Pillar 3 Disclosures at 31 December 2015

Allied Irish Banks, p.l.c.

Important Information and Forward-Looking Statements

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in the Principal Risk and Uncertainties on pages 50 to 59 in the 2015 Annual Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 50 to 59 of the 2015 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

Contents

1. Introduction and AIB Group key information

Introduction

This document comprises the required regulatory disclosures under Capital Requirements Directive IV ("CRD IV"), Part 8 – Disclosures by Institutions and gives further insight into how the Group's capital management relates to its risk profile, in addition to the disclosures in the 2015 Annual Financial Report.

Key metrics

The following key metrics reflect the Group's risk profile (as described on pages 16 to 18 of the Risk management section). During 2015, the Group's performance was in compliance with the Group Risk Appetite Framework which underpins the risk profile. These key metrics have been calculated as prescribed in CRD IV, on a transitional and fully loaded basis[(1)].

Regulatory capital and capital ratios

Common equity tier 1 capital *(transitional)*	Total capital *(transitional)*	Common equity tier 1 capital *(fully loaded)*	Total capital *(fully loaded)*
€ 9,285 million	**€ 11,048 million**	**€ 7,675 million**	**€ 9,162 million**
(2014: € 9,717 million)	(2014: € 10,725 million)	(2014: € 3,474 million)	(2014: € 4,148 million)

Common equity tier 1 ratio *(transitional)*	Total capital ratio *(transitional)*	Common equity tier 1 ratio *(fully loaded)*	Total capital ratio *(fully loaded)*
15.9%	**18.9%**	**13.0%**	**15.5%**
(2014: 16.4%)	(2014: 18.1%)	(2014: 5.9%)	(2014: 7.0%)

Risk weighted assets ("RWA")

Total RWA *(transitional)*	Credit risk *(transitional)*	Total RWA *(fully loaded)*	Credit risk *(fully loaded)*
€ 58,549 million	**€ 53,596 million**	**€ 59,058 million**	**€ 54,105 million**
(2014: € 59,114 million)	(2014: € 54,348 million)	(2014: € 59,114 million)	(2014: € 54,348 million)

Market risk *(transitional)*	Operational risk *(transitional)*	Market risk *(fully loaded)*	Operational risk *(fully loaded)*
€ 457 million	**€ 3,139 million**	**€ 457 million**	**€ 3,139 million**
(2014: € 471 million)	(2014: € 2,822 million)	(2014: € 471 million)	(2014: € 2,822 million)

Liquidity ratios

Liquidity coverage ratio ("LCR")	Net stable funding ratio ("NSFR")
113%	**111%**
(2014: 116%)	(2014:112%)

Leverage ratios

(transitional)	*(fully loaded)*
9.3%	**7.9%**
(2014: 8.8%)	(2014: 3.2%)

[(1)]2014 fully loaded ratios are calculated excluding the 2009 Preference Shares (cease to be considered CET1 after 31 December 2017).

Key movements in capital and RWAs are detailed in Section 2 – Capital and capital management on pages 8 to 15.

Background and context

The Basel Accords were introduced as global regulatory standards on capital adequacy. The Basel III capital adequacy framework builds on the Basel II regulatory base and further underpins how regulatory capital requirements reflect a credit institution's underlying risks. The Basel framework is based on three pillars:

– Pillar 1 ('minimum capital requirements') defines rules for the calculation of credit, market and operational risk;
– Pillar 2 ('supervisory review') requires banks to estimate their own internal capital requirements through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation; and
– Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

The legal basis for implementing Basel III is the European Union ("EU") adopted legislative package, known as CRD IV, which came into force on 1 January 2014, with some of the provisions being phased-in from 2014. CRD IV consists of the Capital Requirements Regulation ("CRR") which is directly applicable across firms in the EU, and the Capital Requirements Directive ("CRD"), which was implemented by member states of the European Economic Area through national law.

The Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries (in the Republic of Ireland this is the Central Bank of Ireland ("Central Bank" or "CBI")) was established in 2014. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-eurozone EU countries that choose to join the SSM. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

Basis of disclosures

Allied Irish Banks, p.l.c. ("AIB" or the "Parent Company") and its subsidiaries (collectively "AIB Group" or "Group") prepare consolidated financial statements ("consolidated accounts") under International Financial Reporting Standards ("IFRS").

Allied Irish Banks, p.l.c. is a credit institution authorised by the Central Bank/SSM. Both the Parent Company, the Group and other licensed entities are required to file regulatory returns with the Central Bank for the purpose of assessing, inter alia, their capital adequacy and their balance sheets. For AIB Group (UK) p.l.c., regulatory returns are filed with the Prudential Regulatory Authority ("PRA").

All subsidiaries are consolidated for both statutory reporting purposes under IFRS and for regulatory reporting, and accordingly, for AIB Group, the regulatory returns and financial statements are similar, other than presentation.

In accordance with Article 13 of the CRR, AIB Group presents its Pillar 3 information for Allied Irish Banks, p.l.c. and its subsidiaries on an AIB Group consolidated basis.

The Pillar 3 Disclosures have been prepared to explain the basis on which the Group has prepared and disclosed capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and should not be relied upon exclusively in making any judgement on the Group. They should be read in conjunction with the other information made public by AIB Group and available on the AIB Group website, including the 2015 Annual Financial Report.

Revised Pillar 3 disclosures

In January 2015, the Basel Committee on Banking Supervision ('BCBS') issued Standards on revised Pillar 3 disclosure requirements. However, these Standards are still subject to implementation in Europe.

The full suite of templates and tables is expected to form part of the Pillar 3 Report at 31 December 2016. Certain of these templates and tables will be required on a half-yearly basis thereafter.

1. Introduction and AIB Group key information

Background and context

Frequency

This report is made on an annual basis, with the disclosures based on the financial year-end date of 31 December.

Reporting conventions

In this report, comparative data is included, where relevant, and presented as reported under CRD IV.

Disclosure policy

The Group maintains a formal Pillar 3 disclosure policy which is reviewed annually and subject to approval within the Group's internal governance framework.

Media and location

The Pillar 3 report is published on AIB Group's website (https://investorrelations.aib.ie), alongside the 2015 Annual Financial Report. Pillar 3 reports from previous years are also available on this website.

