2011 cost to income ratio before one off gains on redemption of subordinated liabilities and gains/losses on transfer of loans to NAMA was 46.3% compared to 62.4% in 2010, mainly due to improved net interest income.

Loss before Taxation

Loss before tax of €253.9m is down by €365.0m

The reported loss before tax of €253.9m is mainly attributable to the impairments incurred on loans and advances to customers of €529.4m, offset by operating profit of €297.5m. This is an improvement of €365.0m over 2010 due to improved interest income and a gain on redemption of subordinated liabilities.

Transfer of Assets to NAMA

As part of EBS' participation in NAMA, loans with a nominal value of €77.0m (before provisions) were transferred to NAMA in September 2011 (2010: €836.4m). An impairment provision charge of €27.7m was made on these loans in 2010. During 2011 an additional €11.4m of loans were identified by NAMA and the impairment provision on the assets held-for-sale to NAMA increased by €11.9m to €39.6m during the year.

Also during 2011 NAMA identified loans with a nominal value of €9.8m (2010: Nil) originally transferred to NAMA in 2010 which were returned to EBS and the losses booked in 2010 of €6.5m were reversed.

In addition the due diligence exercises for loans transferred to NAMA in December 2010 were completed in 2011 with an uplift in loan valuations resulting in the reversal of €19.0m in losses originally booked in 2010. The completion of the due diligence exercise brought the overall discount on the €903.6m of qualifying land and development and associated loans transferred to NAMA to 57.5%. Further details can be found in notes 10 and 16.

Redemption of Subordinated Liabilities

During 2011 EBS carried out two liability management exercises to increase core tier 1 capital. The exercises were completed in two stages, the first in February 2011, being an offer to purchase any or all of the outstanding subordinated liabilities. There was a 70% take up on this offer and in June 2011 EBS redeemed the remaining 30% of outstanding subordinated liabilities. Having acquired all of the outstanding bonds issued, they were subsequently extinguished, resulting in a gain after transaction costs of €159.0m which was recognised in the income statement. The average combined discount across both transactions was 73%. Further details can be found in note 6.

Impairment Charge on available-for-sale financial assets

The Group holds €1.7bn of available-for-sale financial assets at December 2011 (2010: €2.6bn). As part of EBS' treasury risk management processes these assets are assessed for impairment on a regular basis and given the increased risk of counterparties engaging in liability management exercises an impairment provision of €8.3m was recognised in June 2011. In addition the subordinated bonds issued by NAMA to EBS were also assessed for impairment and taking into account the negative market background on Irish commercial property in 2011, the negative business update provided by NAMA which included higher than expected impairments and the unique features of the sub-debt, an impairment provision of €3.4m was made in December 2011. This brings the total impairment charge in 2011 in respect of available-for-sale financial assets to €11.7m.

Impairment Charge on loans and advances to customers

The loan impairment provisions charge for loans and advances to customers for 2011 is €529.4m up from €271.4m in 2010. Total provisions (excluding unearned income provisions) held at December 2011 amount to €948.8m (2010: €417.7m). Total provisions (including unearned income provisions) held at December 2011 amount to €958.9m (2010: €420.0m). This total provision balance represents 5.9% of total loans and advances to customers (2010: 2.5%).

The impairment charge has increased principally due to:

- Aligning our impairment provisioning policies and procedures with that contained in the 'Impairment Provisioning and Disclosure Guidelines' issued by the Central Bank in December 2011.
- An increase in impaired loan balances to €3,543.8m at December 2011 from €1,918.7m at December 2010. The increase in impaired balances is due to (i) the deterioration in the underlying book and more significantly (ii) implementation of a more conservative definition of impaired loans.
- Continued decrease in residential and commercial property prices, and
- A decrease in the expected cure rate.

The detailed breakdown of the impairment provisions stock (being loan impairment and unearned income provisions) together with impaired loans, is set out below:

2011	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
Residential	15,352.2	3,002.7	19.6%	624.1	124.1	748.2	24.9%	4.9%
Commercial Property	891.5	541.1	60.7%	142.8	67.9	210.7	38.9%	23.6%
Total	**16,243.7**	**3,543.8**	**21.8%**	**766.9**	**192.0**	**958.9**	**27.1%**	**5.9%**

2010	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
Residential	15,886.8	1,465.8	9.2%	136.0	182.2	318.2	21.7%	2.0%
Commercial Property	934.1	452.9	48.5%	74.0	27.8	101.8	22.5%	10.9%
Total	**16,820.9**	**1,918.7**	**11.4%**	**210.0**	**210.0**	**420.0**	**21.9%**	**2.5%**

Residential Loan Book Asset Quality

Residential loans more than 90 days past due or impaired increased from 9.3% at December 2010 to 19.7% at December 2011. Impaired loans were 19.6% at December 2011, up from 9.2% at December 2010. This reflects the ongoing impact of unemployment, the impact of the Sovereign requirements for an EU/IMF loan and the associated austerity 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, austerity 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 487bps at December 2011 up from 200bps at December 2010.

Commercial Loan Book Asset Quality

Commercial loans more than 90 days past due or impaired increased from 50.8% at December 2010 to 67.3% at December 2011. Impaired loans were 60.7% at December 2011 up from 48.5% at December 2010. This reflects the continuing weakness in the commercial property market and economic environment generally. The level of provisions coverage on commercial loans increased to 2,363bps at December 2011 from 1,090bps at December 2010.

Mortgage Market

The residential mortgage market continued to decline with total advances for 2011 at €2.5bn, compared to €4.7bn in 2010. New residential lending for the EBS Group is €172m in 2011 down from €1.14bn in 2010 reflecting a reduction in the market size and a more conservative approach to new lending with new credit criteria being implemented. The overall mortgage market is much reduced, down 93% from its peak in 2006. EBS' share of new mortgage lending in 2011 is 6.6% (2010: 24.1%) and the Group's share of outstanding retail mortgage balances is approximately 10.6% (2010: 11.1%).

EBS exited the commercial lending market in April 2008. The remaining commercial book is being wound down under the tight control of the credit management team.

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 2011 EBS has total customer accounts of €8,475.7m. The impact of successive corporate and sovereign downgrades in the Republic of Ireland has resulted in pricing remaining intensely competitive however retail balances have been maintained.

Total retail balances at December 2011 are €6,786.2m, an increase of €70.7m in the year. EBS experienced net retail outflows of €109.0m in the first six months of 2011, however in the second half of 2011 market sentiment improved and inflows of €179.7m were achieved following the EBS National Savings campaign.

Corporate deposits fell by €1,018.8m to €1,689.5m at December 2011 due to the continued negative impact of the ratings agency downgrade of Irish Sovereign and financial institutions, including EBS.

Retail funding represents 80% of customer balances with corporate funding representing 20%.

Wholesale Funding
Following the effective closure of bond markets to the Irish Sovereign in 2010, and further sovereign and financial institution downgrades, EBS was unable to access the traditional debt markets in 2011. As a consequence of this EBS had to access funding from the monetary authorities (including the European and Irish Central Banks) and intergroup funding from the parent AIB p.l.c. At 31 December 2010 EBS had ECB borrowings of €3,380.0m and CBI borrowings of €1,500.0m. In May 2011 the CBI borrowings were repaid in full and no further drawdown's have been made since then. At December 2011 funding from the ECB is €3,865.0m representing 23% of total funding (2010: €4,880.0m and 26%). In addition EBS received funding from its parent AIB p.l.c. which amounted to €1,150.6m at 31 December 2011 (2010: Nil).

Capital
Liability Management Exercises
EBS conducted two liability management exercises in the first six months of 2011 to increase Core Tier 1 capital. These exercises generated a total of €229.8m in additional reserves after transaction costs, being the gain on redemption of subordinated liabilities of €159.0m recognised in the Income Statement and the gain on redemption of capital securities issued by EBS Capital of €70.8m recognised directly in equity. This reduced the level of capital required from external sources such as the Irish Government, and represented burden sharing with the subordinated bond holders.

PCAR/PLAR
In January 2011, the Central Bank initiated a Financial Measures Programme, which incorporated the PCAR and PLAR exercises. The PCAR exercise enabled the Central Bank to perform a thorough assessment of the Group's asset quality and earnings together with incorporating incremental three year projected provisions estimates based on BlackRock Solutions identified stress loan losses. An additional element of conservatism was also applied through the requirement to achieve a 10.5% Core Tier 1 capital ratio and a 6.0% Core Tier 1 ratio under stress as well as an additional protective buffer.

It was announced on 31 March 2011 that the EBS Group required €1.2bn of capital to meet the new target Core Tier 1 capital ratio of 10.5% under base and 6.0% under stress on the basis of the combined results of the PCAR assumptions and three year projected provisions from BlackRock, before the addition of a conservative capital buffer. The additional capital buffer of €0.3bn was determined with €0.1bn representing equity and €0.2bn representing contingent capital. This brought the total capital requirement for the Group to €1.5bn. The Minister for Finance confirmed on 31 March 2011 that all banks would be recapitalised to the PCAR levels. The PLAR exercise outlined the measures to be implemented to steadily deleverage the banking system and reduce reliance on the funding from monetary authorities. The PLAR exercise established a target funding and loan to deposit ratio for the aggregate domestic banking system, including EBS, of 122.5% and consequently in order to reach the targeted ratio 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.

Following the acquisition of EBS by AIB p.l.c. on 1 July 2011 the €1.5bn of capital announced for EBS was provided to AIB p.l.c. by the Irish Government from the National Pensions Reserves Fund and the Minister in July 2011. In addition the PLAR target will now be achieved at an AIB Group level.

On 18 July 2011 the Central Bank confirmed that EBS is required to meet an 8% total capital ratio.

On 16 December 2011 EBS issued €300.0m of ordinary shares to AIB p.l.c. for cash. EBS is dependent on its parent AIB p.l.c. for ongoing funding and capital support.

The Group capital ratios at 31 December are as follows:

	2011 €m	2010 (Restated) €m
Core Tier 1 Capital	1,039.1	835.5
Non Core Tier 1 Capital	-	82.3
Tier 1 Capital	1,039.1	917.8
Tier 2 Capital	123.5	312.4
Total Capital	**1,162.6**	**1,230.2**
Risk Weighted Assets	9,882.7	9,978.8
Total Capital Ratio	11.8%	12.3%
Tier 1 Ratio	10.5%	9.2%
Core Tier 1 Ratio	10.5%	8.4%

The total capital ratio at December 2011 is 11.8% (2010: 12.3%), the reduction in the capital ratio is due to the losses incurred in 2011.

RISK MANAGEMENT

The Group categorises risks under a number of headings namely, strategic, operational, regulatory compliance and financial (including credit, liquidity and interest rate) risks. Together, these form the risk universe. This helps the organisation to assess and manage risk on an enterprise wide, holistic basis. The risk universe is continuously reviewed and updated reflecting the changing risk environment.

Strategic risk

Strategic risk management comprises the Group's values and beliefs, change in corporate form, 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 business such as the economic environment, market developments and technological innovation. Strategic risks are managed and monitored in the main by the senior management team and the Board. Significant developments are reported to the Board directly and to its subcommittees on a regular basis.

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 Group 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 EBS Operations Management 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 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 or Board Risk Committee prompts, are monitored on an ongoing basis and progress against actions is reported on a regular basis to the senior management team and the Board.

Regulatory compliance risk

Regulatory compliance risk is the risk that the EBS Group fails to meet the standards and requirements of the Central Bank 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.

The Regulatory Compliance function's role is to mitigate the risks of current or prospective risk to earnings and capital arising from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and / or the voiding of contracts and can diminish the Group's reputation. The function independently evaluates adherence to key regulations and reports same to the Regulatory Compliance Committee. An annual plan is developed and approved by the Board Audit & Compliance Committee which receives regular updates on progress.

The terms and conditions of the Government Guarantee 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. The Regulatory Compliance function is responsible for supporting and ensuring (via a quarterly assessment of compliance) that the business is in adherence with the requirements of this regulatory regime and the conditions of the Government Guarantee Scheme and any subsequent scheme.

Financial risk
The Group has exposure to the following financial risks - credit risk, market risk and liquidity & funding risks.

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

Credit risk management is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. The reporting line for the Chief Credit Officer was moved to be under the Chief Risk Officer as part of the alignment with AIB Group. Given the continued deterioration in credit quality throughout 2011 in both the retail and commercial markets, both credit management and credit risk management have been a key area of focus over the past year. Resourcing, structures, policy and processes continue to be reviewed in order to ensure that the Group is best placed to manage asset quality in this severe downturn. The Credit Risk Committee is responsible for reviewing and recommending appropriate credit risk management structures and policies in line with the credit risk appetite of the Group and for monitoring the performance of the book. The Risk Analytics team is responsible for the development and ongoing validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the Group's loan assets.

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

EBS 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.

EBS insures against risk in the Irish residential property market through mortgage indemnity insurance. This insurance is taken on a loan by loan basis, the amount of coverage being determined by the loan to value percentage at origination. In the event of EBS suffering a loss, a claim can be made up to the value of the insurance cover.

Liquidity and Funding risk
Liquidity and funding risk relates to the ability of the Group to meet its obligations in a timely manner as they fall due, without incurring excessive cost, whilst continuing to fund its assets and growth therein. As part of the terms of the banking licence the Group is required to meet its solo prudential liquidity requirements at an AIB Group level. Group Treasury is responsible for the management of liquidity and funding and their role is to ensure that resources are available at all times to meet the Group's obligations arising from the withdrawal of customer deposits or interbank lines. The Group's Asset and Liability Committee ('ALCO') monitors these risks and reports on key developments to the Group Board on a regular basis via the Chief Risk Officer's report. ALCO is responsible for monitoring how liquidity and funding is managed and ensuring that policies and regulatory requirements are adhered to.

Market risks
Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (funding risk) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. EBS is in the process of aligning the measurement methods and reporting of its market risk exposures to 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. ALCO, which meets monthly, monitors these risks and reports on key developments to the Board on a regular basis, via the Group Chief Risk Officer's report.

Interest rate risk in the banking book portfolio is the Group's primary source of interest rate risk and is managed principally through monitoring interest rate gaps and by having various limits, processes and procedures. Interest rate risk in the reserve investment portfolio is managed under the Reserve Investment Policy as approved by the Board. In addition, 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.

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 2012. 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 Group's activities are subject to risk factors as set out in the Risk Management Report. The continued financial crisis has increased these risk factors.

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

The financial statements have been prepared on a going concern basis on the basis of the Board's assessment of the above mentioned risks and the commitment from the parent to support the funding and capital needs of the Group going forward. In making this assessment the Directors' have considered the basis on which the parent itself concluded that it is appropriate to prepare it's own financial statements for the year ended 31 December 2011 on a going concern basis. An extract of the going concern note in the AIB Group Financial Statements is included in Note 1.

The Directors' recognise that given the significant Irish and European economic, political and market risks and uncertainties that currently impact Irish Financial institutions, including the EBS and AIB Group, and EBS' dependence on its parent for capital and funding, there is material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. In considering the position of the Group the most relevant factors considered by the Board of Directors are:
- The injection of capital into the parent AIB Group of €14.8bn in July 2011 as required under the Financial measures programme published by the Central bank in March 2011.
- The position of the parent as one of the two pillar banks in Ireland and the continued support of the Irish government and ECB to continue to provide liquidity to banks in Ireland, including AIB Group.
- The assurance obtained by the parent from the Central Bank regarding the continued availability of the required liquidity from the Eurosystem during the period of assessment for the going concern statement.

- The fact that the parent has formally committed to support the funding and capital needs of the Group for a period of at least 12 months from the date these financial statements are approved by the Board.

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.

DIRECTORS
The Directors at the date of this report are listed on page 3. The Directors of the predecessor entity, EBS Building Society are also listed.

DIVIDENDS
The Directors' do not recommend payment of a dividend in the period to 31 December 2011 (2010: Nil).

DIRECTORS AND SECRETARY'S INTEREST IN SHARES
The beneficial interest of the Directors and the Secretary in office at 31 December 2011 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 AIB, p.l.c., the holding company.

Ordinary Shares

	31 December 2011	1 July 2011
Directors:		
Fergus Murphy	-	-
Bernard Byrne	-	-
Emer Finnan	-	-
Eamonn Hackett	7,793	7,793
Denis O'Callaghan	13,749	13,749
Jim Ruane	-	-
Philip Williamson	-	-
Catherine Woods	-	-
Secretary:		
Helen Dooley	-	818

Share options
Details of the Directors' and Secretary's options to subscribe for ordinary shares in AIB p.l.c., are given below. The vesting of these options to the individuals concerned is dependant on Earnings Per Share ('EPS') targets being met by AIB p.l.c. Subject thereto, the options outstanding at 31 December 2011 are exercisable at various dates between 2011 and 2015. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the Bank's registered office.

	31 December 2011	1 July 2011	Since 1 July 2011		Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at 31 December 2011
			Granted	Exercised	€	€	
Directors:							
Fergus Murphy	-	-	-	-	-	-	-
Bernard Byrne	-	-	-	-	-	-	-
Emer Finnan	-	-	-	-	-	-	-
Eamonn Hackett	35,000	35,000					13.62
Denis O'Callaghan	20,500	20,500	-	-	-	-	13.73
Jim Ruane	-	-	-	-	-	-	-
Philip Williamson	-	-	-	-	-	-	-
Catherine Woods	-	-	-	-	-	-	-
Secretary:							
Helen Dooley	-	-	-	-	-	-	-

Independent Non executive directors do not participate in share option 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 AIB p.l.c.

EVENTS SINCE THE YEAR END

The following events have occurred since the reporting date:

Voluntary Severance Programme

On 8 March 2012, AIB Group announced that it was commencing a consultation process with the unions on a voluntary severance programme. The objective of this voluntary programme is to reduce the staff cost base by approximately €170m in a full year. This equates to a reduction of approximately 2,500 overall staff numbers. It is expected that around half of those departures will be finalised in 2012.

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 at the registered office by providing adequate resources to the finance function at 2 Burlington Road, Dublin 4.

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:

Fergus Murphy, Chief Executive

Catherine Woods, Non Executive Director

27 March 2012

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 2009 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;
- state that the financial statements comply with IFRS as adopted by the EU as applied in accordance with the Companies Acts 1963 to 2009; 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 enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2009. 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:

Fergus Murphy, Chief Executive

Catherine Woods, Non Executive Director

27 March 2012

Risk Management Report

1. Introduction *

Since 1 July 2011, EBS Group has been in the process of aligning and integrating its risk management structures and frameworks with AIB Group. EBS has a clearly defined Risk Governance structure and framework that is commensurate with the size, scale and complexity of the organisation. As a result of the merger with AIB p.l.c. a number of changes have occurred to the risk management structure and reporting lines both within EBS and between EBS and AIB p.l.c. These changes include:

(i) The Board of EBS was reconstituted as a result of the merger.

(ii) The Board Risk Committee and the Board Audit and Compliance Committee were in place for the full year and supported the work of the Board in relation to its risk and control framework. The roles and responsibilities of a number of other Board sub-committees, which were in place at the beginning of 2011, have been subsumed within the AIB Group governance structures.

(iii) Dual risk and control reporting structures have been established between EBS and AIB Group. The EBS Chief Risk Officer has a dual reporting line to the Chief Executive Officer (CEO) of EBS and the AIB Group Chief Risk Officer. The EBS Internal Audit function was merged with AIB Group Internal Audit in the fourth quarter of 2011. The EBS Head of Finance has a dual reporting line to the CEO of EBS and the AIB Group Chief Financial Officer. The EBS Chief Credit Officer reports to the EBS Chief Risk Officer, which mirrors the reporting structure in the AIB Group. Responsibility for Group prudential liquidity reporting has moved to AIB Group with EBS providing input into these areas. Work will continue throughout 2012 to fully align the risk and control functions.

(iv) The alignment of EBS' Risk Appetite Statement for 2012 with that of the AIB Group has commenced and is scheduled to conclude in April 2012 following the review of the AIB Group Risk Appetite Statement.

EBS Group defines risk as failure to foresee or manage events which may result in unnecessary material financial loss or damage to the company's reputation, or failure to maximise opportunities or capitalise on corporate strengths. The 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 customer 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.

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. It oversees the effectiveness of the system of internal control through review of management information and in 2011 was supported by the work of the Board Risk Committee and the Board Audit and Compliance Committee. The Board Risk Committee supported the Board in identifying and evaluating potential risks to the strategic objectives of the EBS and evaluating the risk management policies and practices. The Group Chief Risk Officer, who reports on business risks, emerging risk issues and provides a regular update on key risk indicators to the Board, had a dotted reporting line to the Chair of the Board Risk Committee.

The Board Audit and Compliance Committee 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 2011. The Head of Internal Audit had a direct reporting line to the Chair of the Board Audit and Compliance Committee. In addition, the Head of Compliance, who has a direct reporting line to the Group Chief Risk Officer, provided ongoing updates in 2011 on the compliance framework, processes and progress to the Board Audit & Compliance Committee.

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

2. Risk Factors *

EBS' approach to identifying and monitoring the principal risks and uncertainties facing EBS is informed by risk factors. All of EBS Group's 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 Group's risk management framework. The principal risks and uncertainties facing EBS Group fall under the following 3 broad categories:

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

Macro-economic and geopolitical risk *

- The Irish State has a dependency for financial support on the International Monetary Fund (IMF), European Union (EU) and the European Central Bank (ECB) and may be impacted by the conditions associated with the financial support provided to the Irish banking industry.
- EBS Group's access to funding and liquidity is impacted by the financial instability within the Eurozone.
- Contagion risks could disrupt the markets and impact the EBS Group's financial condition and results of operations.
- Constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy have created an exceptionally challenging liquidity environment for EBS.
- EBS Group's markets, particularly for retail deposits, are at risk from more intense competition.
- EBS' business may be adversely impacted by a further deterioration in economic and market conditions.
- General economic conditions for our mortgage customers continue to be very challenging and increase the risk of payment default.
- The depressed Irish property prices may give rise to increased losses experienced by EBS Group.

Prudential, regulatory and legal risks to our business model *

- EBS Group may be subject to rigorous and demanding Government supervision and oversight.
- EBS Group may be impacted by new measures introduced by the Irish Government to support the banking industry.
- EBS Group is subject to the risk of having insufficient capital resources to meet increased minimum regulatory requirements.
- EBS Group business activities must comply with increasing levels of regulatory requirements introduced as a result of failings in financial markets.
- EBS Group's participation in the NAMA Programme gives rise to certain residual risks.
- EBS Group may be impacted by further austerity and budget measures introduced by the Irish Government.
- 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.
- EBS Group's deferred tax assets are substantially dependent on the generation of future profits over an extended number of years at the level currently anticipated by EBS Group and there being no adverse changes to tax legislation, regulatory requirements or accounting standards.

Risks related to our business operations, governance and internal control systems *

- 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.
- EBS Group faces heightened operational and reputational risks.
- Risks relating to the restructuring of EBS Group.
- The Group's risk management strategies and techniques may be unsuccessful.
- There is a risk of litigation arising from EBS Group's 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.

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

2.1 Macro-economic and geopolitical risk *

The Irish State has a dependency for financial support on the International Monetary Fund (IMF), European Union (EU) and the European Central Bank (ECB) and may be impacted by the conditions associated with the financial support provided to the Irish banking industry.

On 28 November 2010, the Irish government announced that it had agreed in principle to the provision of up to €85.0bn of financial support to Ireland by Member States through the European Financial Stability Fund ('EFSF') and the European Financial Stability Mechanism ('ESFM'); bilateral loans from the UK, Sweden and Demark and the IMF's Extended Fund Facility ('EFF'), in each case on the basis of specified conditions. It was agreed that €17.5bn of the €85.0bn package would be contributed by Ireland.

The support is 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.

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 wholly dependent 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 also delay any future access to wholesale funding markets, with consequent impacts on the EBS Group.

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.

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

The EBS Group has been operating under an exceptionally challenging liquidity environment for the last three years. Wholesale market conditions have restricted EBS (as well as AIB) funding access to short duration, mainly secured funding. Customer accounts have been affected by current adverse international sentiment towards the Irish sovereign and banking sector. 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 loss of confidence of depositors in either the Irish economy in general, the financial services industry or EBS Group

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

specifically, ratings downgrades, significant further deterioration in economic conditions and the availability and extent of deposit guarantees (including as a result of regulatory changes to deposit guarantee schemes and/or changes to the Eligible Liabilities Guarantee ('ELG' Scheme)). These were all factors in the loss of deposits experienced during 2011. Any further loss in confidence in the Group's banking businesses, 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. In accessing central bank and other secured lending facilities, the Group has relied significantly on its Qualifying Liquid Assets and Contingent Funding capacity.

The implementation of the Financial Measures Programme, which requires each domestic Irish Bank to meet liquidity requirements including, but not limited to, a loan deposit ratio of 122.5% by December 2013, will require deleveraging measures such as the run off and disposal of non-core assets.

The curtailment or non-extension of the central bank liquidity facilities currently relied upon by the Group or the Group's inability to access such secured facilities should it exhaust its stock of available collateral, would require us to seek alternative sources of funding, including further support by the Parent or the Government.

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 we believe 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.

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, the IMF in its World Economic Outlook (September 2011) noted that 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.

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, notwithstanding the transfer of €0.9bn of loans and advances to NAMA since 2010. The high level of unemployment, coupled with a general reduction in disposable income (through increased taxes and pay reductions), has had an adverse impact on borrowers' ability to repay loans and mortgage arrears on residential properties are increasing.

Furthermore, in 2011 initiatives based on the Keane Report regarding the need for more sophisticated arrears management strategies (Consumer Code on Mortgage Arrears (CCMA), in particular the application of forbearance, were agreed for introduction in 2012. The impact of these measures has yet to be seen, but it does increase the risk that customers who "can't pay" will not be distinguishable from those that "won't pay". Furthermore, there is a risk that the proposed reforms of the Irish Bankruptcy Laws 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.

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

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

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 or derivative 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.

2.2 Prudential, regulatory and legal risks to our business model *

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

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.

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.

EBS Group may be impacted by new measures introduced by the Irish Government to support the banking industry.

On 31 March 2011, the Minister for Finance made a statement on banking matters in which he outlined the Irish Government's policy in relation to the restructuring of the Irish banking sector. The implementation of measures by the Government (under the Credit Institutions (Stabilisation) Action 2010) may require the AIB p.l.c. Board to act in a manner that is aligned to the interests of the State rather than stockholders.

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

EBS' target capital requirement, as part of the AIB Group, is currently a total capital ratio of 8%, not including an allowance for an additional protective buffer. As at December 2011 EBS achieved a Core Tier 1 ratio of 10.5% and a total capital ratio of 11.8% 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.

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

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

In 2011 there was an unprecedented level of new regulation issued by both by the Central Bank of Ireland and the EU, through a number of new or revised Codes and Directives:

- The Corporate Governance Code for Credit Institutions and Insurance Undertakings was introduced on 1st January 2011 and it sets out the minimum requirements an institution must meet to promote effective governance.
- The Code of Conduct on Mortgage Arrears came into effect in June 2011, providing increased protection to the consumer particularly those in arrears situations.
- The new Fitness and Probity regime and the revised Minimum Competency Code became effective from 1st December 2011. They both seek to raise standards of competence of staff and requiring impacted persons to undergo an annual Fit and Proper assessment.
- The revised Consumer Protection Code came into effect on the 1st January 2012 with consideration given until the 30th June 2012 for full compliance. A major change programme is underway to implement the new requirements spanning all business areas, processes and systems.

Naturally, this increase in regulation has had a concomitant impact on EBS in terms of the deployment of business and I.T. resources in 2011, which is expected to continue in to 2012. Delivering this level of change has 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 in each location in which it operates. 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 conditions and prospects.

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.The residual risks relating to this transaction include:

- Section 93 of the NAMA Act allows NAMA to require Participating Institutions to repay overpayments on NAMA assets. Any such claw-backs and repayments could have an adverse effect on EBS Limited.
- Potential credit exposure to NAMA arising from 5% of consideration of the acquired NAMA assets with subordinated debt.
- On a winding-up of NAMA or after 10 years since its establishment or on the dissolution, restructuring or material alteration of NAMA, if NAMA has made a loss and the Minister for Finance is of the opinion that such underlying loss is unlikely to be otherwise made good, the Government may impose, as a special tax, a surcharge on EBS Limited's profits in order to recover from it a proportionate amount of that loss.

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.

EBS may be impacted by further austerity and 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.

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.

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

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. 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.

EBS Group's deferred tax assets are substantially dependent on the generation of future profits over an extended number of years at the level currently anticipated by the Group and there being no adverse changes to tax legislation, regulatory requirements or accounting standards.

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.

2.3 Risks related to our business operations, governance and internal control systems *

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, SME's 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.

EBS Group faces heightened operational and reputational risks.

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EBS 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 the integration of the EBS Group into the AIB Group and the rollout of an organisational 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 NPRFC investments and the ELG Scheme, the EBS Group is also required to comply with certain executive pay and compensation arrangements. As a result of these restrictions, EBS cannot guarantee that it will be able to attract, retain and remunerate highly skilled and qualified personnel competitively with its peers. If EBS fails to attract and appropriately develop, motivate and retain highly skilled and qualified personnel, its business and results of operations may be negatively affected.

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 and reputational risk could have a material adverse effect on the Group's financial condition and operations.

Risks relating to the restructuring of EBS Group.

EBS 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 comprising the following customer facing units:

- Personal & Business Banking
- Corporate, Institutional and Commercial Banking
- AIB (UK) – which continues to be managed as a separate unit.
- EBS Group from 1 July 2011.

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 currently being 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). Any such programme will take time to implement and may negatively impact on the profitability of the EBS Group in the shorter term.

Given the possibility of the imposition of conditions by the European Commission, in connection with the approval of EBS Group's EU Restructuring Plan, there can be no assurance that EBS will be able to implement its cost reduction and business rationalisation programme in the way currently envisaged, which could adversely affect the EBS Group's results, operations, financial condition and future prospects.

EBS Group's risk management strategies and techniques may be unsuccessful.

EBS is exposed to a number of material risks as categorised and explained in this section. In order to minimise these risks, the Group has implemented comprehensive risk management strategies. Although EBS Group invests substantial time and effort in its risk management strategies and techniques, there is a chance that this activity may fail to fully mitigate the risks under some circumstances, particularly when confronted with risks that are not identified or anticipated.

