EBS MORTGAGE FINANCE UNLIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

EBS MORTGAGE FINANCE UNLIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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COMPANY INFORMATION

DIRECTORS	Fergus Murphy (Chairman) Dara Deering (Chief Executive) Audrey Collins Fidelma Clarke Gerry Murray Emer Finnan Bill Cunningham Denis Holland
SECRETARY	Helen Dooley
REGISTERED OFFICE	2 Burlington Road Dublin 4.
REGISTERED NUMBER	463791
SOLICITORS	McCann FitzGerald Riverside One Sir John Rogerson's Quay Dublin 2
BANKERS	EBS Building Society 2 Burlington Road Dublin 4 BNP Paribas Ireland 5 George's Dock IFSC Dublin 1
INDEPENDENT AUDITOR	KPMG Chartered Accountants and Registered Auditor, 1 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland
COVER - ASSET MONITOR	Mazars Harcourt Centre Block 3 Harcourt Road Dublin 2 Ireland

EBS MORTGAGE FINANCE UNLIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors' present herewith their report and audited accounts for the year ended 31 December 2010.

ACTIVITIES OF THE COMPANY

EBS Mortgage Finance ('the Bank'), an unlimited company, is a wholly owned subsidiary of EBS Building Society, ('the Society'), and a member of the EBS Group (the 'Group'). The Bank is regulated by the Central Bank of Ireland. The Bank has an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and is registered as a designated mortgage credit institution under the Asset Covered Securities Act, 2001. The purpose of the Bank is to issue Mortgage Covered Securities in accordance with the Asset Covered Securities Act, 2001 and the Asset Covered Securities (Amendment) Act 2007 (the 'Asset Covered Securities Acts'). The Bank does not sell mortgage loans directly to the public. It has an origination agreement with the Society whereby the Society continues to sell mortgage loans directly to the public and subsequently transfers loan portfolios to the Bank for an appropriate consideration.

The Bank was incorporated on 30 October 2008 and commenced trading on 1 December 2008. In the same month, a Mortgage Backed Promissory Note facility was put in place between the Bank and the Central Bank of Ireland, additionally the Bank launched a €6bn Mortgage Covered Securities Programme. During the 14 month period to 31 December 2009 the Society transferred €5.1bn of residential loans to the Bank. On 1 May 2010 the Society transferred €0.8bn of mortgages to the Bank. On 15 December 2010 a maturing covered bond, issued in December 2008 with an original nominal value of €1.5bn, was redeemed (the outstanding nominal value was €1.0bn due to part redemption of €0.15bn of bonds on 19 November 2009, buyback of €0.3bn of the bonds on 15 December 2009 and a further part redemption of €0.05bn of the bonds on 22 December 2009). On 16 December 2010 the bank issued two tranches of floating rate mortgage covered securities with a nominal value of €0.65bn each. These bonds were subscribed for in full by the Society in the same manner as the Society had previously subscribed for the December 2008 covered bond issue.

A number of the Bank's operational and support activities are outsourced to the Society under a Managed Services Agreement. The Society, as service provider for the Bank, originates residential mortgage loans through its retail network in the Republic of Ireland, services the mortgage loans, and provides inter-company funding as well as a range of other support services. Bank employees perform those specialist roles which arise as a result of the specific designation of the Bank as a designated mortgage credit institution.

Governance is exercised through a Board of Directors, comprising 4 executive directors and 4 non-executive directors. All executive directors are employees of the Society. The Bank 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. The Board's policy is to comply with the highest standards of Corporate Governance as set out in the Central Bank Code and the Bank will be required to submit a compliance statement to the Central Bank at the end of 2011 confirming compliance with the Central Bank Code during 2011.

In accordance with the Asset Covered Securities Acts, the Cover-Asset Monitor, Mazars, monitors compliance with the Acts and reports independently to the Central Bank and Financial Services Authority of Ireland.

The Bank 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. The Bank is not a participating institution under the new Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 which came into effect on 9 December 2009.

The Bank is currently a participating institution under the National Asset Management Agency Act 2009 (the 'Act'). However, there were no mortgage loans to be transferred under the Act.

DIRECTORS' REPORT (continued)

RESULTS FOR THE YEAR ENDED AND STATE OF AFFAIRS AT 31 DECEMBER 2010

The Income Statement for the year ended 31 December 2010 and the Statement of Financial Position at that date are set out on pages 14 and 17. The profit on ordinary activities for the year before taxation amounted to €12.6m (14 month period ending 31 December 2009: €14.8m). The comparative period for the year ended 31 December 2010 is the prior 14 month period ended 31 December 2009 however the activity in the first 2 months of this period was minimal.

Net interest income was €44.2m (14 month period ending 31 December 2009: €37.7m) for the year generating a net interest margin of 84bps (14 month period ending 31 December 2009: 69 bps).

Total interest income amounted to €196.7m in 2010 (14 month period ending 31 December 2009: €161.7). Interest income mainly comprises of interest income from mortgage assets of €182.9m which increased by 15% from €159.1m in 2009. This increase is primarily due to the additional interest earned in 2010 on the €0.8bn of mortgages transferred to the Bank in May 2010 combined with an increase in mortgage margins during 2010. Interest income also includes income earned on deposits with credit institutions of €1.4m (14 month period ending 31 December 2009: €1.1m) and interest income on derivatives used to hedge the external bond issued in November 2009 of €12.2m (14 month period ending 31 December 2009: €1.4m) which increased due to a full year's interest being received in 2010. The remaining interest income relates to interest earned from cash on deposit with the Central Bank of €0.2m (14 month period ending 31 December 2009: €0.2m).

Total interest expense amounted to €152.5m (14 month period ending 31 December 2009: €124.0m). Interest expense consists of interest on inter-company funding from the Society of €73.8m (14 month period ending 31 December 2009: €70.2m) which increased mainly as a result of higher inter company loan funding in 2010. Interest expense also includes interest on debt securities of €54.6m (14 month period ending 31 December 2009: €30.5m) and derivative interest expense of €24.0m (14 month period ending 31 December 2009: €23.3m) both of which increased as a result of interest rate movements.

Operating expenses which comprise of direct costs and a service fee charge from the Society amounted to €6.9m (14 month period ending 31 December 2009: €5.5m). The increase of 25% is mainly due to the Government Guarantee Scheme fees of €1.1m which were not incurred in 2009 and an increase in the service fee charged from the Society as a result of a higher average loan book balance in 2010.

Provisions for impairment losses on loans and advances of €26.8m (14 month period ending 31 December 2009:€14.9m) reflects the decline in credit quality experienced during the period as detailed in note 19.

Profit after taxation amounted to €11.0m for the year (14 month period ending 31 December 2009: €12.9m).

Loans and advances to customers as at 31 December 2010 of €5.4bn (2009: €4.9bn). The increase from 2009 is due to the purchase of mortgage assets to the value of €0.8bn from the Society on 1 May 2010.

The funding of the purchase of mortgage assets from the Society was through an inter-company loan facility from the Society, which amounted to €2.9bn at 31 December 2010 (2009: €2.7bn).

Following the maturity of the December 2008 retained bond of €1.5bn the Bank raised new funding during the year through the issuance of two retained deals at a nominal value of €0.65m each, both of which are held by the Society.

The share capital of the Bank consists of 316,540,000 €1 ordinary shares issued to the Society (2009: 266,540,000 €1 ordinary shares). On 28 April 2010, the Bank issued an additional 50,000,000 €1 ordinary shares to the Society.

For 2010, the capital ratios are calculated in accordance with the Capital Requirements Directive. At 31 December 2010 the total capital ratio was 13.3% (2009: 11.9%) and the tier 1 ratio was 12.0% (2009: 11.4%). Both of these are above Regulatory Capital minima. Further information in relation to Regulatory Capital is set out in note 21.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The residential mortgage market is a key component of the Society's overall strategy and access to funding is a key requirement to deliver on this strategy. As a result the Society established the covered bond bank, EBS Mortgage Finance, in 2008 with the purpose of enabling funding to be raised in the form of covered bonds and to strengthen the liquidity position of the Group. The Bank successfully issued a 3 Year, fixed rate coupon, €1bn nominal debut bond in November 2009.

Market conditions in many European covered bond jurisdictions improved during the course of 2010, however this was not the case in Ireland. The deepening of the financial difficulties affecting the Irish banking sector and macro economy as a whole progressively resulted in downgrades to Ireland's sovereign rating, institutional bank ratings and ultimately covered bond ratings. Over the course of 2010 the Bank's covered bond programme rating was downgraded by Moody's Investor Services from AAA to A2, and Fitch Ratings from AA to A-. The downgrades are attributable to the previous downgrading of the Irish sovereign rating, the downgrades of the Society and the extent and severity of the downturn in the Irish economy and the predicted impact of this on the mortgage market sector. The Bank was unable to issue any additional bonds to investors during 2010.

As part of its mandate to support the Group's liquidity position the Bank did issue covered bonds amounting to €1.3bn during 2010. The bonds had a nominal value of €0.65bn each, issued on a floating rate basis, with tenors of 3 years and 5 years, respectively. The bonds which meet the ECB eligibility criteria for use as collateral in their open market operations were subscribed for in full by the Society.

On 24 November 2010 the Bank placed €0.3bn of debt securities as collateral for ECB Repo, for which it received €0.29bn cash. The Bank utilised these funds to repay part of its inter-company loan with the Society. The Repo matured on 15 December when the principal of €0.29bn plus interest was repaid to the ECB. The Bank used the inter-company loan to repay the maturing ECB funds.

The residential mortgage market has continued to experience low levels of demand due to weak consumer sentiment, continued reduction in house prices and a lack of credit supply. This has resulted in 2010 mortgage volumes continuing to remain at low levels. In 2010 new lending in the Irish Market was just under €5bn, down from €8bn in 2009 and less than 12% of volumes reached at the height of the market in 2006.The housing market has now contracted for four years consecutively. According to the ESRI/PTSB house price index, average house prices reduced by 11% in 2010 and house prices have now reduced 38% from peak. Further reductions are expected in 2011. Supply of mortgage lending, much like 2009, has been supplied in the main by AIB, Bank of Ireland and EBS Building Society. A lower interest rate environment and reduction in house prices means that affordability levels for new home buyers is now at its highest level in 25 years however decreased credit appetite and ongoing concerns regarding Ireland's economic outlook point towards a relatively subdued mortgage market in 2011.

RISK MANAGEMENT

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

Strategic risk

Strategic risk management encompasses the management of the Bank's reputation and the implications for the Bank's covered bond programme of credit rating movements of either the Bank or the Society. Strategic risk also encompasses external events which cannot be controlled but which could have a significant impact on the Bank's business such as the domestic macro economic environment, property values, banking sector and covered bond market conditions. Strategic risks are managed and monitored in the main by the Executive Management Team and the Board. Significant developments are reported to the Board directly and to its subcommittee, namely the Board Audit, Risk and Compliance Committee ('BARCC'), 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. Group Operational Risk is responsible for supporting the Bank in the management of operational risk. The Bank has adopted relevant Group operational risk policies. The core focus of operational risk management is the oversight of outsourced service activities related to the mortgage collateral of the Bank, management of the collateral pool in accordance with the requirements of the ACS Act, third party relationship management, business continuity management, fraud prevention, maintenance of efficient business process and operating practices, employee development and key person risk.