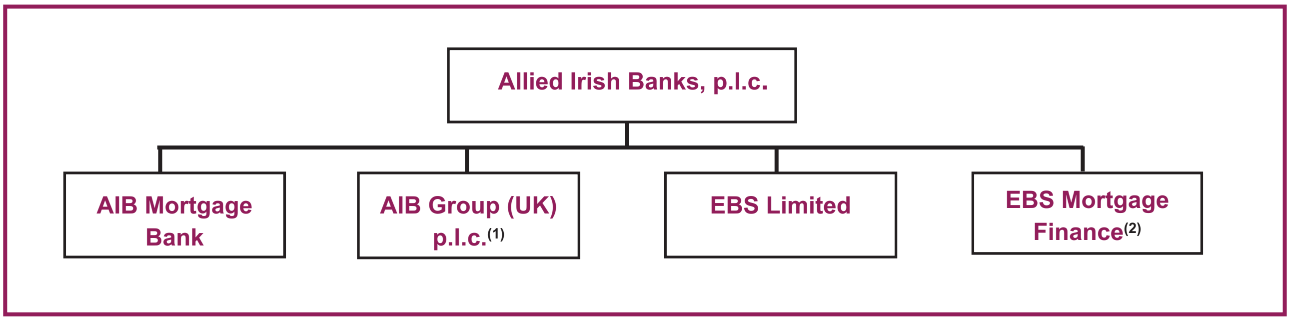
Verification

The Pillar 3 Disclosures have been subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the 2015 Annual Financial Report and have not been audited by the Group's external auditors. Any audited information that has been included in these disclosures is included in the 2015 Annual Financial Report.

Basis of consolidation for accounting and prudential purposes

Allied Irish Banks, p.l.c. is the parent company in AIB Group and is an institution regulated by the Central Bank/SSM. AIB Group prepares consolidated financial statements under IFRS as issued by the International Accounting Standards Board ("IASB") and adopted by the EU for statutory reporting purposes ("the Consolidated Accounts"). Additionally, AIB Group is required to prepare regulatory returns for submission to its supervisor ("the Regulatory Returns") for the purpose of assessing its capital adequacy and monitoring its balance sheet. There is no difference between the statement of financial position used for regulatory purposes and that used for statutory purposes as prepared under IFRS. A copy of the statement of financial position at 31 December 2015 for AIB Group is set out in Appendix 1. This is based on accounting measures and cannot be directly reconciled to the other tables in this report. All subsidiaries are consolidated for both Group statutory and regulatory purposes. Details of significant subsidiaries are set out in Appendix 6 to this document.

Licensed banks within AIB Group
as at 31 December 2015



[(1)]For the purposes of illustration, the intermediate parent company of AIB Group (UK) p.l.c. has been omitted from this diagram.

[(2)]EBS Mortgage Finance is a 100% owned subsidiary of EBS Limited but reports separately to the regulator.

Transfer of capital between parent company and its subsidiaries

Allied Irish Banks, p.l.c. is the parent company of a number of licensed subsidiary banks which are subject to individual capital adequacy requirements. Each of these licensed subsidiaries is subject to minimum capital requirements imposed by their individual regulators.

In order to maintain capital and/or liquidity ratios at or above the levels set down by their regulators, the licensed subsidiaries are unable to remit capital to the parent when to do so would result in such ratios being breached.

Capital initiatives

During 2015, AIB carried out a Capital Reorganisation. This Capital Reorganisation was designed to enable AIB to initially return € 1.7 billion of capital to the Irish Government in line with AIB's obligations under its EU Restructuring Plan, to create a sound and sustainable capital base on which to grow AIB's business, to meet regulatory requirements under CRD IV and the BRRD, to allow the future payment of dividends on ordinary shares as and when conditions permit, to more closely align the Group's capital structure with market norms and investor expectations and to position AIB for a return to private ownership over time.

The following summarises the key steps taken as part of the reorganisation:

(a) In November 2015, AIB issued € 750 million subordinated tier 2 notes due in 2025 which rank as tier 2 capital.

(b) In December 2015, AIB issued € 500 million Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ("AT1s"), the net proceeds of which were € 494 million. These securities rank as tier 1 capital.

(c) Redemption/conversion of the 2009 Preference Shares:
- € 1.7 billion was paid to the Irish Government being the redemption of 1,360 million of the 2009 Preference Shares.
- The remaining 2,140 million 2009 Preference Shares were converted into ordinary share capital.

The redemption/conversion of the 2009 Preference Shares resulted in a net increase of € 1.8 billion in CRD IV fully loaded CET1 capital.

(e) Dividends amounting to € 166 million on the 2009 Preference Shares were paid in December 2015 (€ 280 million paid in May 2015).

(d) On 21 December 2015, AIB consolidated all outstanding issued ordinary shares into one new ordinary share of € 0.625 nominal value for every 250 shares held of nominal value € 0.0025. Total number of shares in issue following consolidation amounted to 2,714,381,238. The consolidation had no impact on capital ratios.

Please see Appendix 3 for further detail of the Capital Reorganisation.

Solo consolidation

The balance sheet of Allied Irish Banks, p.l.c. includes all activities of the reporting entity including its foreign branches for the purpose of preparing its financial statements under IFRS. Transactions between branches of Allied Irish Banks, p.l.c. are excluded in presenting the balance sheet at each reporting date.

The Central Bank has adopted the national discretion under Article 9 of CRR concerning the ability of institutions to include certain subsidiaries in their individual regulatory returns. This treatment, termed 'solo consolidation', in effect, treats such subsidiaries as if they were branches of the parent rather than separate entities in their own right.

There are certain criteria that must be met before the Central Bank will approve the inclusion of non-authorised subsidiaries in the 'solo consolidation'. Allied Irish Banks, p.l.c. has received approval to prepare its regulatory returns on a solo consolidation basis.

Associated undertakings

Interests in associated undertakings are accounted for under the equity method of accounting for statutory reporting purposes. For regulatory reporting, the holdings in associated undertakings where the carrying value of the investment is less than 10% of Common Equity Tier 1 ("CET1") are risk weighted at 250%. Any investment where the carrying value is in excess of 10% of CET1 is deducted from CET1 capital.