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Some of EBS Group's methods for managing risk are based upon observation of historical market behaviour. EBS Group applies statistical techniques to these observations to quantify its risk exposures. If circumstances arise that EBS Group did not identify or anticipate in developing its models, the losses could be greater than expected.

Furthermore, the Group's quantifications do not take all risks into account. If EBS Group's measures to assess and mitigate risk prove insufficient, the Group may experience material unexpected losses.

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

EBS Group has an inherent litigation risk as a result of routine business activities. The majority of these are relatively minor and are addressed in a "business as usual" manner. However, occasionally more material issues can arise. Should such issues escalate and result in litigation, this may have an adverse impact on results and financial conditions, particularly if any cases involve customer detriment and subsequent redress.

3. Risk Management Framework *

EBS has developed and implemented a risk management framework that is commensurate with the size, scale and complexity of the organisation. It is in line with industry practice and meets Central Bank specific requirements and EU supervisory standards. The key elements of this framework are:

(i) EBS operates a three line of defence model for internal governance. Responsibility for the management of risk rests with each business and support unit. The first "line of defence" in terms of risk management is the management of risk in day to day business operations, new product development and strategy implementation. The Risk and Compliance function, which forms the second line of defence, supports the Group in developing and maintaining a robust risk management framework, and by providing independence in terms of risk identification, measurement, monitoring and reporting. The Internal Audit function (who now report into AIB Group Internal Audit), form the third line of defence and provides independent assurance in relation to the effectiveness of the system of internal control to the Board through the Board Audit and Compliance Committee.

(ii) There is a clearly defined risk governance structure which is regularly updated. The risk governance framework was updated in line with the published European Banking Authority Guidelines on Internal Governance (CP41) and Remuneration Practices (CP42) and the Central Bank of Ireland's (CBI) Corporate Governance Code for Credit Institutions and Insurance Undertakings. EBS Group had five established Board sub-committees at the beginning of 2011 however as a result of the merger the number of committees was reduced to two, namely the Board Risk Committee and the Board Audit and Compliance Committee. These sub committees consider certain aspects of governance in detail and each committee, through its chair, reports to the Board at the next scheduled Board meeting. The risk governance framework, risk universe, roles, reporting lines and risk committees are documented in a risk manual which forms part of the induction of new Board members. The risk manual is updated at regular intervals throughout the year.

There are three independent control functions - Risk, Compliance and Internal Audit - each of which operates separately to, and independently of, the general business operation. Compliance and Risk report to the Chief Risk Officer and form the "second line of defence" in relation to risk management within EBS. Internal Audit who report directly into AIB Group Internal Audit, also report directly to the EBS Group Board Audit & Compliance Committee, incorporates the work of the Fraud unit, and forms the third, independent, line of defence in terms of risk management.

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

(iv) The Board has clearly defined its risk appetite in a risk appetite statement which incorporates risk limits for all key aspects of the business of the EBS Group. The risk appetite statement is reviewed at least annually by the Board and more frequently if required. Risk policies and procedures are updated where appropriate to reflect the limits of risk appetite. These policies are closely managed on a day to day basis throughout the Group, and are monitored by specific business units with oversight by the relevant risk management committees. Material changes to these policies are Board approved on an annual basis. Adherence to the risk limits set by the Board is monitored on an ongoing basis and reported to the Chief Risk Officer.

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(v) The risk management framework is supported by its underlying Risk Committees comprising the Asset & Liability Committee, the Risk Rating Approval Committee, the Credit Risk Committee, the Operations Management Committee and the Regulatory Compliance Committee. Each of these committees, whose membership is approved by the CEO, is responsible for identifying actions to support robust risk management in line with the EBS' risk appetite. Progress is monitored and reported regularly to the Board through the report of the Chief Risk Officer. Representatives from AIB Group Risk participate and attend each of the EBS Risk Committees as part of the alignment and oversight by AIB Group.

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 and was reviewed by the Board during 2011.

3.1 Risk Committees and Functions *

The Asset & Liability Committee, which meets monthly or more frequently as required, 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 is responsible 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 also has oversight for interest rate risk in the banking book, liquid asset investment and reserves investment policies and hedging policies. The Committee monitors capital ratios, including projections and oversees the appropriate implementation of the capital policy.

The Credit Risk Committee, which meets monthly, reviews and recommends 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 is also responsible for monitoring the make up and performance of the loan books, the credit quality of counterparts, the level of mortgage insurance in place and the adequacy of provisions for impaired loans. The Committee monitors the external macro-economic and other factors and new business credit risk trends and projections which serve as a benchmark against which the credit risk appetite of the organisation is evaluated. The Committee is charged with ensuring that an appropriate level of credit risk insurance is being maintained for loans.

The Retail Restructuring Committee was set up under the auspices of Group Credit Risk Committee (GCRC) as a standalone committee for the administration, evaluation and decisioning for Retail loan cases involving work out scenarios such as loan restructure and Sale for Loss cases. The committee is also responsible for the periodic reviews of the largest Retail loan exposures (i.e.>€1.5m). The primary focus is the minimisation of financial loss on a case by case basis. The committee also overviews the delegated authority within the Arrears Support Unit (ASU) and Retail Credit Management function and submits recommendations to GCRC for approval.

The Risk Rating Approval Committee, which meets quarterly, is responsible for reviewing and recommending to the Board policies on risk model development, validation and use. It is also responsible for the ongoing validation and monitoring of risk rating systems, model performance and model output in terms of forecasting.

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

The Regulatory Compliance Committee, ensures that there is an appropriate framework in place to support the objective of the Group to be compliant with all its regulatory compliance requirements. It is responsible for monitoring adherence to applicable regulations across the Group, and for evaluating the impact of new regulations and ensuring that EBS is prepared for their implementation in the approved timeline.

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

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

3.2 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. As noted above the reporting line for the Chief Credit Officer was moved to be under the Chief Risk Officer as part of the alignment with AIB Group. Given the continued deterioration in credit quality throughout 2011 in both the retail and commercial markets, both credit management and credit risk management have been a key area of focus over the past year. Resourcing, structures, policy and processes continue to be reviewed in order to ensure that the EBS is best placed to manage asset quality in this severe downturn. The Credit Risk Committee (CRC) is responsible for reviewing and recommending appropriate credit risk management structures and policies in line with the credit risk appetite of the group and for monitoring the performance of the book. The Risk Analytics team is responsible for the development and ongoing validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the 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 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 Credit Risk Committee.

EBS Group insures against risk in the Irish residential property market through mortgage indemnity insurance. This insurance is taken on a loan by loan basis, the amount of coverage being determined by the loan to value percentage at origination. In the event of EBS Group suffering a loss, a claim can be made up to the value of the insurance cover. Credit risk on lending activities to customers and banks *
EBS Group lends to personal, retail customers, commercial entities 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.

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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.

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 EBS Credit Risk Committee, the Asset Recovery Committee and the Retail Restructuring Committee. The Credit Risk Committee 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, 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

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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.

Given the continued deterioration in credit quality throughout 2011 in both the retail and commercial markets, both credit management and credit risk management have been a key area of focus. Resourcing, structures, policy and processes continue to be reviewed in order to ensure that EBS Group is best placed to manage asset quality in this severe downturn.

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. Credit policy and credit management standards are controlled and set centrally via the Risk function.
Material credit policies are approved by the EBS Board. 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 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) 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.

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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 will be phased in throughout 2012.

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: For property related lending, it is normal practice to take a charge over the property being financed. This includes investment and residential properties. As part of the 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.

4. Individual Risk Types *

<u>Strategic Risk</u>

Strategic risk management comprises the EBS's values and beliefs, change in corporate form, 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 and to its subcommittees on a regular basis.

<u>Operational Risk</u>

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 Group 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 EBS Operations Management 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 integration with AIB p.l.c.

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The self-assessment process helps identify key risks, the materiality of the risks (based on the probability of their occurrence and the impact if they did occur), an evaluation of the management activities to control and/or mitigate the risks and the level of residual risk. This supports the business in identifying actions to improve the Group's risk management capabilities. Further actions are identified from the evaluation of losses and near misses which are recorded in each part of the organisation and monitored by the Operational Risk function. These, and other actions arising from Internal Audit reviews or Board Risk Committee prompts, are monitored on an ongoing basis and progress against actions is reported on a regular basis to the senior management team and the Board.

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

Credit risk management in EBS is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. As noted above the reporting line for the Chief Credit Officer was moved to be under the Chief Risk Officer as part of the alignment with AIB Group. Given the continued deterioration in credit quality throughout 2011 in both the retail and commercial markets, both credit management and credit risk management have been a key area of focus over the past year. Resourcing, structures, policy and processes continue to be reviewed in order to ensure that the EBS is best placed to manage asset quality in this severe downturn. The Credit Risk Committee (CRC) is responsible for reviewing and recommending appropriate credit risk management structures and policies in line with the credit risk appetite of the group and for monitoring the performance of the book. The Risk Analytics team is responsible for the development and ongoing validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the EBS's loan assets.

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

The EBS conducts both regular and ad-hoc credit risk stress testing to assess on an ongoing basis the ability of the EBS 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 EBS conducts a quarterly assessment of impairment provisions, assisted by the Risk Analytics and Credit divisions and evaluated by the Credit Risk Committee.

EBS Limited insures against risk in the Irish residential property market through mortgage indemnity insurance. This insurance is taken on a loan by loan basis, the amount of coverage being determined by the loan to value percentage at origination. In the event of EBS Limited suffering a loss, a claim can be made up to the value of the insurance cover.

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.

The Regulatory Compliance function's role is to mitigate the risks of current or prospective risk to earnings and capital arising from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and / or the voiding of contracts and can diminish the EBS' reputation. The function independently evaluates adherence to key regulations and reports same to the Regulatory Compliance Committee. An annual plan is developed and approved by the Board Audit & Compliance Committee which receives regular updates on progress.

The terms and conditions of the Government Guarantee 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. The Regulatory Compliance function is responsible for supporting and ensuring (via a quarterly assessment of compliance) that the business is in adherence with the

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requirements of this regulatory regime and the conditions of the Government Guarantee scheme and any subsequent scheme.

<u>Liquidity Risk</u>
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 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'). The Group has conducted stress tests in advance of these expected changes. Funding contingency plans are continually under review in light of unprecedented market and EBS specific events.

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 ALCO and 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 continues to assist EBS in attracting and maintaining customer funding in times of great economic uncertainty. The cost of the ELG scheme for 2011 was €62.8m (see note 3).

As part of the AIB Group 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 Treasury, in conjunction with AIB Group Treasury, is responsible for the daily management of liquidity, 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 Financial Regulator as part of the AIB Consolidated Liquidity Reporting. The Asset and Liability committee ('ALCO'), which meets monthly, monitors these risks and reports on key developments to the EBS Limited Board on a regular basis via the Chief Risk Officers report.

In October 2011 the Central Bank revoked the requirement for EBS Group to comply with the "Requirements for the Management of Liquidity Risk" regulatory document under Section 9.2 of that document. Whereupon the EBS Liquidity Ratios would henceforth be reflected in the AIB Group Consolidated Liquidity Reports.

<u>Market Risk</u>
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 Asset and Liability Committee ('ALCO'), which meets monthly, 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

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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.

5. 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.

5.1 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 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Non-derivative financial assets				
Cash and balances with central banks	147.1	216.9	147.1	230.9
Loans and advances held-for-sale	-	37.9	-	37.90
Available-for-sale financial assets	4,125.1	3,943.3	1,715.8	2,575.3
Loans and advances to credit institutions	3,771.8	3,012.1	444.0	212.2
Loans and advances to customers	7,640.7	10,860.3	15,369.7	16,467.4
NAMA senior bond	346.7	305.9	346.7	305.9
Items in transit	44.6	25.1	44.6	25.1
Interest accrued	49.9	73.2	51.5	49.1
Derivative financial instruments	182.5	168.1	160.1	145.3
Loan commitments (not unconditionally cancellable)	108.7	226.9	140.1	277.4

EBS Group holds collateral against derivative financial instruments and the fair value of this collateral at 31 December is €52.0m (2010: €73.3m). Available for sale financial assets includes €3.4m of impaired assets (2010: €11.4m).

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The following table shows the fair value of collateral held for loans and advances to customers at end 2011 and 2010.

Group Collateral Held: Loans and Advances to Customers *

	2011			2010		
	Residential mortgages	Commercial mortgages	Total	Residential mortgages	Commercial mortgages	Total
	€m	€m	€m	€m	€m	€m
Impaired loans	2,421.0	301.6	2,722.6	1,290.8	315.6	1,606.4
Past due but not impaired	805.3	89.2	894.5	1,084.4	414.0	1,498.4
Non impaired / non past due	9,961.1	213.0	10,174.1	12,272.9	31.9	12,304.8
Total loans	**13,187.4**	**603.8**	**13,791.2**	**14,648.1**	**761.5**	**15,409.6**

Company Collateral Held: Loans and Advances to Customers

	2011			2010		
	Residential mortgages	Commercial mortgages	Total	Residential mortgages	Commercial mortgages	Total
	€m	€m	€m	€m	€m	€m
Impaired loans	1,499.2	301.6	1,800.8	927.0	315.6	1,242.6
Past due but not impaired	363.1	89.2	452.3	594.4	414.0	1,008.4
Non impaired / non past due	3,833.9	213.0	4,046.9	7,171.6	31.9	7,203.5
Total loans	**5,696.2**	**603.8**	**6,300.0**	**8,693.0**	**761.5**	**9,454.5**

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 2011 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 within the Risk Management Report.

Commercial property *
EBS has not issued new Commercial property lending since 2008, except for the purpose of loss mitigation. The fair value at December 2011 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 Note 1. 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.

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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.

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

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

In this note, impaired assets are those for which an individual provision has been made.

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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	
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 (i.e. lower cure rates)	- Increasing the repossession rate from 50% to 55% results in an increase in provisions of 10.6%.
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%.

5.2 Credit Profile *
The analysis below in relation to residential and commercial loans for the Group is based on gross lending before unearned income and impairment provisions of €958.9m (2010: €420.0m) and deferred acquisition costs of €84.9m (2010: €66.5m).

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.

Group Loans and advances to customers	Core €m	Non-Core €m	2011 Total €m	2010 Total €m
Residential mortgages	13,490.9	1,861.3	15,352.2	15,886.8
Commercial property	-	891.5	891.5	934.1
Total	**13,490.9**	**2,752.8**	**16,243.7**	**16,820.9**

Residential mortgages and loans to borrowers in the Commercial property sector declined during 2011 due to weaker customer demand and as a result of loan repayments.

Asset quality in the Group has been affected by an increase in the level of arrears, with 66.4% of the combined loan book maintaining a satisfactory payment profile in 2011 compared with 77% for 2010. The change in loan quality is reflected in a higher level of provisions, detailed overleaf.

Company Loans and advances to customers	Core €m	Non-Core €m	2011 Total €m	2010 Total €m
Residential mortgages	5,279.9	1,369.8	6,649.7	9,343.0
Commercial property	-	891.5	891.5	934.1
Total	**5,279.9**	**2,261.3**	**7,541.2**	**10,277.1**

Asset quality in the Company has been affected by an increase in the level of arrears, with 61.5% of the combined loan book maintaining a satisfactory payment profile in 2011 compared with 78.6% for 2010. The change in loan quality is reflected in a higher level of provisions, detailed below.

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Group Impairment Provisions	Core €m	Non-Core €m	2011 Total €m	2010 Total €m
Statement of financial position provisions	469.2	489.7	958.9	420.0
Statement of financial position provisions as a % of loans and advances	3.5%	17.8%	5.9%	2.5%
Specific provision as a % of impaired loans	18.4%	27.3%	21.6%	10.9%
Impairment charge as a % of total loans	2.0%	9.9%	3.3%	1.6%

Group loans and advances to customers amounted to €16,243.7m at 31 December 2011 and have decreased by €577.2m since December 2010 largely as a result of loan repayments and weak customer demand. 33.3% or €5,411.8m of total Group loans and advances to customers are criticised of which €3,543.8m or 21.8% is impaired.

Statement of financial position impairment provisions of €958.9m provide cover on impaired loans of 27.1% and on total loans of 5.9%.

The 2011 income statement impairment provisions charge, including the unearned income provision charge of €7.8m (2010: €1.8m), amounts to €537.2m (2010: €273.2m) or 3.3% (2010: 1.6%) of the year end balances. Excluding the unearned income provision charge the impairment provision charge is €529.4m (2010: €271.4m).

The EBS Group impairment provision charge for 2011 (including the unearned income provision charge) is €110.6m or 12.4% for borrowers in the Commercial property sector, and €426.6m or 2.8% for Residential mortgages. Excluding the unearned income provisions charge, the impairment charge for commercial is €107.9m and for residential is €421.5m.

Company Impairment Provisions	Core €m	Non-Core €m	2011 Total €m	2010 Total €m
Statement of financial position provisions	247.6	449.6	697.2	356.6
Statement of financial position provisions as a % of loans and advances	4.7%	19.9%	9.2%	3.5%
Specific provision as a % of impaired loans	17.2%	27.1%	22.1%	13.2%
Impairment charge as a % of total loans	1.8%	10.8%	4.5%	2.0%

Company loans and advances to customers amounted to €7,541.2m at 31 December 2011 and have decreased by €2,735.9m since December 2010 largely as a result of transfer of loans to another Group subsidiary, EBS Mortgage Finance, but also due to loan repayments and weak customer demand. 44.2% or €3,330.4m of total Company loans and advances to customers are criticised of which €2,368.0m or 31.4% is impaired.

Statement of financial position provisions of €697.2m provide cover on impaired loans of 29.4% and on total loans of 9.2%.

The 2011 income statement provision charge, including the unearned income provision charge of €7.2m (2010: €1.7m) amounts to €339.9m (2010: €237.2m) or 4.5% (2010: 2.3%) of year end balances. Excluding the unearned income provision charge the impairment provision charge is €332.7m (2010: €235.5m).

The Company impairment provision charge for 2011 (including the unearned income provision charge) is €110.6m or 12.4% for borrowers in the Commercial Property sector and €229.3m or 3.4% for residential mortgages. Excluding the unearned income provisions charge, the impairment charge for commercial is €107.9m and for residential is €224.3m.

The EBS provision charge for 2011 included €110.6m or 12.4% relating to borrowers in the Commercial property sector and a further €229.3m or 3.4% for Residential mortgages.

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Residential mortgages *

Residential mortgages amounted to €15,352.2m at 31 December 2011. This compares to €15,886.8m at 31 December 2010, with the decrease as a result of loan repayments and weak customer demand. The split of the residential mortgage book was owner-occupier, €13,490.9m and buy-to-let, €1,861.3m. The income statement impairment provision charge for 2011 was €426.6m or 2.8% for Residential mortgages. The statement of financial position impairment provisions of €748.2m were held at 31 December 2011, split €624.1m specific and €124.1m collective.

Group	2011			2010
Residential mortgage – Total	Owner-occupier (Core) [1] €m	Buy-to-let (Non-Core) €m	Total €m	Total (Restated) €m
Total residential mortgages	13,490.9	1,861.3	15,352.2	15,886.8
>30 days past due or impaired	2,458.6	804.8	3,263.4	1,985.3
>90 days past due or impaired	2,237.5	785.1	3,022.6	1,482.1
Of which impaired	2,237.5	765.2	3,002.7	1,465.8
Statement of financial position specific provisions	410.9	213.2	624.1	136.0
Statement of financial position collective provisions	58.3	65.8	124.1	182.2
Income statement specific provisions	34.8	67.6	102.4	109.7
Income statement collective provisions	230.3	93.9	324.2	91.3
Statement of financial position provisions as a % of loans and advances	3.5%	15.0%	4.9%	2.0%
Specific provisions as % of impaired loans cover	18.4%	27.9%	20.8%	9.3%
Impairment charge as a % of total loans	2.0%	8.7%	2.8%	1.3%

(1) The Owner Occupier category represents the Core portfolio.

The 2010 analysis of loans >30 days past due or impaired and loans >90 days past due or impaired is restated to align with the definition of impaired loans adopted in 2011. This is further explained within the Risk Management Report.

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 19.7% at 31 December 2011 compared with 9.3% at 31 December 2010.

The level of loans >90 days in arrears or impaired in the owner occupier book has increased significantly since 31 December 2010 from €1,092.4m (7.8% of mortgages) to €2,237.5m or 16.6% at 31 December 2011. 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 increased significantly from €373.4m or 19.4% at 31 December 2010 to €785.1m or 42.2% at 31 December 2011 and was influenced by falling rents.

Total owner occupier and BTL impaired loans were €3,002.7m at 31 December 2011. Total specific provisions of €624.1m provided cover of 20.8% 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 €124.1m are held for the performing book (69.8% of residential mortgage book) based on management's view of incurred loss in this book. The total income statement charge for 2011 was €426.6m (specific €102.4m and collective - €324.2m).

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Company	2011			2010
Residential mortgage – Total	Owner-occupier (Core) (1) €m	Buy-to-let (Non-Core) €m	Total €m	Total (Restated) €m
Total residential mortgages	5,279.9	1,369.8	6,649.7	9,343.0
>30 days past due or impaired	1,291.1	670.3	1,961.4	1,323.3
>90 days past due or impaired	1,189.2	657.7	1,846.9	1,057.8
Of which impaired	1,189.2	637.7	1,826.9	1,041.5
Statement of financial position specific provisions	204.0	176.6	380.6	123.4
Statement of financial position collective provisions	43.6	62.3	105.9	131.4
Income statement specific provisions	(9.0)	62.2	53.2	99.0
Income statement collective provisions	104.8	71.3	176.1	66.0
Statement of financial position provisions as a % of loans and advances	4.7%	17.4%	7.3%	2.7%
Specific provisions as % of impaired loans cover	17.2%	27.7%	20.8%	11.8%
Impairment charge as a % of total loans	1.8%	9.7%	3.4%	1.8%

Residential mortgages amounted to €6,649.7m at 31 December 2011.This compares to €9,343.0m at 31 December 2010, with the decrease as a result of a significant transfer of loans to another EBS Group subsidiary (EBS Mortgage Finance), loan repayments and weak customer demand. The split of the residential mortgage book was owner-occupier €5,279.9m and buy-to-let €1,369.8m. The income statement impairment charge for 2011 was €229.3m or 3.4% for Residential mortgages. Statement of financial position provisions of €486.5m were held at 31 December 2011, split €380.6m specific and €105.9m 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 27.8% at 31 December 2011 compared with 11.3% at 31 December 2010.

The level of loans >90 days in arrears or impaired in the owner occupier book has increased significantly since 31 December 2010 from €704.5m (8.9% of mortgages) to €1,189.2m or 22.5% at 31 December 2011. 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 increased significantly from €353.3m or 25.1% at 31 December 2010 to €657.7m or 48% at 31 December 2011 and was influenced by falling rents.

Total owner occupier and BTL impaired loans were €1,826.9m at 31 December 2011. Total specific provisions of €380.6m provided cover of 20.8% 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 €105.9m are held for the performing book (61.5% of residential mortgage book) based on management's view of incurred loss in this book. The total income statement charge for 2011 was €229.3m (specific €53.2m and collective €176.1m).

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.

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Group Asset Quality – Residential Mortgages	2011				2010	
	Core	Non-Core	Total		Total	
	€m	€m	€m	%	€m	%
Satisfactory	9,858.6	851.8	10,710.4	69.8	12,726.7	80.1
Watch	*1,116.0*	*199.2*	*1,315.2*	*8.6*	*1,365.0*	*8.6*
Vulnerable	*278.8*	*45.1*	*323.9*	*2.0*	*329.3*	*2.1*
Impaired	*2,237.5*	*765.2*	*3,002.7*	*19.6*	*1,465.8*	*9.2*
Criticised	3,632.3	1,009.5	4,641.8	30.2	3,160.1	19.9
Total	**13,490.9**	**1,861.3**	**15,352.2**	**100.0**	**15,886.8**	**100.0**

Company Asset Quality – Residential Mortgages	2011				2010	
	Core	Non-Core	Total		Total	
	€m	€m	€m	%	€m	%
Satisfactory	3,534.5	554.8	4,089.3	61.5	7,339.2	78.6
Watch	*432.9*	*142.4*	*575.3*	*8.6*	*786.7*	*8.4*
Vulnerable	*123.3*	*34.9*	*158.2*	*2.4*	*175.6*	*1.9*
Impaired	*1,189.2*	*637.7*	*1,826.9*	*27.5*	*1,041.5*	*11.1*
Criticised	1,745.4	815.0	2,560.4	38.5	2,003.8	21.4
Total	**5,279.9**	**1,369.8**	**6,649.7**	**100.0**	**9,343.0**	**100.0**

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.

Group and Company	2011		2010	
Asset Quality	Total		Total	
	€m	%	€m	%
Satisfactory	121.5	13.6	264.6	28.3
Watch	*164.6*	*18.5*	*188.7*	*20.2*
Vulnerable	*64.3*	*7.2*	*27.9*	*3.0*
Impaired	*541.1*	*60.7*	*452.9*	*48.5*
Criticised	770.0	86.4	669.5	71.7
Total	**891.5**	**100.0**	**934.1**	**100.0**

Provisions for Commercial Property	2011 Total €m	2010 Total €m
Total Commercial Loans	891.5	934.1
>30 days past due or impaired	619.9	486.0
>90 days past due or impaired	600.4	474.2
Of which impaired	541.1	452.9
Statement of financial position specific provisions	142.8	74.0
Statement of financial position collective provisions	67.9	27.8
Income statement specific provisions	70.5	66.4
Income statement collective provisions	40.1	5.8
Statement of financial position provisions as a % of loans and advances	23.6%	10.9%
Specific provision as a % of impaired loans	26.4%	16.3%
Impairment charge as a % of total loans	12.4%	7.7%

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At 31 December 2011 EBS Commercial property portfolio was €891.5m. Total Criticised loans were €770.0m (86.4%) of the portfolio and €541.1m (60.7%) were impaired loans. Statement of financial position specific provisions of €142.8m providing cover of 16% are held for this portfolio (2010: €74.0m and 7.9%) with total provisions to total loans of 23.6% (2010: 10.9%). The EBS provision charge in 2011 was €110.6m or 12.4% of loan balances up from €72.2m or 7.7% of total loans in 2010.

The higher level of criticised loan and provisions cover in EBS compared with 2010 reflects the continued impact of further reductions in property prices, reduced rents for commercial properties and the continued lack of demand for commercial property in Ireland.

5.3 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. The 2010 analysis has been restated to align it with the definition of impaired loans adopted in 2011.

Group	**2011**				**2010 (Restated)**	
	Core	**Non-Core**	**Total**		**Total**	
	€m	**€m**	**€m**	**%**	**€m**	**%**
Satisfactory	9,858.8	973.2	10,832.0	66.7	12,991.2	77.2
Watch	*1,116.0*	*363.9*	*1,479.9*	*9.1*	*1,553.8*	*9.2*
Vulnerable	*278.6*	*109.4*	*388.0*	*2.4*	*357.2*	*2.1*
Impaired	*2,237.5*	*1,306.3*	*3,543.8*	*21.8*	*1,918.7*	*11.5*
Criticised loans	3,632.1	1,779.6	5,411.7	33.3	3,829.7	22.8
Gross loans	13,490.9	2,752.8	16,243.7	100.0	16,820.9	100.0
Criticised as a % of total gross loans	26.9%	64.6%	33.3%		22.8%	
Impaired as % of total gross loans	16.6%	47.5%	21.8%		11.4%	

EBS Group's criticised loans and advances to customers amounted to €5,411.7m or 33.3% of total customer loans. EBS criticised loans have increased by €1,582.0m since 31 December 2010. The main drivers of the increases in criticised loans has been the impact of 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	**2011**		**2010 (Restated)**	
	€m	**%**	**€m**	**%**
Impaired loans – Core	2,237.5	13.8	1,092.4	6.5
Impaired loans – Non Core	1,306.3	8.0	826.3	4.9
Total	**3,543.8**	**21.8**	**1,918.7**	**11.4**

EBS impaired loans were up €1,625.1m in the year to €3,543.8m (or 21.8% of total loans) mainly in the residential mortgage portfolio. This is due mainly to the underlying deterioration in the book.

Company	**2011**				**2010 (Restated)**	
	Core	**Non-Core**	**Total**		**Total**	
	€m	**€m**	**€m**	**%**	**€m**	**%**
Satisfactory	3,534.5	676.3	4,210.8	55.8	7,603.7	74.0
Watch	*432.9*	*307.0*	*739.9*	*9.8*	*975.4*	*9.5*
Vulnerable	*123.3*	*99.2*	*222.5*	*3.0*	*203.6*	*2.0*
Impaired	*1,189.2*	*1,178.8*	*2,368.0*	*31.4*	*1,494.4*	*14.5*
Criticised loans	1,745.4	1,585.0	3,330.4	44.2	2,673.4	26.0
Gross loans	5,279.9	2,261.3	7,541.2	100.0	10,277.1	100.0
Criticised as a % of total gross loans	33.1%	70.1%	44.2%		26.0%	
Impaired as % of total gross loans	22.5%	52.1%	31.4%		14.5%	

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

EBS' criticised loans and advances to customers amounted to €3,330.4 or 44.2% of total customer loans. EBS criticised loans have increased by €657.0m since 31 December 2010. The main drivers of the increases in criticised loans has been the impact of 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 our borrowers' ability to repay loans.

Total impaired loans	**2011**		**2010 (Restated)**	
	€m	**%**	**€m**	**%**
Impaired loans – Core	1,189.2	15.8	704.5	6.8
Impaired loans – Non Core	1,178.8	15.6	789.9	7.7
Total	**2,368.0**	**31.4**	**1,494.4**	**14.5**

EBS' impaired loans were up €873.6m in the year to €2,368.0m (or 31.4% of total loans) mainly in the residential mortgage portfolio. This is due mainly to 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 €182.4m in 2011 compared with 2010 as concerns regarding repayments became evident.