Regulatory compliance risk
Regulatory compliance risk is the risk that the Bank fails to meet its legislative or regulatory requirements. Group Regulatory Compliance is responsible for supporting the Bank in monitoring adherence to its regulatory compliance obligations. The Bank has adopted the Group regulatory compliance policies. The core focus of regulatory compliance risk management is on supporting the Bank's adherence with the requirements of the ACS Act, terms and conditions of its banking license, the Capital Requirements Directive and conditions of the government guarantee scheme.

Financial risk
The Bank has exposure to the following financial risks - credit risk, interest rate risk and liquidity & funding risks. EBS Treasury Risk is responsible for supporting the Bank in the management of certain financial risks and adherence to legislative requirements specific to Designated Mortgage Credit institutions including interest rate risk, foreign exchange risk, duration mismatch and interest coverage.

Credit risk
Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank's core focus in relation to credit risk management relates to the management of asset quality and counterparty credit risk. All mortgage assets purchased by the Bank must be originated by the Society in accordance with lending policies approved by the Board of Directors of the Society as applicable at the time of origination of the loan as reflected in the Wholesale Mortgage Origination Agreement between the Society and the Bank.

Credit risk management at Group level is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. Given the deterioration in credit quality throughout 2010 in the retail market, both credit management and credit risk management have been a key area of focus at Group level over the past year. Resourcing, structures, policies and processes continue to be reviewed in order to ensure that the Group is best placed to manage asset quality in this severe downturn. The Group credit risk management committee is responsible for reviewing and recommending appropriate credit risk management structures and policies in line with the credit risk appetite of the Group and for monitoring the performance of the book.

Liquidity risk
Liquidity & funding risk relates to the ability of the Bank 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 Bank is required to meet its solo prudential liquidity requirements at a Group level. Group Treasury is responsible for the management of liquidity and funding at a Group level 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 Group Chief Risk Officer's report. The Bank's ALCO is responsible for monitoring how liquidity and funding of the Bank is managed and ensuring that the Bank's policy and regulatory requirements are adhered to.

Interest rate risks
Interest rate risk is the risk that changes in interest rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters, while optimising the return on risk.

OUTLOOK
We expect the operating environment to remain very difficult throughout 2011. The Irish economy continues to face historically 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 has yet to end.

GOING CONCERN
The financial statements have been prepared on a going concern basis.

In determining the appropriateness of adopting the going concern basis of preparation of the financial statements, the Bank's Directors have taken into consideration the economic, political and market risks and uncertainties facing all Irish companies and the Bank's parent, the Society. In particular these relate to risks such as asset quality, funding, capital and bond ratings. Both asset quality and funding are described in more detail in note 19 of the accounts. Having regard to these risks and uncertainties, and the steps taken to address them, the Bank's Directors' are satisfied that it continues to be appropriate to prepare the financial statements on a going concern basis. In the current year the Bank's Directors have considered the following risks and uncertainties.

Asset Quality
The Bank is exposed to the inherent risks arising from the macro economic conditions in Ireland. The challenges presented by the Irish economy throughout 2010 significantly and adversely affected the financial performance in the current year and presents risks and challenges for the foreseeable future. Demand for property has remained weak and is at very low levels as demonstrated by the size of the overall mortgage market for residential property in 2010. Residential property prices continued to fall in 2010 and increased unemployment has resulted in higher levels of arrears and non performing loans which feeds into the calculation for impairment losses. The profitability of the Bank has been adversely impacted by the current financial crisis as impairment losses increased.

Funding, capital and bond ratings
The Bank, as a covered bond bank, has the ability to fund itself. At 31 December 2010 the Bank had two external bonds in issuance and given the financial difficulties affecting the Irish Banking sector, combined with the sovereign, institutional and bond downgrades, the Bank was unable to issue any external bonds in 2010.

The Bank also has the ability to access funding in its own right from Monetary Authorities; however the Bank has only pledged a small amount of collateral with Monetary Authorities in exchange for funding to date. In the main, covered bonds issued by the Bank and purchased by the Society are pledged by the Society as collateral in exchange for funding from Monetary Authorities. Hence, the Bank is funded in part by its parent, the Society. Given the prolonged deterioration of the covered bond market to Irish issuers the Bank is reliant on accessing funding directly from its parent or directly in its own right via Monetary Authorities or both. In the current year the Bank obtained funding from its Parent and hence is in part reliant on the going concern status of the Society and the Group.

Servicing
The day to day mortgage operational services are provided to the Bank by the Society and are set out in a Mortgage Servicing Agreement. The operation of the Bank is dependent on the provision of these services from the Society.

Reliance on Parent
The Bank will continue to be supported by the Society in the form of funding and it is the intention of the Group to continue to provide this support for the foreseeable future. The Society continues to access funding from corporate and wholesale markets, however, the continued deterioration of the Irish economy coupled with the fragile nature of the banking sector has resulted in increased borrowings from monetary authorities for all financial institutions including EBS. Notwithstanding the funding contingency measures in place, any further deterioration in the group's or sovereign's credit rating could result in increased or prolonged reliance on monetary authorities. In making its assessment of the Society's ability to continue as a going concern, the Group Board of Directors have taken into consideration the material risks and uncertainties that could impact the Society's ability to continue as a going concern including those relating to:

- The period over which the Irish economy recovers from the current crisis.
- The implementation by the Irish Government of the joint EU/IMF programme for Ireland.
- The impact of actions taken by the Minister for Finance on financial stability grounds under the Credit Institutions (Stabilisation) Act 2010.
- The Group's access to liquidity and funding and the continued availability of the Eurosystem and Central Bank of Ireland financing.
- The ability of the Group to meets its targeted regulatory ratios under Prudential Capital Assessment Review ('PCAR') and to raise additional required capital.
- The ability of the Group to dispose of assets to meet Prudential Liquidity Assessment Review ('PLAR') targets set by the Central Bank of Ireland.

Further detail on the PCAR and PLAR exercises is given in the 'Events since year end' section of the Directors Report.

In assessing the going concern basis of preparation of the financial statements, the Group Board have considered each of the above mentioned risks and uncertainties. Having considered the risks and uncertainties, the Board of Directors believe it is appropriate to prepare the accounts on the going concern basis as a result of the following:

- the Government investment of €875m in EBS during 2010;
- the stated intention of the Government to recapitalise the Group to a 10.5% core tier 1 ratio under the base case and 6% under the stress case 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 ability of the Group to deleverage non core assets;
- the continued availability of the Eurosystem and Central Bank of Ireland financing to enable the Group to meet its immediate and estimated funding requirements for the next year; and
- the intention to continue the business and operations of EBS going forward with the objective of preserving value.

Over collateralisation and Asset Covered Securities legislation
A significant level of over collateralisation ('OC') is held in the covered asset pool in order to provide adequate protection to bondholders in the event of higher defaults and reducing asset values. The Bank has, as required, increased the nominal OC level during the period in response to the fall in asset values such that the prudent value of the collateral pool as measured in the regulatory OC value of the cover pool exceeds minimum regulatory, contractual and rating agency requirements. The Directors are satisfied that existence and level of over collateralisation provides the Bank with access to sufficient liquidity to enable repayments to be made when they fall due.

The Asset Covered Securities Act also provides protection to the Bondholders in preference to any other creditors in both the Bank and the Society. The Directors are also satisfied that the Bank is protected under the legislation such that it in the event of any parental insolvency that the liabilities due to the Bondholders as secured creditors can be met in priority to un-secured creditors.

Sale Process
EBS was engaged in a sale process throughout 2010 as part of the EU restructuring plan. It was confirmed by the National Treasury Management Agency on 30 March 2011 that the sale process was terminated following a decision by the Minister. On 31 March 2011, the Minister for Finance announced the future banking landscape in Ireland and its intention to combine the operations of AIB and EBS to build the second pillar bank in Ireland from the strengths of both institutions. EBS and AIB are expected to be combined from 1 July 2011. It is the intention to continue the business and operations of EBS MF with the objective of preserving value.

Having regard to the above mentioned risks and uncertainties, the steps taken to address them and the protection afforded by the Asset Covered Securities legislation to the Bank, the Bank's Directors are satisfied that it continues to be appropriate to prepare the financial statements on a going concern basis. Further detail on the risks and uncertainties and going concern basis of preparation can also be found in Note 1 to the Accounts.

DIRECTORS
The directors at the date of this report are listed on page 3 and have served throughout the reporting period.

DIVIDENDS
No dividends were declared or paid in the period to 31 December 2010 (2009: Nil).

DIRECTORS' AND SECRETARY'S INTEREST IN SHARES
None of the directors' or the secretary had any interest in the share capital of the Bank.

EVENTS SINCE THE YEAR END
The following events have occurred since the reporting date:

PLAR/PCAR
In January 2011, the Central Bank initiated a Financial Measures Programme, which incorporated the Prudential Capital Assessment Review ('PCAR') and Prudential Liquidity Assessment Review ('PLAR') exercises. The PCAR exercise enabled the Central Bank to perform a thorough assessment of the banks' asset quality and earnings together with incorporating incremental three year projected provisions estimates based on Blackrock 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.

DIRECTORS' REPORT (continued)

It was announced on the 31 March 2011 that the EBS Group requires €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 brings 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 Central Bank has indicated that capital must be raised by 31 July 2011. The PLAR exercise outlines the measures to be implemented to steadily deleverage the banking system and reduce reliance on the funding from Monetary Authorities. The PLAR exercise established a target funding and loan to deposit ratio for the aggregate domestic banking system, including EBS, of 122.5% and consequently in order to reach the targeted ratio the Group is required to deleverage €2.5bn of non core assets (comprising the commercial and un encumbered buy to let books) over the period to 2013.

Sale Process
As mentioned previously, EBS was engaged in a sale process throughout 2010 as part of the EU restructuring plan. It was confirmed by the National Treasury Management Agency on 30 March 2011 that the sale process was terminated following a decision by the Minister. On 31 March 2011, the Minister for Finance announced the future banking landscape in Ireland and its intention to combine the operations of AIB and EBS to build the second pillar bank in Ireland from the strengths of both institutions. EBS and AIB are expected to be combined from 1 July 2011. It is the intention to continue the business and operations of EBS MF with the objective of preserving value.

Retained Deal
In January and April 2011, the Society issued Government Guaranteed Bonds to the value of €1.7bn and €1.82bn respectively by way of a retained deal, the purpose of which was to create collateral to facilitate borrowing from the ECB. In total the Bank purchased €0.3m of the bonds issued. The bonds are classified as an 'available for sale' financial asset (AFS). The assets are re-valued every month with movements reflected in the available for sale reserve.

Permanent TSB ('PTSB')/Central Statistics Office ('CSO') House Price Index
The PTSB house price index was discontinued in May 2011 and was replaced by the CSO index. Until a new regulatory notice is issued by the Central Bank, the Bank will continue to make its regulatory returns based on the PTSB index.

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 Bank. To achieve this, the directors have appointed accountants who report to the board and ensure that the requirements of Section 202 of the Companies Act 1990 are compiled with. Those books and accounting records are maintained at the registered office of the accountants at 2 Burlington Road, Dublin 4.

STATEMENT OF DIRECTORS' RESPONSIBILTIES
The directors are responsible for preparing the accounts in accordance with applicable Irish law, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the European Union (EU). In preparing these accounts, the directors have also elected to comply with IFRS issued by the International Accounting Standards Board (IASB).