2. Capital and capital management

Objectives

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

The Group does this through a semi-annual Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. This is AIB's main capital management tool and gives a clear picture of the Group's capital and material risks. The key stages in the ICAAP are as follows:

– a Risk Appetite Statement is prepared consistent with the Group's business strategy. The risk appetite is set annually as part of the annual financial planning process and is monitored on a monthly basis by measuring the current risk profile against the risk appetite;
– material risk assessment identifies all relevant (current and anticipated) risks and identifies those that require capital adequacy assessment;
– financial planning drives the levels of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
– stress testing is applied to capital plans and to all material risks in order to test the resilience of the Group and inform capital needs as they arise; and
– the final stage of the ICAAP is the production of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. This is fully integrated with the Group's financial planning process and ensures that the Group has adequate capital resources in excess of minimum regulatory capital requirements and internal capital requirements.

Capital regulation

CRD IV consists of the Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD"), and is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. CRD IV measures include:

– a single set of harmonised prudential rules with enhanced requirements for quality and quantity of capital;
– CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Some of the provisions of CRD IV were introduced on a phased basis from 2014, these typically followed 20% in 2014, 40% in 2015 etc. until 2018. The main exception to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015; and
– a leverage ratio which is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system as a whole.

AIB commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 10 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV.

Future developments

The Banking Recovery and Resolution Directive ("BRRD") is a single EU-wide rulebook designed to address bank and investment firm failure. It was transposed into Irish law through the European Union (Bank and Recovery Resolution) Regulations, 2015 (S.I. No. 289 of 2015) which commenced on 15 July 2015. The BRRD gives resolution authorities new powers under BRRD to address failure. Some of their key tasks include:

– to draft resolution plans for banks under supervision of the SSM which includes AIB;
– carry out an assessment of the banks' resolvability and to adopt resolution plans and address any obstacles to resolution and cooperate on resolving them; and
– to set the minimum requirements for own funds and eligible liabilities ("MREL") which is designed to ensure that banks have sufficient loss-absorbing capacity through capital and liabilities eligible to be bailed in.

Future developments *(continued)*

The Single Resolution Mechanism ("SRM"), which implements the EU-wide BRRD in the Euro area, becomes fully operational on 1 January 2016. The full resolution powers of the Single Resolution Board ("SRB") applies as of 1 January 2016.

AIB continuously monitors advancements in regulatory frameworks by assessing potential capital impacts and ensuring that the Group maintains a robust capital position.

Ratings

In May 2015, Moody's upgraded AIB's long-term rating to Ba2 from Ba3 and upgraded the outlook to stable. This followed a change in Moody's bank rating methodology. In November 2015, Moody's upgraded AIB's long term rating to Ba1 from Ba2 and upgraded the outlook to positive, in light of AIB's capital reorganisation and general improvement in fundamentals impacting the Group.

In July 2015, S&P upgraded AIB's long-term rating to BB+ from BB and upgraded the outlook to stable. In December 2015, S&P raised AIB's outlook to positive and re-affirmed AIB's long term rating at BB+. While S&P removed the final notch of government support incorporated into the rating, this was offset by an uplift to AIB's standalone credit rating.

As part of a review of sovereign support for banks' globally in May 2015, Fitch removed the five notches of government support it had included in AIB's senior rating. This was partially offset by an increase of two notches following improvements to AIB's fundamentals. In December 2015, Fitch further upgraded AIB's long-term rating to BB+ and affirmed its positive outlook. Year on year, the Group's senior rating with Fitch has reduced by two notches from BBB to BB+.

			2015
AIB long-term rating	Moody's	S&P	Fitch
Long-term	Ba1	BB+	BB+
Outlook	Positive	Positive	Positive

			2014
AIB long-term rating	Moody's	S&P	Fitch
Long-term	Ba3	BB	BBB
Outlook	Stable	Negative	Negative

2. Capital and capital management

Table 1: Regulatory capital and capital ratios

The following table summarises AIB Group's capital position:

	CRD IV transitional basis		CRD IV fully loaded basis[1]	
	31 December		31 December	
	2015 € m	2014 € m	2015 € m	2014 € m
Shareholders' equity	**12,148**	11,292[2]	**12,148**	11,292[2]
Less: Additional Tier 1 capital	**(494)**	–	**(494)**	–
Regulatory adjustments:				
Goodwill and intangibles	**(292)**	(174)	**(292)**	(174)
Cash flow hedging reserves	**(354)**	(383)	**(354)**	(383)
Reversal of fair value of contingent capital instrument	**(46)**	(189)	**–**	–
Available for sale securities reserves	**(1,250)**	(1,369)	**–**	–
Pension	**(91)**	557	**(153)**	(121)
Deferred tax	**(317)**	–	**(3,171)**	(3,640)
2009 Preference Shares[1]	**–**	–	**–**	(3,500)
Other	**(19)**	(17)	**(9)**	–
	(2,369)	(1,575)	**(3,979)**	(7,818)
Total common equity tier 1 capital	**9,285**	9,717	**7,675**	3,474
Additional Tier 1 capital	**494**	–	**494**	–
Total tier 1 capital	**9,779**	9,717	**8,169**	3,474
Tier 2 capital				
Subordinated debt	**973**	538	**973**	538
Credit provisions	**287**	453	**20**	136
Other	**9**	17	**–**	–
Total tier 2 capital	**1,269**	1,008	**993**	674
Total capital	**11,048**	10,725	**9,162**	4,148
Risk weighted assets				
Credit risk	**53,596**	54,348	**54,105**	54,348
Market risk	**457**	471	**457**	471
Operational risk	**3,139**	2,822	**3,139**	2,822
Credit valuation adjustment	**1,352**	1,468	**1,352**	1,468
Other	**5**	5	**5**	5
Total risk weighted assets	**58,549**	59,114	**59,058**	59,114
	%	%	**%**	%
Common equity tier 1 ratio	**15.9**	16.4	**13.0**	5.9
Tier 1 ratio	**16.7**	16.4	**13.8**	5.9
Total capital ratio	**18.9**	18.1	**15.5**	7.0

The capital position as at 31 December 2015 outlined above, does not include any deduction for future dividends on ordinary shares.

[1]2014 fully loaded ratios are calculated excluding the 2009 Preference Shares (cease to be considered CET1 after 31 December 2017).