Group	**2011**				**2010 (Restated)**	
	Core	**Non-Core**	**Total**	**%**	**Total**	**%**
	€m	**€m**	**€m**		**€m**	
Neither past due nor impaired	10,384.8	1,248.8	11,633.6	71.6	13,653.5	81.2
Past due but not impaired	868.6	197.7	1,066.3	6.6	1,248.7	7.4
Impaired – no provision	110.9	81.1	192.0	1.2	1,152.7	6.9
Impaired - provision held	2,126.6	1,225.2	3,351.8	20.6	766.0	4.5
Gross loans and advances	**13,490.9**	**2,752.8**	**16,243.7**	**100.0**	**16,820.9**	**100.0**
Provision for impairment	(469.1)	(489.8)	(958.9)		(420.0)	
Total loans and advances after provisions	**13,021.8**	**2,263.0**	**15,284.8**		**16,400.9**	

Loans neither past due nor impaired have decreased from 81.2% of loan balances in 2010 to 71.6% as at December 2011. The value of loans past due has increased from 18.8% in 2010 to 28.4% in 2011.

Company	**2011**				**2010 (Restated)**	
	Core	**Non-Core**	**Total**	**%**	**Total**	**%**
	€m	**€m**	**€m**		**€m**	
Neither past due nor impaired	3,735.1	902.9	4,638.0	61.5	8,081.6	78.6
Past due but not impaired	355.6	179.6	535.2	7.1	701.1	6.8
Impaired – no provision	84.3	71.3	155.6	2.1	760.1	7.4
Impaired - provision held	1,104.9	1,107.5	2,212.4	29.3	734.3	7.2
Gross loans and advances	**5,279.9**	**2,261.3**	**7,541.2**	**100.0**	**10,277.1**	**100.0**
Provision for impairment	(247.6)	(449.6)	(697.2)		(356.6)	
Total loans and advances after provisions	**5,032.3**	**1,811.7**	**6,844.0**		**9,920.5**	

Balances due on loans categorised as past due but not impaired loans decreased by €165.9m in 2011 compared with 2010 as concerns regarding repayments became evident.

Loans neither past due nor impaired have decreased from 78.6% of loan balances in 2010 to 61.5% as at December 2011. The value of loans past due has increased from 21.4% in 2010 to 38.5% in 2011.

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.

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

Group	2011				2010	
	Core €m	Non-Core €m	Total €m	%	Total €m	%
1 – 30 days	647.5	79.3	726.8	68.2	696.1	55.7
31 – 60 days	163.1	25.4	188.5	17.7	310.4	24.9
61 – 90 days	58.0	13.8	71.8	6.7	204.6	16.4
91 – 180 days	-	34.4	34.4	3.2	9.1	0.7
181 – 365 days	-	22.6	22.6	2.1	11.1	0.9
> 365 days	-	22.2	22.2	2.1	17.4	1.4
Total	**868.6**	**197.7**	**1,066.3**	**100.0**	**1,248.7**	**100.0**

Company						
1 – 30 days	253.6	68.3	321.9	60.2	386.2	55.1
31 – 60 days	73.7	20.7	94.4	17.6	166.4	23.7
61 – 90 days	28.3	11.4	39.7	7.4	110.9	15.8
91 – 180 days	-	34.4	34.4	6.4	9.1	1.3
181 – 365 days	-	22.6	22.6	4.2	11.1	1.6
> 365 days	-	22.2	22.2	4.2	17.4	2.5
Total	**355.6**	**179.6**	**535.2**	**100.0**	**701.1**	**100.0**

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 2011*	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
Residential	15,352.2	3,002.7	19.6%	624.1	124.1	748.2	24.9%	4.9%
Commercial Property	891.5	541.1	60.7%	142.8	67.9	210.7	38.9%	23.6%
Total	**16,243.7**	**3,543.8**	**21.8%**	**766.9**	**192.0**	**958.9**	**27.1%**	**5.9%**
Group 2010 *								
Residential	15,886.8	1,465.8	9.2%	136.0	182.2	318.2	21.7%	2.0%
Commercial Property	934.1	452.9	48.5%	74.0	27.8	101.8	22.5%	10.9%
Total	**16,820.9**	**1,918.7**	**11.4%**	**210.0**	**210.0**	**420.0**	**21.9%**	**2.5%**

Company 2011 *	Loans & Advances	Impaired Loans & Advances	Impaired % Of Loans	Individually Assessed	Collectively Assessed	Total Impairment Provision	Provision % of Impaired Loans	Provision % of Loans
Residential	6,649.7	1,826.9	27.5%	380.6	105.9	486.5	26.6%	7.3%
Commercial Property	891.5	541.1	60.7%	142.8	67.9	210.7	38.9%	23.6%
Total	**7,541.2**	**2,368.0**	**31.4%**	**523.4**	**173.8**	**697.2**	**29.4%**	**9.2%**
Company 2010 *								
Residential	9,343.0	1,041.5	11.1%	123.4	131.4	254.8	24.5%	2.7%
Commercial Property	934.1	452.9	48.5%	74.0	27.8	101.8	22.5%	10.9%
Total	**10,277.1**	**1,494.4**	**14.5%**	**197.4**	**159.2**	**356.6**	**23.9%**	**3.5%**

Global and domestic economic markets continued to experience difficulties throughout 2011 which impacted negatively on the Group and Company's lending portfolios.

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

5.4 Forbearance

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

2011	Total		Loans > 90 days in arrears and / or impaired		Performing (subject to revised terms)	
Residential Mortgage (Core)	Number	Balances €m	Number	Balances €m	Number	Balances €m
Interest only	4,906	793.9	1,620	257.6	2,452	399.2
Arrears capitalised	643	97.4	278	41.0	189	32.7
Term extension	3,199	283.6	410	32.2	2,553	230.3
Hybrid (term extension and interest only)	239	27.5	85	9.9	96	10.7
Other	2	0.5	-	-	1.	0.2
Total	**8,989**	**1,202.9**	**2,393**	**340.7**	**5,291**	**673.1**

2011	Total		Loans > 90 days in arrears and / or impaired		Performing (subject to revised terms)	
Buy-to-Let (Non core)	Number	Balances €m	Number	Balances €m	Number	Balances €m
Interest only	1,032	233.2	394	109.5	574	109.6
Arrears capitalised	16	2.5	9	1.2	6	0.9
Term extension	336	42.9	49	5.4	273	36.2
Hybrid (term extension and interest only)	35	9.8	20	7.1	11	2.1
Other	-	-	-	-	-	-
Total	**1,419**	**288.4**	**472**	**123.2**	**864**	**148.8**

2011	Total		Loans > 90 days in arrears and / or impaired		Performing (subject to revised terms)	
Total	Number	Balances €m	Number	Balances €m	Number	Balances €m
Interest only	5,938	1,027	2,014	367.1	3,026	508.8
Arrears capitalised	659	99.9	287	42.2	195	33.6
Term extension	3,535	326.5	459	37.7	2,826	266.5
Hybrid (term extension and interest only)	274	37.4	105	16.9	107	12.8
Other	2	0.5	-	-	1	0.2
Total	**10,408**	**1,491.3**	**2,865**	**463.9**	**6,155**	**821.9**

2010	Total		Loans > 90 days in arrears and / or impaired		Performing (subject to revised terms)	
Total	Number	Balances €m	Number	Balances €m	Number	Balances €m
Interest only	5,186	873.2	1,141	189.7	2,856	497.1
Arrears capitalised	437	59.9	14	0.4	256	36.9
Term extension	2,431	220.9	105	7.8	2,107	194.9
Hybrid (term extension and interest only)	103	13.4	21	2.6	52	7.4
Other	-	-	-	-	-	-
Total	**8,157**	**1,167.4**	**1,281**	**200.5**	**5,271**	**736.3**

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.

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Of the total residential mortgage book of €15,352.2m, 9.7% are subject to forbearance measures as at 31 December 2011, compared to 7.4% as at 31 December 2010. €463.9m (31.1%) of the loans under forbearance were >90 days past due or impaired as at 31 December 2011, compared to 17.2% as at 31 December 2010.

5.5 Residential Repossessions *

EBS held 79 properties at year end, representing an increase of 40 compared with 2010. The EBS Group disposed of 5 of these properties recognising a loss on disposal of €1.0m.

Stock / Activity	Number of repossessions	Balance €m	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 %
2011								
Owner Occupier	69	21.8	5	1.6	0.6	-	1.0	244%
Buy-to-let	10	4.7	-	-	-	-	-	-
Total repossessions	**79**	**26.5**	**5**	**1.6**	**0.6**	**-**	**1.0**	**244%**
2010								
Owner Occupier	35	12.4	7	2.0	1.2	0.5	0.8	159%
Buy-to-let	4	2.8	1	0.1	0.1	-	0.1	300%
Total repossessions	**39**	**15.2**	**8**	**2.1**	**1.3**	**0.5**	**0.9**	**164%**

5.6 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.

2011	Owner Occupier €m	BTL €m	Total €m
Less than 50%	1,402.4	185.8	1,588.2
50% - 70%	1,353.9	210.8	1,564.7
71% - 80%	859.6	110.9	970.5
81% - 90%	998.2	140.6	1,138.8
91% - 100%	1,155.0	153.7	1,308.7
101% - 120%	2,747.9	358.1	3,106.0
121% - 150%	2,871.6	457.9	3,329.5
Greater than 150%	2,102.3	243.5	2,345.8
Total	**13,490.9**	**1,861.3**	**15,352.2**

2010	Owner Occupier €m	BTL €m	Total €m
Less than 50%	1,964.6	253.9	2,218.5
50% - 70%	1,883.3	276.9	2,160.2
71% - 80%	1,224.5	163.1	1,387.6
81% - 90%	1,460.0	175.7	1,635.7
91% - 100%	1,662.4	249.7	1,912.1
101% - 120%	2,707.5	487.7	3,195.2
121% - 150%	2,487.6	272.3	2,759.9
Greater than 150%	575.6	42.0	617.6
Total	**13,965.5**	**1,921.3**	**15,886.8**

42.8% of the owner-occupier and 43.1% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio, 57.2% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011. The weighted average indexed loan to value ratio for the total book was 103.7% at 31 December 2011 whilst the indexed loan to value ratio for the impaired book was higher at 120.7%. The indexed loan to value ratio of new loans advanced during 2011 was 78%.

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

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 2011 and 2010.

2011	Owner Occupier €m	BTL €m	Total €m
Less than 50%	1,232.0	129.2	1,361.2
50% - 70%	1,137.1	125.9	1,263.0
71% - 80%	713.7	67.9	781.6
81% - 90%	819.2	76.3	895.5
91% - 100%	930.6	81.6	1,012.2
101% - 120%	2,193.5	181.0	2,374.5
121% - 150%	2,049.2	219.3	2,268.5
Greater than 150%	1,309.5	124.2	1,433.7
Total	**10,384.8**	**1,005.4**	**11,390.2**

2010	Owner Occupier €m	BTL €m	Total €m
Less than 50%	1,767.4	201.4	1,968.8
50% - 70%	1,673.6	220.2	1,893.8
71% - 80%	1,075.3	129.0	1,204.3
81% - 90%	1,293.0	133.4	1,426.4
91% - 100%	1,443.5	166.3	1,609.8
101% - 120%	2,210.4	336.1	2,546.5
121% - 150%	1,928.6	192.6	2,121.2
Greater than 150%	426.8	21.4	448.2
Total	**11,818.6**	**1,400.4**	**13,219.0**

Among loans neither past due, nor impaired, 46.5% of the owner-occupier and 47.8% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio, 53.3% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011.

90 days past due or impaired

LTV ratio of residential mortgage lending (index linked) which are 90 days past due. The following tables profiles the residential mortgage portfolio that was > 90 days past due and /or impaired by the indexed loan to value ratios at 31 December 2011 and 2010

2011	Owner Occupier €m	BTL €m	Total €m
Less than 50%	101.9	51.1	153.0
50% - 70%	141.3	75.5	216.8
71% - 80%	99.3	39.0	138.3
81% - 90%	125.7	58.4	184.1
91% - 100%	150.3	67.2	217.5
101% - 120%	377.1	161.2	538.3
121% - 150%	605.3	220.6	825.9
Greater than 150%	636.6	112.1	748.7
Total	**2,237.5**	**785.1**	**3,022.6**

2010	Owner Occupier €m	BTL €m	Total €m
Less than 50%	85.1	37.7	122.8
50% - 70%	94.4	39.7	134.1
71% - 80%	71.9	21.6	93.5
81% - 90%	72.9	28.5	101.4
91% - 100%	102.0	66.4	168.4
101% - 120%	254.9	117.8	372.7
121% - 150%	321.9	59.1	381.0
Greater than 150%	89.3	18.9	108.2
Total	**1,092.4**	**389.7**	**1,482.1**

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

27.6% of the owner-occupier and 37.1% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio, 70.4% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011.

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.

2011	**Owner Occupier €m**	**BTL €m**	**Total €m**
Fully Collateralised			
Less than 50%	1,402.4	185.8	1,588.2
50% - 70%	1,353.9	210.8	1,564.7
71% - 80%	859.6	110.9	970.5
81% - 90%	998.2	140.6	1,138.8
91% - 100%	1,155.0	153.7	1,308.7
Partially Collateralised			
Book Value	7,721.8	1,059.5	8,781.3
Value of Collateral	*5,847.3*	*769.2*	*6,616.5*
Total	**13,490.9**	**1,861.3**	**15,352.2**

2010	**Owner Occupier €m**	**BTL €m**	**Total €m**
Fully Collateralised			
Less than 50%	1,964.6	253.9	2,218.5
50% - 70%	1,883.3	276.9	2,160.2
71% - 80%	1,224.5	163.1	1,387.6
81% - 90%	1,460.0	175.7	1,635.7
91% - 100%	1,662.4	249.7	1,912.1
Partially Collateralised			
Book Value	5,770.7	802.0	6,572.7
Value of Collateral	*4,682.6*	*651.4*	*5,334.0*
Total	**13,965.5**	**1,921.3**	**15,886.8**

42.7% of the owner occupier and 43.1% of the buy-to-let mortgages were in the positive equity at 31 December 2011. In terms of the total portfolio, 57.2% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011.

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 2011 and 2010.

2011	**Owner Occupier €m**	**BTL €m**	**Total €m**
Fully Collateralised			
Less than 50%	1,232.0	129.2	1,361.2
50% - 70%	1,137.1	125.9	1,263.0
71% - 80%	713.7	67.9	781.6
81% - 90%	819.2	76.3	895.5
91% - 100%	930.6	81.6	1,012.2
Partially Collateralised			
Book Value	5,552.2	524.5	6,076.7
Value of Collateral	*4,282.5*	*365.1*	*4,647.6*
Total	**10,384.8**	**1,005.4**	**11,390.2**

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

2010	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	1,767.4	201.4	1,968.8
50% - 70%	1,673.6	220.2	1,893.8
71% - 80%	1,075.3	129.0	1,204.3
81% - 90%	1,293.0	133.4	1,426.4
91% - 100%	1,443.5	166.3	1,609.8
Partially Collateralised			
Book Value	4,565.8	550.1	5,115.9
Value of Collateral	*3,727.5*	*442.3*	*4,169.8*
Total	**11,818.6**	**1,400.4**	**13,219.0**

Among loans neither past due nor impaired, 46.5% of the owner-occupier and 47.8% of the buy-to-let mortgages were in positive equity at 31 December 2011.

<u>Residential Mortgage lending – Past due not impaired</u>
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 2011 and 2010.

2011	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	68.6	6.2	74.8
50% - 70%	75.4	13.8	89.2
71% - 80%	46.6	4.2	50.8
81% - 90%	53.3	7.7	61.0
91% - 100%	74.2	6.9	81.1
Partially Collateralised			
Book Value	550.5	52.1	602.6
Value of Collateral	*408.8*	*39.6*	*448.4*
Total	**868.6**	**90.9**	**959.5**

2010	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	106.7	22.1	128.8
50% - 70%	115.4	18.4	133.8
71% - 80%	77.3	14.2	91.5
81% - 90%	94.1	14.1	108.2
91% - 100%	116.9	18.0	134.9
Partially Collateralised			
Book Value	538.8	60.7	599.5
Value of Collateral	*435.6*	*51.6*	*487.2*
Total	**1,049.2**	**147.5**	**1,196.7**

36.6% of the owner-occupier and 42.6% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio 62.8% was in negative equity at 31 December 2011, reflecting the continuing decline in the residential property prices in Ireland in 2011.

<u>Residential Mortgage lending – 90 days past due or impaired</u>
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 2011 and 2010.

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

2011	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	101.9	51.2	153.1
50% - 70%	141.3	75.5	216.8
71% - 80%	99.3	39.0	138.3
81% - 90%	125.7	58.4	184.1
91% - 100%	150.3	67.2	217.5
Partially Collateralised			
Book Value	1,619.0	493.8	2,112.8
Value of Collateral	**1,156.0**	**372.0**	**1,528.0**
Total	**2,237.5**	**785.1**	**3,022.6**

2010	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	85.1	37.7	122.8
50% - 70%	94.4	39.7	134.1
71% - 80%	71.9	21.6	93.5
81% - 90%	72.9	28.5	101.4
91% - 100%	102.0	66.4	168.4
Partially Collateralised			
Book Value	666.1	195.8	861.9
Value of Collateral	*524.2*	*163.1*	*687.3*
Total	**1,092.4**	**389.7**	**1,482.1**

27.6% of the owner-occupier and 37.1% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio, 69.9% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011.

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 2011 and 2010.

2011	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	101.9	50.3	152.2
50% - 70%	141.3	71.2	212.5
71% - 80%	99.3	38.8	138.1
81% - 90%	125.7	56.6	182.3
91% - 100%	150.3	65.2	215.5
Partially Collateralised			
Book Value	1,619.0	483.1	2,102.1
Value of Collateral	*1,155.9*	*364.5*	*1,520.4*
Total	**2,237.5**	**765.2**	**3,002.7**

2010	Owner Occupier €m	BTL €m	Total €m
Fully Collateralised			
Less than 50%	85.1	30.6	115.7
50% - 70%	94.4	38.2	132.6
71% - 80%	71.9	19.9	91.8
81% - 90%	72.9	28.2	101.1
91% - 100%	102.0	65.4	167.4
Partially Collateralised			
Book Value	666.1	191.1	857.2
Value of Collateral	*524.8*	*157.4*	*682.2*
Total	**1,092.4**	**373.4**	**1,465.8**

27.6% of the owner-occupier and 36.9% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio, 70.0% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011.

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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 2011 and 2010 by year of origination.

2011	Residential Mortgage Loan Book			Impaired Residential Mortgage Loan Book		
	Number of loans	Balance €m	Fair Value Collateral €m	Number of loans	Balance €m	Fair Value Collateral €m
1996 and before	6,652	187.3	183.1	765	28.9	27.0
1997	2,547	85.9	85.2	241	10.7	10.5
1998	2,919	123.3	121.1	290	21.1	19.6
1999	3,570	170.7	168.4	372	26.3	25.1
2000	3,691	226.6	223.3	393	31.1	30.0
2001	3,880	303.8	297.6	490	45.7	43.3
2002	6,026	549.3	536.8	743	81.2	76.6
2003	7,136	725.0	698.2	1,064	134.1	123.0
2004	9,282	1,156.7	1,063.9	1,350	218.7	191.8
2005	13,513	1,850.4	1,635.1	2,166	417.1	355.6
2006	16,820	2,694.7	2,175.2	3,105	653.6	507.6
2007	15,644	2,538.2	1,929.1	3,405	643.2	464.4
2008	14,697	2,340.8	1,850.1	2,791	521.3	394.5
2009	8,787	1,229.3	1,105.8	793	129.7	114.1
2010	7,272	1,069.0	1,015.6	235	37.7	35.6
2011	767	101.2	98.9	10	2.3	2.3
Total	**123,203**	**15,352.2**	**13,187.4**	**18,213**	**3,002.7**	**2,421.0**

2010	Residential Mortgage Loan Book			Impaired Residential Mortgage Loan Book		
	Number of loans	Balance €m	Fair Value Collateral €m	Number of loans	Balance €m	Fair Value Collateral €m
1996 and before	7,904	233.7	227.8	512	16.9	16.5
1997	2,817	102.0	101.6	138	6.7	6.6
1998	3,234	143.2	141.7	159	15.4	14.6
1999	3,909	196.5	195.0	228	17.5	17.1
2000	3,959	252.5	250.6	244	19.8	19.5
2001	4,251	332.1	328.7	301	26.0	25.3
2002	6,350	595.5	590.1	444	46.6	45.2
2003	7,531	781.1	768.2	620	76.2	72.9
2004	9,718	1,222.1	1,184.9	746	126.7	118.6
2005	14,041	1,935.9	1,816.2	1,129	211.5	193.4
2006	17,404	2,792.9	2,430.0	1,575	326.6	275.2
2007	16,023	2,584.4	2,203.2	1,769	334.2	273.0
2008	15,079	2,401.2	2,148.3	1,132	211.8	184.1
2009	9,034	1,264.8	1,218.1	186	28.0	26.9
2010	7,432	1,048.9	1,043.7	17	1.9	1.9
Total	**128,686**	**15,886.8**	**14,648.1**	**9,200**	**1,465.8**	**1,290.8**

5.7 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 19% of EBS loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed by Global Treasury at AIB Group level within agreed policy parameters

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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
2011	3,136.1	13,107.6	16,243.7	2,491.2	303.4	13,449.1	16,243.7
2010	3,539.1	13,281.8	16,820.9	1,564.3	258.8	14,997.8	16,820.9

5.8 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 (including those classified as held-for-sale to NAMA and those held within discontinued operations), other monetary assets, including non-local currency claims of overseas offices on local residents. 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 2011 comprise Spanish government and senior bank bonds amounting to €226.0m. The corresponding values for 2010 were Spain €228.1m, being government and senior bank bonds and UK €216.6m, being senior bank bonds.

5.9 Large exposures *

At 31 December 2011, EBS Group's top 50 exposures amounted to €466.5m, and accounted for 2.9% (€494.7m and 2.9% at 31 December 2010) of the on-balance sheet total gross loans and advances to customers. No single customer exposure exceeds regulatory guidelines.

5.10 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 provision for impairment of financial instruments available-for-sale of €3.4m relating to NAMA Subordinated bonds.

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.

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	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 2011						
Balances at 31 December 2011	147.1	738.1	1,324.5	160.1	444.0	140.1
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	147.1	738.1	3,733.7	182.5	3,771.8	108.7
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%
Group 2010						
Balances at 31 December 2010	230.9	1,040.9	1,840.3	145.3	212.2	1,777.4
Aaa	100.0%	-	14.7%	9.5%	13.1%	84.4%
Aa3 to Aa1	-	4.4%	28.7%	70.1%	36.8%	-
A3 to A1	-	-	20.1%	4.9%	26.5%	-
Lower than A3	-	95.6%	36.5%	15.5%	23.1%	-
Unrated	-	-	-	-	0.5%	15.6%
Company *(formerly Society)* 2010						
Balances at 31 December 2010	216.9	1,040.9	3,208.3	168.1	3,012.1	1,726.9
Aaa	100.0%	-	8.5%	7.6%	0.9%	86.9%
Aa3 to Aa1	-	4.4%	30.8%	56.5%	0.8%	-
A3 to A1	-	-	11.6%	4.2%	1.5%	-
Lower than A3	-	95.6%	49.1%	31.8%	96.8%	-
Unrated	-	-	-	-	-	13.1%

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.

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

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 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'). The Group has conducted stress tests in advance of these expected changes. Funding contingency plans are continually under review in light of unprecedented market and EBS specific events.

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 ALCO and 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 continues to assist EBS in attracting and maintaining customer funding in times of great economic uncertainty. The cost of the ELG scheme for 2011 was €62.8m (see note 3).

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 2011							
Financial liabilities							
Deposits by central banks	2,076.2	1,790.0	-	-	-	-	3,866.2
Deposits by credit institutions	1,300.9	192.8	-	-	-	-	1,493.7
Customer accounts	2,342.0	1,434.1	1,173.3	1,594.9	1,553.8	769.7	8,867.8
Derivative financial instruments	2.8	4.3	9.8	32.8	56.3	112.9	218.9
Debt securities in issue	45.2	79.7	5.6	1,097.4	43.5	2,130.3	3,401.7
Loan commitments	9.2	2.2	2.2	8.2	1.1	117.2	140.1
Total financial liabilities	**5,776.3**	**3,503.1**	**1,190.9**	**2,733.3**	**1,654.7**	**3,130.1**	**17,988.4**
31 December 2010							
Financial liabilities							
Deposits by central banks	3,182.3	1,700.0	-	-	-	-	4,882.3
Deposits by credit institutions	501.7	377.7	-	-	-	-	879.4
Customer accounts	2,948.3	1,781.0	1,536.3	1,826.4	1,069.9	495.8	9,657.7
Derivative financial instruments	1.3	4.3	9.6	33.8	53.3	130.3	232.6
Debt securities in issue	61.9	65.4	88.1	147.8	1,061.4	2,225.4	3,650.0
Subordinated liabilities	-	0.7	-	103.5	-	112.3	216.5
Loan commitments	31.1	51.3	2.0	0.5	0.3	192.2	277.4
Total financial liabilities	**6,726.6**	**3,980.4**	**1,636.0**	**2,112.0**	**2,184.9**	**3,156.0**	**19,795.9**

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

Company *(formerly Society)*

	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 2011							
Financial liabilities							
Deposits by central banks	2,076.2	1,790.0	-	-	-	-	3,866.2
Deposits by credit institutions	1,317.6	192.8	-	-	-	-	1,510.4
Customer accounts	2,342.0	1,434.1	1,173.3	1,594.9	1,553.8	1,661.9	9,760.0
Derivative financial instruments	2.9	4.3	9.9	33.0	40.4	137.5	228.0
Debt securities in issue	45.2	79.4	5.6	58.6	43.5	1,188.0	1,420.3
Loan commitments	8.8	2.2	2.2	8.2	1.0	86.3	108.7
Total financial liabilities	**5,792.7**	**3,502.8**	**1,191.0**	**1,694.7**	**1,638.7**	**3,073.7**	**16,893.6**
31 December 2010							
Financial liabilities							
Deposits by central banks	3,182.3	1,700.0	-	-	-	-	4,882.3
Deposits by credit institutions	519.0	378.7	-	6.3	-	250.0	1,154.0
Customer accounts	3,207.5	1,781.0	1,536.3	1,826.4	1,069.9	1,440.9	10,862.0
Derivative financial instruments	96.2	1.1	4.1	11.9	34.7	103.4	251.4
Debt securities in issue	61.9	65.4	87.1	109.0	61.4	1,230.3	1,615.1
Subordinated liabilities	-	0.7	-	103.5	-	112.3	216.5
Loan commitments	16.6	51.3	2.0	0.3	0.3	156.4	226.9
Total financial liabilities	**7,083.5**	**3,978.2**	**1,629.5**	**2,057.4**	**1,166.3**	**3,293.3**	**19,208.2**

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.

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Market risk *

Interest rate sensitivity gap analysis 2011
The tables below 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.

Group

	Not more than 3 months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Non Interest Bearing €m	Total €m
Non-trading book							
ASSETS							
Cash and balances with central banks	141.5	-	-	-	-	5.6	147.1
Available-for-sale financial assets	313.7	20.0	-	1,145.8	230.4	5.9	1,715.8
NAMA senior bonds	346.7	-	-	-	-	-	346.7
Loans and advances to credit institutions	444.0	-	-	-	-	-	444.0
Loans and advances to customers	13,396.8	341.1	460.9	1,980.0	139.7	(948.8)	15,369.7
Other assets	-	-	-	-	-	510.3	510.3
Total assets	**14,642.7**	**361.1**	**460.9**	**3,125.8**	**370.1**	**(427.0)**	**18,533.6**
LIABILITIES							
Deposits by central banks	3,865.0	-	-	-	-	-	3,865.0
Deposits by credit institutions	1,492.2	-	-	-	-	-	1,492.2
Customer accounts	3,947.1	1,036.9	1,374.4	2,115.7	1.6	-	8,475.7
Debt securities in issue	1,169.8	5.4	1,041.7	1,067.4	25.0	0.3	3,309.6
Other liabilities	-	-	-	-	-	553.9	553.9
Total liabilities	**10,474.1**	**1,042.3**	**2,416.1**	**3,183.1**	**26.6**	**554.2**	**17,696.4**
Derivatives	(985.3)	532.4	800.9	(257.2)	(90.8)	-	-
Interest rate sensitivity gap	**3,183.3**	**(148.8)**	**(1,154.3)**	**(314.5)**	**252.7**	**(981.2)**	**837.2**
Cumulative gap	**3,183.3**	**3,034.5**	**1,880.2**	**1,565.7**	**1,818.4**	**837.2**	**837.2**

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

Interest rate sensitivity gap analysis 2010 *

Group

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Non Interest Bearing	Total
	€m	€m	€m	€m	€m	€m	€m
Non-trading book							
ASSETS							
Cash and balances with central banks	226.1	-	-	-	-	4.8	230.9
Loans and advances held-for-sale to NAMA	59.1	-	-	6.1	-	(27.3)	37.9
Available-for-sale financial assets	1,376.1	561.4	413.3	-	216.7	7.8	2,575.3
NAMA senior bonds	305.9	-	-	-	-	-	305.9
Loans and advances to credit institutions	212.2	-	-	-	-	-	212.2
Loans and advances to customers	13,475.9	218.8	395.5	2,576.7	218.2	(417.7)	16,467.4
Other assets	-	-	-	-	-	379.8	379.8
Total assets	**15,655.3**	**780.2**	**808.8**	**2,582.8**	**434.9**	**(52.6)**	**20,209.4**
LIABILITIES							
Deposits by central banks	4,880.0	-	-	-	-	-	4,880.0
Deposits by credit institutions	876.2	-	-	-	-	-	876.2
Customer accounts	4,798.9	1,490.6	1,702.4	1,424.8	7.1	-	9,423.8
Debt securities in issue	378.5	72.0	41.3	2,097.5	970.0	-	3,559.3
Subordinated liabilities	59.9	-	100.0	51.8	-	-	211.7
Non controlling interests	-	-	-	-	-	82.3	82.3
Other liabilities	-	-	-	-	-	556.5	556.5
Total liabilities	**10,993.5**	**1,562.6**	**1,843.7**	**3,574.1**	**977.1**	**638.8**	**19,589.8**
Derivatives	(464.9)	979.5	861.7	(1,235.3)	(141.0)	-	-
Interest rate sensitivity gap	**4,196.9**	**197.1**	**(173.2)**	**(2,226.6)**	**(683.2)**	**(691.4)**	**619.6**
Cumulative gap	**4,196.9**	**4,394.0**	**4,220.8**	**1,994.2**	**1,311.0**	**619.6**	**619.6**

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.