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company 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 company and enable them to ensure that the accounts comply with the Companies Acts, 1963 to 2009. They are also responsible for safeguarding the assets

DIRECTORS' REPORT (continued)

of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

In accordance with Section 160(2) of the Companies Act 1963, the auditor, KPMG, Chartered Accountants and Registered Auditors, who were appointed during the period, will continue in office.

On behalf of the Board

Chairman: Peter Murphy

Chief Executive: Dara Deering

Finance Director: Audrey Collins

Secretary:

29 June 2011

EBS MORTGAGE FINANCE UNLIMITED

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of EBS Mortgage Finance ('the Bank') for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Financial Position, the Cash Flow Statement, the Statement of Other Comprehensive Income, the Reconciliation of Movements 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 Bank's shareholder, 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 Bank's shareholder 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 Bank and the Bank's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 10.

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 IFRS as adopted by the EU and have been properly prepared in accordance with the Companies Acts 1963 to 2009.

We also report to you whether, in our opinion:
- proper books of account have been kept by the Bank;
- whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; 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 Bank's 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 only the Directors' Report. We consider the implications for our report if we become aware of any apparent mis-statements 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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank'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 of 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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion:

• the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Bank's affairs as at 31 December 2010 and of its profit for the period then ended; and

• the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2010.

Emphasis of Matter – going concern

In forming an opinion on these financial statements, which is not qualified, we have considered the adequacy of the disclosures in the Basis of Preparation in Note 1 (c) to the financial statements. These disclosures set out a number of material economic, political and market risks and uncertainties that impact the Irish banking system which may cast significant doubt upon the Bank's ability to continue as a going concern. The Bank, as a covered bond bank, has the ability to access funding in its own right from Monetary Authorities, however given the deterioration of the covered bond market for Irish issuers, the Bank is reliant on accessing funding directly from its parent or directly from Monetary Authorities. In the year ended 31 December 2010, the Bank obtained funding from its Parent and is in part reliant on the ability of EBS Building Society to continue as a going concern. The ability of EBS Building Society to support the Bank's activities going forward is dependent on amongst other things EBS Building Society's continuing ability to access funding from the Eurosystem and the Irish Central Bank to meet its liquidity requirements and its ability to raise additional capital to meet required regulatory capital ratios. These matters have been considered by the Director's in concluding that it is appropriate to prepare the financial statements on a going concern basis.

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 Bank. The Bank's 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 Bank, as stated in the 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 2010 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 Bank.

KPMG

KPMG
Registered Auditor
Chartered Accountants
1-2 Harbourmaster Place
International Financial Services Centre
Dublin 1

29 June 2011

EBS MORTGAGE FINANCE UNLIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 *(12 months)* €'000	2009 *(14 months)* €'000
Interest income	3	196,649	161,682
Interest expense	3	(152,456)	(124,007)
Net Interest Income		**44,193**	**37,675**
Gain/(Loss) on derivatives held for risk management	4	1,978	(2,508)
Total operating expenses	5	(6,853)	(5,533)
Income before impairment provisions		**39,318**	**29,634**
Provision for impairment losses of loans and advances	9(b)	(26,754)	(14,880)
Profit before taxation		**12,564**	**14,754**
Taxation on ordinary activities	6	(1,561)	(1,853)
Profit for the period		**11,003**	**12,901**

Chairman: Fergus Murphy

Chief Executive: Dara Deering

Finance Director: Lindsay Collins

Secretary: [illegible]

Date: 29 June 2011

The notes on pages 19 to 52 form part of these accounts.

EBS MORTGAGE FINANCE UNLIMITED

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 *(12 months)* €'000	2009 *(14 months)* €'000
Profit for the period	11,003	12,901
Total comprehensive profit for the period	**11,003**	**12,901**

There are no other items in other comprehensive income other than the profit for the period.

Chairman: Fergus Murphy

Chief Executive: Dara Deering

Finance Director: [illegible] Collins

Secretary: [illegible]

Date: 29 June 2011

The notes on pages 19 to 52 form part of these accounts.

EBS MORTGAGE FINANCE UNLIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Share Reserves (14 months) €'000	General Reserves (14 months) €'000	Total (14 months) €'000
At 30 October 2008		-	-	-
Ordinary share capital issued	22	266,540	-	266,540
Total comprehensive income for the period				
Profit for the period		-	12,901	12,901
At 31 December 2009		**266,540**	**12,901**	**279,441**

	Note	Share Reserves (12 months) €'000	General Reserves (12 months) €'000	Total (12 months) €'000
At 1 January 2010		**266,540**	**12,901**	**279,441**
Ordinary share capital issued	22	50,000	-	50,000
Total comprehensive income for the period				
Profit for the period		-	11,003	11,003
At 31 December 2010		**316,540**	**23,904**	**340,444**

The notes on pages 19 to 52 form part of these accounts.

EBS MORTGAGE FINANCE UNLIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010	2009
		€'000	€'000
ASSETS			
Cash and balances with central banks	7	13,951	15,850
Loans and advances to credit institutions	8	68,675	91,367
Loans and advances to customers	9	5,354,395	4,876,566
Derivative financial instruments	18	38,200	32,695
Intangible assets	10	2,772	3,120
Current taxation asset	11	-	114
Other assets	12	423	323
Total assets		**5,478,416**	**5,020,035**
LIABILITIES			
Deposits by credit institutions	13	2,874,009	2,651,851
Debt securities in issue	14	2,226,706	2,038,325
Derivative financial instruments	18	31,002	43,110
Current taxation liability	15	25	39
Other liabilities	16	6,230	7,269
Total liabilities		**5,137,972**	**4,740,594**
SHAREHOLDER'S EQUITY			
Issued share capital	22	316,540	266,540
Profit and loss account		23,904	12,901
Total shareholder's equity		**340,444**	**279,441**
Total liabilities and shareholder's equity		**5,478,416**	**5,020,035**

Chairman: Fergus Murphy

Chief Executive: Dara Deering

Finance Director: Sharkey Collins

Secretary: [illegible]

Date: 29 June 2011

The notes on pages 19 to 52 form part of these accounts.

EBS MORTGAGE FINANCE UNLIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 (12 months) €'000	2009 (14 months) €'000
Cash flows from operating activities			
Profit for the period before taxation		12,564	14,754
Adjustments for:			
Amortisation of intangibles	10	348	360
Amortisation of premium/discount		2,136	1,332
Provision for impairment of loans and advances	9(b)	27,340	14,880
Fair value movement on hedging derivatives	4	(17,613)	10,415
Fair value movement on hedged item	4	15,635	(7,907)
Operating income before changes in working capital and provisions		**40,410**	**33,834**
Net increase in mandatory reserve balance		-	(51)
Net increase in loans and advances to customers		(505,169)	(4,891,446)
Net increase in other assets		(100)	(323)
Net increase in deposits from credit institutions		220,591	2,650,084
Increase in other liabilities		(429)	5,869
Increase in taxation liability		(14)	39
Cash used in operations		(244,711)	(2,201,994)
Income taxes refunded /(paid)		120	(200)
Net cash used in operating activities		**(244,591)**	**(2,202,194)**
Cash flows from investing activities			
Cash used in generating intangible assets	10	-	(3,480)
Net cash outflow from investing activities		**(244,591)**	**(3,480)**
Cash flows from financing activities			
Issue of debt securities	14	1,170,000	3,396,300
Redemption of debt securities	14	(1,000,000)	(1,350,000)
Issue of share capital	22	50,000	266,540
Net cash inflow from financing activities		**220,000**	**2,312,840**
Net increase in cash and cash equivalents		**(24,591)**	**107,166**
Cash and cash equivalents at beginning of period		107,166	-
Cash and cash equivalents at 31 December	7	**82,575**	**107,166**

The notes on pages 19 to 52 form part of these accounts.

1. ACCOUNTING POLICIES

(a) Corporate information

EBS Mortgage Finance was incorporated in the Republic of Ireland on 30 October 2008 as an unlimited company, commenced trading on 1 December 2008 and is operating under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts. EBS Mortgage Finance (the 'Bank') is a wholly owned subsidiary of EBS Building Society ('the Society'), is part of the EBS Group (the 'Group') and is regulated by Central Bank of Ireland. The principal activities of the Bank are described in note 2.

The Bank 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. The Bank is not a participating institution under the new Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 which came into effect on 9 December 2009.

The Bank is currently a participating institution under the National Asset Management Agency Act 2009 (the 'Act'). However, there are no mortgage loans to be transferred under the Act.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) as issued by the International Accounting Standards Board and adopted by the European Union (IFRS). The financial statements also comply with the requirements of Irish Statute comprising the Companies Act 1963 to 2009, the Asset Covered Securities Acts and the European Communities (Credit Institutions: Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 which implemented the EU Directive on the annual accounts of financial institutions.

(c) Basis of preparation

The financial statements have been prepared on an historical cost basis, except for derivative contracts all of which are measured at fair value. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged.

The financial statements are prepared in Euro and all values are rounded to the nearest one thousand, except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. If the revision affects both current and future periods, revisions to accounting estimates are recognised in the period of the revision and future periods. The impairment provisioning methodology is regularly reviewed in light of the changing economic environment. During the year the rates of expected repossession given default were amended in addition to assumptions for unemployment and GDP.

The critical accounting judgements and estimates set out below in note 1(d) have been applied consistently to all periods presented in these financial statements.

Material risk and uncertainties and Going Concern basis of preparation

In determining the appropriateness of adopting the going concern basis of preparation of the financial statements, the Bank's Directors have taken into consideration the economic, political and market risks and uncertainties facing all Irish companies and the Bank's parent, the Society. In particular these relate to challenges in terms of asset quality, funding, capital and bond ratings. Both asset quality and funding are described in more detail in note 19 of the accounts. Having regard to these risks and

1. ACCOUNTING POLICIES (continued)

uncertainties, and the steps taken to address them, the Bank's Directors' are satisfied that it continues to be appropriate to prepare the financial statements on a going concern basis. In the current year the Bank's Directors have considered the following risks and uncertainties.

Asset Quality
The Bank is exposed to the inherent risks arising from the macro economic conditions in Ireland. The challenges presented by the Irish economy throughout 2010 significantly and adversely affected the financial performance in the current year and presents risks and challenges for the foreseeable future. Demand for property has remained weak and is at very low levels as demonstrated by the size of the overall mortgage market for residential property in 2010. Residential property prices continued to fall in 2010 and increased unemployment has resulted in higher levels of arrears and non performing loans which feeds into the calculation for impairment losses. The profitability of the Bank has been adversely impacted by the current financial crisis as impairment losses increased.

Funding, capital and bond ratings
The Bank, as a covered bond bank, has the ability to fund itself. At 31 December 2010 the Bank had two external bonds in issuance and given the financial difficulties affecting the Irish Banking sector, combined with the sovereign, institutional and bond downgrades, the Bank was unable to issue any external bonds in 2010.

The Bank also has the ability to access funding in its own right from Monetary Authorities, however the Bank has only pledged a small amount of collateral with monetary authorities in exchange for funding to date. In the main Covered Bonds issued by the Bank and purchased by the Society are pledged by the Society as collateral in exchange for funding from Monetary Authorities. Hence, the Bank is funded in part by its parent, the Society. Given the prolonged deterioration of the covered bond market to Irish issuers the Bank is reliant on accessing funding directly from its parent or via Monetary Authorities. In the current year the Bank obtained funding from its Parent and hence is reliant on the going concern status of the Society and the Group.