[2]After deducting the dividend amounting to € 280 million on the 2009 Preference Shares at 31 December 2014.

Capital ratios at 31 December 2015

Transitional ratio

The CET1 transitional ratio decreased to 15.9% at 31 December 2015 from 16.4% at 31 December 2014. The decrease in CET1 capital of € 432 million was primarily driven by the impact of the Capital Reorganisation and transitional provisions, partially offset by positive movements in the 12 months to 31 December 2015. As part of the Capital Reorganisation the redemption of the 1,360 million 2009 Preference Shares resulted in a decrease in transitional CET1 capital of € 1,700 million. The deduction of 10% of deferred tax relating to unutilised tax losses, led to a reduction in CET1 capital of € 317 million. Positive movements in the 12 months to 31 December 2015 which resulted in CET1 capital increasing by € 1,751 million are driven primarily by retained profit of € 1,380 million, gains arising from changes in pension actuarial assumptions of € 149 million and net unrealised gains on the AFS portfolio of € 222 million. The Group avails of the derogation not to include unrealised gains or losses on exposures to central governments in transitional CET1. The net pension deficit reduced by € 797 million due to an increase in the discount rate applied in the valuation of pension liabilities and as a result regulatory adjustments increased by € 648 million.

RWAs reduced by € 565 million during 2015, with credit RWAs reducing by € 752 million in the period. This was primarily driven by a reduced volume of defaulted loans, offset by an increase driven by foreign exchange movements of € 1,047 million. Operational risk RWAs increased by € 317 million in the period, reflecting the increased levels of income in the annual calculation. Credit valuation adjustment RWAs reduced by € 116 million, reflecting a reduced level of exposure.

The CET1 transitional ratio, at 15.9%, is significantly in excess of the SSM's minimum CET1 regulatory requirement.

There was an increase in transitional tier 1 capital of € 62 million with the decrease in CET1 capital outlined above being offset by the issue of € 500 million of additional tier 1 ("AT1") in November 2015.

There was an increase in transitional tier 2 capital of € 261 million as the issue of € 750 million of tier 2 capital in November 2015 was partially offset by the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument and the reduction in the excess of IRB provisions over expected loss.

The transitional total capital ratio increased from 18.1% at 31 December 2014 to 18.9% at 31 December 2015.

The capital figures reflect the audited 2015 year-end profit for the Group. The quarterly SSM regulatory capital reporting process will include these profits in due course.

Fully loaded ratio

The fully loaded CET1 ratio increased to 13.0% at 31 December 2015 from 5.9% (excluding the 2009 Preference Shares) at 31 December 2014. The main driver of this increase in the fully loaded ratio was an increase in CET1 capital of € 4,201 million. This was primarily driven by the Capital Reorganisation generating an increase of € 1,800 million, positive impact of profits of € 1,380 million, a decrease in the pension deficit by € 765 million as a result of an increase in the discount rate applied in the valuation of pension liabilities and a reduction in the deferred tax asset of € 469 million.

The fully loaded CET1 ratio of 13.0% compares to 15.9% on a transitional basis at 31 December 2015. This reflects a difference of € 1,610 million in the amounts qualifying as CET1. The main drivers of this difference are:

- the full deduction of the deferred tax asset (''DTA'') for unutilised tax losses of € 3,171 million under fully loaded. Under transitional rules, the phasing in deduction of the DTA commenced in 2015 at 10% per annum amounting to € 317 million;
- the available for sale ("AFS") reserves of € 1,472 million, comprising unrealised gains in sovereign debt securities and equity securities are included in the fully loaded position, while € 222 million is included on a transitional basis at 31 December 2015; and
- the fully loaded CET1 position takes full account of the pension deficit within revenue reserves whereas under transitional rules the impact of this deficit has been restricted. The difference in treatment amounted to € 62 million at 31 December 2015.

The difference of € 509 million in 2015 between transitional and fully loaded RWAs is in relation to the phasing of the unrealised gains/losses portion of the AFS portfolio.

There was an increase in fully loaded tier 1 capital of € 4,695 million comprising the increase of CET1 capital outlined above and the issuance of AT1s.

There was an increase in fully loaded tier 2 capital of € 319 million. See transitional tier 2 capital above.

The fully loaded total capital ratio increased from 7.0% at 31 December 2014 to 15.5% at 31 December 2015.

2. Capital and capital management

Table 2: Movements in total capital

The following table analyses the movements in total capital on a transitional basis for the years ended 31 December 2015 and 2014:

	2015 € m	2014 € m
Gross common equity tier 1 capital at 1 January	**9,717**	10,494
Profit for the year	**1,380**	915
Other comprehensive income:		
Net actuarial gain/(loss) in retirement benefit schemes	**743**	(939)
Net change in fair value of available for sale securities reserves	**103**	728
Net change in cash flow hedging reserves	**(29)**	348
Other	**31**	26
	848	163
Total comprehensive income for the year	**2,228**	1,078
	11,945	11,572
Partial redemption of 2009 Preference Shares	**(1,700)**	–
Dividend paid on 2009 Preference Shares	**(166)**	–
Regulatory adjustments at 1 January 2014 [1]	**–**	(1,371)
Movements in regulatory adjustments:		
Goodwill and intangible assets	**(118)**	5
Cash flow hedging reserves	**29**	(349)
Reversal of fair value of contingent capital instrument[2]	**143**	95
Available for sale securities reserves	**119**	(720)
Pension	**(648)**	689
Deferred tax	**(317)**	–
Other tier 2 instruments now qualifying as tier 1	**–**	76
Other	**1**	–
Total regulatory adjustments	**(791)**	(1,575)
Less: Accrued interest on Additional Tier 1 capital	**(3)**	–
Dividend on 2009 Preference Shares	**–**	(280)
Common equity tier 1 capital at 31 December	**9,285**	9,717
Issuance of Additional Tier 1 capital[3]	**494**	–
Total tier 1 capital at 31 December	**9,779**	9,717
Total tier 2 capital at 1 January	**1,008**	1,374
Issuance of subordinated loan capital	**750**	–
Regulatory amortisation adjustment	**(315)**	(290)
Eligible credit provisions	**(166)**	–
Other tier 2 instruments now qualifying as tier 1	**–**	(76)
Other	**(8)**	–
Total tier 2 capital at 31 December	**1,269**	1,008
Total capital at 31 December	**11,048**	10,725

[1] Regulatory adjustments at 1 January 2014 arose from the implementation of CRD IV.