The financial assets exposed to fair value interest rate risk are €4,317.9m (2010: €4,606.7m), exposed to cash flow interest rate risk are €14,642.7m (2010: €15,655.3m) and not exposed to interest rate risk are (€427.0m) (2010: (€52.6m)).

The financial liabilities exposed to fair value interest rate risk are €6,668.1m (2010: €7,957.5m), exposed to cash flow interest rate risk are €10,474.1m (2010: €10,993.5m) and not exposed to interest rate risk are €554.2m (2010: €638.8m).

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.

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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 ALCO 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)			
	2011 €'000		2010 €'000	
Banking book portfolio				
Average for the period	- / +	2,424	- / +	4,571
Maximum for the period	- / +	8,727	- / +	11,488
Minimum for the period	- / +	512	- / +	51
Reserve investment portfolio				
Average for the period	- / +	15,835	- / +	9,856
Maximum for the period	- / +	18,139	- / +	12,163
Minimum for the period	- / +	14,044	- / +	7,424

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 38.

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 *(formerly Society)*

	2011 €m	2010 €m
Assets (including derivatives) denominated in currency other than Euro:		
Sterling	88.0	438.5
US Dollars	26.3	81.6
Czeck Krona	-	61.2
Total	**114.3**	**581.3**
Liabilities (including derivatives) denominated in currency other than Euro:		
Sterling	87.1	438.8
US Dollars	26.5	80.8
Czeck Krona	-	61.2
Total	**113.6**	**580.8**

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

Funding risk - credit spreads

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

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

		2011			**2010 (Restated)**		
	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	147.1	147.1	-	230.9	230.9	-
Derivative financial assets	Fair value	160.1	160.1	-	145.3	145.3	-
Loans and advances held-for-sale to NAMA	Amortised cost	-	-	-	37.9	37.9	-
Available-for-sale financial assets	Available-for-sale	1,715.8	1,715.8	-	2,575.3	2,575.3	-
NAMA senior bonds	Loans and advances	346.7	350.6	3.9	305.9	301.1	(4.8)
Loans and advances to credit institutions	Loans and advances	444.0	444.0	-	212.2	212.2	-
Loans and advances to customers	Loans and advances	15,369.7	13,278.4	(2,091.3)	16,467.4	15,212.7	(1,254.7)
LIABILITIES							
Deposits by central banks	Amortised cost	3,865.0	3,865.0	-	4,880.0	4,880.0	-
Deposits by credit institutions	Amortised cost	1,492.2	1,492.2	-	876.2	876.2	-
Customer accounts	Amortised cost	8,475.7	8,389.0	86.7	9,423.8	9,138.2	285.6
Derivative financial instruments	Fair value	218.9	218.9	-	232.6	232.6	-
Debt securities in issue	Amortised cost	3,309.6	2,317.6	992.0	3,559.3	2,849.6	709.7
Subordinated liabilities	Amortised cost	-	-	-	211.7	63.5	148.2

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

Company *(formerly Society)*

		2011			2010 (Restated)		
	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	147.1	147.1	-	216.9	216.9	-
Derivative financial assets	Fair value	182.5	182.5	-	168.1	168.1	-
Loans and advances held-for-sale	Loans and advances	-	-	-	37.9	37.9	-
Available-for-sale financial assets	Available-for-sale	4,125.1	4,125.1	-	3,943.3	3,943.3	-
NAMA senior bonds	Loans and advances	346.7	350.6	3.9	305.9	301.1	(4.8)
Loans and advances to credit institutions	Loans and advances	3,771.8	3,771.8	-	3.012.1	3,012.1	-
Loans and advances to customers	Loans and advances	7,640.7	6,726.6	(914.1)	10,860.3	10,031.6	(828.7)

LIABILITIES							
Deposits by central banks	Amortised cost	3,865.0	3,865.0	-	4,880.0	4,880.0	-
Deposits by credit institutions	Amortised cost	1,509.0	1,509.0	-	1,139.6	1,139.6	-
Customer accounts	Amortised cost	9,393.0	9,306.3	86.7	10,624.2	10,302.7	321.5
Derivative financial instruments	Fair value	228.0	228.0	-	251.4	251.4	-
Debt securities in issue	Amortised cost	1,368.7	1,019.3	349.4	1,566.7	1,289.1	277.6
Subordinated liabilities	Amortised cost	-	-	-	211.7	63.5	148.2

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.

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

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

(i) Available-for-sale assets are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of recognised valuation techniques. Fair value measurements are recognised in the statement of financial position for available-for-sale financial assets.

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

(iii) the Group has used a discounted cashflow methodology to arrive at the fair value for loans and advances to customers. The model used at 31 December 2011 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) Carrying value and fair value for loans and advances held-for-sale to NAMA are based on an incurred loss model which is consistent with the net proceeds on disposal.

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

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

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

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 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%	-

Group and Company *(formerly Society)* 2010

	Company *(formerly Society)*		Group	
	Available-for-sale financial assets	Derivative financial instruments	Available-for-sale financial assets	Derivative financial instruments
Level 1	57.5%	-	91.1%	-
Level 2	42.2%	100.0%	8.5%	100.0%
Level 3	0.3%	-	0.4%	-

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

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 2011.

The movements in level 3 assets and derivatives between 31 December 2010 and 31 December 2011 is attributable to the recognition of NAMA subordinated bonds received as partial consideration on the sale of loans to NAMA.

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 *(formerly Society)*	**2011**	**2010**
Balance at 1 January	7.8	0.1
Total Gains / (losses):		
Income Statement	(5.2)	(9.3)
Equity	0.3	-
Purchases	3.0	17.0
Balance at 31 December	**5.9**	**7.8**

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 2011 using a valuation technique incorporating significant unobservable data was charged to the Income Statement under provision for impairment of AFS financial assets.

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

Independent Auditors Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EBS LIMITED

We have audited the group and parent company financial statements (''financial statements'') of EBS Limited for the year ended 31 December 2011 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Statement of Cash flows, the Consolidated and Parent Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 15.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, and have been properly prepared in accordance with the Companies Acts 1963 to 2009. We also report to you, in our opinion whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent Company statement of financial position is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.
We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report and the Risk Management Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 2011 and of its loss for the year then ended;
- the parent company financial statements give 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 2009, of the state of the parent company's affairs as at 31 December 2011; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The Company statement of financial position is in agreement with the books of account.

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 statement of financial position 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 2011 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.

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

27 March 2012

Consolidated Income Statement

For the Year Ended 31 December 2011

	Note	For the six months ended 30 June 2011 €m	For the six months ended 31 December 2011 €m	For the full year ended 31 December 2011 €m	For the full year ended 31 December (Restated) 2010 €m
Interest income and similar income	3	367.2	411.9	779.1	727.7
Interest expense and similar charges	3	(300.6)	(278.2)	(578.8)	(603.8)
Net Interest Income		**66.6**	**133.7**	**200.3**	**123.9**
Fees and commissions income	4	6.4	6.2	12.6	14.5
Fees and commissions expense	4	(1.8)	(1.9)	(3.7)	(10.6)
Net trading income	5	3.9	0.4	4.3	3.5
Gain on redemption of subordinated liabilities	6	159.0	-	159.0	-
Gain (Loss) on transfer of loans and advances held-for-sale to NAMA	10	9.5	17.3	26.8	(275.6)
Other operating income	7	(6.2)	0.9	(5.3)	18.6
Total Other Income		**170.8**	**22.9**	**193.7**	**(249.6)**
Total Operating Income		**237.4**	**156.6**	**394.0**	**(125.7)**
Administrative expenses	8	(44.6)	(42.0)	(86.6)	(83.3)
Amortisation of intangible assets	20	(2.6)	(2.5)	(5.1)	(5.3)
Depreciation of property, plant and equipment	19	(2.4)	(2.4)	(4.8)	(5.0)
Total Operating Expenses	**8**	**(49.6)**	**(46.9)**	**(96.5)**	**(93.6)**
Operating profit (loss) before impairment losses and taxation		**187.8**	**109.7**	**297.5**	**(219.3)**
Provisions for impairment of loans and advances held-for-sale to NAMA	16	(10.3)	-	(10.3)	(116.8)
Provisions for impairment of available-for-sale financial assets	13	(10.1)	(1.6)	(11.7)	(11.4)
Provisions for impairment of loans and advances to customers	17	(203.5)	(325.9)	(529.4)	(271.4)
Total Impairment losses		**(223.9)**	**(327.5)**	**(551.4)**	**(399.6)**
Operating loss before taxation		**(36.1)**	**(217.8)**	**(253.9)**	**(618.9)**
Taxation	9	77.3	25.5	102.8	31.0
Profit (loss) for the period / year		**41.2**	**(192.3)**	**(151.1)**	**(587.9)**

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

The Consolidated Income Statement is presented for the six month periods ended 30 June 2011 and 31 December 2011. The 2010 Income Statement is restated. See note 1 for full details.

Fergus Murphy, Chief Executive

Bernard Byrne, Non Executive Director

Catherine Woods, Non Executive Director

Helen Dooley, Company Secretary

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2011

	Note	2011 €m	(Restated) 2010 €m
Loss for the year		**(151.1)**	**(587.9)**
Comprehensive (loss) income, net of taxation			
Net movement in cash flow hedge reserve	9	9.1	26.8
Net movement in available-for-sale reserve	9	6.8	(181.2)
Net actuarial movement in retirement benefits	9	(18.0)	(3.6)
Comprehensive loss for the year, net of taxation		(2.1)	(158.0)
Total comprehensive loss for the year		**(153.2)**	**(745.9)**

Fergus Murphy, Chief Executive

Bernard Byrne, Non Executive Director

Catherine Woods, Non Executive Director

Helen Dooley, Company Secretary

Group and Company Statement of Financial Position

At 31 December 2011

Company 2011 €m	Company *(formerly Society)* (Restated) 2010 €m	Company *(formerly Society))* (Restated) 2009 €m		Note	Group 2011 €m	Group (Restated) 2010 €m	Group (Restated) 2009 €m
			Assets				
147.1	216.9	161.1	Cash and balances with central banks	11	147.1	230.9	176.9
182.5	168.1	184.2	Derivative financial instruments	38	160.1	145.3	128.7
-	37.9	750.6	Loans and advances held-for-sale to NAMA	16	-	37.9	750.6
4,125.1	3,943.3	3,972.3	Available-for-sale financial assets	13	1,715.8	2,575.3	2,924.8
346.7	305.9	-	NAMA senior bonds	14	346.7	305.9	-
3,771.8	3,012.1	3,769.3	Loans and advances to credit institutions	15	444.0	212.2	1,011.6
7,640.7	10,860.3	11,650.3	Loans and advances to customers	17	15,369.7	16,467.4	16,463.9
196.3	80.8	30.2	Deferred taxation	21	171.7	71.4	18.1
49.5	48.4	20.0	Other assets	22	58.9	34.0	12.7
109.7	59.4	47.4	Prepayments and accrued income		59.5	62.7	51.6
16.4	17.7	19.9	Intangible assets	20	19.9	21.9	24.8
476.5	345.5	267.5	Shares in Group undertakings	18	-	-	-
39.9	43.8	47.7	Property, plant and equipment	19	40.2	44.5	48.7
17,102.2	**19,140.1**	**20,920.5**	**Total assets**		**18,533.6**	**20,209.4**	**21,612.4**
			Liabilities				
3,865.0	4,880.0	2,500.0	Deposits by central banks	23	3,865.0	4,880.0	2,500.0
1,509.0	1,139.6	2,183.9	Deposits by credit institutions	24	1,492.2	876.2	1,933.9
9,393.0	10,624.2	11,082.6	Customer accounts	25	8,475.7	9,423.8	9,830.0
228.0	251.4	304.9	Derivative financial instruments	38	218.9	232.6	263.9
9.1	7.1	7.0	Current taxation	27	9.1	7.1	6.9
12.1	12.1	8.2	Provisions for liabilities and commitments	29	12.6	12.6	9.2
212.7	218.7	247.6	Accruals and deferred income		205.8	228.1	255.4
99.6	105.7	85.5	Other liabilities	28	79.1	58.7	51.3
1,368.7	1,566.7	3,892.2	Debt securities in issue	26	3,309.6	3,559.3	5,886.5
28.4	17.4	17.0	Retirement benefit liabilities	30	28.4	17.4	17.0
-	211.7	210.1	Subordinated liabilities	31	-	211.7	210.1
16,725.6	**19,034.6**	**20,539.0**	**Total liabilities**		**17,696.4**	**19,507.5**	**20,964.2**
			Shareholders' equity				
-	623.7	-	Special investment shares	32	-	623.7	-
249.1	249.1	-	Capital contribution	34	249.1	249.1	-
923.7	-	-	Ordinary share capital	33	923.7	-	-
(526.9)	(520.6)	(22.7)	Available-for-sale reserve		(178.3)	(185.1)	(3.9)
(29.0)	(38.1)	(64.9)	Cash flow hedge reserve		(29.0)	(38.1)	(64.9)
(240.3)	(208.6)	469.1	General reserve		(128.3)	(30.0)	471.8
376.6	**105.5**	**381.5**	**Shareholders' equity**		**837.2**	**619.6**	**403.0**
-	-	-	Non controlling interests	35	-	82.3	245.2
17,102.2	**19,140.1**	**20,920.5**	**Total liabilities and shareholders' equity**		**18,533.6**	**20,209.4**	**21,612.4**

Fergus Murphy, Chief Executive

Bernard Byrne, Non Executive Director

Catherine Woods, Non Executive Director

Helen Dooley, Company Secretary

Group and Company Statement of Cash Flows

For the Year Ended 31 December 2011

Company	Company *(formerly Society)* (Restated)			Group	Group (Restated)
2011	2010			2011	2010
€m	€m		Note	€m	€m
		Cash flows from operating activities			
(13.7)	(674.3)	Loss for the year		(151.1)	(587.9)
		Adjustments for:			
4.5	4.7	Depreciation of property, plant and equipment	19	4.8	5.0
4.3	4.6	Amortisation of intangibles	20	5.1	5.3
354.7	361.2	Provisions for impairment of financial assets	13,17	551.4	399.6
(26.8)	275.6	(Gain)/Loss on disposal of loans and advances held-for-sale to NAMA	10	(26.8)	275.6
12.4	45.2	Provisions for impairments of shares in Group undertakings	18	-	-
1.2	1.4	Pension expense		1.3	1.4
(1.1)	(4.0)	Fair value movement on hedging derivatives	5	0.5	2.0
(37.3)	(33.3)	Fair value movement on hedged items		(29.5)	(49.9)
(117.6)	(31.3)	Income tax credit	9	(102.8)	(31.0)
1.5	5.7	Interest expense on subordinated liabilities		1.5	5.7
182.1	**(44.5)**	**Operating Income before changes in working capital and provisions**		**254.4**	**25.8**
16.0	609.1	Net decrease (increase) in loans and advances to credit institutions		(244.6)	500.3
(2.8)	0.2	Net (increase) decrease in mandatory reserve balance		(2.8)	0.3
2,888.3	551.0	Net decrease (increase) in loans and advances to customers		569.7	(280.8)
13.5	14.4	Net decrease in held-for-sale financial assets to NAMA		13.5	14.4
(51.4)	(40.4)	Net increase in other assets		(21.4)	(32.5)
(1,015.0)	2,380.0	Net (decrease) increase in deposits from central banks		(1,015.0)	2,380.0
363.7	(1,040.9)	Net increase (decrease) in deposits from credit institutions		610.3	(1,054.3)
(1,231.8)	(458.5)	Net decrease in amounts due to customers		(948.7)	(406.4)
(17.6)	(29.2)	Net decrease in other liabilities		(7.2)	(43.4)
-	(0.1)	Other non cash movements		-	0.1
2.2	8.8	Effect of exchange translations and other adjustments		2.2	8.8
1,147.2	**1,949.9**	**Cash generated from (used in) operations before taxation**		**(789.6)**	**1,112.3**
1.5	0.7	Income taxes refunded		1.5	0.1
1,148.7	**1,950.6**	**Net cash generated from (used in) operating activities**		**(788.1)**	**1,112.4**
		Cash flows from investing activities			
(0.6)	(0.9)	Purchase of property, plant and equipment	19	(0.6)	(0.9)
(3.0)	(2.4)	Purchase of intangible assets	20	(3.1)	(2.4)
-	0.1	Proceeds from disposal of property, plant and equipment		-	0.1
(143.4)	(123.2)	Investment in subsidiaries	18	-	-
(199.7)	(231.2)	Net (increase) decrease in available-for-sale financial assets		854.6	406.0
(346.7)	**(357.6)**	**Net cash (outflow) inflow from investing activities**		**850.9**	**402.8**
		Cash flows from financing activities			
-	1,025.0	Issuance of debt securities		-	1,025.0
(211.7)	-	Redemption of subordinated liabilities		(211.7)	-
-	623.7	Issuance of special investment shares		-	623.7
300.0	-	Issuance of ordinary share capital		300.0	-
(185.7)	(3,328.2)	Redemption of debt securities		(237.5)	(3,329.8)
-	-	Cost of redemption of non controlling interests		(11.5)	(73.2)
(1.5)	(5.7)	Interest expense on subordinated liabilities		(1.5)	(5.7)
(98.9)	**(1,685.2)**	**Net cash outflow from financing activities**		**(162.2)**	**(1,760.0)**
703.1	**(92.2)**	**Net increase (decrease) in cash and cash equivalents**		**(99.4)**	**(244.8)**
3,124.9	3,217.1	Cash and cash equivalents at 1 January		338.4	583.2
3,828.0	**3,124.9**	**Cash and cash equivalents at 31 December**	**12**	**239.0**	**338.4**

Consolidated Statement of Changes in Shareholders' Equity

Group

At 31 December 2011

	Available-for-Sale Reserve €m	Cash Flow Hedge Reserve €m	Capital Contribution €m	Special Investment Shares €m	Ordinary Share Capital €m	General Reserve €m	Total Shareholders' Equity €m	Non Controlling Interests €m	Total Shareholders' Equity (Restated) €m
At 1 January 2010	**(3.9)**	**(64.9)**	**-**	**-**	**-**	**471.8**	**403.0**	**245.2**	**648.2**
Net movement on available-for-sale reserve	(181.2)	-	-	-	-	-	**(181.2)**	-	(181.2)
Net movement on cash flow hedge reserve	-	26.8	-	-	**-**	-	**26.8**	-	26.8
Loss for the year	-	-	-	-	-	(587.9)	**(587.9)**	-	(587.9)
Net actuarial gain on retirement benefits	-	-	-	-	-	(3.6)	**(3.6)**	-	(3.6)
Total comprehensive (loss) income	**(181.2)**	**26.8**	**-**	**-**	**-**	**(591.5)**	**(745.9)**	**-**	**(745.9)**
Purchase of non controlling interests, including costs	-	-	-	-	-	(2.5)	**(2.5)**	(70.7)	(73.2)
Net gain on purchase of non controlling interests	-	-	-	-	-	92.2	**92.2**	(92.2)	-
Receipt of capital contribution, net of costs	-	-	249.1	-	-	-	**249.1**	-	249.1
Issuance of special investment shares, net of costs	-	-	-	623.7	-	-	**623.7**	-	623.7
At 31 December 2010	**(185.1)**	**(38.1)**	**249.1**	**623.7**	**-**	**(30.0)**	**619.6**	**82.3**	**701.9**
Net movement on available-for-sale reserve	6.8	-	-	-	-	-	**6.8**	-	6.8
Net movement on cash flow hedge reserve	-	9.1	-	-	-	-	**9.1**	-	9.1
Loss for the year	-	-	-	-	-	(151.1)	**(151.1)**	-	(151.1)
Net actuarial loss on retirement benefits	-	-	-	-	-	(18.0)	**(18.0)**	-	(18.0)
Total comprehensive (loss) income	**6.8**	**9.1**	**-**	**-**		**(169.1)**	**(153.2)**	**-**	**(153.2)**
Conversion of special investment shares	-	-	-	(623.7)	623.7	-	**-**	-	-
Issuance of ordinary share capital	-	-	-	-	300.0	-	**300.0**	-	300.0
Purchase/Redemption of non controlling interests, including costs	-	-	-	-	-	(0.2)	**(0.2)**	(11.3)	(11.5)
Net gain on purchase of non controlling interests	-	-	-	-	-	71.0	**71.0**	(71.0)	-
At 31 December 2011	**(178.3)**	**(29.0)**	**249.1**	**-**	**923.7**	**(128.3)**	**837.2**	**-**	**837.2**

Company Statement of Changes in Shareholders' Equity

Company *(formerly Society)*

At 31 December 2011

	Available-for-Sale Reserve €m	Cash Flow Hedge Reserve €m	Capital Contribution €m	Special Investment Shares €m	Ordinary Share Capital €m	General Reserve €m	Total Shareholders' Equity (Restated) €m
At 1 January 2010	**(22.7)**	**(64.9)**	**-**	**-**	**-**	**469.1**	**381.5**
Net movement on available-for-sale reserve	(497.9)	-	-	-	-	-	**(497.9)**
Net movement on cash flow hedge reserve	-	26.8	-	-	-		**26.8**
Loss for the year	-	-	-	-	-	(674.1)	**(674.1)**
Net actuarial gain on retirement benefits	-	-	-	-	-	(3.6)	**(3.6)**
Total comprehensive (loss) income	**(497.9)**	**26.8**	**-**	**-**	**-**	**(677.7)**	**(1,148.8)**
Receipt of capital contribution, net of costs	-	-	249.1	-	-	-	**249.1**
Issuance of special investment shares, net of costs	-	-	-	623.7	-	-	**623.7**
At 31 December 2010	**(520.6)**	**(38.1)**	**249.1**	**623.7**	**-**	**(208.6)**	**105.5**
Net movement on available for-sale reserve	(6.3)	-	-	-	-	-	**(6.3)**
Net movement on cash flow hedge reserve	-	9.1	-	-	-	-	**9.1**
Loss for the year	-	-	-	-	-	(13.7)	**(13.7)**
Net actuarial loss on retirement benefits	-	-	-	-	-	(18.0)	**(18.0)**
Total comprehensive (loss) income	**(6.3)**	**9.1**	**-**	**-**	**-**	**(31.7)**	**(28.9)**
Conversion of special investment shares	-	-	-	(623.7)	623.7	-	**-**
Issuance of ordinary share capital	-	-	-	-	300.0	-	**300.0**
At 31 December 2011	**(526.9)**	**(29.0)**	**249.1**	**-**	**923.7**	**(240.3)**	**376.6**

Notes to the Financial Statements

1. 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.

On 1 July 2011 the Society demutualised pursuant to the Building Societies Act 1989 (amended) and converted to EBS Limited, a private limited company pursuant to the Companies Act 1963 (as amended) under the terms of an Acquisition Conversion Scheme (the 'Scheme) completed on 1 July 2011. Under the terms of the Scheme the special investment shares issued by the Society were converted to ordinary shares in EBS Limited. 100% of the issued ordinary shares in EBS Limited held by the Minister for Finance were acquired by Allied Irish Banks, p.l.c. ('AIB') on 1 July 2011.

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 2011. 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 2009 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 2011 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 one hundred thousand (€0.1m), 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.

As the Society demutualised and converted to a limited company on 1 July 2011 there is a requirement to present financial statements showing the financial performance of the Group for the six month periods ended 30 June 2011 and 31 December 2011. The six month period ended 30 June 2011 reflects the performance of the Society and the six month period ended 31 December 2011 reflects the performance of the Company.

Accounting Policies – Continued

On 1 January 2011 the Group changed its accounting policy with respect to Property, Plant and Equipment from a revaluation model to a deemed cost model, both of which are acceptable in giving a fair presentation under IAS 16 Property, Plant and Equipment.

Under the revaluation model all properties were revalued to market values annually and any changes in value were recorded in the Revaluation Reserve on the Statement of Financial Position if the valuation exceeded the original cost, otherwise the changes in value were recorded under the Impairment of Property line in the Income Statement.

Under the deemed cost basis of accounting the properties are recorded at their market value on the date of transition to IFRS and then depreciated over their expected useful economic life, which has been determined as the shorter of 50 years or the remaining unexpired term of the lease.

The change in accounting policy has been applied retrospectively and the impact of the change in accounting policy on the statement of financial position is an increase in the carrying value of the Group's properties together with an increase in general reserves and changes in the deferred tax asset and liability. In addition operating costs in the Income Statement also increased as the value of properties are depreciated over the lower of 50 years or the unexpired term of the lease. The impact of this accounting policy change is set out in note 46. The Group believes that this change in the financial statements provides more relevant information of the value of property to the business.

1.4 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.

Accounting Policies – Continued

The Group considers that the provisions for loan impairments at 31 December 2011 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.

(2) Retirement benefit liabilities
The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial value of the assets and liabilities of the scheme are calculated. This involves modelling their future growth and requires management, with the advice of an external actuary, to make assumptions as to price inflation, dividend growth, salary and pension increases, the discount rate, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the year and financial position could be materially different if alternative assumptions were used. Further details are contained in note 30.

(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 1.13. Details of the Group's deferred tax assets and liabilities are contained in note 21.

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.

Accounting Policies – Continued

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:

- the absence of any expiry dates for Irish tax losses;
- the non-enduring nature of the dominant sources of losses in recent years;
- the continued generation of operating profits before provisions in recent years;
- the return to profitability within the Group's internal medium-term financial plan and the ability to grow profits thereafter.

Taking account of all relevant factors the Group believes that it is more likely than not that it will return to profitability within the timescale of its three year Financial Plans and will achieve profits producing a sustainable market-range return on equity in the long-term. In the absence of any expiry date for tax losses in Ireland, the Group therefore believes that it is more likely than not that there will be future taxable profits, in the relevant Group company's, against which to use the tax losses.

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.

(7) NAMA senior bonds designation and valuation

The basis for measurement, interest recognition and impairment of NAMA senior bonds are the same as those for all loans and advances (see accounting policy numbers 1.7, 1.15, and 1.17. As there is no active market for the NAMA senior bonds, accordingly, the fair value on initial recognition was determined using a valuation technique.

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

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

Accounting Policies – Continued

Going Concern

The Group's activities are subject to risk factors as set out in the Risk Management Report. The continued financial crisis has increased these risk factors.

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

The financial statements have been prepared on a going concern basis on the basis of the Board's assessment of the above mentioned risks and the commitment from the parent to support the funding and capital needs of the Group going forward. In making this assessment the Directors' have considered the basis on which the parent itself concluded that it is appropriate to prepare it's own financial statements for the year ended 31 December 2011 on a going concern basis.

Extract from the AIB p.l.c. Annual report and financial statements for the year ended 31 December 2011 (on this extract the Group refers to AIB Group).

The financial statements 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 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. 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. The Directors' also considered the Eurozone sovereign debt crisis in its assessment of the going concern basis.

Background

The deterioration in the Irish economy culminated in the EU/IMF Programme of Financial Support for Ireland. This deterioration, which persisted throughout 2010 and 2011, presents significant risks and challenges for the Group in the years ahead:

The funding position of the Group has been impacted by:

- *The downgrading of the Group and sovereign credit ratings;*
- *The withdrawal of the Irish Government from the funding markets; and*
- *The EU/IMF Programme of Financial Support and the consequent withdrawal of funds from Irish banks.*

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) to raise capital amounting to €14.8bn. This requirement was met by the end July 2011 through liability management exercises and Government capital injections (€5bn by way of an equity placing; a capital contribution of €6.1bn; and €1.6bn by way of a Contingent Capital Notes issuance).

Since 2010 and through 2011, AIB p.l.c. has had limited access to wholesale funding and has been dependant on secured funding from the European Central Bank ('ECB') and has utilised non standard facilities from the Central Bank for a limited period. The Bank ceased using non-standard facilities in April 2011. Breaches of liquidity ratios up to July 2011 were remedied as new capital was injected by the Government. However, AIB's CBI/ECB repo funding has continued, since October 2010, to exceed a regulatory limit of 25%.

Accounting Policies – Continued

Market volatility remained elevated and liquidity depressed during 2011 driven by the deterioration in global credit markets as sovereign difficulties in the Eurozone grew and the overall global macroeconomic environment remained uncertain. Credit spreads widened sharply, especially in the second half of the year, for certain countries within the Eurozone. This negative sentiment impacted on access to wholesale funding for certain sovereigns and credit institutions across Europe.

At different stages since the beginning of 2011, European leaders reaffirmed their commitment to the euro.

- *On 21 July 2011, a statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States;*
- *ECB decided to actively implement its Securities Markets Programme i.e. to intervene in the euro area public and private debt securities markets (to ensure depth and liquidity in those market segments which are dysfunctional);*
- *On 9 December 2011, the Heads of State or Government of the euro area and European Council agreed a package of measures to restore confidence in the financial markets which included:*
  - *a new fiscal compact and the strengthening of stabilisation tools for the euro area including a more effective European Financial Stability Facility (EFSF);*
  - *the bringing forward of the implementation of the European Stability Mechanism(ESM); and*
  - *a solution for the unique challenges faced by Greece.*
- *On 21 February 2012, European leaders agreed a second bail-out package for Greece in order to secure Greece's future in the euro area.*

These various measures, adopted since the beginning of 2011, are indicative of the commitment of all euro area Member States to save the euro and to support euro area members.

Capital

Under the EU/IMF Programme and the subsequent Financial Measures Programme published by the Central Bank in March 2011, which detailed the outcome of its review of capital (PCAR) and funding (PLAR), AIB was set a minimum capital target of 10.5% core tier 1 in the base scenario, and a 6% core tier 1 in the stress scenario, plus an additional protective buffer which could be in the form of contingent capital. The total PCAR requirement for AIB (including EBS) was €14.8bn. This requirement was met by the end July 2011 as outlined above. The Group's core tier 1 ratio at 31 December 2011 is 17.9% (2010: 4%). The Group's total capital ratio at 31 December 2011 is 20.5% (2010: 9.2%).

AIB has passed the European Banking Authority ('EBA') stress test in July 2011 and the EBA capital exercise in December 2011(which incorporated a capital buffer for sovereign exposures) without any further capital being required.

The Directors have reviewed the capital and financial plans for period of assessment and believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Irish Government, as AIB's primary shareholder, has 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.