Servicing
The day to day mortgage operational services are provided to the Bank by the Society and are set out in a Mortgage Servicing Agreement. The operation of the Bank is dependent on the provision of these services from the Society.

Reliance on Parent
The Bank will continue to be supported by the Society in the form of funding and it is the intention of the EBS Group to continue to provide this support for the foreseeable future. The Society continues to access funding from corporate and wholesale markets, however, the continued deterioration of the Irish economy coupled with the fragile nature of the banking sector has resulted in increased borrowings from monetary authorities for all financial institutions including EBS. Notwithstanding the funding contingency measures in place, any further deterioration in the group's or sovereign's credit rating could result in increased or prolonged reliance on monetary authorities. In making its assessment of the Society's ability to continue as a going concern, the Group Board of Directors have taken into consideration the material risks and uncertainties that could impact the Society's ability to continue as a going concern including those relating to:

- The period over which the Irish economy recovers from the current crisis.
- The implementation by the Irish Government of the joint EU/IMF programme for Ireland.
- The impact of actions taken by the Minister for Finance on financial stability grounds under the Credit Institutions (Stabilisation) Act 2010.
- The Group's access to liquidity and funding and the continued availability of the Eurosystem and Central Bank of Ireland financing.
- The ability of the Group to meets its targeted regulatory ratios under Prudential Capital Assessment Review ('PCAR') and to raise additional required capital.
- The ability of the Group to dispose of assets to meet Prudential Liquidity Assessment Review ('PLAR') targets set by the Central Bank of Ireland.

Further detail on the PCAR and PLAR exercises is given in the 'Events since year end' section of the Directors Report.

In assessing the going concern basis of preparation of the financial statements, the Group Board have considered each of the above mentioned risks and uncertainties. Having considered the risks and uncertainties, the Board of Directors believe it is appropriate to prepare the accounts on the going concern basis as a result of the following:

- the Government investment of €875m in EBS during 2010;
- the stated intention of the Government to recapitalise the Group to a 10.5% core tier 1 ratio under the base case and 6% under the stress case 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;

1. ACCOUNTING POLICIES (continued)

- the ability of the Group to deleverage non core assets;
- the continued availability of the Eurosystem and Central Bank of Ireland financing to enable the Group to meet its immediate and estimated funding requirements for the next year; and
- the intention to continue the business and operations of EBS going forward with the objective of preserving value.

Over collateralisation and Asset Covered Securities legislation
A significant level of over collateralisation ('OC') is held in the covered asset pool in order to provide adequate protection to bondholders in the event of higher defaults and reducing asset values. The Bank has, as required, increased the nominal OC level during the period in response to the fall in asset values such that the prudent value of the collateral pool as measured in the regulatory OC value of the cover pool exceeds minimum regulatory, contractual and rating agency requirements. The Directors are satisfied that existence and level of over collateralisation provides the Bank with access to sufficient liquidity to enable repayments to be made when they fall due.

The Asset Covered Securities Act also provides protection to the Bondholders in preference to any other creditors in both the Bank and the Society. The Directors are also satisfied that the Bank is protected under the legislation such that it in the event of any parental insolvency that the liabilities due to the Bondholders as secured creditors can be met in priority to un-secured creditors.

Sale Process
EBS was engaged in a sale process throughout 2010 as part of the EU restructuring plan. It was confirmed by the National Treasury Management Agency on 30 March 2011 that the sale process was terminated following a decision by the Minister. On 31 March 2011, the Minister for Finance announced the future banking landscape in Ireland and its intention to combine the operations of AIB and EBS to build the second pillar bank in Ireland from the strengths of both institutions. EBS and AIB are expected to be combined from 1 July 2011. It is the intention to continue the business and operations of EBS MF with the objective of preserving value.

Having regard to the above mentioned risks and uncertainties, the steps taken to address them and the protection afforded by the Asset Covered Securities legislation to the Bank, the Bank's Directors are satisfied that it continues to be appropriate to prepare the financial statements on a going concern basis.

(d) Critical accounting judgements and estimates

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB and adopted by the EU. In preparing these accounts, management is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. Full details of the significant accounting policies are set out below.

The Bank believes that of its significant accounting policies and estimation techniques, the following may involve a higher degree of judgement and complexity.

(i) Impairment losses on loans and advances

The Bank has purchased mortgage loans from the Society, which are secured on residential property. Where there is a risk that the Bank will not receive full repayment of the amount advanced, provisions are made in the financial statements to reduce the carrying value of the loans and advances of the amount expected to be recovered.

Management reviews the Bank'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 Bank makes use of various modelling techniques which are specific to different portfolio types.

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

1. ACCOUNTING POLICIES (continued)

The Bank considers that the provisions for loan impairments at 31 December 2010 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.

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

This critical accounting policy is assessed on an annual basis and any changes are charged / credited to the income statement.

(e) Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to interest rate risks. In accordance with treasury policy, the Bank does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship.

The fair value of derivative financial instruments is the estimated amount that the Bank would receive or pay to terminate the instrument at the reporting date. Interest rate swaps are valued by calculating the net present value of the cash flows over the life of the swap. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(f) Hedging

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank 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 hedged items. A hedge is regarded as highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the un-amortised fair value adjustment is recognised immediately in the income statement.

1. ACCOUNTING POLICIES (continued)

(g) Financial assets

Classification

The Bank classifies its financial assets as loans and receivables to the extent that the criteria of IAS 39 are met.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank purchases mortgage loans from the Society with no intention of trading the loans.

Recognition of financial assets

Loans are recognised when purchased from the Society. Financial assets are initially recognised at cost being the fair value of the consideration given plus transaction costs for all financial assets not carried at fair value through the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Measurement of financial assets

Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the investments are derecognised or impaired as well as through the amortisation process.

(h) Financial liabilities

Financial liabilities are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The portion of a financial liability that is designated as a hedged item within a fair value hedge is accounted for at fair value with respect to the hedged risk and movements go through the income statement. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(i) Taxation

Current tax

Current tax on profits is recognised as an expense based on the applicable tax rates enacted or substantively enacted at the reporting date.

(j) Impairment of financial assets (assets carried at amortised cost)

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

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

The Bank first assesses whether objective evidence of impairments exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective

1. ACCOUNTING POLICIES (continued)

(j) Impairment of financial assets (assets carried at amortised cost) - (continued)

evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

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

(k) Retirement benefits

The Bank is a participating employer in the Society pension plan. The Society pension plan is a defined benefit scheme based on final pensionable pay and operated for eligible employees of the Society and the Bank.

Whilst the scheme is a defined benefit scheme, the Bank is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, hence it is treated as a defined contribution scheme in the accounts of the Bank. More detailed information of the defined benefit pension plan for the Group is provided in the accounts of the Society.

(l) Revenue recognition

(i) Interest income and expense

Interest income and expense are recognised in the Income Statement for all interest bearing financial instruments measured at amortised cost using the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period.

1. ACCOUNTING POLICIES (continued)

(ii) Gains or losses on derivatives held for risk management

Gains or losses on derivatives held for risk management comprises gains less losses relating to unrealised fair value changes on derivatives and hedged items.

(m) Intangible assets

Costs associated with the set up of the Bank are recognised as assets and are amortised using the straight-line method over their useful lives not exceeding 10 years. The amortisation expense is recognised in the Income Statement in operating expenses.

(n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with central banks and loans and advances to credit institutions.

(o) Share capital

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 Bank.

Incremental costs directly attributable to the issue, if any, of an equity instrument are deducted from the initial measurement of the equity instrument.

(p) New standards and interpretations not applied

During the year, the IASB and IFRIC have issued a number of new accounting standards and interpretations with an effective date after the date of these financial statements including:

International Accounting Standards (IAS / IFRSs)		**Effective Date**
Extinguishing financial liabilities with equity instruments	IFRIC 19	01-Jul-10
Prepayments of a minimum funding requirement	IFRIC 14 (amendment)	01-Jan-11
Improvements to IFRSs		
Related party disclosures	IAS 24	01-Jan-11
Consolidated and separate financial statements	IAS 27	01-Jan-11
Financial instruments	IFRS 9 (not yet endorsed)	01-Jan-13
Deferred tax: Recovery of underlying assets	IAS 12 (not yet endorsed)	01-Jan-12

IAS 24: Related party disclosure. The definition of related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for the government and government-related entities. For these entities the general disclosures requirements of IAS 24 will not apply. Instead, alternative disclosures will be included. The Group has elected to early adopt the partial exemption for the government and government-related entities in these consolidated financial statements.

The Directors do not anticipate that the adoption of these standards and interpretations (with the exception of IFRS 9 which is yet to be endorsed) will have a material impact on the Bank's financial statements in the period of initial application. The impact of IFRS 9 will be fully assessed when it is endorsed.

2. SEGMENTAL REPORTING

The Bank's activities are carried out exclusively in the financial services sector in the Republic of Ireland. The company does not sell mortgage loans directly to the public. It has an origination agreement with the Society whereby the Society continues to sell mortgage loans directly to the public and subsequently sell pools of loans to the Bank for an appropriate consideration.

For management and reporting purposes the Bank's activities are organised in one reportable segment based on the information

2. SEGMENTAL REPORTING (continued)

provided internally to the chief operating decision maker. The chief operating decision maker is considered to be the Bank's Board of Directors.

3. NET INTEREST INCOME

	2010 *(12 months)* €'000	2009 *(14 months)* €'000
Interest Income		
Loans and advances to customers	182,868	159,084
Loans and advances to credit institutions	1,456	1,038
Cash with central banks	150	211
Derivative interest income	12,175	1,349
Total interest income	**196,649**	**161,682**
Interest Expense		
Deposits by credit institutions	(73,778)	(70,184)
Debt securities in issue	(54,633)	(30,529)
Derivative interest expense	(24,045)	(23,294)
Total interest expense	**(152,456)**	**(124,007)**
Net Interest Income	**44,193**	**37,675**

4. GAIN (LOSS) ON DERIVATIVES HELD FOR RISK MANAGEMENT

	2010 *(12 months)* €'000	2009 *(14 months)* €'000
Net gain/(loss) on derivatives held at fair value through the income statement	1,484	(1,126)
Net gain/(loss) on derivatives in fair value hedge relationship	494	(1,382)
Net gain/(loss) on derivatives held for risk management	**1,978**	**(2,508)**

Interest rate swaps are held for managing interest rate risk in the Bank and while these are effective in hedging the risk, the derivatives hedging the mortgage assets are not in a hedge relationship under the accounting standards. As a result, the derivatives are fair valued through the Income Statement and the mortgages are held at amortised cost. This treatment can give rise to volatility in the Income Statement. The gain on these derivatives for the period is €279k (period ending 31 December 2009: loss of €463k).

The derivative held for managing the interest rate risk on the €50m fixed rate private placement bond is not in a hedge relationship under the accounting standards. As a result, the derivative is also fair valued through the Income Statement giving rise to a gain on this derivative for the period of €1,205k (period ending 31 December 2009: loss of €663k).