[2] Reversal of amortisation in 2015 and 2014 of initial fair value adjustment.

[3] Refer to page 58 of this report.

Table 3: Movements in risk weighted assets

The following tables analyse the movements in risk weighted assets by risk categories:

						2015
	Credit risk	**Market risk**	**Operational risk**	**Credit valuation adjustment**	**Other**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January						
Book size and quality	**(2,376)**	**(14)**	**–**	**(116)**	**–**	**(2,506)**
Model updates[1]	**577**	**–**	**–**	**–**	**–**	**577**
Foreign currency movements	**1,047**	**–**	**–**	**–**	**–**	**1,047**
Other	**–**	**–**	**317**	**–**	**–**	**317**
At 31 December	**53,596**	**457**	**3,139**	**1,352**	**5**	**58,549**

[1]Relates to the Institutions (Bank) PD Model.

						2014
	Credit risk	Market risk	Operational risk	Credit valuation adjustment	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	56,489	177	3,174	1,037	6	60,883
Book size and quality	(2,725)	294	–	431	(1)	(2,001)
Model updates[2]	190	–	–	–	–	190
Disposal of unconsolidated financial investment	(720)	–	–	–	–	(720)
Foreign currency movements	1,114	–	–	–	–	1,114
Other	–	–	(352)	–	–	(352)
At 31 December	54,348	471	2,822	1,468	5	59,114

[2]Model updates	
Institutions (Bank) PD Model	166
Project Finance PD Model	24
	190

A new Institutions PD model was approved and deployed in October 2014. The impact of the introduction of this new model was an increase in the average PD for the portfolio resulting in an increase in the RWA. The deployment impacted in 2015 as most exposures were re-rated under the new model during 2015 as part of the annual review cycle.

2. Capital and capital management

Table 4a: Group capital adequacy information

The following table summarises the total exposures (Exposures at Default), risk weighted assets and minimum capital requirement of the Group, which are further analysed throughout this report.

			2015
	Total exposures[1] € m	Risk weighted assets € m	Minimum capital requirement[2] € m
Credit risk – Standardised Approach	**55,942**	**30,470**	**2,437**
Credit risk – IRB Approach	**51,515**	**23,126**	**1,850**
Market risk – Standardised Approach (Table 4b)	**N/A**	**457**	**37**
Operational risk – Standardised Approach	**N/A**	**3,139**	**251**
Credit valuation adjustment	**N/A**	**1,352**	**108**
Other	**N/A**	**5**	**–**
	107,457	**58,549**	**4,683**

			2014
	Total exposures[1] € m	Risk weighted assets € m	Minimum capital requirement[2] € m
Credit risk – Standardised Approach	61,437	31,635	2,531
Credit risk – IRB Approach	52,945	22,713	1,817
Market risk – Standardised Approach (Table 4b)	N/A	471	38
Operational risk – Standardised Approach	N/A	2,822	226
Credit valuation adjustment	N/A	1,468	117
Other	N/A	5	–
	114,382	59,114	4,729

[1]Exposure at Default ("EAD") represents the Group's best estimate of its expected gross exposure for each facility upon a borrower's default, giving full recognition to drawn and undrawn credit lines and regardless of whether such undrawn lines are committed or advised lines.

[2]Based on 8% of the risk weighted asset amount.

Table 4b: Market risk – minimum capital requirement

The following table analyses the minimum capital requirement of market risk as noted in table 4a.

	2015 € m	2014 € m
Interest rate position risk requirement ("PRR")[1]	**35**	32
Equity rate PRR	**2**	6
	37	38

[1]Position risk requirement ("PRR") – for definition see glossary page 106.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented on 18 January 2015, was 7.9%[1] at 31 December 2015 (3.2% at 31 December 2014 excluding the 2009 Preference Shares). This primarily reflects an increase in tier 1 capital as outlined above.

[1]For detailed calculation of the leverage ratio see Appendix 4.

3. Risk management

Introduction

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations.

Principal risks and uncertainties

The Group is exposed to a number of material risks and in order to minimise these risks, the Group has implemented comprehensive risk management strategies. Although the Group invests substantial time and effort in its risk management strategies and techniques, there is a risk that these may fail to fully mitigate the risks in some circumstances, particularly if confronted with risks that were not identified or anticipated.

The principal risks and uncertainties facing the Group fall under the following broad categories:

– Macro-economic and geopolitical risks.
– Regulatory and legal risks.
– Risks relating to business operations, governance and internal control systems.

Principal risks and uncertainties pertaining to each of these categories are described in detail on pages 50 to 59 of the 2015 Annual Financial Report and should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

Risk profile

AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks. To support this approach, a number of Board approved frameworks and policies are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. The core aspects of the Group's risk management framework approach are set out on pages 60 to 62 of the 2015 Annual Financial Report. In addition, the Directors' Statement on the effectiveness of the system of Risk Management and Internal Controls is on pages 196 to 197 of the 2015 Annual Financial Report.

The Group has a defined Board approved Risk Appetite Statement ("RAS") which sets out the maximum amount of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives. The Group RAS is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives. There is on-going monitoring in place to assess the organisation's risk profile against risk appetite and this information is reported to the Board.

The key metrics underpinning the Group's performance against the RAS are detailed on page 4 of this report.

Individual risk types

The following individual risk types have been identified through the Group's risk assessment process:

– Credit risk;
– Liquidity risk;
– Market risk;
– Operational risk;
– Regulatory compliance risk;
– Structural foreign exchange risk; and
– Pension risk.

The individual risk types listed above are described in detail on pages 63 to 164 of the 2015 Annual Financial Report, with prefaces to Credit risk, Market risk and Operational risk included below. Further discussion on credit risk can also be found in Sections 4 to 9 of this Report.

Individual risk types *(continued)*

Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that they had entered into. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, the trading portfolio, financial investments available for sale, financial investments held to maturity, and derivatives. Concentrations in particular portfolio sectors, such as property and construction, can impact the overall level of credit risk. At 31 December 2015, the Group used a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk.

Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through the interest rate and credit spread risk factors and to a lesser extent through foreign exchange and equity risk factors. AIB Group uses the Standardised Approach for assessing its capital requirements for trading book market risk. As set out on page 14, of the total minimum capital requirement of € 4,683 million at 31 December 2015, the minimum capital requirement for market risk amounts to € 37 million. A description of AIB Group's (a) 'identification and assessment'; (b) 'management and mitigation'; and (c) 'monitoring and reporting' of market risk is set out on pages 155 and 156 of the 2015 Annual Financial Report. A sensitivity analysis of the Group's banking book to movements in interest rates is set out on page 161 of the 2015 Annual Financial Report, together with a Value at Risk ("VaR") profile for both the banking and trading book.

In addition, CRD IV introduced a new regulatory capital charge from 1 January 2014, credit valuation adjustment ("CVA") which is designed to capture the risk associated with potential mark-to-market losses associated with the deterioration in the creditworthiness of a counterparty. Banks are required to calculate capital charges for CVA under either the Standardised CVA Approach or the Advanced CVA Approach ("ACVA"). AIB calculates CVA using the Standardised Approach.

The regulatory CVA capital charge applies to all counterparty exposures arising from over-the-counter ("OTC") derivatives and security financing transactions, excluding those transactions with a qualifying central counterparty, non-financial corporates and intragroup transactions.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad range of individual risk types which include product and change risk, information technology, business continuity, health and safety risks, and legal risk. AIB Group uses the Standardised Approach for assessing its capital requirements for operational risk. As set out on page 14, of the total minimum capital requirement of € 4,683 million at 31 December 2015, the minimum capital requirement for operational risk amounts to € 251 million. A description of AIB Group's (a) 'identification and assessment'; (b) 'management and mitigation' and (c) 'monitoring and reporting' of operational risk is set out on page 162 of the 2015 Annual Financial Report.

3. Risk management

Governance overview

AIB's Governance Framework encompasses the leadership, direction and control of AIB and its subsidiaries. The Framework reflects best practice standards, guidelines and statutory obligations and ensures that organisation and control arrangements are appropriate to the governance of the Group's strategy, operations and mitigation of related material risks.

The Group's governance arrangements include a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors, to oversee the operations of the Group. The Board is currently composed of 8 Non-Executive Directors and 2 Executive Directors. Full details of the responsibilities of the Board and its sub-committees are set out on pages 177 to 191 of the 2015 Annual Financial Report.

Directorships held by Members of the Management Body

The independent Non-Executive Directors hold a number of external directorships as set out on pages 166 to 168 of the 2015 Annual Financial Report, which comply with Regulation 79 of S.I. 158/2014 (European Union (Capital Requirements) Regulations 2014). This regulation establishes limits on the number and nature of directorships permitted to be held by members of the management bodies of significant institutions.

Criteria for the selection of Members of the Management Body

The responsibilities of the Board Nomination and Corporate Governance Committee include recommending candidates to the Board for appointment as Directors, and reviewing the size, structure, composition, diversity and skills of the Board, Board Committees and subsidiary company Boards.

The Relationship Framework specified by the Minister for Finance, which governs the relationship between the Company and the State as shareholder, requires the Board to obtain the written consent of the Minister in accordance with a pre-determined consent/ consultation procedure ("the procedure") before appointing, reappointing or removing the Chairman or Chief Executive Officer, and to consult with the Minister in accordance with the procedure in respect of all other Board appointments proposed.

The Board recognises and embraces the benefits of diversity among its own Members, including diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time. To this end, the Board approved a Board Diversity Policy (the "Policy") during February 2015 with the aim, in relation to gender diversity, of ensuring that the percentage of females on the Board reaches or exceeds 25 per cent by the end of 2016 and thereafter. The Nomination and Corporate Governance Committee is responsible for developing measurable objectives to effect the implementation of this Policy and for monitoring progress towards achievement of the objectives. The policy and performance relative to the target on gender diversity will be reviewed annually by the Nomination and Corporate Governance Committee in conjunction with Board succession and skills planning.

The Terms of Reference of the Nomination and Corporate Governance Committee are available on the Corporate Governance section of the Company's website at www.aibgroup.com. Performance relative to the target set out in the Policy will be published on the Company's website during 2016 and annually, thereafter.

The Board Risk Committee, which comprises four Non-Executive Directors whom the Board has determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities, met on 10 occasions during 2015. Further details relating to the Board Risk Committee are available on pages 185 and 186 of the 2015 Annual Financial Report.

A description of the flow of information to the management body relating to risk is available on pages 60 to 62 of the 2015 Annual Financial Report.

4. Credit risk – Overview

One of the Group's main sources of income from on-going activities arises from granting credit. Accordingly, this exposes it to its most significant risk, namely credit risk. The most significant credit risk in AIB Group arises from traditional lending activities to corporate, commercial and personal customers and to sovereigns and banks. Credit risk also arises through the use of derivatives, off-balance sheet guarantees and commitments and through the Group's trading, 'available for sale' and 'held to maturity' portfolios of financial instruments. Capital requirements are based on the perceived level of risk of individual credit exposures. A description of how AIB manages, monitors and reports credit risk is outlined in the 'Risk management' section on pages 63 to 140 of the 2015 Annual Financial Report.

CRD IV provides two approaches for the calculation of minimum regulatory capital requirements for credit risk:

(i) The Standardised Approach

Under the Standardised Approach, risk weightings for rated counterparties are determined on the basis of the external credit rating assigned to the counterparty. For non-rated counterparties and certain other types of exposure, regulatory-determined standardised risk weightings are used. The Group's exposures under this approach are set out in Section 5 – Credit Risk – Standardised Approach.

(ii) The Internal Ratings Based Approach ("IRB Approach").

The IRB Approach allows banks, subject to regulatory approval[(1)], use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For non-retail exposures, there are two IRB approaches. Under the Foundation IRB Approach, banks use their own estimate of PD, and regulatory estimates of LGD and EAD. Under the Advanced IRB Approach, banks use their own estimates of all three risk components. For retail exposures, there is only one IRB Approach which uses internal estimates of all three risk components. The Group's exposures under this approach are set out in Section 6 – Credit Risk – IRB Approach.