Liquidity and funding

The Group's balance sheet saw significant change in 2011 arising from: the disposal of BZWBK; the acquisition of NAMA senior bonds and the deposit business from Anglo Irish Bankcorp ('Anglo'); the acquisition of EBS; the recapitalisation in July and asset deleveraging in the Non-Core segment. These changes reduced the funding requirement of AIB by €10bn in 2011. The cash proceeds from the sale of BZWBK, the State deposit in advance of the Government capital injection and the issuance of Own Use Bank Bonds (i.e. self issued MTN under the Government guarantee) enabled AIB exit non standard facilities in April 2011. Nonetheless, the Group remains heavily dependent on Central Bank/ECB support, which amounted to €31bn (including EBS) at 31 December 2011 down from €37bn (AIB only) at 31 December 2010.

Accounting Policies – Continued

AIB's access to wholesale funding markets continued to be restricted in 2011. This is a result of the continued negative sentiment towards the IMF/ECB bail out in the first half of 2011, the Europe-wide uncertainty in the second half of 2011 and the Group's credit rating. This increases the requirement for AIB to maintain/increase its deposit franchise, deleverage its balance sheet enabling reduction in wholesale funding dependency.

Customer deposits remain the largest source of funding for the Group. Excluding the Anglo and EBS deposits, plus the impact of the NTMA deposits at June 2011, the Group's deposits were broadly stable in the second half of 2011, notwithstanding the uncertainty Europe-wide in the latter months of the year.
While the Irish Sovereign's credit rating was downgraded in 2011 and contagion has spread to the broader euro area, the Irish Sovereign has been able to distinguish itself from the other peripheral countries. In particular, the Irish Government has met the fiscal requirements and the recapitalisation of its banks as part of its EU/IMF Programme which has resulted in bond yields significantly tightening since July 2011.

Notwithstanding the 2011 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 access to Central Bank funding support as required is considered to be assured due to its position as one of the two 'Pillar Banks' and in particular by the announcements by the ECB and the Minister for Finance on 31 March 2011 to the effect that the required Central Bank funding would be made available. Furthermore, the ECB confirmed that the Eurosystem would continue to provide liquidity to banks in Ireland, including AIB.

Furthermore, the Group have had discussions with the Central Bank and it sought assurance of the continued availability of the required liquidity from the Eurosystem during the period of assessment for the going concern statement. The Directors' are satisfied based on the clarity of confirmations received from the Central Bank and public announcements by the 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.

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.

The Directors' recognise that given the significant Irish and European economic, political and market risks and uncertainties that currently impact Irish Financial institutions, including the EBS and AIB Group, and EBS' dependence on its parent for capital and funding, there is material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. In considering the position of the Group the most relevant factors considered by the Board of Directors are:

- the injection of capital into the parent AIB Group of €14.8bn in July 2011 as required under the Financial measures programme published by the Central Bank in March 2011.
- the position of the parent as one of the two Pillar Banks in Ireland and the continued support of the Irish Government and ECB to continue to provide liquidity to banks in Ireland, including AIB Group.
- the assurance obtained by the parent from the Central Bank regarding the continued availability of the required liquidity from the Euro system during the period of assessment for the going concern statement.
- the fact that the parent has formally committed to support the funding and capital needs of the Group for a period of at least 12 months from the date these financial statements are approved by the Board.

On the basis of the above, the EBS Group 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.

Accounting Policies – Continued

Adoption of new accounting standards
The following amendments to standards have been adopted by the Group during the year ended 31 December 2011.

Amendment to IAS 24 – Related Party Disclosures
This amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. It also provides a partial exemption from the disclosure requirements for Government-related entities which, as permitted by the amendment, was early adopted by the Group in 2010.The remainder of the amendment impacts upon the disclosure of certain related party relationships, transactions and outstanding balances including commitments in the financial statements of the Group.

Amendment to IAS 32 – Financial Instruments: Presentation-Classification of rights issues
The amendment which is effective for annual periods beginning on or after 1 February 2010, states that if rights are issued by an entity pro rata to all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment did not have any impact on the Group's financial statements but may do so in the future.

Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement
The amendment which is effective for annual periods beginning on or after 1 January 2011 corrects an unintended consequence of IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction. Without the amendment, in some circumstances entities would not be permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendment corrects the problem. The revision will allow such prepayments to be recorded as assets in the statement of financial position. This IFRIC did not have any impact on the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
This IFRIC which is effective for annual periods beginning on or after 1 July 2010, clarifies the requirements of International Financial Reporting Standards ('IFRSs') when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The impact on the Group will be dependent on the nature of any future liability management actions undertaken by the Group.

Improvement to IFRSs May 2010
In May 2010, the IASB issued its third edition of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest ('NCI') have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership interests' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- IFRS 7 Financial Instruments - Disclosures: The amendment to IFRS 7 clarifies the required level of disclosure about credit risk and collateral held and provides relief from disclosures previously required regarding renegotiated loans.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Group has adopted the option of disclosing this analysis in the notes to the financial statements.

- IAS 34 Interim Financial Reporting: These amendments, which are effective for annual periods beginning on or after 1 January 2011, emphasise the principle in IAS 34 that disclosures about significant events and transactions in interim periods should update the relevant information presented

Accounting Policies – Continued

in the most recent annual financial report. Additional disclosure requirements included in the amendment require the Group to disclose:

- transfers between levels of the 'fair value hierarchy' used in measuring the fair value of financial instruments;
- changes in the classification of financial assets as a result of a change in the purpose or use of those assets;
- changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost; and;
- changes in contingent liabilities or contingent assets.

These amendments were adopted in the Group's most recent Interim financial statements.

Other amendments resulting from improvements to IFRS which the Group adopted in 2011 did not have any impact on the accounting policies, financial position or performance of the Group.

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section. The significant accounting policies below have been applied consistently to all periods presented in these Consolidated Financial Statements and have been applied consistently by Group entities, except for the change in accounting policy explained under basis of preparation. Certain comparative amounts have been amended in the Consolidated Income Statement and Statement of Financial position to comply with current year's presentation. See note 46 for full details.

The accounting policies, estimates and judgements adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2010, except for a voluntary change of accounting policy in respect of Property, Plant and Equipment. The change in accounting policy for Property, Plant and Equipment was from a revaluation model to a deemed cost model, both of which are acceptable in giving a fair presentation under IAS 16 Property, Plant and Equipment. As the change in accounting policy was voluntary there is a requirement under IAS 1: Presentation of Financial Statements, to present a minimum of three years statements of financial position being 2011 and comparatives for 2010 and 2009 and to restate the Income Statement, as required. The impact of this change in accounting policy on the financial statements for 2011 and comparative periods is shown in note 46.

1.5 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.

Accounting Policies – Continued

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.

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.

1.6 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.

1.7 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 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.

1.8 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.

Accounting Policies – Continued

1.9 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.

1.10 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.

1.11 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.

1.12 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

Accounting Policies – Continued

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.

1.13 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.

1.14 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.

Accounting Policies – Continued

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.

1.15 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.

Accounting Policies – Continued

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.

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.

Accounting Policies – Continued

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.

1.16 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

Accounting Policies – Continued

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.

1.17 Valuation of NAMA Senior Bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA. These bonds are designated as loans and advances and are separately disclosed in the statement of financial position as 'NAMA senior bonds'.

The basis for measurement, interest recognition and impairment are the same as those for loans and advances (see accounting policy numbers, 1.7, 1.15 and 1.18).

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. The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the instruments which market participants would factor into an appropriate valuation technique; determining the cash flows generated by the instruments including cash flows from assumed repo transactions; identifying a risk free discount rate; and applying an appropriate credit spread.

Accounting Policies – Continued

1.18 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.

Accounting Policies – Continued

1.19 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.

1.20 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.

1.21 Intangible Assets

Computer software and other intangible assets

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

Accounting Policies – Continued

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.

1.22 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

Accounting Policies – Continued

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.

1.23 Loans and Advances Held-for-Sale to NAMA

Assets that the Group believes will be transferred to NAMA are classified as financial assets held-for-sale to NAMA in the statement of financial position. These assets are measured on the same basis as prior to their classification as held-for-sale (see accounting policy number 1.18). Interest income and fee income for such assets are recognised on the same basis as for loans and advances and will be recognised up to the date of derecognition (see accounting policy number 1.7). The impairment policy for loans and advances as set out in accounting policy number 1.15 continues to apply.

Additionally, where the Group is retained to service the assets following their transfer to NAMA a provision is made for a servicing liability where the projected cost of servicing the assets is greater than the expected consideration to be received from NAMA. Any such servicing provision would form part of the loss on transfer.

Derecognition takes place on a date specified by NAMA for the legal transfer of the assets which is also the date on which the risks and rewards inherent in these assets transfer. The consideration received is measured at fair value. The difference between the carrying value at the date of derecognition less any amount previously provided where the Group considered that it had a constructive obligation to sell and less the servicing provision and consideration received is recognised in the income statement as a gain or loss in other operating income.

Accounting Policies – Continued

1.24 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.

1.25 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.

1.26 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.

Accounting Policies – Continued

1.27 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.

Special Investment Shares

Special investment shares represent the proceeds net of issuance costs from the issue of perpetual special investment shares to the Minister for Finance.

Ordinary Share capital

Ordinary share capital was issued when the special investment shares issued by EBS were converted to ordinary shares on the conversion of EBS from a building society to limited company on 1 July 2011. Additional ordinary shares were issued by EBS Limited and subsidiaries in return for cash or other consideration.

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.

Non-controlling interests

Non-controlling interests relate to the net issue proceeds of non-cumulative perpetual capital securities issued to outside shareholders of a subsidiary.

1.28 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.

1.29 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.

Accounting Policies – Continued

1.30 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 2012

Amendments to IFRS 7, Disclosures – Transfers of Financial Assets

In October 2010, the IASB issued amendments to IFRS 7 Financial Instruments: "Disclosures – Transfers of Financial Assets". These amendments, which are effective for annual period beginning on or after 1 July 2011, with earlier application permitted, comprise additional disclosures on transfer transactions of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the transferor of the assets. The impact of these amendments is currently being assessed by the Group.

The following will be applied in 2013 unless otherwise noted:

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. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements.

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. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This new standard will not change consolidation procedures for the Group, but will require management to assess whether an entity should be consolidated.

IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures, by focusing on the rights and obligations of the arrangement, rather than its legal form. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. The impact on the Group will be dependent on the formation of new joint arrangements by the Group.

IFRS 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".

The required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. This basic principle is further supported by more detailed disclosure objectives and requirements. This new standard will result in enhanced disclosures on the Group's subsidiaries and associates as well as unconsolidated structured entities.

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. The existing guidance and disclosure requirements for separate financial statements are unchanged.

Accounting Policies – Continued

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

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 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. 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 is being assessed by EBS and may result in significant additional disclosures.

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 significant 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 available under current IAS 19 have been eliminated which will result in increased comparability between the financial statements of IFRS reporters.

The most significant amendment is the requirement that actuarial gains and losses are now required to be recognised in other comprehensive income and are excluded permanently from profit or loss. In the past, there was an option to defer recognition of gains and losses. In addition, expected returns on plan assets will no longer be recognised in profit or loss. The expected return and the interest cost are replaced by recording net interest in profit or loss, net interest is calculated using the discount rate used to measure the pension obligation. Unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs will be recognised at the earlier of when the amendment/curtailment occurs and when the entity recognises related restructuring or termination costs.

Since EBS already recognises full actuarial gains and losses immediately, the removal of the option to defer will not impact its financial statements. Other aspects of the amendments are currently being assessed but are not expected to have a significant impact on the Group's profit or loss in the income statement.

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 disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. 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.

Accounting Policies – Continued

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 IAS 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 December 2010, the IASB issued an exposure draft on hedge accounting which will ultimately be incorporated into IFRS 9. The exposure draft proposes a model for hedge accounting that aims to align accounting with risk management activities. It is proposed that the financial statements will reflect the effect of an entity’s risk management activities that uses financial instruments to manage exposures arising from particular risks that could affect profit or loss. This aims to convey the context of hedge instruments to allow insight into their purpose and effect. This phase of IFRS 9 is not yet finalised.

Accounting Policies – Continued

The effective date for implementation of IFRS 9 is annual periods beginning on or after 1 January 2015, which was extended from 1 January 2013 due to delays in completing phases 2 and 3 of the project as well as the delay in the insurance project.

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

1.31 Comparatives

The 2009 and 2010 comparatives incorporate reclassifications made to the financial statements and notes to the accounts following an alignment of presentation with that adopted by the Group's ultimate Parent, AIB p.l.c. The changes in presentation are shown in note 46. The comparatives also include the adjustments due to the change of accounting policy in respect of Property, Plant and Equipment as we moved to a deemed cost basis from the revaluation basis. The impact of this accounting policy change is also shown in note 46.

2. 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.

3. NET INTEREST INCOME

	For the six months ended		For the full year ended	
	30 June 2011 €m	**31 December 2011 €m**	**31 December 2011 €m**	**31 December 2010 €m**
Interest Income and similar income				
Derivatives interest income	12.9	7.7	20.6	66.1
Loans and advances held-for-sale to NAMA	-	-	-	15.0
Available-for-sale financial assets	49.2	42.0	91.2	104.5
Loans and advances to credit institutions	2.2	3.0	5.2	7.7
Loans and advances to customers	302.9	359.2	662.1	530.5
Other interest receivable	-	-	-	3.9
	367.2	**411.9**	**779.1**	**727.7**
Interest Expense and similar charges				
Deposits by central banks	(29.3)	(21.5)	(50.8)	(22.0)
Deposits by credit institutions	(3.9)	(17.2)	(21.1)	(17.9)
Customer accounts	(158.9)	(152.6)	(311.5)	(299.1)
Derivatives interest expense	(39.3)	(25.9)	(65.2)	(105.8)
Debt securities in issue	(65.3)	(59.9)	(125.2)	(151.5)
Subordinated liabilities	(1.5)	-	(1.5)	(5.7)
Non controlling interests	-	-	-	1.9
Other	(2.4)	(1.1)	(3.5)	(3.7)
	(300.6)	**(278.2)**	**(578.8)**	**(603.8)**
Net Interest Income	**66.6**	**133.7**	**200.3**	**123.9**

Following the injection of capital from the Irish Government on 27 May 2010 the Society (in its capacity as the majority shareholder of EBS Capital) resolved to affect a dividend stopper with respect to the Capital Securities commencing from 30 June 2010. This resulted in the release of €2.6m of interest payable from 30 July 2009 to 31 December 2009 on the 2005 Capital Securities. No further interest was accrued on the Capital Securities outstanding since the last interest payment date of 29 July 2009 for the Capital Securities issued to Chess and 31 March 2010 for the Capital Securities issued to Green Island. All capital securities were redeemed on 21 June 2011 prior to the acquisition by AIB p.l.c. Further information on these non controlling interests is included in note 35.

Interest expense includes €62.8m (2010: €34.6m) 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. The government guarantee schemes are described in detail in note 41.

Included within various captions under interest income for the year ended 31 December 2011 is a total of €121.0m (2010: €26.9m) accrued on impaired financial assets.

Included within loans and advances to customers under interest income for the year ended 31 December 2011 is a credit of €32.0m for the Group (2010: Nil) due to a change in the accounting estimate of the average expected life of mortgages. There was no change to the average expected life of mortgages during 2010.

4. FEES AND COMMISSIONS

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December 2010 €m
Fees and commissions income				
Insurance commission income	4.1	4.0	8.1	10.0
Investment management commission income	2.2	2.0	4.2	4.2
Personal loan and credit card income	0.1	0.2	0.3	0.3
	6.4	**6.2**	**12.6**	**14.5**
Fees and Commissions expense				
Insurance commission expense	(1.3)	(1.2)	(2.5)	(3.8)
Investment management commission expense	(0.5)	(0.7)	(1.2)	(1.2)
Government guarantee scheme	-	-	-	(5.6)
	(1.8)	**(1.9)**	**(3.7)**	**(10.6)**

Government guarantee scheme charges in 2010 relate to charges payable under the Credit institutions (financial support) scheme ('CIFS') which ended on 29 September 2010 and are included in fees and commissions payable as they are not directly attributable to specific funding programs. The Government guarantee schemes are also described in detail in note 41.

Investment management commission income relates to fees earned by the Group on investment advisory services provided to its customers.

5. NET TRADING INCOME

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December 2010 €m
(Loss) Gain on hedge ineffectiveness:				
Derivatives held for hedging	(1.9)	0.5	(1.4)	1.0
Derivatives held at fair value through Income Statement	1.8	(0.9)	0.9	(3.0)
Interest income (expense) on derivatives held at fair value through Income Statement:				
Interest income	8.1	5.0	13.1	12.4
Interest expense	(4.1)	(4.2)	(8.3)	(6.9)
	3.9	**0.4**	**4.3**	**3.5**

Net loss recognised on cash flow hedges transferred to net trading income in the income statement from other comprehensive income during 2011 is €0.4m (2010: net gain €1.6m).

Net loss on fair value hedging instruments held in a qualifying fair value hedging relationship recognised in net trading income is €1.0m (2010: €0.6m).

Net gain recognised on derivatives held at fair value through the income statement is €0.9m (2010: net loss €3.0m).

6. 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 a 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 €159.0m 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 six months ended		For the full year ended	
			30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December 2010 €m
Gain on redemption of subordinated liabilities	*Discount*	*Take up rate*				
February 2011						
€100m Dated Subordinated Floating Rate Notes due November 2016	70.0%	72.6%	50.8	-	50.8	-
€60m Subordinated Floating Rate Notes due December 2014	70.0%	67.1%	28.2	-	28.2	-
GBP £30m Step-Up Fixed Rate Subordinated Notes due 19 December 2019	70.0%	50.0%	12.4	-	12.4	-
GBP £15m Step-Up Fixed Rate Subordinated Notes due 26 November 2019	70.0%	100.0%	12.4	-	12.4	-
June 2011						
€100m Dated Subordinated Floating Rate Notes due November 2016	82.5%	27.4%	22.6	-	22.6	-
€60m Subordinated Floating Rate Notes due December 2014	82.5%	32.9%	16.3	-	16.3	-
GBP £30m Step-Up Fixed Rate Subordinated Notes due 19 December 2019	82.5%	50.0%	12.7	-	12.7	-
February and June 2011						
Transaction costs written off			(1.6)	-	(1.6)	-
Gain on derivative breakage			5.2	-	5.2	-
Total	**73.0%**	**100.0%**	**159.0**	**-**	**159.0**	**-**

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 €5.2m at the date of redemption. This increased the carrying value and hence the gain on redemption of the bonds.

7. OTHER OPERATING INCOME

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December 2010 €m
(Loss) gain on disposal of securities	(8.1)	-	(8.1)	8.2
Gain on repurchase of debt securities in issue	-	-	-	0.3
Insurance claim income	-	-	-	6.9
Licence fee income	1.4	1.0	2.4	2.9
Other income	0.5	(0.1)	0.4	0.3
	(6.2)	**0.9**	**(5.3)**	**18.6**

During 2011 securities held in the available-for-sale portfolio were sold giving rise to a loss of €8.1m (2010: €8.2m gain). Debt securities repurchased during 2010 included €19.0m medium term notes (EMTN Series 100) issued by the Group. The overall gain was the difference between the carrying value of the debt securities at the date of repurchase and the total consideration paid including transaction costs and amounted to €0.3m.

Insurance claim income in 2010 relates to a settlement received on a comprehensive crime policy in respect of the activities of certain solicitors provided for in 2007.

Licence fee income relates to fees received from EBS agents.

8. TOTAL OPERATING EXPENSES

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December (Restated) 2010 €m
Personnel expenses	21.2	21.6	42.8	46.5
Other administrative expenses	23.4	20.4	43.8	36.8
Amortisation of intangibles (note 20)	2.6	2.5	5.1	5.3
Depreciation of property, plant and equipment (note 19)	2.4	2.4	4.8	5.0
	49.6	**46.9**	**96.5**	**93.6**

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December (Restated) 2010 €m
Personnel expenses comprise:				
Wages and salaries	17.5	17.9	35.4	38.5
Social welfare costs and health insurance	2.1	2.2	4.3	4.5
Defined benefit and defined contribution pension costs (note 30)	0.9	1.2	2.1	2.1
Other indirect staff costs	0.7	0.3	1.0	1.4
	21.2	**21.6**	**42.8**	**46.5**

The average number of full time equivalents employed by EBS in the financial year was 618 (2010: 657) and is analysed into the following categories:

	Total 2011	Total 2010
Permanent staff	572	616
Temporary staff	46	41
	618	**657**

The actual number of full time equivalents at 31 December 2011 is 613 (2010: 644). Full details of directors' remuneration are given in the related party transaction note (note 41).

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

Auditors' remuneration

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December 2010 €m
Fees & expenses paid to our statutory auditors are analysed as follows:				
Audit of individual and Group financial statements	-	0.2	0.2	0.3
Other assurance services	0.1	0.1	0.2	0.4
Other non-audit services	0.5	0.9	1.4	1.9
	0.6	**1.2**	**1.8**	**2.6**

Auditors' remuneration (including value added tax) in 2011 for audit services is €0.2m (2010: €0.3m) and for non audit services is €1.6m (2010: €2.3m). Fees for non audit services consist primarily of fees in connection with advisory services in relation to NAMA, EU restructuring plan and the sale process together 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.

9. TAXATION

The taxation credit for the year is as follows:

	For the six months ended		For the full year ended	
	30 June 2011 €m	31 December 2011 €m	31 December 2011 €m	31 December 2010 €m
The taxation credit for the year is as follows:				
Corporation tax charge	-	0.5	0.5	0.1
Deferred tax credit	(77.3)	(26.0)	(103.3)	(31.1)
	(77.3)	**(25.5)**	**(102.8)**	**(31.0)**

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:

Loss before tax at 12.5% (2010: 12.5%)	(4.5)	(27.2)	(31.7)	(77.4)
Current year tax losses not recognised	-	-	-	51.6
Capital allowances in excess of depreciation	-	(0.5)	(0.5)	0.3
Retirement benefits	-	(0.1)	(0.1)	0.5
(Over) under provision in prior years	(1.0)	2.0	1.0	(0.9)
Addbacks and income not taxable at standard rates	(20.0)	0.2	(19.8)	(1.5)
Recognition of prior years unrecognised tax losses	(51.6)	-	(51.6)	-
Other differences	(0.2)	0.1	(0.1)	(3.6)
	(77.3)	**(25.5)**	**(102.8)**	**(31.0)**

Income tax recognised in other comprehensive income

	2011 Before Tax €m	2011 Tax (expense) benefit €m	2011 Net of Tax €m	2010 Before Tax €m	2010 Tax (expense) benefit €m	2010 Net of Tax €m
Cash flow hedge reserve	10.4	(1.3)	9.1	30.7	(3.9)	26.8
Available-for-sale reserve	7.8	(1.0)	6.8	(207.0)	25.8	(181.2)
Net actuarial loss on retirement benefits	(17.3)	(0.7)	(18.0)	(4.2)	0.6	(3.6)
	0.9	**(3.0)**	**(2.1)**	**(180.5)**	**22.5**	**(158.0)**

10. LOSS ON TRANSFER OF LOANS AND ADVANCES HELD-FOR-SALE TO NAMA

Analysis of loss on transfer of assets to NAMA

	For the six months ended 30 June 2011 €m	For the six months ended 31 December 2011 €m	For the full year ended 2011 €m	For the full year ended 2010 €m
Nominal amount of loans transferred to NAMA	-	77.0	77.0	836.4
Impairment provisions utilised (note 16)	-	(39.6)	(39.6)	(257.7)
Carrying value of assets transferred to NAMA	-	37.4	37.4	578.7
Nominal amount of consideration received	-	(38.0)	(38.0)	(331.0)
Increase in Tranche 4 and 5 valuations	(4.0)	(15.0)	(19.0)	-
Reversal of prior period loss – loans returned from NAMA	(6.2)	(0.3)	(6.5)	-
Costs associated with transfer and fair value adjustments on securities received	0.7	(1.4)	(0.7)	27.9
(Gain) Loss on transfer of assets to NAMA	**(9.5)**	**(17.3)**	**(26.8)**	**275.6**

During 2011, the Group transferred €77.0m (2010: €836.4m) 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.

2011

	Transfer Date	Nominal amount of loans transferred €m	Nominal amount of consideration received €m	Original Discount applied €m
Tranche 6	30 September 2011	77.0	38.0	50.6%
		77.0	**38.0**	**50.6%**

2010

	Transfer Date	Nominal amount of loans transferred €m	Nominal amount of consideration received €m	Original Discount applied €m
Tranche 1	26 March 2010	143.8	91.0	36.7%
Tranche 1A	29 May 2010	13.0	7.4	43.0%
Tranche 2	03 July 2010	22.9	11.6	49.2%
Tranche 3	22 October 2010	109.2	45.0	58.8%
Tranche 4 and 5	17 December 2010	547.5	176.0	67.9%
		836.4	**331.0**	**60.4%**

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 13 and 14 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 €19.0m resulting in a revised haircut from 67.9% to 64.3% and a reversal of the loss of €19.0m 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 €9.8m 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.

11. CASH AND BALANCES WITH CENTRAL BANKS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Cash in hand	5.6	4.8	5.6	4.8
Balances with Central Banks other than mandatory reserve deposits	141.5	212.1	141.5	226.1
Total cash and balances with Central Banks	**147.1**	**216.9**	**147.1**	**230.9**

2010 comparatives have been reclassified to adjust for the change in reporting approach to exclude mandatory reserve deposits as part of cash and balances with central banks and to include them in Loans and Advances to Credit Institutions.

12. CASH AND CASH EQUIVALENTS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
For the purposes of the cash flow statement the cash and cash equivalents comprise the following:				
Cash and balances with Central Banks	147.1	216.9	147.1	230.9
Loans and advances to credit institutions	3,680.9	2,908.0	91.9	107.5
	3,828.0	**3,124.9**	**239.0**	**338.4**

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 15.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Government bills	179.5	221.0	179.5	221.0
Debt securities	3,733.4	3,508.7	1,324.1	2,140.7
Promissory note	206.3	205.8	206.3	205.8
Equity securities	5.9	7.8	5.9	7.8
	4,125.1	**3,943.3**	**1,715.8**	**2,575.3**

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. Information on the Promissory Note is included in note 34.

The carrying value of the Promissory Note is different to that shown in note 34 Capital Contribution as it reflects the interest capitalised to date less payments received from the Irish Government and the fair value adjustment derived using valuation technique utilising observable market inputs.

Available-for-sale financial assets – contractual maturity analysis

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Maturing within three months	126.9	303.4	126.9	303.4
Maturing between three months and one year	176.2	441.7	176.2	439.5
Maturing between one and five years	3,575.5	2,038.4	1,195.5	1,575.0
Maturing between five and ten years	240.6	1,152.0	211.3	249.6
	4,119.2	**3,935.5**	**1,709.9**	**2,567.5**

At 31 December 2011 an impairment charge of €11.7m (2010: €11.4m) 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 €m	Gross gains €m	Gross losses €m	Net gain (loss) €m
Group – 31 December 2011				
Government bills	179.5	-	(12.8)	(12.8)
Debt securities	1,324.1	6.3	(165.0)	(158.7)
Promissory note	206.3	-	(32.4)	(32.4)
Equity securities	5.9	0.3	(0.2)	0.1
	1,715.8	**6.6**	**(210.4)**	**(203.8)**
Company – 31 December 2011				
Government bills	179.5	-	(12.8)	(12.8)
Debt securities	3,733.4	6.3	(513.6)	(507.3)
Promissory note	206.3	-	(32.4)	(32.4)
Equity securities	5.9	0.3	(0.2)	0.1
	4,125.1	**6.6**	**(559.0)**	**(552.4)**
Group – 31 December 2010				
Government bills	221.0	0.2	(20.2)	(20.0)
Debt securities	2,140.7	27.0	(174.2)	(147.2)
Promissory note	205.8	-	(44.2)	(44.2)
Equity securities	7.8	-	(0.1)	(0.1)
	2,575.3	**27.2**	**(238.7)**	**(211.5)**
Company (formerly Society) – 31 December 2010				
Government bills	221.0	0.2	(20.2)	(20.0)
Debt securities	3,508.7	11.8	(494.5)	(482.7)
Promissory note	205.8	-	(44.2)	(44.2)
Equity securities	7.8	-	(0.1)	(0.1)
	3,943.3	**12.0**	**(559.0)**	**(547.0)**

14. NAMA SENIOR BONDS

Group and Company (formerly Society)	2011 €m	2010 €m
At 1 January	305.9	-
Bonds reclassified from available-for-sale financial assets at 1 July	-	91.5
Nominal value of bonds acquired from NAMA during the year	54.0	221.0
Fair value adjustments of bonds received during the period	(0.9)	(6.6)
Amortisation of discount	0.7	-
Redemption of bonds	(13.0)	-
NAMA senior bonds	**346.7**	**305.9**

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 1.7, 1.15 and 1.17.

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.

In the 2010 half year unaudited accounts these bonds were classified as available-for-sale financial assets, however following the half year greater clarity was achieved in relation to the nature of the bonds which allowed them to be classified as loans and advances. With effect from 1 July 2010 those bonds held at 30 June 2010 were reclassified from available-for-sale to loans and advances and at each of the acquisition dates for the subsequent tranches the bonds were recognised as loans and advances. This had no impact on the AFS Reserve as the carrying value of the bonds at 30 June 2010 had not changed since initial recognition.

During 2011 EBS received €54.0m (2010:€221.0m) of senior bonds from NAMA being €38.0m in respect of Tranche 6 assets transferred, €19.0m to reflect the increase in the valuation of loans transferred under Tranches 4 and 5 and €3.0m returned in respect of assets transferred from NAMA to EBS. The estimated fair value of NAMA Senior Bonds at December 2011 is €350.6m (2010: €301.1m). Further information is set out in note 10.

At 31 December 2011, these bonds were assessed for impairment in line with the accounting policy 1.15 “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 2011 NAMA redeemed €13.0m bonds at par (2010: Nil).

15. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Repayable in less than three months	3,749.7	2,992.8	421.9	192.9
Mandatory reserve deposits with Central Bank	22.1	19.3	22.1	19.3
	3,771.8	**3,012.1**	**444.0**	**212.2**

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

At 31 December 2011, in addition to the mandatory reserve deposits, the Group has €330.0m (2010: €73.3m) 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 2011, in addition to the mandatory reserve deposits, EBS has €68.7m (2010: €105.1m) 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 2011 loans outstanding between the Company and its subsidiary, EBS Mortgage Finance, amounted to €3,613.5m (2010: €2,872.4m).