The derivatives hedging the €1bn fixed rate bond in issue are in a fair value hedge relationship minimising the volatility in the Income Statement. The net gain on the derivative in a fair value hedge relationship is €494k (period ending 31 December 2009: (€1,382k)) arising from the movement in fair value of the derivative of €16,129k (period ending 31 December 2009: €9,289k) and the movement in fair value of the underlying hedged item of €15,635k (period ending 31 December 2009: €7,907k).

Details on derivative financial instruments are also disclosed in note 18.

5. TOTAL OPERATING EXPENSES

	2010 *(12 months)* €'000	2009 *(14 months)* €'000
Staff costs	344	370
Government Guarantee scheme fees	1,068	-
Other administration expenses	5,093	4,803
Amortisation of intangibles (note 10)	348	360
	6,853	**5,533**

Other administrative expenses includes service fee expense of €4,723k (period ending 31 December 2009: €4,207k) payable to the Society for the period. This fee is in respect of servicing tasks performed by the Society in relation to the portfolio of mortgages sold to the Society and is determined with reference to the value of the outstanding loans in the bank.

In accordance with the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (Statutory Instrument No. 416 of 2008) ('CIFS'), Government Guarantee scheme fees of €1,068k were incurred in 2010 (2009: Nil)

Auditor's remuneration of €12k (period ending 31 December 2009: €10k) is in relation to the audit of the individual financial statements. No other fees have been paid to the auditors.

Directors' remuneration in 2010 is €30k (period ending 31st December 2009: €31k). This is detailed in note 20.

The average number of full time persons employed by the Bank in the reporting period was 4.8 (period ending 31st December 2009: 4.0). All employees are permanent staff members.

	2010 *(12 months)* €'000	2009 *(14 months)* €'000
Staff costs comprise:		
Wages and salaries	302	310
PRSI/Health Insurance	33	32
Retirement benefits (note 17)	9	28
	344	**370**

6. TAXATION

	2010 (12 months) €'000	2009 (14 months) €'000
Corporation Tax	**1,561**	**1,853**

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

Income before tax @ 12.5%	**1,571**	**1,844**
Effects of:		
Addbacks and income not taxable at standard rates	-	10
Other temporary differences	(4)	(1)
Over provision in prior years	(6)	-
Corporation Tax	**1,561**	**1,853**

The bank purchased €1,567k (period ending 31 December 2009:€1,767k) of group relief from other subsidiaries of the Group.

7. CASH AND BALANCES WITH CENTRAL BANKS

	2010 €'000	2009 €'000
Balances with Central Bank other than mandatory reserve deposits	13,900	15,799
Mandatory reserve deposits with Central Bank	51	51
Total cash and balances with Central Banks	**13,951**	**15,850**

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

CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows the cash and cash equivalents comprise the following:

	2010 €'000	2009 €'000
Balances with Central Bank other than mandatory reserve deposits	13,900	15,799
Loans and advances with credit institutions	68,675	91,367
Total cash and cash equivalents	**82,575**	**107,166**

8. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions - Analysis by contractual maturity

	2010 €'000	2009 €'000
Repayable in less than three months	**68,675**	**91,367**

9(a) LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – Analysis by contractual maturity

	2010 €'000	2009 €'000
Repayable in less than three months	1,270	4,312
Repayable in more than three months but less than one year	4,188	11,840
Repayable in more than one but less than five years	99,633	90,929
Repayable in more than five years	5,291,524	4,784,365
	5,396,615	4,891,446
Less provision for loan impairments	(42,220)	(14,880)
Total loans and advances to customers after provisions	**5,354,395**	**4,876,566**

Loans and advances to customers – Analysis by sector

	2010 €'000	2009 €'000
Home loans	4,979,959	4,456,885
Retail Buy to let loans	416,656	434,561
Total loans and advances to customers before provisions	5,396,615	4,891,446
Less provision for loan impairments	(42,220)	(14,880)
	5,354,395	**4,876,566**

Additional information on the credit profile of loans and advances to customers is included in note 19.

Loans to directors are disclosed in note 20.

9(b) PROVISION FOR LOAN IMPAIRMENTS

	2010 €'000	2009 €'000
Individual provision for loan impairments		
At beginning of the period	**1,772**	-
Charge of impairment loss	6,398	1,772
At end of period	**8,170**	**1,772**
Collective provision for loan impairments		
At beginning of the period	**13,108**	-
Charge of impairment loss	20,942	13,108
At end of period	**34,050**	**13,108**
Total provision for loan impairments at 31 December	**42,220**	**14,880**

The impairment charge recognised in the Income Statement of €26,754k is based on the total charge above of €27,340k net of an amount received from the Society of €586k as part of an early payout settlement received by them from Genworth in respect of mortgage indemnity insurance relating to a pool of loans which formed part of the portfolio of loans of the Society.

10. INTANGIBLE ASSETS

	2010 €'000	2009 €'000
Cost		
At 1 January	3,480	-
Additions – Internal development	-	3,480
Additions – Purchased	-	-
At 31 December	**3,480**	**3,480**
Amortisation		
At 1 January	360	-
Charge for the period	348	360
At 31 December	**708**	**360**
Net book amounts at 31 December	**2,772**	**3,120**

Computer software costs are amortised on a straight line basis over a period not exceeding ten years.

11. CURRENT TAX ASSET

	2010 €'000	2009 €'000
Corporation tax	-	114

12. OTHER ASSETS

	2010 €'000	2009 €'000
Sundry Prepayments	423	323

Sundry prepayments comprises swap interest receivable of €200k (2009; nil), upfront deferred costs of €210k (2009: €302k) in respect of bond issuance which are being amortised over the life of the bonds and other administration costs prepaid of €13k (2009: €21k).

13. DEPOSITS BY CREDIT INSTITUTIONS

	2010 €'000	2009 €'000
Deposits by credit institutions – Analysis by contractual maturity		
Repayable in less than three months	2,874,009	2,651,851

13. DEPOSITS BY CREDIT INSTITUTIONS (continued)

Deposits by Credit Institutions consist mainly of a borrowing facility from the Society.

The facility limit with the Society is €5bn and the balance at 31 December amounted to €2.9bn (2009: €2.7bn). The interest rate is equal to the aggregate of Euribor and an applicable margin as agreed from time to time between the Bank and the Society. The facility can be terminated by either the Bank or the Society in accordance with the terms of the loan agreement. The Bank makes repayments under the facility from time to time without any premium, penalty or break costs.

14. DEBT SECURITIES IN ISSUE AND ASSET COVERED SECURITIES ACT INFORMATION

	2010 €'000	2009 €'000
Mortgage covered securities in issue:		
Opening balance	**2,038,325**	-
Issued during the period	1,170,000	3,396,300
Redemptions and repayments	(1,000,000)	(1,350,000)
Amortisation of premium / discount	2,746	(68)
Fair value movement on hedging	15,635	(7,907)
Closing balance at 31 December	**2,226,706**	**2,038,325**
Mortgage covered securities in issue by remaining maturity:		
Repayable in less than one year	-	1,000,000
Repayable in more than one year but less than five years	1,641,024	1,038,325
Repayable in greater than 5 years	585,682	-
	2,226,706	**2,038,325**

On 15 December 2010 a maturing covered bond deal, issued in December 2008 with an original nominal value of €1.5bn, was redeemed in full (the outstanding nominal value on 15 December 2010 was €1.0bn due to part redemption of €0.15bn of bonds on 19 November 2009, buyback of €0.3bn of the bonds on 15 December 2009 and a further part redemption of €0.05bn of the bonds on 22 December 2009).

On 24 November 2010 the Bank placed €0.3bn of debt securities as collateral for ECB Repo, for which it received €0.29bn cash. The Bank utilised these funds to repay part of its inter-company loan with the Society. The Repo matured on 15 December when the principal of €0.29bn plus interest was repaid to the ECB. The Bank used the inter-company loan to repay the maturing ECB funds.

On 16 December 2010 the bank issued two retained deals with a nominal value of €0.65bn each and a maturity of 3 and 5 years respectively. These bonds were subscribed for by the Society in the same manner as the Society had previously subscribed for the December 2008 bond issue. The retained bonds were recognised on the Statement of Financial Position at a value of €1.17bn representing the Day 1 fair value of the bonds as required under the Accounting Standards. The discount is being amortised through the Income Statement over the life of the bonds.

As at 31 December 2010, the total amount of principal outstanding in respect of mortgage covered securities was €2,350m of which €1,050m was held by third parties and €1,300m by the Society.

The Bank is an issuer of mortgage covered securities under the Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities Amendment Act, 2007 (the "Act"). The Act requires that mortgage covered securities are secured by assets that are included in a Cover Assets Pool maintained by the issuer and that a register of mortgage covered securities business is kept.

Section 40(2) of the Act requires that the following information be disclosed in respect of mortgage credit assets that are recorded

14. DEBT SECURITIES IN ISSUE (continued)

in the register of mortgage covered securities business.

The external bond issued in November 2009 was covered under the CIFS scheme up to 29 September 2010 and a charge of €1.1m was paid under the scheme.

14(a) Mortgage properties and principal loan balances outstanding in the cover assets pool

		As at 31 December 2010		As at 31 December 2009	
From €	To €	Total principal balances	Number of loans	Total principal balances	Number of loans
0	100,000	559,060	17,997	556,035	17,115
100,000	200,000	1,276,034	13,674	1,075,282	11,418
200,000	500,000	1,736,738	9,667	1,486,194	8,072
Over 500,000		235,027	552	229,258	535
Total		**3,806,859**	**41,890**	**3,346,769**	**37,140**

14(b) Geographical location of related property assets (mortgaged properties) in the cover assets pool

	As at 31 December 2010		As at 31 December 2009	
	Number of mortgaged properties	%	Number of mortgaged properties	%
Geographical area:				
Dublin	11,058	39	15,223	59
Outside Dublin	17,217	61	10,379	41
Total	**28,275**	**100**	**25,602**	**100**

14(c) Non-performing mortgage loans in the cover assets pool

As at 31st December 2010 there were 639 (2009: 390) accounts in default (the term default is defined as any single loan account where the total amount in arrears is greater than or equal to 3 monthly payments). The total arrears amount for these 639 accounts was €2,051,796 (2009: €1,165,323).

14(d) Non-performing mortgage loans in the cover assets pool with arrears greater than €1,000

During the year ended 31 December 2010, 1,405 (2009: 717) mortgage loans in the cover assets pool were non performing with arrears greater than €1,000. As at 31 December 2010, 516 (2009: 314) mortgage loans were non-performing with arrears greater than €1,000 in the cover assets pool.

14(e) Replacement of non-performing mortgage loan accounts from the cover assets pool

During the period ended 31 December 2010, 1,027 (2009: 301) mortgage loan accounts were removed from the Cover Asset Pool. (For this purpose, non-performing is defined as in arrears by six monthly repayments or more). These loan accounts were not replaced with other assets as the Cover Assets Pool continued to meet all regulatory requirements.

14. DEBT SECURITIES IN ISSUE (continued)

14(f) Amount of interest in arrears on mortgage loan accounts in the cover assets pool not written off

The total amount in arrears (including principal and interest) on mortgage loans in the Cover Asset Pool as at 31 December 2010 was €3,902,382 (2009: €2,414,692). None of the accounts in question were written off as at 31 December 2010.

14(g) Total principal and interest payments on mortgage loan accounts

The total amount of repayments (principal and interest) made by borrowers on mortgage loan accounts in the Cover Assets Pool during the period ended 31 December 2010 was €388.2m (2009: €310.8), of which €268.3m (2009: €218.3m) represented repayment of principal and €119.9m (€2009: €92.5m) represented payment of interest.