As at 31 December 2015, the Group used a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the Foundation IRB Approach for certain sovereign, bank and corporate exposures, and to use the Retail IRB Approach for certain residential mortgage exposures. Henceforth, for ease of reference within this document, this combination of Foundation and Retail IRB approval will be referred to as approval to use the IRB Approach.

Additional commentary on specific credit risks arising from certain transactions including derivative transactions, repurchase agreements and securitisation positions are set out in Section 9 – Counterparty credit risks and Section 10 – Securitisations. These disclosures have been provided on a Group consolidated basis.

The following guidelines apply to the tables throughout this document and should be read in conjunction with the "Glossary of definitions and explanations":

– The Group reports exposure values as EAD which is after the application of credit risk mitigation ("CRM"), credit conversion factors ("CCFs") and specific offsets;
– "Exposures associated with particularly high risk" include, subject to the discretion of competent authorities, exposures associated with particularly high risks such as speculative immovable property financing (defaulted and non-defaulted) and private equity investments; and
– "Other items" refers to other assets including land and buildings, plant and machinery, other fixtures and fittings, tools and equipment, payments on account, current tax and deferred tax.

[(1)]The portfolios for which AIB has received regulatory approval to use the IRB Approach are outlined on pages 30 to 32 of this document.

4. Credit risk – Overview

Table 5: Total exposures (EAD) by exposure class and related minimum capital requirements

The minimum capital requirements for exposures calculated under the Standardised Approach and IRB Approach and the related exposure values are set out in the following table:

	2015			2014		
Exposure class	Total exposures € m	Risk weighted assets € m	Minimum capital requirement CRD IV € m	Total exposures € m	Risk weighted assets € m	Minimum capital requirement CRD IV € m
Standardised exposure class						
Central governments and central banks	14,309	1	–	18,886	–	–
Public sector entities	44	44	3	40	40	3
Institutions[1]	226	58	5	305	73	6
Corporates	8,118	8,118	649	6,786	6,786	543
Retail	4,360	3,270	262	4,236	3,177	254
Secured by mortgages on immovable property[2]	18,427	10,938	875	17,388	10,464	837
Exposures in default[3]	4,825	5,738	459	7,732	8,932	715
Exposures associated with particularly high risk	778	1,167	93	850	1,275	102
Securitisation positions	–	–	–	–	–	–
Equity	76	188	15	99	206	16
Other items	4,779	948	76	5,115	682	55
Total Standardised Approach	55,942	30,470	2,437	61,437	31,635	2,531
IRB exposure class						
Central governments and central banks	10,195	376	30	11,195	576	46
Institutions	8,234	2,483	199	8,312	1,969	157
Corporates	10,938	10,854	868	10,333	9,233	739
Retail[4]	21,623	9,345	747	22,953	10,828	867
Securitisation positions	517	60	5	147	102	8
Non-credit obligation assets	8	8	1	5	5	–
Total IRB Approach	51,515	23,126	1,850	52,945	22,713	1,817
Total credit risk[5]	107,457	53,596	4,287	114,382	54,348	4,348

[1]Institutions exposure class predominantly relates to banks.

[2]Includes residential mortgages booked in EBS.

[3]The Basel asset class "Exposures in default" relates only to standardised exposures and comprises exposures that are greater than 90 days past due or unlikely to pay. A profile of contractually past due but not impaired facilities, for both the Standardised and IRB Approaches, is shown in table 16 on pages 41 and 42.

[4]All exposures under the IRB Approach for retail are secured by immovable property collateral and represent the residential mortgage portfolio in the Republic of Ireland, excluding EBS which is included in Standardised Approach.

[5]Includes credit exposures arising as a result of repurchase transactions.

Standardised exposure class

Within the Standardised portfolio, which decreased by € 5.5 billion in the year, the main drivers were within the "Central governments and central banks" and "Exposures in default" exposure classes which decreased by € 4.6 billion and € 2.9 billion respectively, offset by increases in "Corporates" of € 1.3 billion and "Secured by mortgages on immovable property" of € 1.0 billion.

The € 4.6 billion decrease in the "Central governments and central banks" exposure class is due primarily to the redemption of NAMA senior bonds during the year.

The € 2.9 billion decrease in the "Exposures in default" exposure class is spread across all sectors and is reflective of the restructuring activity and the improvement in credit quality in 2015.

Certain facilities which are no longer classified in the "Exposures in default" asset class are now reported in other asset classes and this is the principal factor for the increases in the "Corporates" and "Secured by mortgages on immovable property" classes of € 1.3 billion and € 1.0 billion respectively.

IRB exposure class

The € 1.0 billion decrease in the total exposures within the “Central governments and central banks” exposure class, is due to the reduction in exposures across a number of EU sovereigns and institutions.

Within the “Institutions” exposure class, whilst there is no significant movement in total exposures, the € 0.5 billion increase in RWAs is driven by the new IRB model.

The € 0.6 billion increase in total exposures in the “Corporates” exposure class, is reflective of growth in both the domestic and international corporate lending portfolios. The increase in the related RWA amount of € 1.6 billion is driven both by the growth in the performing portfolio and the reduction in the defaulted portfolio due to restructuring (as defaulted “Corporates” attract a 0% RWA as they are treated as Foundation IRB exposures).

The € 1.3 billion reduction in total exposures in the “Retail” exposure class, can be mainly attributed to restructuring activity and improving economic conditions.

Main sources of differences between regulatory exposure amounts and carrying values in the financial statements

The 2015 Annual Financial Report presents information based on IFRS accounting standards, whereas certain information presented in this Pillar 3 Disclosures has been compiled based on capital adequacy concepts and rules, as contained in the CRD. It should be noted that there are significant differences in the two bases of calculation of the financial data. This, in particular, relates to credit risk disclosures where the credit exposure under CRD is defined as the expected amount of exposure at default (“EAD”) and is estimated under specified regulatory rules. As at 31 December 2015, the total assets under IFRS were € 103 billion whereas the total regulatory EAD was € 107 billion, a difference of € 4 billion. See Appendix 1 for AIB Group’s statement of financial position prepared under IFRS.