The 2010 comparatives have been reclassified to adjust for the change in reporting approach to include mandatory reserve deposits and cash in transit as part of loans and advances to credit institutions.

16. LOANS AND ADVANCES HELD-FOR-SALE TO NAMA

Group and Company (formerly Society)	2011 €m	2010 €m
At 1 January	37.9	750.6
Transfer (to) from loans and advances to customers	11.4	(10.8)
Transfer from provision for loan impairments (note 17)	(1.6)	(6.4)
Impairment provisions utilised (note 10)	39.6	257.7
Charge for impairment of loans and advances held-for-sale to NAMA	(10.3)	(116.8)
Nominal value of loans transferred to NAMA (note 10)	(77.0)	(836.4)
Loans and advances held-for-sale to NAMA	**-**	**37.9**

The Irish government set up an asset relief scheme (the ‘scheme’) in 2009 under the auspices of the National Asset Management Agency (‘NAMA’) in Ireland. The legislative basis for NAMA is the National Asset Management Agency Act 2009 enacted on 22 November 2009. The scheme was approved by the European Commission on 26 February 2010. EBS was a participating institution in the scheme.

Those assets that transferred to NAMA included land and development, residential and commercial exposures. NAMA paid for these loans on the basis of valuations carried out by advisors in accordance with the pre-defined approved methodology. EBS incurred a loss on the transfer of these loans as a result of the difference between the carrying value of the assets transferred and the net fair value of the consideration received.

During the year, held-for-sale assets with a nominal value of €77.0m (2010: €836.4m) were transferred to NAMA at an average discount of 50.6% (2010:60.4%). Further information in relation to this transfer is included in note 10. In 2011, net loans of €11.4m were reclassified to loans and advances held-for-sale to NAMA from loans and advances to customers following a request from NAMA. In 2010, net loans of €10.8m were reclassified back to loans and advances to customers from loans and advances held-for-sale to NAMA as these loans were no longer required by NAMA.

During the year an impairment charge of €10.3m (2010: €116.8m) was recognised in respect of loans in this category.

LOANS AND ADVANCES HELD-FOR-SALE TO NAMA – ANALYSIS BY CONTRACTUAL MATURITY

Group and Company (formerly Society)	2011 €m	2010 €m
Repayable on demand	-	4.8
Repayable in more than three months but less than one year	-	1.2
Repayable in more than one but less than five years	-	4.2
Repayable in more than five years	-	55.4
Total loans and advance held-for-sale to NAMA before provisions	**-**	**65.6**
Less unearned income provision	-	(0.4)
Less provision for loan impairments	-	(27.3)
Total loans and advance held-for-sale to NAMA	**-**	**37.9**

LOANS AND ADVANCES HELD-FOR-SALE TO NAMA – ANALYSIS BY SECTOR

Group and Company (formerly Society)	2011 €m	2010 €m
Commercial Buy-to-Let	-	9.3
Total Residential	**-**	**9.3**
Commercial	-	55.1
Development Finance	-	1.2
Total loans and advances to customers before provisions	**-**	**65.6**
Less provision for loan impairments	-	(27.7)
Total loans and advance held-for-sale to NAMA	**-**	**37.9**

PROVISION FOR LOAN IMPAIRMENTS ON LOANS AND ADVANCES HELD-FOR-SALE TO NAMA

Group and Company (formerly Society)	2011 €m	2010 €m
Individual provision for loan impairments		
At 1 January	27.7	142.6
Charge for impairment losses	10.3	102.0
Transfer from loans and advances to customers (note 17)	1.6	10.8
Impairment provisions utilised	(39.6)	(227.7)
At 31 December	-	27.7
Collective provision for loan impairments		
At 1 January	-	19.6
Charge for impairment losses	-	14.8
Transfer (to) from loans and advances to customers (note 17)	-	(4.4)
Impairment provisions utilised	-	(30.0)
At 31 December	-	-
Total provision for loan impairments	**-**	**27.7**

17. LOANS AND ADVANCES TO CUSTOMERS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Repayable on demand	1,545.9	1,014.5	2,321.8	1,416.8
Repayable in less than three months	74.7	60.2	98.1	78.2
Repayable in more than three months but less than one year	65.7	65.5	71.3	69.3
Repayable in more than one but less than five years	189.6	160.8	303.4	258.8
Repayable in more than five years	6,414.2	9,868.4	13,449.1	14.997.8
Total loans and advances to customers before provisions	8,290.1	11,169.4	16,243.7	16,820.9
Less unearned income provision	(9.4)	(2.2)	(10.1)	(2.3)
Less provision for loan impairments	(687.8)	(354.4)	(948.8)	(417.7)
Total loans and advances to customers after provisions	7,592.9	10,812.8	15,284.8	16,400.9
Plus deferred acquisition costs	47.8	47.5	84.9	66.5
Total loans and advances to customers	**7,640.7**	**10,860.3**	**15,369.7**	**16,467.4**

LOANS AND ADVANCES TO CUSTOMERS – ANALYSIS BY SECTOR

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Home loans	5,279.9	7,934.3	13,490.9	13,965.5
Retail Buy to Let	908.1	955.5	1,399.6	1,468.1
Commercial Buy to Let	461.7	453.2	461.7	453.2
Total Residential	6,649.7	9,343.0	15,352.2	15,886.8
Commercial	891.5	934.1	891.5	934.1
Total customer loans	7,541.2	10,277.1	16,243.7	16,820.9
Loans to subsidiaries and consolidated special purpose vehicles	748.9	892.3	-	-
Total loans and advances to customers before provisions	8,290.1	11,169.4	16,243.7	16,820.9
Less unearned income provision	(9.4)	(2.2)	(10.1)	(2.3)
Less provision for loan impairments	(687.8)	(354.4)	(948.8)	(417.7)
Total loans and advances to customers after provisions	7,592.9	10,812.8	15,284.8	16,400.9
Plus deferred acquisition costs	47.8	47.5	84.9	66.5
Total loans and advances to customers	**7,640.7**	**10,860.3**	**15,369.7**	**16,467.4**

Included in Group loans and advances to customers is €7,572.2m (2010: €5,414.9m) of loans in the covered bond bank, EBS Mortgage Finance, €3,899.3m (2010: €3,989.7m) of loans held through securitisation vehicles Emerald No.4, Emerald No.5 and Mespil 1 RMBS Limited and nil (2010: €2,272.7m) collateral pledged under the mortgage backed promissory note programme (refer to note 40). Unencumbered loans available as collateral for repossession purposes, as at 31 December 2011, were €636.2m (2010: €786.5m). Loans to directors are disclosed in Note 41.

Fair value of the collateral held for Residential Mortgages is €13,187.4m at 31 December 2011 (2010: €14,648.1m) based on the CSO house price index.

Fair value of the collateral held for Commercial Mortgages is €603.8m at 31 December 2011 (2010: €761.5m) 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 2011 €m		Group 2010 €m
Individual provision for loan impairments				
At 1 January		207.7		43.9
Charge for impairment losses				
Commercial assets	67.8		65.7	
Residential assets	97.3		108.6	
Total charge for impairment losses	165.1	165.1	174.3	174.3
Transfer from collective impairment provision		385.7		-
Transfer to loans and advances held-for-sale to NAMA (note 16)		(1.6)		(10.8)
Provisions written off (written back)		(0.1)		0.3
At 31 December		756.8		207.7
Collective provision for loan impairments				
At 1 January		210.0		104.2
Charge for impairment losses				
Commercial assets	40.1		5.8	
Residential assets	327.6		96.3	
Total charge for impairment losses	367.7	367.7	102.1	102.1
Transfer to individual impairment provision		(385.7)		-
Transfer from loans and advances held-for-sale to NAMA (note 16)		-		4.4
Provisions written off		-		(0.7)
Transfer of impairment to subsidiary		-		-
At 31 December		192.0		210.0
Total provision for loan impairments at 31 December		**948.8**		**417.7**
Unearned income provision		10.1		2.3
Total provision for loan impairments (including unearned income provision)		**958.9**		**420.0**

The impairment charge recognised in the Income Statement has increased to €529.4m (2010: €271.4m). This is described in detail in the Directors' Report on page 5.

During 2011, the criteria for determining the individual, and therefore collective provisions was amended. This resulted in €385.7m 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 €529.4m is based on total charges above of €532.8m net of €3.4m (2010: €5.0m) settlement received from Genworth in respect of mortgage indemnity insurance on a pool of loans which were greater than 6 months in arrears.

Company

		2011 €m		*(formerly Society)* 2010 €m
Individual provision for loan impairments				
At 1 January		195.3		42.1
Charge for impairment losses				
Commercial assets	67.8		65.7	
Residential assets	48.6		98.0	
Total charge for impairment losses	116.4	116.4	163.7	163.7
Transfer from collective impairment provision		204.1		-
Transfer to loans and advances held-for-sale to NAMA (note 16)		(1.6)		(10.8)
Provisions written off (written back)		(0.1)		0.3
At 31 December		514.1		195.3
Collective provision for loan impairments				
At 1 January		159.1		83.3
Charge (credit) for impairment losses				
Commercial assets	40.1		5.8	
Residential assets	178.6		68.0	
Total charge for impairment losses	218.7	218.7	73.8	73.8
Transfer to individual impairment provision		(204.1)		-
Transfer from loans and advances held-for-sale to NAMA (note 16)		-		4.4
Provisions written off		-		(0.8)
Transfer of impairment to subsidiary		-		(1.6)
At 31 December		173.7		159.1
Total provision for loan impairments at 31 December		**687.8**		**354.4**
Unearned income provision		9.4		2.2
Total provision for loan impairments (including unearned income provision)		**697.2**		**356.6**

The impairment charge recognised in the Company Income Statement has increased to €332.7m (2010: €233.0m).

During 2011, the criteria for determining the individual and therefore collective provisions was amended. This resulted in €204.1m 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 €332.6m is based on total charges above of €335.1m net of €2.5m (2010: €4.5m) 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 2011 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 (2010: €1,500m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2011 is €914.5m (2010: €968.3m). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €892.0m (2010: €945.0m) and is also disclosed in note 26. The carrying amount of the loan note in EBS issued to Emerald 4 amounts to €917.3m (2010: €972.7m) and is also disclosed in note 25.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €16.5m (2010: €16.5m), 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 €2,500.0m (2010: €2,500.0m). The amount of transferred secured loans that the Group continues to recognise at 31 December 2011 is €2,003.5m (2010: €2,021.8m). 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.

EBS participates in the securitisation through the provision of administration services and unsecured loan financing of €30.2m (2010: €93.8m), which is subordinated to the interest of the bond holders. During 2011 the deal was restructured. Subordinated bonds to the value of €63.6m were redeemed and replaced by another form of credit enhancement "Z loans", in the amount of €358.0m.

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 €1,001.0m (EBS €290.0m; Haven €711.0m).

The amount of transferred secured loans that the Group continues to recognise as at 31 December 2011 is €981.3m (2010: €999.6m) in relation to the transfers from EBS and Haven Mortgages Limited.

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 €11.3m (2010: €11.3m), which is subordinated to the interest of the bond holders.

18. SHARES IN GROUP UNDERTAKINGS

Company (formerly Society)	2011 €m	2010 €m
At 1 January	345.5	267.5
Investment in subsidiary	160.0	123.2
Impairment of investment	(12.4)	(45.2)
Share redemption	(16.6)	-
At 31 December	**476.5**	**345.5**

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 750,000 €1.25 Class A shares in EBS Capital No. 1 SA ('EBS Capital'), a 100% (2010: 91%) owned subsidiary incorporated in Luxembourg. The registered address of the company is 2 Avenue Charles De Gaulle, L 1653, Luxembourg. The company raised external capital for EBS in 2005 and in 2007 by issuing Class B shares ('capital securities').

On 23 June 2010 EBS purchased 70% of the capital securities issued in 2005 and 63% of the capital securities issued in 2007 which resulted in its shareholding increasing from 75% to 91%. The purchase of the shares amounted to €73.2m including costs.

On 23 February 2011 Haven Mortgages Limited ('Haven') a wholly owned subsidiary of EBS purchased 15% of the capital securities issued in 2005 and 15% of the capital securities issued in 2007 which resulted in the Group's shareholding increasing from 91% to 95%. The purchase of the shares amounted to €7.9m including costs.

On 22 June 2011 EBS Capital completed the redemption of 100% of the capital securities issued in 2005 and 2007 including those held by EBS and Haven. On completion of this transaction the Group's shareholding increased from 95% to 100%. This is further explained in note 35.

At an Extraordinary General Meeting of EBS Capital held on 30 December 2011 a resolution was passed to put the company into liquidation and a liquidator was appointed.

(iv) EBS holds 476,540,000 (2010: 316,540,000) €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 €160.0m (2010: €50.0m) of ordinary shares were issued by EBS Mortgage Finance to EBS.

EBS assessed its investments in Group undertakings for impairment at 31 December 2011 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 with the exception of the investment in EBS Capital.

The carrying value before impairment of EBS' investment in EBS Capital at 31 December 2011 is €1.0m being Class A shares (2010: €74.2m being Class A shares of €1.0m acquired in July 2005 and October 2007 and Class B shares (capital securities) of €73.2m acquired in June 2010).

In February 2011 Haven Mortgages purchased capital securities at a price less than carrying value of the capital securities in the EBS accounts and as there was no expectation that the reduction in the fair value of the capital securities held by EBS was other than permanent, an impairment provision of €11.4m (2010: €45.2m) was recognised in the EBS income statement in February 2011. This impairment charge does not affect the Group position as it is eliminated on consolidation.

The fair value of the Class A share is based on the net assets of EBS Capital No 1 S.A and as the net assets of the company are significantly less than the carrying value of the Class A shares in the EBS accounts at 31 December 2011, the investment was assessed for impairment. As there is no expectation that the reduction in the fair value of the Class A share held by EBS is other than permanent, an impairment provision of €1.0m (2010: Nil) is recognised in the EBS Income Statement. The total impairment charge recognised in 2011 in relation to the capital securities and class A shares amounts to €12.4m. This impairment charge does not affect the Group position as it is eliminated on consolidation.

The carrying value before impairment of EBS' investment in EBS Capital at 31 December 2010 was €74.2m being Class A shares of €1.0m acquired in July 2005 and October 2007 and capital securities of €73.2m acquired in June 2010. As there was no active market and there was a reduction in the fair value of the capital securities held by EBS, a €45.2m impairment was recognised in the EBS income statement in December 2010 resulting in the carrying value after impairment charge of €29.0m at 31 December 2010.

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.

EBS Capital was placed in liquidation on the 30 December 2011 and is in the process of being wound up.

19. PROPERTY, PLANT AND EQUIPMENT

Group

	2011					2010				
	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 (Restated) €m
Cost or Valuation										
At 1 January	29.9	10.0	19.5	22.7	82.1	29.9	10.0	19.5	22.0	81.4
Additions	-	-	0.1	0.5	0.6	-	-	-	0.9	0.9
Disposals	-	-	-	(0.2)	(0.2)	-	-	-	(0.2)	(0.2)
At 31 December	**29.9**	**10.0**	**19.6**	**23.0**	**82.5**	**29.9**	**10.0**	**19.5**	**22.7**	**82.1**
Accumulated Depreciation										
At 1 January	6.0	3.0	12.3	16.3	37.6	5.1	2.5	10.6	14.5	32.7
Charge for year	0.9	0.5	1.6	1.8	4.8	0.9	0.5	1.7	1.9	5.0
Disposals	-	-		(0.1)	(0.1)	-	-	-	(0.1)	(0.1)
At 31 December	**6.9**	**3.5**	**13.9**	**18.0**	**42.3**	**6.0**	**3.0**	**12.3**	**16.3**	**37.6**
Net book amounts at 31 December	**23.0**	**6.5**	**5.7**	**5.0**	**40.2**	**23.9**	**7.0**	**7.2**	**6.4**	**44.5**

Company *(formerly Society)*

	2011					2010				
	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 (Restated) €m
Cost or Valuation										
At 1 January	29.9	10.0	19.5	21.0	80.4	29.9	10.0	19.5	20.3	79.7
Additions	-	-	0.1	0.5	0.6	-	-	-	0.9	0.9
Disposals	-	-	-	(0.1)	(0.1)	-	-	-	(0.2)	(0.2)
At 31 December	**29.9**	**10.0**	**19.6**	**21.4**	**80.9**	**29.9**	**10.0**	**19.5**	**21.0**	**80.4**
Accumulated Depreciation										
At 1 January	6.0	3.0	12.3	15.3	36.6	5.1	2.5	10.6	13.8	32.0
Charge for year	0.9	0.5	1.6	1.5	4.5	0.9	0.5	1.7	1.6	4.7
Disposals	-	-	-	(0.1)	(0.1)	-	-	-	(0.1)	(0.1)
At 31 December	**6.9**	**3.5**	**13.9**	**16.7**	**41.0**	**6.0**	**3.0**	**12.3**	**15.3**	**36.6**
Net book amounts at 31 December	**23.0**	**6.5**	**5.7**	**4.7**	**39.9**	**23.9**	**7.0**	**7.2**	**5.7**	**43.8**

Land and buildings to the value of €35.2m (2010 €38.1m) are occupied by the Group for its own activities. The carrying value of land and buildings comprises Freeholds of €23.0m (2010: €23.9m), Long Leaseholds of €6.5m (2010: €7.0m) and Short Leaseholds of €5.7m (2010: €7.2m). 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. The comparative figures in both the income statement and the statement of financial position for 2010 and 2009 have been restated to reflect this change in accounting policy. See accounting policies, basis of preparation note 1.20 and note 46 for further details.

At 31 December 2011, the Directors' reviewed property, plant and equipment for impairment in accordance with IAS 36 and concluded that impairment provisions were not required for 2011.

20. INTANGIBLE ASSETS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Computer software (and development costs)				
Cost				
At 1 January	67.1	64.7	73.1	70.7
Additions – Internal development	2.7	1.9	2.8	1.9
Additions – Purchased	0.3	0.5	0.3	0.5
At 31 December	**70.1**	**67.1**	**76.2**	**73.1**
Amortisation				
At 1 January	49.4	44.8	51.2	45.9
Charge for year	4.3	4.6	5.1	5.3
At 31 December	**53.7**	**49.4**	**56.3**	**51.2**
Net book amounts at 31 December	**16.4**	**17.7**	**19.9**	**21.9**

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 2011.

21. DEFERRED TAXATION

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group (Restated) 2010 €m
At 1 January	80.8	30.2	71.4	18.1
Current year tax losses	115.8	31.3	128.0	31.3
Amount credited (charged) to income statement	2.1	(0.6)	(24.7)	(0.5)
Amount (charged) credited to reserves	(2.4)	19.9	(3.0)	22.5
At 31 December	**196.3**	**80.8**	**171.7**	**71.4**
The amounts provided in relation to deferred taxation are as follows:				
Retirement benefits	3.5	2.2	3.5	2.2
Capital Allowances in excess of depreciation	(0.3)	(0.8)	(8.5)	(8.7)
Available-for-sale financial assets	25.4	26.4	25.4	26.4
Cash flow hedge reserve	4.1	5.4	4.1	5.4
Tax losses recognised	163.6	47.6	175.6	47.6
Other temporary differences	-	-	(28.4)	(1.5)
	196.3	**80.8**	**171.7**	**71.4**

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

At 31 December 2011 recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €171.7m (2010: €71.4m). 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.

22. OTHER ASSETS

	Company 2011 €m	**Company *(formerly Society)* 2010 €m**	**Group 2011 €m**	**Group 2010 €m**
Items in transit	44.6	25.1	44.6	25.1
Lending assets fair value hedge	4.6	3.6	4.6	3.6
Other assets	0.3	19.7	9.7	5.3
	49.5	**48.4**	**58.9**	**34.0**

23. DEPOSITS BY CENTRAL BANKS – CONTRACTUAL MATURITY ANALYSIS

	Company 2011 €m	**Company *(formerly Society)* 2010 €m**	**Group 2011 €m**	**Group 2010 €m**
Repayable in less than three months	3,865.0	4,880.0	3,865.0	4,880.0
	3,865.0	**4,880.0**	**3,865.0**	**4,880.0**

Deposits By Central Banks – Analysis by Counterparty

	Company 2011 €m	**Company *(formerly Society)* 2010 €m**	**Group 2011 €m**	**Group 2010 €m**
ECB repurchase agreements	3,865.0	3,380.0	3,865.0	3,380.0
CBI repurchase agreements	-	1,500.0	-	1,500.0
	3,865.0	**4,880.0**	**3,865.0**	**4,880.0**
Balances placed by monetary authorities				
ECB repurchase agreements – average	3,542.1	2,349.0	3,542.1	2,349.0
ECB repurchase agreements – maximum	4,850.0	4,680.0	4,850.0	4,680.0
CBI repurchase agreements – average	233.0	41.2	233.0	41.2
CBI repurchase agreements – maximum	1,600.0	1,500.0	1,600.0	1,500.0

Borrowings from the ECB continued at elevated levels throughout 2011 as market conditions and rating downgrades caused further falls in corporate funding which were replaced by ongoing ECB Repo borrowings. Central Bank of Ireland CBI borrowings outstanding at end 2010 were repaid in full during May 2011. All such borrowings from Central Banks are fully collateralised. Further information on collateral provided is included in note 40.

24. DEPOSITS BY CREDIT INSTITUTIONS – CONTRACTUAL MATURITY ANALYSIS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Repayable in less than three months	1,509.0	889.6	1,492.2	876.2
Repayable in more than five years	-	250.0	-	-
	1,509.0	**1,139.6**	**1,492.2**	**876.2**

At 31 December 2010 the deposits repayable in more than five years relates to a deposit by EBS Capital No: 1 SA, which is eliminated on consolidation. These deposits were redeemed during 2011.

Deposits By Credit Institutions – Analysis by Counterparty

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Bi-lateral repurchase agreements	341.6	738.3	341.6	738.3
Inter-company funding from AIB Group	1,150.6	-	1,150.6	-
Other	16.8	401.3	-	137.9
	1,509.0	**1,139.6**	**1,492.2**	**876.2**

The Company has a borrowing facility with its ultimate parent AIB p.l.c. under which the parent company provides funding in the normal course of business on an arms length basis.

25. CUSTOMER ACCOUNTS – CONTRACTUAL MATURITY ANALYSIS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Repayable on demand	2,068.7	1,620.1	2,068.7	1,359.1
Repayable in less than three months but not on demand	1,638.7	3,296.8	1,638.7	3,296.8
Repayable in more than three months but less than one year	2,651.0	3,236.1	2,651.0	3,236.1
Repayable in more than one year but less than five years	2,115.7	1,524.7	2,115.7	1,524.7
Repayable in more than five years	918.9	946.5	1.6	7.1
	9,393.0	**10,624.2**	**8,475.7**	**9,423.8**

Customer Accounts – Analysis by Sector

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Retail	6,786.2	6,715.5	6,786.2	6,715.5
Corporate	1,689.5	2,936.0	1,689.5	2,708.3
Securitisation	917.3	972.7	-	-
	9,393.0	**10,624.2**	**8,475.7**	**9,423.8**

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 17.

26. DEBT SECURITIES IN ISSUE

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Medium term notes	1,261.2	1,444.5	1,261.2	1,444.5
Certificates of deposit	58.5	60.8	58.5	60.8
Schuldschein issued	49.0	61.4	49.0	61.4
Securitised bonds	-	-	892.0	945.0
Covered bonds	-	-	1,048.9	1,047.6
	1,368.7	**1,566.7**	**3,309.6**	**3,559.3**
Maturity Profile – Debt Securities in Issue:				
Repayable in no more than 1 year	112.6	256.8	1,111.1	249.1
Repayable in more than 1 year but not more than 2 years	43.5	60.2	43.5	1,115.5
Repayable in more than 2 years but not more than 5 years	1,187.9	1,169.7	1,238.0	1,169.7
Repayable in more than 5 years	24.7	80.0	917.0	1,025.0
	1,368.7	**1,566.7**	**3,309.6**	**3,559.3**
Details of Debt Securities in Issue by currency are as follows:				
EURO	1,294.9	1,376.1	3,235.8	3,368.7
GBP	73.8	130.7	73.8	130.7
CZK	-	59.9	-	59.9
	1,368.7	**1,566.7**	**3,309.6**	**3,559.3**

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 17. Details of debt securities pledged as collateral against Group and Company borrowings is provided in note 40.

During the year ended 31 December 2011 no new debt securities were issued by the Group. The Group issued €1,025.0m of medium term notes during the year to 31 December 2010. Details of debt securities issued are as follows:

EMTN Series	Issue Date	Maturity Date	Interest Rate	2011 €m Nominal	2010 €m Nominal
EMTN Series 155	Feb-10	Feb-15	Fixed 400 bps	-	1,000.0
EMTN Series 11	Mar-10	Mar-15	Fixed 499 bps	-	25.0
				-	**1,025.0**

27. CURRENT TAXATION

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Corporation taxes recoverable	(4.2)	(4.5)	(4.2)	(4.5)
Other taxes	13.3	11.6	13.3	11.6
	9.1	**7.1**	**9.1**	**7.1**

Other taxes comprise of Deposit Interest Retention Tax, Payroll taxes and Value Added Tax payable.

28. OTHER LIABILITIES

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group (Restated) 2010 €m
Funding liabilities fair value hedge	34.9	14.3	36.4	15.2
Items in transit	26.7	36.7	26.7	37.2
Other liabilities	38.0	54.7	16.0	6.3
	99.6	**105.7**	**79.1**	**58.7**

Other liabilities comprise Government guarantee scheme charges and trade creditors.

29. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Other Provisions				
At 1 January	12.1	8.2	12.6	9.2
Amounts charged to income statement	8.3	8.7	8.3	8.6
Amounts written back to income statement	(6.2)	-	(6.2)	(0.3)
Provisions utilised	(2.1)	(4.8)	(2.1)	(4.9)
At 31 December	**12.1**	**12.1**	**12.6**	**12.6**

Provisions recognised include amounts in respect of onerous leases, a provision for servicing assets transferred to NAMA and legal claims. The total expected to be settled within one year amounts to €8.7m (2010: €4.7m) for the Group and €8.6m for EBS (2010: €4.7m).

30. RETIREMENT BENEFITS LIABILITY

Group and Company *(formerly Society)*

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 €0.8m (2010: €0.7m). 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 €1.3m (2010: €1.4m).

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

	2011 €m	2010 €m
Present value of pension obligations	(143.1)	(129.9)
Fair value of plan assets	114.7	112.5
Liability in the statement of financial position	**(28.4)**	**(17.4)**
Movement in the present value of pension obligations:		
At 1 January	(129.9)	(111.5)
Current service costs	(1.9)	(1.3)
Interest cost	(7.4)	(6.8)
Past service costs	-	(0.1)
Participants' contributions	(2.1)	(2.1)
Actuarial losses	(5.5)	(10.6)
Benefits paid from plan	3.4	2.3
Premia paid	0.3	0.2
At 31 December	**(143.1)**	**(129.9)**
Movement in the fair value of plan assets:		
At 1 January	112.5	94.5
Expected return on plan assets	8.0	6.8
Employer contributions	7.0	5.3
Participants' contributions	2.1	2.1
Actuarial (losses) gains	(11.2)	6.3
Benefits paid from plan	(3.4)	(2.3)
Premia paid	(0.3)	(0.2)
At 31 December	**114.7**	**112.5**

	2011 €m	2010 €m
The amounts recognised in the income statement are as follows:		
Defined Benefit Schemes		
Current service costs	(1.9)	(1.3)
Past service costs	-	(0.1)
Interest cost	(7.4)	(6.8)
Future expected return on plan assets	8.0	6.8
Total expenses (included in staff costs)	**(1.3)**	**(1.4)**
Pension Plan assets:		
The Fair value of the pension plan assets	114.7	112.5
The actual return on pension plan assets	(3.2)	13.1

Pension Plan Assets at 31 December

	2011		2010	
	Percentage of plan assets	Future expected return on plan assets	Percentage of Plan assets	Future expected return on plan assets
Asset Category				
Equity securities	64.2%	7.5%	74.9%	8.1%
Debt securities	34.9%	3.7%	24.2%	4.0%
Real estate and other	0.5%	6.0%	0.6%	7.1%
Others	0.4%	1.0%	0.3%	2.0%
Total	**100.0%**	**5.5%**	**100.0%**	**7.0%**

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:

	2011	2010
Rate of inflation	2.00%	2.00%
Discount rate	5.20%	5.60%
Expected long term return on plan assets	7.08%	7.03%
Future salary increases	3.20%	3.00%
Future pension increases	2.00%	2.00%

Contributions are determined in accordance with the advice of Mercer, using the projected unit credit method. The most recent actuarial 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 2011 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 2011 was 22.9 years (2010: 22.8 years) and for a female pensioner aged 65 years was 24.5 years (2010: 24.4 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 25.1 years (2010: 25.0 years) and for a female pensioner then aged 65 years will have increased to 26.3 years (2010: 26.2 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 4.2%

The contributions to be paid in 2012 are estimated to be €6.9m. The death in service premiums in 2012 are estimated to be €0.3m.

EBS funded payment of the Pension Levy in 2011. 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

	2011	2010	2009	2008	2007
Difference between the expected and actual return on plan assets:					
(i) Amount (€m)	11.2	(6.3)	(11.5)	(45.0)	(16.5)
(ii) % of plan assets	9.7%	(6.0%)	(12.0%)	(62.0%)	(15.5%)
Experience (gains) losses on plan liabilities:					
(i) Amount (€m)	(8.0)	(1.8)	(2.7)	4.0	(2.6)
(ii) % of present value of plan liabilities	(5.6%)	(1.0%)	(2.0%)	4.0%	(2.0%)

Defined benefit pension plans

	2011 €m	2010 €m	2009 €m	2008 €m	2007 €m
Present value of obligations	(143.1)	(129.9)	(111.5)	(111.8)	(108.9)
Scheme assets	114.7	112.5	94.5	73.1	106.6
Deficit in schemes	**(28.4)**	**(17.4)**	**(17.0)**	**(38.7)**	**(2.3)**

31. SUBORDINATED LIABILITIES

Group and Company *(formerly Society)*

	2011 €m	2010 €m
Repayable in more than one but less than five years	-	60.0
Repayable in more than five but less than ten years	-	151.7
	-	**211.7**

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 €159.0m 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 6.