14(h) Number and amount of mortgage loans in the cover assets pool secured on commercial property

As at 31 December 2009 and 2010 there were no loan accounts in the Cover Asset Pool that were secured on commercial properties.

15. CURRENT TAX LIABILITY

	2010 €'000	2009 €'000
Value added tax	7	22
Other taxes	18	17
	25	**39**

16. OTHER LIABILITIES

	2010 €'000	2009 €'000
Interest accrued	5,069	5,367
Other accruals	371	502
Deferred Income	790	1,400
	6,230	**7,269**

Interest accrued of €5,069k represents bond interest payable at 31 December 2010 (2009: €5,367k).

Other accruals of €371k include accruals in respect of administrative services incurred but not invoiced at the year end (2009: €502k).

Deferred income of €790k represents up front fee income received in November 2009 from the Swap Counterparty. The deferred income is being amortised over the life of the bond which will be fully amortised in November 2012.

17. EMPLOYEE BENEFITS

The Bank is a participating employer in the Society pension plan. The scheme is a defined benefit scheme based on final pensionable pay and operated for eligible employees of the Society and the Bank.

Whilst the scheme is a defined benefit scheme, the Bank is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, hence it is treated as a defined contribution scheme in the accounts of the Bank.

Contributions on behalf of the Bank employees amounted to €9k (14 month period to 31 December 2009: €28k). There were no outstanding amounts to be paid to this scheme at 31 December 2010.

18. DERIVATIVE FINANCIAL INSTRUMENTS

EBS Mortgage Finance

Group operations are exposed to the risk of interest rate fluctuations to the extent that assets and liabilities reprice at different times or in differing amounts. Derivatives allow the Bank to modify the repricing characteristics of assets and liabilities in a cost efficient manner. This flexibility helps the Bank to achieve liquidity and risk management objectives.

Derivatives fluctuate in value as interest rates rise or fall just as all other assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of balance sheet 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 Bank uses interest rate swaps. The Bank 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" hedging relationships under IAS 39, such swaps are classified as "Fair Value through the Income Statement".

Derivative instruments are contractual agreements whose value is derived from the price movements in underlying assets, interest rates or indices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposure

The Bank hedges part of its existing interest rate risk resulting from any potential movement in the fair value of fixed rate assets or liabilities using interest rate swaps. The net fair value of these swaps at 31st December 2010 was €7,198k (asset) (2009: (€10,415k) (liability)).

NOTES TO THE ACCOUNTS - 31 December 2010 (continued)

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2010		2009	
	Contract/ notional amount	*Fair Values*	*Contract/ notional amount*	*Fair Values*
	€'000	*€'000*	*€'000*	*€'000*
Derivatives held at fair value through income statement				
Asset derivatives				
Interest rate swaps	2,659,420	31,360	2,246,339	32,695
Liability derivatives				
Interest rate swaps	2,860,982	(31,002)	2,773,128	(33,821)
Total derivatives held at fair value through income statement	**5,520,402**	**358**	**5,019,467**	**(1,126)**
Derivatives designated as fair value hedges				
Liability derivatives				
Interest rate swaps	1,000,000	6,840	1,000,000	(9,289)
Total liability derivatives designated as fair value hedges	**1,000,000**	**6,840**	**1,000,000**	**(9,289)**
Total derivatives	**6,520,402**	**7,198**	**6,019,467**	**(10,415)**
Asset derivatives	3,659,420	38,200	2,246,339	32,695
Liability derivatives	2,860,982	(31,002)	3,773,128	(43,110)
Total derivatives	**6,520,402**	**7,198**	**6,019,467**	**(10,415)**

The methods and assumptions used in determining fair value are described in note 19.

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The derivative maturity table below represents the undiscounted projected cash flows on asset and liability derivatives based on yield curves as at 31 December 2010:

Derivative Cashflow table – at 31 December 2010

	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	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Interest Rate Swaps	(6,890)	(7,810)	20,352	22,345	19,969	47,966
Total Assets	**(6,890)**	**(7,810)**	**20,352**	**22,345**	**19,969**	**47,966**
Interest Rate Swaps	(2,011)	(2,287)	(4,550)	(20,768)	(2,516)	(32,132)
Total Liabilities	**(2,011)**	**(2,287)**	**(4,550)**	**(20,768)**	**(2,516)**	**(32,132)**

Derivative Cashflow table – at 31 December 2009

	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	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Interest Rate Swaps	(3,348)	(1,587)	(2,814)	15,001	36,054	43,306
Total Assets	**(3,348)**	**(1,587)**	**(2,814)**	**15,001**	**36,054**	**43,306**
Interest Rate Swaps	(11,234)	(12,116)	12,188	(31,137)	-	(42,299)
Total Liabilities	**(11,234)**	**(12,116)**	**12,188**	**(31,137)**	**-**	**(42,299)**

19. RISK MANAGEMENT AND CONTROL

The Bank as a wholly owned subsidiary of the Group has adopted a risk management structure and controls framework consistent with that of the Group.

Risk management in the Bank is founded on a clear risk governance structure at Board level and a clear risk management framework. The Board oversees the effectiveness of the system of internal control through review of management information and is supported by the work of its sub committee, namely the Board Audit, Risk and Compliance Committee ('BARCC'). The

19. RISK MANAGEMENT AND CONTROL (continued)

BARCC supports the Board in monitoring the integrity of the financial statements, fulfilling its responsibilities in relation to the system of internal control, internal audit and compliance, by overseeing the relationship between the Bank and its external auditors, and discharging statutory duties in respect of relevant laws and regulations. It is also responsible for considering and recommending as appropriate to the Board, acceptance of the Bank's risk management and governance infrastructure, the Bank's material risk policies and risk appetite, risk disclosures in the Annual Report and Accounts and other Prospectus and capital adequacy including internal capital assessment and allocation.

There is a clear risk management framework, comprising of both the Bank and the Group's risk committees. The Bank's risk appetite is set out in the material risk policies which are reviewed by the Board generally on an annual basis. These policies are closely managed on a day to day basis, and are monitored by the Bank's Executive management team with oversight provided by the Bank's Asset & Liability Committee ("ALCO") and also by the relevant Group risk management committees.

The first 'line of defence' in terms of risk management is the management of risk in day to day business operations. There are three independent risk control functions within the Group, namely, Compliance, Risk and Audit. Compliance and Risk report to the Group Chief Risk Officer (who is also a member of the Bank's Executive Management team and Board) and these form the 'second line of defence' in relation to risk management within the Group. Group Internal Audit, who report directly to the Group Board Audit & Compliance Committee ("BACC"), incorporates the work of the Fraud unit, and forms the third, independent, line of defence in terms of risk management.

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

(i) There is a clearly defined organisation structure which is regularly updated.

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

(iii) The risk management framework is overseen by the Executive Management Team and supported by its underlying risk committee, namely the Asset & Liability Committee. The Asset & Liability Committee in addition to the Group Risk Committees (Group ALCO, Group Risk Rating Approval Committee, Group Credit Risk Committee, Group Operations Management Committee and Group Regulatory Compliance Committee) are responsible for identifying actions to support robust risk management in line with both the Bank's and the Group's risk appetite. Progress is monitored and reported regularly to the Board.

(iv) Members of the senior management team in the Society with responsibility for risk are also members of the Bank's Executive Management Team and Board e.g. the Group Chief Risk Officer ("CRO") is the Bank Executive Director with responsibility for Risk and Compliance, the Group Treasurer is the Bank's Executive Director with responsibility for Treasury and Capital; the EBS Head of Finance is the Bank's Executive Director with responsibility for Finance.

Risk Committees and Functions

The Group Risk function supports the Bank and the Group in developing and maintaining a robust risk management framework, and by providing independence in terms of risk identification, measurement, monitoring and reporting. The Risk function comprises (i) Risk Analytics, which develops 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, and (iv) Enterprise Risk, which supports the Bank in the development and maintenance of a risk management framework to mitigate against unforeseen risk events materialising.

19. RISK MANAGEMENT AND CONTROL (continued)

The Bank categorises risks under a number of headings namely, strategic, operational, compliance and financial (including credit, liquidity & interest rate) risks. Together, these form the Bank's 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.

Collectively, the Group 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 Group Board. Specifically, Group risk provides information on credit risk indicators to the Bank on at least a monthly basis to facilitate onward reporting to the Executive Management team, the Covered asset monitor and the Board.

The Group Regulatory Compliance function supports each area of the Group (including its subsidiaries). It'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 Group Regulatory Compliance Committee. Group Regulatory Compliance supports the Bank in identifying, managing and monitoring its specific regulatory obligations and prudential regulatory requirements as a Designated Mortgage Credit Institution in addition to those obligations applicable as a licensed credit institution. An annual plan is developed and approved by the Group Board Audit & Compliance Committee ("BACC") and as relevant the Bank Board Audit, Risk & Compliance Committee ("BARCC") which receives regular updates on progress. Group Regulatory Compliance attends the Bank's Board Audit, Risk and Compliance Committee as requested.

The Group Internal Audit function which forms the third line of defence provides independent assurance in relation to the effectiveness of the system of internal control to the Group Board and the Bank's Board through the Group Board Audit and Compliance Committee and the Bank's Board Audit Risk and Compliance Committee. A dedicated Fraud prevention unit is in place which also reports to the Group Head of Internal Audit and updates are regularly provided to both Audit Committees.

The Executive Management Team of the Bank has responsibility for the management of the business as a whole including the origination of mortgages from the Society and those assets which comprise the Cover Pool. It has responsibility for devising and implementing the strategic business plan of the Bank and monitoring actual and projected performance including profitability, impairments, capital ratios and adherence to Cover Pool management policy.

The Bank ALCO was established to monitor the Bank's exposure to key market risks, i.e., liquidity risk, funding risk, interest rate risk, counterparty credit risk and foreign exchange risk. The Committee is responsible for asset & liability management, monitoring the adequacy of the liquidity framework and buffers, and for recommending the appropriate funding, liquidity, counterparty credit and market risk policies and plans to the Board for approval. The Committee monitors capital ratios, including projections and oversees the appropriate implementation of the capital policy.

There are a number of risk policies which the Bank adopts from the Society and which constitute Group polices. In this regard the Bank utilises the resources and risk management structures of the Group to monitor adherence to these polices on its behalf.

The Group Risk Management Framework provides a Group-wide definition of risk and lays down the principles of how risk is to identified, assessed, measured, monitored and controlled / mitigated and the associated allocation of capital against same. The Bank categorises risks under a number of headings namely, Strategic, Operational, Regulatory Compliance and Financial (including credit, liquidity & interest rate) risks. Together, these form the Bank's risk universe. This helps the organisation to assess and manage risk on an enterprise wide, holistic basis. The Bank's risk universe is continuously reviewed and updated reflecting the changing risk environment.

19. RISK MANAGEMENT AND CONTROL (continued)

RISK MANAGEMENT FRAMEWORK

Strategic risk

Strategic risk management encompasses the management of the Bank reputation and the implications for the Bank's covered bond programme of credit rating movements of either the Bank or the Society. Strategic risk also encompasses external events which cannot be controlled but which could have a significant impact on the Bank's business such as the domestic macro economic environment, property values, banking sector and covered bond market conditions. Strategic risks are managed and monitored in the main by the Executive Management Team and the Board. Significant developments are reported to the Board directly and to its subcommittee 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.