Analysis of movement in subordinated liabilities

	2011 €m	2010 €m
At 1 January	211.7	210.1
Exchange rate movements	0.4	1.6
Repurchase of subordinated liabilities	(148.3)	-
Redemption of subordinated liabilities	(63.8)	-
At 31 December	**-**	**211.7**

Details of the subordinated liabilities repurchased and redeemed are as follows:

	Issue Date	Maturity Date	Interest rate	Call date	Repurchase Date	Repurchase Discount	Redemption Date	Redemption Discount
€100m Dated Subordinated Floating Rate Notes	28 Nov 2006	Nov-16	Variable (Euribor + 36bps)	Dec-11	23 Feb 2011	70.0%	21 June 2011	82.5%
€60m Subordinated Floating Rate Notes	14 Dec 2004	Dec-14	Variable (Euribor + 105bps)	Mar-11	23 Feb 2011	70.0%	21 June 2011	82.5%
Stg £30m Step-Up Fixed Rate Subordinated Notes	19 Dec 2002	Dec-19	Fixed rate – 6.44%	Dec-14	23 Feb 2011	70.0%	21 June 2011	82.5%
Stg £15m Step-Up Fixed Rate Subordinated Notes	26 Nov 1999	Nov-19	Fixed rate – 7.00%	Nov-14	23 Feb 2011	70.0%	N/A	N/A

32. SPECIAL INVESTMENT SHARES

Group and Company *(formerly Society)*

	2011 €m	2010 €m
At 1 January	623.7	-
Issue of special investment shares	-	625.0
Costs related to issuance	-	(1.3)
Conversion to ordinary share capital	(625.0)	-
Transfer of costs related to issuance to ordinary share capital (note 33)	1.3	-
At 31 December	**-**	**623.7**

A special general meeting was held in December 2009 at which EBS customers approved the issue of special investment shares (‘SIS’) to the Minister for Finance (the ‘SIS shareholder’). On 27 May 2010 and 14 December 2010, EBS issued 1,000,000 and 5,250,000 perpetual special investment shares to the Minister for Finance for an aggregate subscription price of €100.0m and €525.0m respectively. This form of share capital constitutes core capital from a regulatory capital perspective.

EBS was engaged in a sale process throughout 2010 as part of the EU restructuring plan. On 31 March 2011, the Minister for Finance announced the future banking landscape in Ireland and its intention to combine the operations of EBS and AIB p.l.c. to build a second pillar bank in Ireland from the strengths of both institutions. EBS became part of AIB Group on 1 July 2011 and the Society demutualised pursuant to the Building Societies Act 1989 (amended) and converted to EBS Limited, a private limited company under the terms of an acquisition conversion scheme (the ‘scheme’) completed on 1 July 2011. Under the terms of the scheme the special investment shares held by the Minister for Finance were converted to ordinary share capital and acquired by AIB p.l.c.

Voting Rights

Under the terms of the special investment shares issued in 2010, the SIS shareholder was entitled to a majority vote on any resolution of the Society. No resolution could be put to the customers without the consent of the Minister and no resolution of the customers could be passed without the written consent of the Minister. The Minister could give direction in writing to the Board in connection with any matter. The Minister could appoint a majority of Directors’ of the Society and any director appointed to the Board by the Minister could only be removed by the Minister.

Income and Redemption
Under the terms of the SIS, the Society could pay at its discretion a non cumulative dividend to the Minister provided it had sufficient adjusted distributable reserves and provided that, after consultation with the Central Bank, such payment would not cause any breach of capital adequacy requirements. Redemption of the SIS could be made at the discretion of the Society from distributable reserves or the proceeds of a core tier 1 issuance, however, no redemption could be made without the consent of the Minister and the Central Bank and only when all state capital had been repaid in full.

Upon conversion of the EBS the SIS shares were converted to ordinary share capital and were subsequently purchased by AIB p.l.c. directly from the Minister.

33. ORDINARY SHARE CAPITAL

Group and Company *(formerly Society)*

	2011 €	2010 €
Authorised:		
1,000,000,000 ordinary shares of €1 each	1,000,000,000	-
Issued and fully paid:		
925,000,000 ordinary shares of €1 each	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 Notes 1 and 32 respectively.

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 16 December 2011 EBS issued a further 300,000,000 €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 *(formerly Society)*

	2011 €m	2010 €m
At 1 January	-	-
Conversion from special investment shares to Ordinary Shares	625.0	-
Transfer of costs relating to issuance of special investment shares (note 32)	(1.3)	
Issue of ordinary share capital	300.0	-
At 31 December	**923.7**	**-**

34. CAPITAL CONTRIBUTION

Group and Company *(formerly Society)*

	2011 €m	2010 €m
At 1 January	249.1	-
Receipt of capital contribution	-	250.0
Costs related to capital contribution received	-	(0.9)
At 31 December	**249.1**	**249.1**

A Promissory Note in the initial principal amount of €250.0m 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 31 December 2011 at its fair value (note 13).

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.

35. NON CONTROLLING INTERESTS

Group

	2011 €m	2010 €m
At 1 January	82.3	245.2
Profit on purchase of capital securities (before costs)	(71.0)	(92.2)
Purchase of capital securities	(6.7)	(70.7)
Redemption of capital securities	(4.6)	-
At 31 December	**-**	**82.3**

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

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

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

On 21 June 2010 Chess announced the acceptance of €87,147,000 of capital securities at a price of €440 for each €1,000. On 21 June 2010 Green Island announced the acceptance of €78,942,000 of capital securities at a price of €410 for each €1,000. These purchases settled on 23 June 2010 and consequently EBS purchased an equivalent amount of Capital Securities (class B shares) from Chess and Green Island. EBS incurred costs of €2.5m in respect of the transaction.

The difference between the carrying value of the non controlling interest and the consideration paid on the purchase of the capital securities of €92.2m, less costs of €2.5m associated with the transaction, results in a gain of €89.7m recognised directly in the consolidated general reserves of the Group in accordance with IFRS.

On 2 February 2011 both Chess and Green Island launched a tender offer to purchase for cash from investors the outstanding Eurobonds and a corresponding offer was made by Haven Mortgages Limited ('Haven') to Chess and Green Island to purchase the Capital Securities (class B shares) held by each entity.

On 21 February 2011 Chess announced the acceptance of €18,924,000 of capital securities at a price of €175 for each €1,000. On 21 February 2011 Green Island announced the acceptance of €19,206,000 of capital securities at a price of €175 for each €1,000. These purchases settled on 23 February 2011 and consequently Haven purchased an equivalent amount of Capital Securities (class B shares) from Chess and Green Island. Haven incurred costs of €1.0m in respect of the transaction.

As Haven is 100% owned by EBS the difference between the carrying value of the non controlling interest and the consideration paid on the purchase of the capital securities, less costs of €1.0m associated with the transaction, resulted in a gain of €29.7m recognised directly in the consolidated general reserves of the Group in accordance with IFRS.

On 31 May 2011 EBS received a written direction from the Minister for Finance pursuant to the statutory powers of the Minister under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. The Direction required EBS to exercise its rights in respect of the Capital Securities issued by EBS Capital to enable the early redemption of all the capital securities at a discount for the sole purpose of increasing the Group's core tier 1 capital ratio and to minimise the burden on the state in a manner which is consistent with the Minister's position regarding appropriate burden sharing by holders of subordinated securities of Irish credit institutions including EBS. On foot of this Direction, EBS Capital announced its intention on 14 June 2011 to redeem all €250,000,000 (100%) of the capital securities (class B shares) issued in 2005 and 2007 at a price of €100 for each €1,000, including those held by EBS and Haven.

The redemption table below does not include the capital securities held by EBS and Haven as the cost of these holdings are included in the purchase of capital securities table. The transaction settled on 21 June 2011.

The difference between the carrying value of the non controlling interest and the consideration paid on the redemption of the capital securities held outside the Group, resulted in a gain of €41.1m recognised directly in the consolidated general reserves of the Group in accordance with IFRS. The total gain recognised by the Group on the repurchase and redemption in 2011 in the consolidated reserves before costs is €70.8m (2010: €92.2m)

Purchase of capital securities by EBS Group

	2011 €m	2010 €m
Chess – Nominal value of €18,924,000 at €175 per €1,000 (2010: €87,147,000 at €440 per €1,000)	3.3	38.3
Green Island - Nominal value of €19,206,000 at €175 per €1,000 (2010: €78,942,000 at €410 per €1,000)	3.4	32.4
Total	**6.7**	**70.7**

Redemption of capital securities

	2011 €m	2010 €m
Chess – Nominal value of €18,929,000 at €100 per €1,000	1.9	-
Green Island - Nominal value of €26,852,000 at €100 per €1,000	2.7	-
Total	**4.6**	**-**

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

36. LEASING COMMITMENTS

Group and Company *(formerly Society)*

	2011 €m	2010 €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	7.0	7.0
Between one and five years	25.4	26.2
After five years	15.2	21.4
	47.6	**54.6**

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 2011 was €6.8m (2010: €7.0m).

37. CAPITAL COMMITMENTS

Group and Company *(formerly Society)*

	2011 €m	2010 €m
Capital expenditure contracted but not provided for	-	0.6
Capital expenditure authorised but not contracted	1.3	1.1

38. 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 including executive director.

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 2011 was (€11.8m) (2010: (€22.5m)).

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 2011 was (€40.4m) (2010: (€51.3m)).

Group

	2011			2010		
	Contract/ notional amount €m	Fair values €m	Accrued Interest €m	Contract/ notional amount €m	Fair values €m	Accrued Interest €m
Derivatives held at fair value through income statement						
Assets derivatives						
Equity swaps	4.5	0.4	0.1	21.4	1.5	0.1
Cross currency interest rate swaps	25.4	0.6	0.1	40.1	0.3	0.3
Interest rate swaps	1,040.0	16.4	34.8	1,060.0	13.3	22.1
Total asset derivatives held at fair value through income statement	**1,069.9**	**17.4**	**35.0**	**1,121.5**	**15.1**	**22.5**
Liability derivatives						
Cross currency interest rate swaps	49.3	(0.6)	(0.1)	251.7	(2.8)	(0.2)
Interest rate swaps	1,271.3	(17.4)	(34.3)	1,314.7	(14.9)	(18.6)
Total liability derivatives held at fair value through income statement	**1,320.6**	**(18.0)**	**(34.4)**	**1,566.4**	**(17.7)**	**(18.8)**
Total derivatives held at fair value through income statement	**2,390.5**	**(0.6)**	**0.6**	**2,687.9**	**(2.6)**	**3.7**
Total embedded derivatives	**4.5**	**(0.4)**	**0.1**	**21.4**	**(1.6)**	**0.1**
Derivatives held for hedging						
Assets derivatives						
Interest rate swaps	3,314.8	41.5	66.2	3,471.6	35.8	63.6
Cross currency interest rate swaps	-	-	-	52.8	7.5	0.8
Total asset derivatives held for hedging	**3,314.8**	**41.5**	**66.2**	**3,524.4**	**43.3**	**64.4**
Liability derivatives						
Interest rate swaps	5,672.2	(89.1)	(72.1)	5,843.7	(103.1)	(76.6)
Cross currency interest rate swaps	34.9	(4.6)	(0.4)	85.0	(14.0)	(0.7)
Total liability derivatives held for hedging	**5,707.1**	**(93.7)**	**(72.5)**	**5,928.7**	**(117.1)**	**(77.3)**
Total derivative held for hedging	**9,021.9**	**(52.2)**	**(6.3)**	**9,453.1**	**(73.8)**	**(12.9)**
Derivatives designated as fair value hedges						
Interest rate swaps	2,874.6	(7.2)	7.1	3,108.1	(16.0)	(5.8)
Cross currency interest rate swaps	34.9	(4.6)	(0.4)	137.8	(6.5)	(0.8)
Total derivatives designated as fair value hedges	**2,909.5**	**(11.8)**	**6.7**	**3,245.9**	**(22.5)**	**(6.6)**
Derivatives designated as cash flow hedges						
Interest rate swaps	6,112.4	(40.4)	(13.0)	6,207.2	(51.3)	(6.5)
Total derivatives designated as cash flow hedges	**6,112.4**	**(40.4)**	**(13.0)**	**6,207.2**	**(51.3)**	**(6.5)**
Total derivative held for hedging	**9,021.9**	**(52.2)**	**(6.3)**	**9,453.1**	**(73.8)**	**(13.1)**
Total Derivatives	**11,416.9**	**(53.2)**	**(5.6)**	**12,162.4**	**(78.0)**	**(9.3)**
Asset derivatives	4,384.7	58.9	101.2	4,645.9	58.4	86.9
Liability derivatives	7,027.7	(111.7)	(106.9)	7,495.1	(134.8)	(96.3)
Embedded derivatives	4.5	(0.4)	0.1	21.4	(1.6)	0.1
Total Derivatives	**11,416.9**	**(53.2)**	**(5.6)**	**12,162.4**	**(78.0)**	**(9.3)**

Company *(formerly Society)*

	2011 Contract/ notional amount €m	2011 Fair values €m	2011 Accrued Interest €m	2010 Contract/ notional amount €m	2010 Fair values €m	2010 Accrued Interest €m
Derivatives held at fair value through income statement						
Assets derivatives						
Equity swaps	4.5	0.4	0.1	21.4	1.5	0.1
Cross currency interest rate swaps	25.4	0.6	0.1	40.1	0.3	0.3
Interest rate swaps	2,920.9	40.3	33.3	3,921.0	44.2	22.1
Total asset derivatives held at fair value through income statement	**2,950.8**	**41.3**	**33.5**	**3,982.5**	**46.0**	**22.5**
Liability derivatives						
Cross currency interest rate swaps	49.3	(0.6)	(0.2)	251.7	(2.8)	(0.3)
Interest rate swaps	5,144.9	(28.0)	(34.3)	2,944.1	(33.7)	(18.6)
Total liability derivatives held at fair value through income statement	**5,194.2**	**(28.6)**	**(34.5)**	**3,195.8**	**(36.5)**	**(18.9)**
Total derivatives held at fair value through income statement	**8,145.0**	**12.7**	**(1.0)**	**7,178.3**	**9.5**	**3.6**
Total embedded derivatives	**4.5**	**(0.4)**	**0.1**	**21.4**	**(1.6)**	**0.1**
Derivatives held for hedging						
Assets derivatives						
Interest rate swaps	3,314.8	41.5	66.2	2,471.6	29.0	62.3
Cross currency interest rate swaps	-	-	-	52.8	7.5	0.8
Total asset derivatives held for hedging	**3,314.8**	**41.5**	**66.2**	**2,524.4**	**36.5**	**63.1**
Liability derivatives						
Interest rate swaps	5,672.2	(89.1)	(70.5)	5,843.8	(103.1)	(76.6)
Cross currency interest rate swaps	34.9	(4.6)	(0.4)	85.0	(14.0)	(0.8)
Total liability derivatives held for hedging	**5,707.1**	**(93.7)**	**(70.9)**	**5,928.8**	**(117.1)**	**(77.4)**
Total derivative held for hedging	**9,021.9**	**(52.2)**	**(4.7)**	**8,453.2**	**(80.6)**	**(14.3)**
Derivatives designated as fair value hedges						
Interest rate swaps	2,874.6	(7.2)	7.1	2,108.1	(22.8)	(5.6)
Cross currency interest rate swaps	34.9	(4.6)	(0.4)	137.8	(6.5)	(0.8)
Total derivatives designated as fair value hedges	**2,909.5**	**(11.8)**	**6.7**	**2,245.9**	**(29.3)**	**(6.4)**
Derivatives designated as cash flow hedges						
Interest rate swaps	6,112.4	(40.4)	(11.4)	6,207.3	(51.3)	(7.9)
Total derivatives designated as cash flow hedges	**6,112.4**	**(40.4)**	**(11.4)**	**6,207.3**	**(51.3)**	**(7.9)**
Total derivatives held for hedging	**9,021.9**	**(52.2)**	**(4.7)**	**8,453.2**	**(80.6)**	**(14.3)**
Total Derivatives	**17,171.4**	**(39.9)**	**(5.6)**	**15,652.9**	**(72.7)**	**(10.6)**
Asset derivatives	6,265.6	82.8	99.7	6,506.9	82.5	85.6
Liability derivatives	10,901.3	(122.3)	(105.4)	9,124.6	(153.6)	(96.3)
Embedded derivatives	4.5	(0.4)	0.1	21.4	(1.6)	0.1
Total Derivatives	**17,171.4**	**(39.9)**	**(5.6)**	**15,652.9**	**(72.7)**	**(10.6)**

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 2.7 years (2010: 2.3 years). The maximum remaining term of any individual cash flow hedge is 9.2 years (2010: 7.6 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.

In April 2009 a forecast transaction for which a cashflow hedge was previously designated ceased to be effective. This instrument was fair valued through the income statement for the remainder of 2009 and continued to be fair valued through the income statement during 2010. The fair value of this instrument at 31 December 2011 was nil (2010 €0.7m). The cumulative amount recognised in other comprehensive income for the period when the hedge was effective was fully amortised to the income statement in 2011.

In December 2010 one sterling hedged item was transferred to NAMA but the underlying swap was retained. This instrument is now being fair valued through the income statement. The fair value of this instrument at 31 December 2011 was €0.7m (2010: €0.8m).

In June 2011 two cashflow hedges ceased to be effective. These instruments were fair valued through the income statement for the remainder of 2011. The fair value of these instruments at 31 December 2011 was €0.2m.

The derivative maturity table below analyses the asset, liability and embedded derivatives notional amounts by maturity bucket.

Derivative Maturity Table – at 31 December 2011

Group

	Not more than 3 Months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate swaps	459.2	25.8	1,253.0	2,567.0	49.8	4,354.8
Cross currency interest rate swaps	23.3	1.7	0.4	-	-	25.4
Equity swaps	-	-	-	4.5	-	4.5
Total assets	**482.5**	**27.5**	**1,253.4**	**2,571.5**	**49.8**	**4,384.7**
Interest rate swaps	1,164.8	800.0	1,140.6	3,762.1	76.0	6,943.5
Cross currency interest rate swaps	49.3	-	-	34.9	-	84.2
Total liabilities	**1,214.1**	**800.0**	**1,140.6**	**3,797.0**	**76.0**	**7,027.7**
Embedded derivatives	**-**	**-**	**-**	**4.5**	**-**	**4.5**

Derivative Maturity Table – at 31 December 2010

Group

	Not more than 3 Months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate swaps	297.1	85.8	63.9	4,059.8	25.0	4,531.6
Cross currency interest rate swaps	16.8	75.8	0.3	-	-	92.9
Equity swaps	5.9	2.2	8.7	4.6	-	21.4
Total assets	**319.8**	**163.8**	**72.9**	**4,064.4**	**25.0**	**4,645.9**
Interest rate swaps	1,683.3	693.5	1,460.0	3,155.6	166.0	7,158.4
Cross currency interest rate swaps	213.1	38.6	50.1	34.9	-	336.7
Total liabilities	**1,896.4**	**732.1**	**1,510.1**	**3,190.5**	**166.0**	**7,495.1**
Embedded derivatives	**5.9**	**2.2**	**8.7**	**4.6**	**-**	**21.4**

Derivative Maturity Table – at 31 December 2011

Company *(formerly Society)*

	Not more than 3 Months €m	Over 3 months but not more than 6 months €m	Over 6 months but not more than 12 months €m	Over 1 year but not more than 5 years €m	Over 5 years €m	Total €m
Interest rate swaps	459.2	25.8	253.0	4,023.2	1,474.7	6,235.7
Cross currency interest rate swaps	23.3	1.7	0.4	-	-	25.4
Equity swaps	-	-	-	4.5	-	4.5
Total assets	**482.5**	**27.5**	**253.4**	**4,027.7**	**1,474.7**	**6,265.6**
Interest rate swaps	1,164.8	800.0	1,140.6	7,635.7	76.0	10,817.1
Cross currency interest rate swaps	49.3	-	-	34.9	-	84.2
Total liabilities	**1,214.1**	**800.0**	**1,140.6**	**7,670.4**	**76.0**	**10,901.3**
Embedded derivatives	**-**	**-**	**-**	**4.5**	**-**	**4.5**

Derivative Maturity Table – at 31 December 2010

Company *(formerly Society)*

Interest rate swaps	297.1	85.8	63.9	3,059.8	2,886.0	6,392.6
Cross currency interest rate swaps	16.8	75.8	0.3	-	-	92.9
Equity swaps	5.9	2.2	8.7	4.6	-	21.4
Total assets	**319.8**	**163.8**	**72.9**	**3,064.4**	**2,886.0**	**6,506.9**
Interest rate swaps	1,683.3	693.5	1,460.0	2,175.8	2,775.3	8,787.9
Cross currency interest rate swaps	213.1	38.6	50.1	34.9	-	336.7
Total liabilities	**1,896.4**	**732.1**	**1,510.1**	**2,210.6**	**2,775.3**	**9,124.6**
Embedded derivatives	**5.9**	**2.2**	**8.7**	**4.6**	**-**	**21.4**

39. COMMITMENTS AND CONTINGENT LIABILITIES

Group and Company *(formerly Society)*

(i) There were no obligations at 31 December 2011 (2010: €1,500.0m) to the Central Bank of Ireland (CBI) under the terms of a bilateral Sale and Repurchase agreement (Repo) using retail homeloans in the form of a mortgage backed promissory note as collateral secured by way of a floating charge in favour of the CBI.

(ii) At 31 December 2011 Group and Company loan approvals not advanced, as calculated under the Basel II definition, amount to €20.3m (2010: €81.3m) and €20.3m (2010: €68.0m) respectively.

(iii) Contingent liability / contingent asset – NAMA

a. At 31 December 2011 the transfers of financial assts to NAMA were practically complete. However, NAMA have not yet finalised the value to transfer adjustment on the final consideration payable on tranches which have already transferred. Accordingly, EBS has made a provision for the amount of the expected outflow in respect of various adjustments. If the amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefit may result to EBS.
b. 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.

(iv) 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.

40. PLEDGED COLLATERAL

	Company 2011 €m	Company *(formerly Society)* 2010 €m	Group 2011 €m	Group 2010 €m
Government bonds	190.1	228.3	190.1	228.3
Treasury Bills	-	308.2	-	308.2
NAMA senior bonds	354.8	146.5	354.8	146.5
Debt securities	1,080.4	1,563.3	1,080.4	1,563.3
Mortgage backed promissory notes (gross value)	-	2,272.7	-	2,272.7
Asset backed securities (own issue)	2,849.2	2,232.5	-	-
	4,474.5	**6,751.5**	**1,625.3**	**4,519.0**

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 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 €1.1bn (2010: €3.2bn) of unencumbered contingent collateral available at 31 December 2011 comprising residential mortgage assets of €0.9bn (2010: €2.9bn) and debt securities of €0.2bn (2010: €0.3bn).

41. RELATED PARTY TRANSACTIONS

Group

Details of the principal subsidiary undertakings are shown in Note 18. 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 31 December 2010 in November 2010 and again in June 2011 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. The scheme was further amended and extended in January 2012 until December 2012 subject to six monthly approval by the European Commission.

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 2011 amounted to €4,156.3m (December 2010: €5,121.7m).

In 2011, €62.8m was charged to EBS under the ELG scheme (2010: €34.6m). There is no CIFS scheme charge during 2011 (2010: €5.6m). Included in the 2010 CIFS scheme charge is an amount of €1.1m in respect of EBS Mortgage Finance.

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) Special Investment Shares

A special general meeting was held in December 2009 at which EBS customers approved the issue of special investment shares to the Minister for Finance. On 27 May 2010 EBS issued 1,000,000 perpetual special investment shares to the Minister for Finance for an aggregate subscription price of €100.0m. On 14 December 2010 EBS issued 5,250,000 perpetual special investment shares to the Minister for Finance for an aggregate subscription price of €525.0m.

Following the announcement by the Minister for Finance on 31 March 2011 to combine the operations of EBS and AIB p.l.c. to build a second pillar bank in Ireland from the strengths of both institutions, the Special Investment Shares were converted to ordinary shares and acquired by AIB p.l.c. on 1 July 2011 directly from the Minister for Finance.

Further information on the special investment shares is included in note 32.

(c) Promissory Note

On 17 June 2010 a Promissory Note in the initial principal amount of €250.0m 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 34. Interest earned on the Promissory Note for the year ending 31 December 2011 amounted to €13.3m (2010: €7.4m).

The terms and conditions regarding the Promissory Note and Capital Contribution have remained unchanged.

(d) 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 10, 13 and 14. Interest earned on these bonds in 2011 amounted to €6.0m (2010: €2.3m).

(e) Credit Institutions (Stabilisation) Act 2010

On 31 March 2011, under the Credit Institutions (Stabilisation) Act 2010, the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) exercised his powers to announce the combination of EBS with AIB p.l.c. The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the re-organisation and restructuring of the Irish banking system agreed in the joint EU/IMF programme for Ireland. The act applies to all institutions that have received financial support from the State and as such applies to EBS. The Act provides powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring and recapitalisation measures envisaged in the programme. This allows the Minister to take the actions required to bring about a domestic retail bank system that is proportionate to and focussed on the Irish economy.

(f) 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 €3,865.0m at 31 December 2011. 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.

(g) 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 2012 or at a later date substituted by resolution of both Houses of the Oireachtas.

(h) 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 €737.9m (December 2010: €159.8m).

At 31 December 2011 deposits by banks and state owned financial institutions included deposits of nil (December 2010: €796.9m) 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
2011	629.1	10.0	78.2	1,150.6	8.3
2010	806.7	-	-	655.1	1.4

(i) Subsidiaries and special purpose vehicles

Company *(formerly Society)*

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.

	2011 €m	2010 €m
Loans to related parties		
At 1 January	3,475.7	3,772.2
Net movement in loans during the year	675.8	(296.5)
At 31 December	4,151.5	3,475.7
Deposits from related parties		
At 1 January	3,569.2	3,446.7
Net movement in deposits during the year	(440.1)	122.5
At 31 December	3,129.1	3,569.2
Permanent interest bearing shares		
At 1 January	250.0	250.0
Issued in the year	(250.0)	-
At 31 December	-	250.0
Included in the Income Statement		
Interest income on loans	5.8	5.3
Interest expense on loans	158.3	103.4
Interest expense on permanent interest bearing shares	(1.8)	3.7
Other income	70.3	43.4

(j) 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.

	2011 €m	2010 €m
Loans		
At 1 January	-	-
Net movement in loans during the year	78.2	-
At 31 December	78.2	-
Available-for-sale financial asset		
At 1 January	-	-
Net movement in deposits during the year	238.4	-
At 31 December	238.4	-
Derivative financial instruments (assets)		
At 1 January	-	-
Issued in the year	10.0	-
At 31 December	10.0	-
Deposits from related parties		
At 1 January	-	-
Issued in the year	1,150.6	-
At 31 December	1,150.6	-
Derivative financial instruments (liabilities)		
At 1 January	-	-
Issued in the year	8.3	-
At 31 December	8.3	-
Included in the Income Statement		
Interest income	7.7	-
Interest expense	(16.7)	-
Loss on derivatives held for risk management	0.4	-
Administrative expenses	(0.9)	-

(k) Transactions with key management personnel

For the purpose of IAS 24 related party disclosures, "key management personnel" comprises executive and non executive directors.

Loans to key management personnel are made in the ordinary course of business. All loans outstanding at year end are to the executive directors and the maximum exposure is €1.6m (2010: €0.6m). All loans outstanding at year end are made on ordinary commercial terms. The following amounts represent the transactions and outstanding balances with the Group:

	2011 €m	2010 €m
At 31 December:		
Emer Finnan resigned 20 December 2011 (maximum liability in 2011: €1.5m (2010:€1.6m)	-	1.5
Fergus Murphy (maximum liability in 2011: €0.6m (2010: €0.6m))	0.5	0.6
Transactions during the period:		
Loan advances	-	-
Loan repayments	0.2	0.3
Interest on loans	0.1	0.1
The savings balances for key management personnel amount to (maximum in 2011: €0.2m (2010: €0.7m))	**0.1**	**0.5**

(l) Compensation of key management personnel:

Total compensation to key management personnel is as follows:

	2011 €m	2010 €m
Fees	266.5	398.0
Salary and other benefits	746.8	743.7
Pension benefits	253.9	311.3
	1,267.2	**1,453.0**

Details of executive and non-executive remuneration are as follows:

	Salary		Benefits		Total	
Executive Directors	**2011 €'000**	**2010 €'000**	**2011 €'000**	**2010 €'000**	**2011 €'000**	**2010 €'000**
Fergus Murphy	380.0	380.0	45.4	53.4	425.4	433.4
Emer Finnan[1]	284.5	275.0	36.9	35.3	321.4	310.3
	664.5	**655.0**	**82.3**	**88.7**	**746.8**	**743.7**

[1] Emer Finnan ceased to be a Director of EBS on 20 December 2011. The base salary in 2011 for Emer Finnan is €275,000, however, on resignation accrued holiday entitlements of €9,519 were settled.

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.

The two Executive Directors have personal defined contribution pension schemes. In 2011, €147,000 (2010: €242,292) was paid to a defined contribution scheme on behalf of Fergus Murphy, and €106,941 (2010: €69,000) was paid on behalf of Emer Finnan. The increase or decrease in pension contributions for Fergus Murphy and Emer Finnan are due to movements in salary since 2009.

The remuneration of the Non Executive Directors in 2011 is set out below:

	2011 €'000	2010 €'000
Martin Donnellan [(3)]	14.5	29.0
Cathal Magee [(1)]	-	21.0
Pat McCann [(3)]	21.3	29.0
Liam Mulvihill [(3)]	14.5	29.0
Linda O'Shea Farren [(3)]	14.5	29.0
Barbara Patton [(3)]	14.5	29.0
Ann Riordan [(3)]	15.6	29.0
Jim Ruane [(4)]	36.0	36.0
Anthony Spollen [(3)]	14.5	29.0
Ethna Tinney [(2)]	12.1	29.0
Philip Willamson [(4)]	109.0	109.0
Catherine Woods [(3)]	14.5	-
	281.0	**398.0**

(1) Cathal Magee resigned from the Board on 31 July 2010
(2) Ethna Tinney resigned from the Board on 26 May 2011
(3) Following the acquisition of EBS by AIB p.l.c., certain Directors were not re-appointed to the Company's Board. The Board is now comprised of Fergus Murphy, Bernard Byrne, Eammon Hackett, Denis O'Callaghan and Catherine Woods. With the exception of Catherine Woods, each of the Non Executive Directors are paid directly by the Parent.
(4) Philip Williamson and Jim Ruane resigned from the Board on 31 December 2011.

Long term incentive plans

Details of the Directors' and the Secretary's conditional grants of awards of ordinary shares are given below. These conditional awards are subject to onerous performance targets being met by AIB p.l.c., in terms of EPS growth and total shareholder return. There were no conditional grants of awards outstanding at 31 December 2011.

	Total as at 31 December 2011	Lapsed during 2011	Granted during 2011	Total as at 1 July 2011*
Directors:				
Fergus Murphy	-	-	-	-
Bernard Byrne	-	-	-	-
Emer Finnan	-	-	-	-
Eamonn Hackett	-	-	-	23,642
Denis O'Callaghan	-	-	-	-
Jim Ruane	-	-	-	-
Philip Williamson	-	-	-	-
Catherine Woods	-	-	-	-
Secretary:				
Helen Dooley	-	-	-	-

** or date of appointment if later.*

Independent Non executive directors do not participate in long term incentive plans.

42. 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.

At a Special General Meeting in December 2009, changes in EBS' rules were endorsed to allow the Minister for Finance to provide the €875.0m capital. Recapitalisation took place in the first half of 2010 with the issuance of €100.0m Special Investment Shares (SIS) and a €250.0m Promissory Note. A further €525.0m of capital was subsequently invested by way of SIS in December which brought the total Government investment at the end of 2010 to €875.0m.

The Central Bank indicated in November 2010 that EBS required €438.0m of capital and this would be received after the general election.

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

It was announced on 31 March 2011 that EBS required €1.2bn of capital to meet the new target Core Tier 1 capital ratio of 10.5% under base and 6% under stress on the basis of the combined results of the PCAR assumptions and three year projected provisions estimates from Blackrock, before the addition of a conservative capital buffer. The additional capital buffer of €0.3bn was determined with €0.1bn representing equity and €0.2bn representing contingent capital. This brought the total capital requirement for EBS under the PCAR to €1.5bn. On 31 March 2011, the Minister for Finance announced that operations of AIB p.l.c. and EBS would be combined to form a second pillar bank in Ireland.

On 1 July 2011 EBS Building Society demutualised pursuant to the Buildings Societies Act 1989 (amended) and converted to EBS Limited, a private limited company pursuant to the Companies Act 1963 (as amended) under the terms of the Acquisition Conversion Scheme (the 'Scheme') completed on 1 July 2011. Under the terms of the Scheme the special investment shares issued by EBS Building Society were converted to ordinary shares in EBS Limited. Also under the terms of the Scheme, 100% of the issued ordinary shares issued in EBS Limited held by the Minister for Finance were acquired by Allied Irish Bank p.l.c. on 1 July 2011. In July 2011 the €1.5bn of capital identified as a requirement for EBS was provided to AIB p.l.c. by the Government.

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 €300.0m of capital to EBS on the issuance of Ordinary Share Capital. Further details are in note 33.

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

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

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

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

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:

	2011 €m	Restated 2010 €m
Core Tier 1 capital		
Ordinary share capital	923.7	-
Special investment share	-	623.7
General reserve	120.8	219.1
Intangible assets	(19.9)	(21.9)
Other regulatory adjustments	14.5	14.6
Core Tier 1 Capital	1,039.1	835.5
Non controlling interests allowable for Tier 1	-	82.3
Total Tier 1 Capital	1,039.1	917.8
Tier 2 Capital		
Qualifying subordinated liabilities	-	187.7
Collective allowances for impairment	123.5	124.7
Tier 2 Capital	123.5	312.4
Total Regulatory Capital	**1,162.6**	**1,230.2**

As a result of the change in accounting policy for recognising property, plant and equipment at deemed cost, less depreciation and provisions for impairments, the comparative regulatory core tier 1 and total capital amounts have now been restated. General reserves in 2010 of €219.1m (previously reported: €209.4m) are €9.7m higher as a result of the change in accounting policy. Additionally, €0.1m of revaluation reserves as previously reported, is no longer applicable.

More details regarding the accounting policy change are in note 19.

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.

43. 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.

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.

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

At all times during 2011 EBS had capital in excess of its required capital ratio.

44. OTHER INFORMATION

At 31 December 2011 the Group reserve ratio is 5.6% (2010: 4.6%) and the liquidity ratio is 14.2% (2010: 16.6%). 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 2011:

(i) The total amount of principal outstanding in respect of the mortgage covered securities issued by EBS Mortgage Finance as at 31 December 2011 is €3,600.0m of which €1,050.0m was held by third parties and €2,550.0m 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 2011 in issue is €6,668.0m (2010: €3,807.0m).

45. EVENTS SINCE THE REPORTING DATE

The following are the significant non-adjusting events that have taken place since 31 December 2011:

Voluntary Severance Programme
On 8 March 2012, AIB Group announced that it was commencing a consultation process with the unions on a voluntary severance programme. The objective of this voluntary programme is to reduce the staff cost base by approximately €170.0m in a full year. This equates to a reduction of approximately 2,500 overall staff numbers. It is expected that around half of those departures will be finalised in 2012.

46. RECLASSIFICATIONS AND RESTATEMENTS

Consolidated Income Statement

	2010	Reclassifications						2010		2010
	As previously reported	Hedge ineffectiveness	Derivatives Interest Income/ Expenses	Interest on Derivatives – FVTPL	Unearned income	Bank fees	Profit / Loss on sale of securities	After reclassifications	Change in accounting policy	As reported in 2011
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Interest income and similar income	751.9	(37.4)	27.4	(12.4)	(1.8)			727.7		727.7
Interest expense and similar charges	(621.6)	39.4	(27.4)	6.9		(1.1)		(603.8)		(603.8)
Net interest income	**130.3**	**2.0**	**-**	**(5.5)**	**(1.8)**	**(1.1)**	**-**	**123.9**	**-**	**123.9**
Fees and commissions income	14.5							14.5		14.5
Fees and commissions expense	(10.6)							(10.6)		(10.6)
Net trading income	-	(2.0)		5.5				3.5		3.5
Profit on sale / repurchase of securities	8.5						(8.5)	-		-
Loss on transfer of loans and advances held-for-sale to NAMA	(275.6)							(275.6)		(275.6)
Other operating income	10.1						8.5	18.6		18.6
Total operating income	**(122.8)**	**-**	**-**	**-**	**(1.8)**	**(1.1)**	**-**	**(125.7)**	**-**	**(125.7)**
Administrative expenses	(84.4)					1.1		(83.3)		(83.3)
Amortisation of intangible assets	(5.3)							(5.3)		(5.3)
Depreciation of property, plant & equipment	(4.4)							(4.4)	(0.6)	(5.0)
Impairment of property	(2.3)							(2.3)	2.3	-
Total operating expenses	**(96.4)**	**-**	**-**	**-**		**1.1**	**-**	**(95.3)**	**1.7**	**(93.6)**
Operating loss before impairment losses and taxation	**(219.2)**	**-**	**-**	**-**	**(1.8)**	**-**	**-**	**(221.0)**	**1.7**	**(219.3)**
Provisions for impairment of loans and advances held-for-sale to NAMA	(116.8)							(116.8)		(116.8)
Provisions for impairment of available-for-sale financial assets	(11.4)							(11.4)		(11.4)
Provisions for impairment of loans and advances to customers	(273.2)				1.8			(271.4)		(271.4)
Impairment losses	**(401.4)**	**-**	**-**	**-**	**1.8**	**-**	**-**	**(399.6)**	**-**	**(399.6)**
Operating loss before taxation	**(620.6)**	**-**	**-**	**-**	**-**	**-**	**-**	**(620.6)**	**1.7**	**(618.9)**
Taxation	31.0							31.0		31.0
Loss for the year	**(589.6)**	**-**	**-**	**-**	**-**	**-**	**-**	**(589.6)**	**1.7**	**(587.9)**

1. CHANGE IN CLASSIFICATION

During the current year the Group modified the Consolidated Income Statement classification for certain line items listed below to reflect the results of the Group in line with its ultimate parent; AIB p.l.c. Comparative amounts in the Consolidated Income Statement were reclassified for consistency which resulted in the following changes:

Hedge ineffectiveness
Gain / loss on derivatives held for risk management purposes previously reported as part of net interest income were reclassified to net trading income, a separate line item on the Income Statement for 2011.

Derivatives interest income / expense
A change in approach to recognising income / expense on an individual transaction basis which has resulted in an increase of €27.4m in the interest income and a corresponding increase in interest expense.

Interest on derivatives - FVTPL
Interest income / expense on derivatives held at fair value through the Income Statement previously reported as part of net interest income was reclassified to net trading income, a separate line item on the Income Statement for 2011.

Unearned income
Interest earned on loans and advances to customers has been reduced following the adoption of the AIB Group policy to recognise interest income on the carrying value of the impaired loan assets. This change has no overall impact on the Income Statement as there is an offsetting adjustment to the provisions for impairment of loans and advances to customers.

Bank fees
Interest expense on deposits by credit institutions has increased as a result of bank fees now being reported under interest expense. These were previously included in administrative expenses.

Profit/Loss on sale of securities:
Profit on sale / repurchase of securities which was previously reported as a separate line item in the Income Statement is reclassified into other operating income. This includes a gain on disposal of securities of €8.2m and a gain on repurchase of debt securities in issue of €0.3m.

2. CHANGE IN ACCOUNTING POLICY:

On 1 January 2011 the Group changed its accounting policy with respect to Property, Plant and Equipment from a revaluation model to a deemed cost model, both of which are acceptable in giving a fair presentation under IAS 16 Property, Plant and Equipment.

Under the revaluation model all properties were revalued to market values annually and any changes in value were recorded in the Revaluation Reserve on the Statement of Financial Position if the valuation exceeded the original cost, otherwise the changes in value were recorded under the Impairment of Property line in the Income Statement.

Under the deemed cost basis of accounting the properties are recorded at their market value on the date of transition to IFRS and then depreciated over their expected useful economic life, which has been determined as the shorter of 50 years or the remaining unexpired term of the lease.

The change in accounting policy has been applied retrospectively and the impact of the change in accounting policy on the statement of financial position is an increase in the carrying value of the Group's properties together with an increase in general reserves and changes in the deferred tax asset and liability. In addition operating costs in the Income Statement also increased as the value of properties are depreciated over the lower of 50 years or the unexpired term of the lease. The impact of this accounting policy change is set out above in the Income Statement and below in the Statement of Financial Position.

Consolidated Statement of Financial Position 2010 Restated

	2010														2010		2010
	As previously reported	Mandatory Deposits with Central Bank	Accrued interest on derivatives	AFS assets	Cash in the course of collection	Hedging fair value adjustments	Accrued interest- Loans and advances to customers	Outstanding liability with NAMA	Net current tax liability	Net deferred tax liability	Pre-payments & accrued income	Short lease-hold premium	Provisions	Accruals and deferred income	After reclassifications	Change in accounting policy	Restated
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets																	
Cash & balances with central banks	250.2	(19.3)													230.9		230.9
Derivative financial instruments	58.4		86.9												145.3		145.3
Loans & advances held-for-sale to NAMA	37.9														37.9		37.9
Available-for-sale financial assets	2,575.2			0.1											2,575.3		2,575.3
NAMA senior bonds	305.9														305.9		305.9
Loans & advances to credit institutions	180.8	19.3			12.1										212.2		212.2
Loans and advances to customers	16,472.9					(3.6)	(4.9)	3.0							16,467.4		16,467.4
Current taxation asset	4.5								(4.5)						-		-
Deferred taxation	82.4									(10.3)					72.1	(0.7)	71.4
Other assets	63.9			(0.1)	25.3	3.6					(57.8)	(0.9)			34.0		34.0
Prepayments & accrued income	-						4.9				57.8				62.7		62.7
Intangible assets	21.9														21.9		21.9
Shares in Group undertakings	-														-		-
Property, plant & equipment	32.9											0.9			33.8	10.7	44.5
Total Assets	**20,086.9**	**-**	**86.9**	**-**	**37.4**	**-**	**-**	**3.0**	**(4.5)**	**(10.3)**	**-**		**-**	**-**	**20,199.4**	**10.0**	**20,209.4**

	As previously reported	Mandatory Deposits with Central Bank	Accrued interest on derivatives	AFS assets	Cash in the course of collection	Hedging fair value adjustments	Accrued interest- Loans and advances to customers	Outstanding liability with NAMA	Net current tax liability	Net deferred tax liability	Pre-payments & accrued income	Short lease-hold premium	Provisions	Accruals and deferred income	After reclassifications	Change in accounting policy	Restated
Liabilities																	
Deposits by central banks	4,880.0														4,880.0		4,880.0
Deposits by credit institutions	876.2														876.2		876.2
Customer accounts	9,420.8							3.0							9,423.8		9,423.8
Derivative financial instruments	136.4		96.2												232.6		232.6
Current taxation	11.6								(4.5)						7.1		7.1
Provisions for liabilities and commitments	-												12.6		12.6		12.6
Accruals & deferred income	-													228.1	228.1		228.1
Other liabilities	256.2		(9.3)		37.4	15.2				(0.1)			(12.6)	(228.1)	58.7		58.7
Debt securities in issue	3,568.0					(8.7)									3,559.3		3,559.3
Deferred taxation liabilities	9.8									(10.2)					(0.4)	0.4	-
Retirement benefit liabilities	17.4														17.4		17.4
Subordinated liabilities	218.2					(6.5)									211.7		211.7
Total liabilities	**19,394.6**	**-**	**86.9**	**-**	**37.4**	**-**	**-**	**3.0**	**(4.5)**	**(10.3)**	**-**	**-**	**-**	**-**	**19,507.1**	**0.4**	**19,507.5**

Consolidated Statement of Financial Position 2010 Restated - cont'd

	2010														2010		2010
	As previously reported	**Mandatory Deposits with Central Bank**	**Accrued interest on derivatives**	**AFS assets**	**Cash in the course of collection**	**Hedging fair value adjustments**	**Accrued interest-Loans and advances to customers**	**Outstanding liability with NAMA**	**Net current tax liability**	**Net deferred tax liability**	**Pre-payments & accrued income**	**Short lease-hold premium**	**Provisions**	**Accruals and deferred income**	**After reclassifications**	**Change in accounting policy**	**Restated**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Shareholders' equity																	
Special investment shares	623.7														623.7		623.7
Capital contribution	249.1														249.1		249.1
Revaluation reserve	0.1														0.1	(0.1)	-
Available-for-sale reserve	(185.1)														(185.1)		(185.1)
Cashflow hedge reserve	(38.1)														(38.1)		(38.1)
General reserve	(39.7)														(39.7)	9.7	(30.0)
Shareholders' equity	**610.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**610.0**	**9.6**	**619.6**
Non controlling interests	82.3														82.3		82.3
Total liabilities & shareholders' equity	**20,086.9**	**-**	**86.9**	**-**	**37.4**	**-**	**-**	**3.0**	**(4.5)**	**(10.3)**	**-**	**-**	**-**	**-**	**20,199.4**	**10.0**	**20209.4**

Consolidated Statement of Financial Position 2009 Restated

	2009												2009		2009
	As previously reported	Mandatory Deposits with Central Bank	Accrued interest on derivatives	Cash in the course of collection	Hedging fair value adjustments	Accrued interest-Loans and advances to customers	Net current tax liability	Net deferred tax liability	Pre-payments & accrued income	Short lease-hold premium	Provisions	Accruals and deferred income	After reclassifications	Change in accounting policy	Restated
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets															
Cash & balances with central banks	196.5	(19.6)											176.9		176.9
Derivative financial instruments	50.0		78.7										128.7		128.7
Loans & advances held-for-sale to NAMA	750.6												750.6		750.6
Available-for-sale financial assets	2,924.8												2,924.8		2,924.8
NAMA senior bonds	-												-		-
Loans & advances to credit institutions	957.7	19.6		34.3									1,011.6		1,011.6
Loans and advances to customers	16,473.5				(4.2)	(5.4)							16,463.9		16,463.9
Current taxation asset	4.7						(4.7)						-		-
Deferred taxation	28.9							(10.1)					18.8	(0.7)	18.1
Other assets	55.2			0.4	4.2				(46.2)	(0.9)			12.7		12.7
Prepayments & accrued income	-					5.4			46.2				51.6		51.6
Intangible assets	24.8												24.8		24.8
Shares in Group undertakings	-												-		-
Property, plant & equipment	38.9									0.9			39.8	8.9	48.7
Total Assets	**21,505.6**	**-**	**78.7**	**34.7**	**-**	**-**	**(4.7)**	**(10.1)**	**-**		**-**	**-**	**21,604.2**	**8.2**	**21,612.4**
Liabilities															
Deposits by central banks	2,500.0												2,500.0		2,500.0
Deposits by credit institutions	1,933.9												1,933.9		1,933.9
Customer accounts	9,830.2				(0.2)								9,830.0		9,830.0
Derivative financial instruments	163.9		100.0										263.9		263.9
Current taxation	11.6						(4.7)						6.9		6.9
Provisions for liabilities and commitments	-										9.2		9.2		9.2
Accruals & deferred income	-											255.4	255.4		255.4
Other liabilities	293.8		(21.3)	34.7	8.6			0.1			(9.2)	(255.4)	51.3		51.3
Debt securities in issue	5,889.8				(3.3)								5,886.5		5,886.5
Deferred taxation liabilities	9.7							(10.2)					(0.5)	0.5	-
Retirement benefit liabilities	17.0												17.0		17.0
Subordinated liabilities	215.2				(5.1)								210.1		210.1
Total liabilities	**20,865.1**	**-**	**78.7**	**34.7**	**-**	**-**	**(4.7)**	**(10.1)**	**-**		**-**	**-**	**20,963.7**	**0.5**	**20,964.2**

Consolidated Statement of Financial Position 2009 Restated - cont'd

	2009												2009		2009
	As previously reported	Mandatory Deposits with Central Bank	Accrued interest on derivatives	Cash in the course of collection	Hedging fair value adjustments	Accrued interest- Loans and advances to customers	Net current tax liability	Net deferred tax liability	Pre-payments & accrued income	Short lease-hold premium	Provisions	Accruals and deferred income	After reclassifications	Change in accounting policy	Restated
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Shareholders' equity															
Special investment shares	-												-		-
Capital contribution	-												-		-
Revaluation reserve	0.3												0.3	(0.3)	-
Available-for-sale reserve	(3.9)												(3.9)		(3.9)
Cashflow hedge reserve	(64.9)												(64.9)		(64.9)
General reserve	463.8												463.8	8.0	471.8
Shareholders' equity	**395.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**395.3**	**7.7**	**403.0**
Non controlling interests	245.2												245.2		245.2
Total liabilities & shareholders' equity	**21,505.6**	**-**	**78.7**	**34.7**	**-**	**-**	**(4.7)**	**(10.1)**	**-**	**-**	**-**	**-**	**21,604.2**	**8.2**	**21,612.4**

Company *(formerly Society) Statement of Financial Position 2010 Restated*

	2010														2010		2010
	As previously reported	Mandatory Deposits with Central Bank	Accrued interest on derivatives	AFS assets	Cash in the course of collection	Hedging fair value adjustments	Accrued interest-Loans and advances to customers	Outstanding liability with NAMA	Net current tax liability	Net deferred tax liability	Pre-payments & accrued income	Short lease-hold premium	Provisions	Accruals and deferred income	After reclassifications	Change in accounting policy	Restated
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets																	
Cash & balances with central banks	236.2	(19.3)													216.9		216.9
Derivative financial instruments	82.5		85.6												168.1		168.1
Loans & advances held-for-sale to NAMA	37.9														37.9		37.9
Available-for-sale financial assets	3,943.2			0.1											3,943.3		3,943.3
NAMA senior bonds	305.9														305.9		305.9
Loans & advances to credit institutions	2,981.3	19.3			11.5										3,012.1		3,012.1
Loans and advances to customers	10,865.9					(3.6)	(4.9)	2.9							10,860.3		10,860.3
Current taxation asset	4.5								(4.5)						-		-
Deferred taxation	82.3									(0.8)					81.5	(0.7)	80.8
Other assets	74.2			(0.1)	26.1	3.6					(54.5)	(0.9)			48.4		48.4
Prepayments & accrued income	-						4.9				54.5				59.4		59.4
Intangible assets	17.7														17.7		17.7
Shares in Group undertakings	345.5														345.5		345.5
Property, plant & equipment	32.2											0.9			33.1	10.7	43.8
Total Assets	**19,009.3**	**-**	**85.6**	**-**	**37.6**	**-**	**-**	**2.9**	**(4.5)**	**(0.8)**	**-**	**-**	**-**	**-**	**19,130.1**	**10.0**	**19,140.1**
Liabilities																	
Deposits by central banks	4,880.0														4,880.0		4,880.0
Deposits by credit institutions	1,139.6														1,139.6		1,139.6
Customer accounts	10,621.3							2.9							10,624.2		10,624.2
Derivative financial instruments	155.2		96.2												251.4		251.4
Current taxation	11.6								(4.5)						7.1		7.1
Provisions for liabilities and commitments	-												12.1		12.1		12.1
Accruals & deferred income	-													218.7	218.7		218.7
Other liabilities	302.3		(10.6)		37.6	7.5				(0.1)			(12.1)	(218.7)	105.9	(0.2)	105.7
Debt securities in issue	1,567.7					(1.0)									1,566.7		1,566.7
Deferred taxation liabilities	0.3									(0.7)					(0.4)	0.4	-
Retirement benefit liabilities	17.4														17.4		17.4
Subordinated liabilities	218.2					(6.5)									211.7		211.7
Total liabilities	**18,913.6**	**-**	**85.6**	**-**	**37.6**	**-**	**-**	**2.9**	**(4.5)**	**(0.8)**	**-**		**-**	**-**	**19,034.4**	**0.2**	**19,034.6**

Company *(formerly Society) Statement of Financial Position 2010 Restated* – cont'd

	2010														2010		2010
	As previously reported	**Mandatory Deposits with Central Bank**	**Accrued interest on derivatives**	**AFS assets**	**Cash in the course of collection**	**Hedging fair value adjustments**	**Accrued interest-Loans and advances to customers**	**Outstanding liability with NAMA**	**Net current tax liability**	**Net deferred tax liability**	**Pre-payments & accrued income**	**Short lease-hold premium**	**Provisions**	**Accruals and deferred income**	**After reclassifications**	**Change in accounting policy**	**Restated**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Shareholders' equity																	
Special investment shares	623.7														623.7		623.7
Capital contribution	249.1														249.1		249.1
Revaluation reserve	0.1														0.1	(0.1)	-
Available-for-sale reserve	(520.6)														(520.6)		(520.6)
Cashflow hedge reserve	(38.1)														(38.1)		(38.1)
General reserve	(218.5)														(218.5)	9.9	(208.6)
Shareholders' equity	**95.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**95.7**	**9.8**	**105.5**
Total liabilities & shareholders' equity	**19,009.3**	**-**	**85.6**	**-**	**37.6**	**-**	**-**	**2.9**	**(4.5)**	**(0.8)**	**-**		**-**	**-**	**19,130.1**	**10.0**	**19,140.1**

Company *(formerly Society) Statement of Financial Position 2009 Restated*

	2009													2009		2009
	As previously reported	Mandatory Deposits with Central Bank	Accrued interest on derivatives	AFS assets	Cash in the course of collection	Hedging fair value adjustments	Accrued interest-Loans and advances to customers	Net current tax liability	Net deferred tax liability	Pre-payments & accrued income	Short lease-hold premium	Provisions	Accruals and deferred income	After reclassifications	Change in accounting policy	Restated
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets																
Cash & balances with central banks	180.6	(19.5)												161.1		161.1
Derivative financial instruments	93.1		91.1											184.2		184.2
Loans & advances held-for-sale to NAMA	750.6													750.6		750.6
Available-for-sale financial assets	3,972.2			0.1										3,972.3		3,972.3
NAMA senior bonds	-													-		-
Loans & advances to credit institutions	3,717.4	19.5			32.4									3,769.3		3,769.3
Loans and advances to customers	11,659.8					(4.2)	(5.3)							11,650.3		11,650.3
Current taxation asset	4.5							(4.5)						-		-
Deferred taxation	31.5								(0.6)					30.9	(0.7)	30.2
Other assets	58.0			(0.1)	0.9	4.2				(42.1)	(0.9)			20.0		20.0
Prepayments & accrued income	-						5.3			42.1				47.4		47.4
Intangible assets	19.9													19.9		19.9
Shares in Group undertakings	267.5													267.5		267.5
Property, plant & equipment	37.9										0.9			38.8	8.9	47.7
Total Assets	**20,793.0**	**-**	**91.1**	**-**	**33.3**	**-**	**-**	**(4.5)**	**(0.6)**	**-**	**-**	**-**	**-**	**20,912.3**	**8.2**	**20,920.5**
Liabilities																
Deposits by central banks	2,500.0													2,500.0		2,500.0
Deposits by credit institutions	2,183.9													2,183.9		2,183.9
Customer accounts	11,082.8					(0.2)								11,082.6		11,082.6
Derivative financial instruments	193.6		111.3											304.9		304.9
Current taxation	11.5							(4.5)						7.0		7.0
Provisions for liabilities and commitments	-											8.2		8.2		8.2
Accruals & deferred income	-												247.6	247.6		247.6
Other liabilities	319.7		(20.2)		33.3	8.6			0.1			(8.2)	(247.6)	85.7	(0.2)	85.5
Debt securities in issue	3,895.5					(3.3)								3,892.2		3,892.2
Deferred taxation liabilities	0.2								(0.7)					(0.5)	0.5	-
Retirement benefit liabilities	17.0													17.0		17.0
Subordinated liabilities	215.2					(5.1)								210.1		210.1
Total liabilities	**20,419.4**	**-**	**91.1**	**-**	**33.3**	**-**	**-**	**(4.5)**	**(0.6)**	**-**		**-**	**-**	**20,538.7**	**0.3**	**20,539.0**

Company *(formerly Society) Statement of Financial Position 2009 Restated* – cont'd

	2009													2009		2009
	As previously reported	**Mandatory Deposits with Central Bank**	**Accrued interest on derivatives**	**AFS assets**	**Cash in the course of collection**	**Hedging fair value adjustments**	**Accrued interest-Loans and advances to customers**	**Net current tax liability**	**Net deferred tax liability**	**Pre-payments & accrued income**	**Short lease-hold premium**	**Provisions**	**Accruals and deferred income**	**After reclassifications**	**Change in accounting policy**	**Restated**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Shareholders' equity																
Special investment shares	-													-		-
Capital contribution	-													-		-
Revaluation reserve	0.3													0.3	(0.3)	-
Available-for-sale reserve	(22.7)													(22.7)		(22.7)
Cashflow hedge reserve	(64.9)													(64.9)		(64.9)
General reserve	460.9													460.9	8.2	469.1
Shareholders' equity	**373.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**373.6**	**7.9**	**381.5**
Total liabilities & shareholders' equity	**20,793.0**	**-**	**91.1**	**-**	**33.3**	**-**	**-**	**(4.5)**	**(0.6)**	**-**	**-**	**-**	**-**	**20,912.3**	**8.2**	**20920.5**

During the year ended 31 December 2011, the Group applied a change in accounting policy for Property, Plant and Equipment from a revaluation model to a deemed cost model, both of which are acceptable in giving a fair presentation under IAS 16 Property, Plant and Equipment. As a result of a change in accounting policy and retrospective restatement of items in the financial position, IAS 1 requires a minimum of three statements of financial position to be presented.

As a result of aligning the reporting structure with the ultimate parent, AIB p.l.c., and a change in accounting policy from revaluation basis to deemed cost basis; the Group and Company *(formerly Society)* statements of financial position, amounts reported for the prior years, 2010 and 2009, have been reclassified as follows:

The key changes as a result of reclassifications are as follows:

Mandatory deposits with Central Bank:
Mandatory reserve deposits with Central Bank have been reclassified out of cash and balances with central banks into loans and advances to credit institutions.

Accrued interest on derivatives:
Both asset and liability derivative financial instruments now include the accrued interest which was previously classified in the other liabilities.

AFS assets:
Equity investment in the form of Irish Credit Bureau ('ICB') shares are now reclassified into Available-for-sale financial assets. These were previously reported in Other Assets.

Cash in the course of collection:
Cash in the course of collection is now reclassified out of loans and advances to credit institutions into other assets or other liabilities depending on if the item is receivable or payable.

Hedging fair value adjustments:
The fair value adjustments to the carrying value of loans, debt securities and subordinated liabilities in a fair value hedge relationship is reclassified into other assets or other liabilities.

Accrued interest - Loans and advances to customers:
Current month's accrued interest on loan assets, which was previously reported as part of loans and advances to customers has been reclassified into prepayments and accrued income.

Outstanding liability with NAMA:
An outstanding liability to NAMA previously reported as loans and advances to customers is now reclassified into customer accounts.

Net current tax liability:
As the current tax asset is lower than the current tax liability at each reporting date, it is offset against the current tax liability.

Net deferred tax liability:
As the deferred tax liability is lower than the deferred tax asset at each reporting date, it is offset against the deferred tax asset.

Prepayments & accrued income:
Prepayments and accrued income previously reported in Other Assets are now reported as a separate line item in the statement of financial position.

Short leasehold premium:
Short leasehold premium, previously classified in other assets has been reclassified into property, plant and equipment.

Provisions:
Provisions and contingent liabilities are now reported as a separate line item on the statement of financial position. These were previously included in the other liabilities.

Accruals and deferred income:
Accruals and deferred income is now reported as a separate line item on the statement of financial position. This was previously included in the other liabilities.

Change in accounting policy:
The change in accounting policy for Property, Plant and Equipment is from a revaluation model to a deemed cost model, both of which are acceptable in giving a fair presentation under IAS 16 Property, Plant and Equipment. More details on the change of accounting policy are outlined above.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 27 March 2012.