Group Operational Risk is responsible for supporting the Bank in the management of Operational risk. The Bank has adopted relevant Group Operational risk policies. The core focus of Operational risk management is the oversight of outsourced service activities related to the mortgage collateral of the Bank, management of the collateral pool in accordance with the requirements of the ACS Act, third party relationship management, business continuity management, fraud prevention, maintenance of efficient business process and operating practices, employee development and key person risk.

Regulatory compliance risk

Regulatory compliance risk is the risk that the Bank fails to meet its legislative or regulatory requirements.

Group Regulatory Compliance is responsible for supporting the Bank in monitoring adherence to its regulatory compliance obligations. The Bank has adopted the Group regulatory compliance policies. The core focus of regulatory compliance risk management is on supporting the Bank's adherence with the requirements of the ACS Act, terms and conditions of its banking license, the Capital Requirements Directive and conditions of the government guarantee scheme.

Financial risk

The Bank has exposure to the following financial risks - credit risk, interest rate risk, liquidity & funding risks.

EBS Treasury Risk is responsible for supporting the Bank in the management of certain financial risks and adherence to legislative requirements specific to Designated Credit Management Institutions including to interest rate risk, duration mismatch and interest coverage.

(i) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Bank's core focus in relation to credit risk management relates to the management of asset quality and counterparty credit risk. All mortgage assets purchased by the Bank are originated by the Society in accordance with lending policies approved by the Board of Directors of the Society as applicable at the time of origination of the loan as reflected in the Wholesale Mortgage Origination Agreement between the Society and the Bank. Credit risk management at Group level is supported by an appropriate governance structure with separation of function between the sourcing and approval of business, the issuing of funds, loan management and independent review and monitoring. Given the deterioration in credit quality throughout 2010 in the retail market, both credit management and credit risk management have been a key area of focus at Group level over the past year. Resourcing, structures, policies and processes continue to be reviewed in order to ensure that the Group is best placed to

19. RISK MANAGEMENT AND CONTROL (continued)

Maximum exposure to credit risk

manage asset quality in this severe downturn. The Group credit risk management committee is responsible for reviewing and recommending appropriate credit risk management structures and policies in line with the credit risk appetite of the Group and for monitoring the performance of the book.

The Group Risk Analytics unit is responsible for the development and ongoing validation of credit risk rating models which are used to assess credit applications and to support a robust capital adequacy assessment process, and for independently monitoring the quality of the Bank's loan assets. Credit impairment provisions are in line with International Financial Reporting Standards, the management of which are outsourced to the Society.

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

The Group insures the Bank 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 the Bank suffering a loss, a claim can be made via the Society up to the value of the insurance cover.

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

	2010 €'000	2009 €'000
Non-derivative financial assets		
Cash and balances with central banks	13,951	15,850
Loans and advances to customers	5,354,395	4,876,566
Loans and advances to credit institutions	68,675	91,367
Derivatives		
Interest rate swaps	38,200	32,695

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

2010	**Cash & Balances with Central Bank**	**Derivatives**	**Loans & Advances to Credit Institutions**
Aaa	100%	-	-
Aa1 to Aa3	-	18%	81%
Lower than A3	-	82%	19%

2009	**Cash & Balances with Central Bank**	**Derivatives**	**Loans & Advances to Credit Institutions**
Aaa	100%	-	-
Aa1 to Aa3	-	100%	100%

Holding of collateral

In 2010, the Group developed a collateral management framework which provides improved insight into and efficient use of existing collateral. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. For residential property, these values are updated using the PTSB/ESRI index.

19. RISK MANAGEMENT AND CONTROL (continued)

Against possession cases, collateral with a fair value of €2,036k is held by the Society relating to the Bank loans (2009: €936k).

Credit quality

The Bank's credit risk is measured both at transaction and portfolio levels.

At origination, Individual loan transactions are assessed by the Society for credit risk using a combination of factors. These include the risk rating attached to the credit (an application score) the security exposure and an assessment of the customer's ability to repay the debt.

Portfolio risk is measured by reference to the volume and value of loans in default, and arrears aged analysis migration.

Non-performing loans are determined based on the repayment status of all loans secured on a given property. Non-performing is defined to be 90 days or more in arrears, or where at least three monthly payments or the equivalent have been missed. Performing loans are defined to be neither past due nor impaired and up to 90 days or more in arrears. Within the performing loans pool, loans with a PD in excess of 30% and loans with an LGD of greater than 25% where the PD exceeds 5% are categorised as watch risk loans.

Definition of impairment

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

Objective evidence can include both:
- Micro conditions – for example a breach in the repayment contract, i.e. arrears on the account, and
- Macro conditions – for example an adverse change in economic conditions.

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

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

For Residential Loan Assets, the Bank defines impairment as
- 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 the Bank.
- Loans where fraudulent activity is suspected.

Significant assets in the Bank are defined as assets with an overall current value (including Top Ups i.e. equity release) of more than €1.5m. This applies to all assets – both loan and treasury assets. 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 Bank; or
- where fraudulent activity is suspected or proven.

All such loans are also assessed individually for provision

Individual Provisions

For loan assets, the Bank calculates provisions by reviewing the expected future cashflows of the assets against the underlying

19. RISK MANAGEMENT AND CONTROL (continued)

value of the security plus recovery costs, taking into account the likely recovery period. The cashflows are discounted for periods which are more than twelve months hence, and the discount interest rate is adjusted to take account of unamortized costs and fees received. Individual assessments of the borrowers concerned are undertaken by Credit whose expert judgement is brought to bear in assessing the current value of the collateral and the likely outcome in the case. The output of this review is evaluated at Group Credit Risk Committee.

Collective Provisions

All loans without an individual provision are assessed as part of the collective provision evaluation. The evaluation has three key components reflecting the three stages in the movement of a loan to loss: probability of default (PD); probability of repossession given default (PRGD); and loss given repossession (LGR).

Default is defined to be 3 (monthly) payments or more in arrears, i.e., at least 90 days past due. If a loan is already in default then its PD is 1, otherwise it is a number between 0 and 1 measuring the likelihood of the loan moving into default in the coming 12 months. The rate of default is adjusted to take into account expected movements in external macroeconomic factors (such as unemployment and GDP). The movement from default to repossession is assessed based on observed portfolio cure rates (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. The calculation of incurred loss is driven largely by expectation of property values at disposal.

Definition of Past Due

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

Loan Assets

The Bank's lending portfolio comprises loans for owner occupation and buy to let loans for single properties or small portfolios.

	2010	2009
Residential Assets		
Performing loans (of which watch risk loans: 3.2% (2009: 3.6%)	93.6%	97.0%
Non-Performing Loans	6.4%	3.0%
	100%	100%

	2010	2009
Residential Assets		
Not impaired:		
Neither past due nor impaired	84.3%	89.2%
Past due:		
Up to 30 days	5.1%	4.9%
30 to 60 days	2.4%	1.8%
60 to 90 days	1.5%	1.1%
90 + days	6.2%	2.9%
Impaired but not past due	0.1%	-
Impaired:		
Past due 0 to 90 days	0.1%	-
Past due 90 to 180 days	0.0%	-
Past due over 180 days	0.1%	0.1%
Possession	0.1%	-
	100%	100%

19. RISK MANAGEMENT AND CONTROL (continued)

The carrying amount of loans and receivables that would otherwise have been past due or impaired whose terms have been renegotiated to provide a moratorium amount to nil (2009: Nil).

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

The Bank's activities are exclusively in the financial services sector in the Republic of Ireland. 100% of the loan book is secured against property assets in the Republic of Ireland.

(ii) Liquidity risk

Liquidity & funding risk relates to the ability of the Bank 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 its banking licensee approval the Bank elected to meet its solo prudential liquidity requirements at Group level. The Group Treasury is responsible for the management of liquidity and funding at a Group level and it's 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 Group Chief Risk Officer's report. The Bank's ALCO is responsible for monitoring how liquidity and funding is managed in the Bank and ensuring that the Bank 's policy and regulatory requirements are adhered to.

The Group conducts both regular monthly and ad-hoc stress testing to assess on an ongoing basis the ability of the Group to withstand various idiosyncratic and systemic stress scenarios. Liquidity contingency plans are developed and updated on a continual basis reflecting the results of the stress tests. The Bank continues to contribute to Group liquidity by way of issuance of covered bonds either for sale to wholesale investors or by pledging as collateral in exchange for funding from monetary authorities.

The Group applies the maturity mismatch approach to the management of liquidity following the adoption of this method by the Financial Regulator in July 2007. The overall purpose of a maturity mismatch approach is to ensure that the Group will have, at any given time, a pool of highly liquid assets capable of being converted into cash within four business days, sufficient to cover a certain percentage of foreseeable cash outflows for future periods of time ('time bands'). Expected changes to the liquidity framework (upcoming Bank for International Settlements and European Banking Authority regulations in 2011) will be incorporated into Group Policies upon finalisation by the relevant authorities. The Group has conducted stress tests in advance of these expected changes. Funding contingency plans are continually under review in light of unprecedented market and EBS specific events.

19. RISK MANAGEMENT AND CONTROL (continued)

Exposure to liquidity risk

The table below analyses gross contractual maturities of financial liabilities held by the Bank. The values included for derivatives are the fair values as reported on the Statement of Financial Position.

	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	1 to 2 years €'000	Over 2 years €'000	Total €'000
31 December 2010						
Financial liabilities						
Deposits by credit institutions	2,874,009	-	-	-	-	2,874,009
Derivative financial instruments	-	-	-	31,002	-	31,002
Debt securities issued	1,503	-	39,747	1,000,000	1,350,000	2,391,250
Total financial liabilities	**2,875,512**	**-**	**39,747**	**1,031,002**	**1,350,000**	**5,296,261**

	Up to 1 month €'000	Over 1 month to 3 months €'000	Over 3 months to 1 year €'000	1 to 2 years €'000	Over 2 years €'000	Total €'000
31 December 2009						
Financial liabilities						
Deposits by credit institutions	2,651,851	-	-	-	-	2,651,851
Derivative financial instruments	-	-	-	-	43,110	43,110
Debt securities issued	891	-	1,039,747	-	1,050,000	2,090,638
Total financial liabilities	**2,652,742**	**-**	**1,039,747**	**-**	**1,093,110**	**4,785,599**

(iii) Interest rate risks

Interest rate risk is the risk that changes in interest rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters, while optimising the return on risk.

The Bank has outsourced the measurement and reporting management of its interest rate risk to the Group. The Group Treasury measures and manages these risks using gap and sensitivity analysis. Derivatives such as interest rate swaps are used by the

19. RISK MANAGEMENT AND CONTROL (continued)

Bank for hedging purposes (reducing risk) only. The Group Asset and Liability committee ('ALCO') monitors these risks at a Group level. The Bank's ALCO is responsible for monitoring how interest rate risk is managed and ensuring that the Bank's policy is adhered to.

Interest rate sensitivity gap analysis at 31 December 2010

	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
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Non – Trading Book							
Assets							
Cash and balances with central banks	13,951	-	-	-	-	-	13,951
Loans and advances to credit institutions	68,675	-	-	-	-	-	68,675
Loans and advances to customers	4,413,935	69,924	136,081	727,277	49,222	(42,044)	5,354,395
Other assets	-	-	-	-	-	41,395	41,395
Total assets	**4,496,561**	**69,924**	**136,081**	**727,277**	**49,222**	**(649)**	**5,478,416**
Liabilities							
Debt securities in issue	1,300,000	-	-	926,706	-	-	2,226,706
Deposits by credit institutions	2,874,009	-	-	-	-	-	2,874,009
Other liabilities	-	-	-	-	-	37,257	37,257
Total liabilities	**4,174,009**	**-**	**-**	**926,706**	**-**	**37,257**	**5,137,972**
Derivatives	(1,050,000)	-	-	1,050,000	-	-	-
Interest rate sensitivity gap	(727,448)	69,924	136,081	850,571	49,222	(37,906)	340,444
Cumulative gap	**(727,448)**	**(657,524)**	**(551,443)**	**329,128**	**378,350**	**340,044**	**340,044**

19. RISK MANAGEMENT AND CONTROL (continued)

Interest rate sensitivity gap analysis at 31 December 2009

	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
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Non – Trading Book							
Assets							
Cash and balances with central banks	15,850	-	-	-	-	-	15,850
Loans and advances to credit institutions	91,367	-	-	-	-	-	91,367
Loans and advances to customers	3,912,049	150,066	141,084	639,802	51,055	(17,490)	4,876,566
Other assets	-	-	-	-	-	36,252	36,252
Total assets	**4,019,266**	**150,066**	**141,084**	**639,802**	**51,055**	**18,762**	**5,020,035**
Liabilities							
Debt securities in issue	1,000,000	-	-	1,038,325	-	-	2,038,325
Deposits by credit institutions	2,651,851	-	-	-	-	-	2,651,851
Other liabilities	-	-	-	-	-	50,418	50,418
Total liabilities	**3,651,851**	-	-	**1,038,325**	-	**50,418**	**4,740,594**
Derivatives	(1,050,000)	-	-	1,050,000	-	-	-
Interest rate sensitivity gap	(682,585)	150,066	141,084	651,477	51,055	(31,656)	279,441
Cumulative gap	**(682,585)**	**(532,519)**	**(391,435)**	**260,042**	**311,097**	**279,441**	**279,441**

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

The financial assets exposed to fair value interest rate risk are €982.5m (period ending 31 December 2009: €981.9m), exposed to cash flow interest rate risk are €4,454.3m (period ending 31 December 2009: €4,019.3m and not exposed to interest rate risk are €41.6m (period ending 31 December 2009: €18.8m.

The financial liabilities exposed to fair value interest rate risk are €925.3m (period ending 31 December 2009: €1,038.3m), exposed to cash flow interest rate risk are €4,174.0m (period ending 31 December 2009: €3,651.9m) and not exposed to interest rate risk are €38.7m (period ending 31 December 2009: €50.4m).

Fair value risk

The following table represents the fair value of financial instruments, including those not reflected in the financial statements at fair value. The other assets and liabilities on the Statement of Financial Position have no differences between the fair value and

19. RISK MANAGEMENT AND CONTROL (continued)

the carrying value and are not included below. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

	Accounting classifications	2010 Carrying value €'000	2010 Fair value €'000	2010 Unrecognised gain / (loss) €'000	2009 Carrying value €'000	2009 Fair value €'000	2009 Unrecognised gain / (loss) €'000
Assets							
Cash and balances with central banks	Amortised cost	13,951	13,951	-	15,850	15,850	-
Derivative financial instruments	Fair value	38,200	38,200	-	32,695	32,695	-
Loans and advances to credit institutions	Loans and receivables	68.675	68,675	-	91,367	91,367	-
Loans and advances to customers	Loans and receivables	5,354,395	4,978,608	(375,787)	4,876,566	4,708,132	(168,434)
Liabilities							
Deposits by credit institutions	Amortised cost	2,874,009	2,874,009	-	2,651,851	2,651,851	-
Derivative financial institutions	Fair value	31,002	31,002	-	43,110	43,110	-
Debt securities in issue	Amortised cost	2,226,706	2,226,215	(491)	2,038,325	2,038,005	320

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. Market prices are not available for all financial assets and liabilities held.

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. The carrying value of liquid assets and other assets maturing within 12 months is assumed to be their fair value.
ii. The Bank has used a discount cash flow methodology to arrive at the fair value for loans and advances to customers. The model used at 31 December 2010 has discounted the expected cash flows on the mortgage book adjusted for the 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 loans.
iii. 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.
iv. Debt securities in issue are fair valued using a quoted market valuation.

Fair value measurements are recognised in the statement of financial position for derivative financial instruments.

The fair value hierarchy 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 in level 1 that are observable either directly or indirectly. 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. All derivatives are fair valued using level 2 inputs.

20. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 - related party disclosures, transactions or balances between group entities that have been eliminated on consolidation are not reported.

The immediate and ultimate holding entity and controlling party is EBS Building Society, a Society registered in the Republic of Ireland, with a registered office at 2 Burlington Road, Dublin 4. Copies of the Group financial statements are available from the registered office. This is the largest and smallest group for which consolidated financial statements are prepared in which the Bank is included. The only related party transactions are normal banking transfers to and from the Society.

20. RELATED PARTY TRANSACTIONS (continued)

The following amounts represent the transactions and outstanding balances with the Society:

Loans from related parties at 31 December 2010 are €2,874,009k (period ending 31 December 2009: €2,650,084k).

Deposits with related parties at 31 December 2010 are €13,403k (period ending 31 December 2009:€91,367k).

The nominal value of debt securities in issue to related parties at 31 December 2010 are €1,300,000k (period ending 31 December 2009:€1,000,000k).

	2010 (12 months) €'000	2009 (14 months) €'000
Income and expense included in the Income Statement from related parties:		
Service fee	(4,723)	(4,207)
Interest expense on loans	(73,778)	(70,184)
Interest income from deposits	1,456	1,038
Interest expense on debt securities	(52,933)	(25,728)

The above transactions arose in the ordinary course of business. The interest charged and interest earned involving related parties is at normal commercial rates appropriate to the transaction.

There have been no contracts or arrangements with the Bank which a director of the Bank was materially interested and which were significant in relation to the Bank's business.

The Bank was a participating institution under the Government's Credit Institutions (Finance Support) Scheme 2008 (the "scheme") which guarantees covered liabilities raised by covered institutions up to September 2010.

Transactions with key management personnel

For the purpose of IAS 24: Related Party Transactions, 'key management personnel' comprises executive and non executive directors.

Loans to key management personnel are made in the ordinary course of business and on normal commercial terms. Loans are made (i) by the parent company on terms applicable to other employees of the parent company, in accordance with established policy, within limits set on a case by case basis, and/or (ii) otherwise, on normal commercial terms.

	2010 €'000	2009 €'000
At 31 December : Loans outstanding	2,721	2,994

The loans outstanding were to 3 directors (2009: 3 Directors).

Non executive directors are compensated by way of fees. Details of the compensation of non executive directors are set out in note 5 'Operating Expenses'. Executive directors' emoluments for the period were nil.

21. CAPITAL MANAGEMENT

From 1 January 2008 the minimum regulatory capital requirement of the Bank's 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 Bank has adopted the standardised approach to credit risk.

The Bank sets and monitors capital policy in line with regulatory and legislative requirements. Capital adequacy is monitored by the Executive Management Team.

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

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

No increase in the minimum capital requirement has been requested by the Central Bank for the Bank.

The Bank's regulatory capital comprises:
Tier 1 capital, which includes ordinary share capital, general reserve capital, deductions for intangible assets.

Tier 2 capital is comprised of collective impairment provision add back.

Within these tiers, limits are set for different components of capital. Qualifying Tier 2 capital cannot exceed Tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital.

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

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

NOTES TO THE ACCOUNTS - 31 December 2010 (continued)

21. CAPITAL MANAGEMENT (continued)

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

	2010 €'000	2009 €'000
Tier 1 capital		
Ordinary Share Capital	316,540	266,540
Profit and loss account	23,904	12,901
Intangible assets	(2,772)	(3,120)
Total	**337,672**	**276,321**
Tier 2 capital		
Collective allowances for impairment	34,050	13,108
Total regulatory capital	**371,722**	**289,429**

22. SHARE CAPITAL

	2010 €'000	2009 €'000
Authorised:		
1,000,000,000 ordinary shares of €1.00 each	1,000,000	1,000,000
Issued and fully paid:		
316,540,000 ordinary shares of €1.00 each	316,540	266,540

On 28 April 2010, the Bank issued 50,000,000 €1 ordinary shares to the Society.

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 the bank. All shares rank equally with regard to the bank's residual assets.

23. EVENTS SINCE THE REPORTING DATE

The following events have occurred since the reporting date:

PCAR/PLAR
In January 2011, the Central Bank initiated a Financial Measures Programme, which incorporated the Prudential Capital Assessment Review ('PCAR') and Prudential Liquidity Assessment Review ('PLAR') exercises. The PCAR exercise enabled the Central Bank to perform a thorough assessment of the banks' asset quality and earnings together with incorporating incremental three year projected provisions estimates based on Blackrock 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% Core Tier 1 ratio under stress as well as an additional protective buffer.

It was announced on the 31 March 2011 that the Group requires €1.2bn of capital to meet the new target Core Tier 1 capital ratio of 10.5% under base and 6% under stress on the basis of the combined results of the PCAR assumptions and three year projected provisions from Blackrock, before the addition of a conservative capital buffer. The additional capital buffer of €0.3bn was determined with €0.1bn representing equity and €0.2bn representing contingent capital. This brings the total capital requirement for 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 Central Bank has indicated that capital must be raised by 31 July 2011. The PLAR exercise outlines the measures to be implemented to steadily deleverage the banking system and reduce reliance on the funding from Monetary Authorities. The PLAR exercise established a target funding and loan to deposit ratio for the aggregate domestic banking system, including EBS, of 122.5% and consequently in order to reach the targeted ratio the Group is required to deleverage

23. EVENTS SINCE THE REPORTING DATE (continued)

€2.5bn of non core assets (comprising the commercial and buy to let books) over the period to 2013.

Sale Process
EBS was engaged in a sale process throughout 2010 as part of the EU restructuring plan. It was confirmed by the National Treasury Management Agency on 30 March 2011 that the sale process was terminated following a decision by the Minister. On 31 March 2011, the Minister for Finance announced the future banking landscape in Ireland and its intention to combine the operations of AIB and EBS to build the second pillar bank in Ireland from the strengths of both institutions. EBS and AIB are expected to be combined from 1 July 2011. It is the intention to continue the business and operations of EBS MF with the objective of preserving value.

Retained Deal
In January 2011 and April, the Society issued Government Guaranteed Bonds to the value of €1.7bn and €1.82bn respectively by way of a retained deal, the purpose of which was to create collateral to facilitate borrowing from the ECB. In total the Bank purchased €0.3m of the bonds issued. The bonds are classified as an 'available for sale' financial asset (AFS). The assets are re-valued every month with movements reflected in the available for sale reserve.

Permanent TSB ('PTSB')/Central Statistics Office ('CSO') House Price Index
The PTSB house price index was discontinued in May 2011 and was replaced by the CSO index. Until a new regulatory notice is issued by the Central Bank, the Bank will continue to make its regulatory returns based on the PTSB index.

24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorised for issue by the Board of Directors on 29 June 2011.