The main drivers of this difference are as follows:

- Impairment provisions on IRB exposures of € 1.9 billion are not reflected in the calculation of EAD for IRB portfolios, whereas from an IFRS perspective, these assets are shown net of all provisions.
- The inclusion in EAD of undrawn committed credit facilities, contingent liabilities and other off balance sheet items in the amount of € 2.6 billion. For the purposes of the calculation of EAD, regulatory credit conversion factors are applied to convert the contractual amount of a commitment into a credit equivalent amount. This is not reflected in the IFRS assets.
- The inclusion in EAD of € 1.5 billion non-collateralised repurchase agreement borrowings and volatility add-on at 31 December 2015. The resulting exposure to banks and central banks arises in cases where the fair value of collateral provided to secure the borrowing is in excess of the cash received.
- The inclusion in EAD of derivatives add-on amounted to € 0.8 billion.
- Available for sale (“AFS”) securities are carried at market value and held to maturity (“HTM”) securities are held at value on date of transfer to HTM in IFRS assets. For CRD IV under transitional rules, sovereign securities are held at amortised cost, and non-sovereign securities are held at amortised cost plus 40% of unrealised gains or losses resulting in the EAD being lower by € 1.8 billion.
- Items not included in credit risk EAD, which are deducted from regulatory capital of € 0.5 billion, consist of goodwill and intangible assets of € 0.3 billion and pension schemes in surplus of € 0.2 billion.

5. Credit risk – Standardised Approach

Introduction

This section analyses the exposures which are rated under the Standardised Approach, where risk ratings are assigned on the basis of external credit ratings. The exposures are analysed as to industry and geographic distribution, residual maturity and to the assigned external ratings and credit quality assessment steps.

Exposures rated under the Standardised Approach amounts to € 55,942 million (2014: 61,437 million), with a capital requirement of € 2,437 million as at 31 December 2015 (2014: €2,531 million). The main drivers of the decrease in exposures occurred in the 'Central governments and central banks' and 'Exposures in default" exposure classes which decreased by € 4.6 billion and € 2.9 billion respectively, partially offset by increases in the 'Corporates' and 'Secured by mortgages on immovable property" exposure classes of € 1.3 billion and € 1.0 billion respectively. Pages 20 and 21 give further information on the movements' year-on-year.

Use of external credit ratings

Under CRD IV, institutions are permitted to determine the risk weight of an exposure with reference to the credit assessments of External Credit Assessment Institutions ("ECAIs")[(1)].

AIB uses the following ECAIs to assess the credit risk of certain exposures under the Standardised Approach:

– Standard & Poor's Rating Services ("S&P")
– Fitch Ratings ("Fitch")
– Moody's Investors Service ("Moody's")
– Dominion Bond Rating Service ("DBRS")

AIB uses a combination of the credit weightings assigned by the ECAIs and mapping guidelines issued by the Central Bank of Ireland to map the exposures to the appropriate credit quality assessment step. These guidelines are identical to those issued by the European Banking Authority ("EBA").

The ratings applied to the credit quality assessment steps are:

Credit Quality Step	S&P/Fitch/DBRS	Moody's
Credit quality assessment step 1	AAA to AA	Aaa to Aa3
Credit quality assessment step 2	A+ to A-	A1 to A3
Credit quality assessment step 3	BBB+ to BBB-	Baa1 to Baa3
Credit quality assessment step 4	BB+ to BB-	Ba1 to Ba3
Credit quality assessment step 5	B+ to B-	B1 to B3
Credit quality assessment step 6	CCC+ and below	Caa1 and below

Where there are no available credit assessments to map to a credit quality assessment step, the Group assigns risk weights to these exposures in accordance with the CRD IV requirements for unrated exposures.

The Standardised Approach takes account of the credit risk mitigation ("CRM") that the Group has in place against an exposure, before the relevant risk weight is applied and as such all exposures are listed after CRM. Tables 6, 7 and 8 on pages 23 to 27 in this Section give an analysis of the exposures rated under the Standardised Approach. Table 9 details those exposures which are rated by ECAI, those which have been allocated a credit quality step under CBI guidelines and those which are considered unrated. Table 10 further analyses the exposures which have been given a credit quality assessment step on a step by step basis as outlined above.

Of the total standardised exposures after CRM of € 55,942 million (2014: € 61,437 million) € 14,535 million (2014: € 19,191 million) has been assigned a credit quality assessment step based on CBI guidelines. € 226 million (2014: € 268 million) is rated by ECAIs.

The remaining exposures amounting to € 14,309 million (2014: € 18,923 million) which have been assigned a credit quality assessment step relate to Irish sovereign bonds (€ 8.7 billion) and NAMA senior bonds (€ 5.6 billion). Whilst the NAMA senior bonds do not have an external credit rating, the Group has attributed to them a rating of A- (2014: A-) which is the Ireland sovereign external rating at 31 December 2015, as the bonds are guaranteed by the Irish Government. The bonds have been assigned a credit quality assessment step on that basis.

[(1)]The ECAIs are also used in calculating the risk weighted exposure amounts for certain securitisations – see Section 10. Securitisations.

5. Credit risk – Standardised Approach

Table 6: Industry distribution of credit exposures (EAD) – Standardised Approach

	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufact-uring	Other loans - personal	Other services	Property	Transport and communi-cation	Bank, sovereign and public sector	Other	Total exposures
														2015
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	14,309	–	14,309
Public sector entities	–	–	–	–	–	–	–	–	44	–	–	–	–	44
Institutions	–	–	–	–	–	–	–	–	–	–	–	226	–	226
Corporates	511	448	1,559	113	818	–	595	491	2,671	724	188	–	–	8,118
Retail	697	72	337	5	23	198	71	2,025	569	299	64	–	–	4,360
Secured by mortgages on immovable property	37	280	50	16	46	12,235	2	231	594	4,925	11	–	–	18,427
Exposures in default	177	64	223	3	86	2,188	45	274	75	1,678	12	–	–	4,825
Exposures associated with particularly high risk	–	166	1	–	–	–	–	–	161	446	4	–	–	778
Equity	–	–	–	–	54	–	–	–	22	–	–	–	–	76
Other items	–	–	–	–	–	–	–	–	–	–	–	–	4,779	4,779
Total	1,422	1,030	2,170	137	1,027	14,621	713	3,021	4,136	8,072	279	14,535	4,779	55,942

Table 6: Industry distribution of credit exposures (EAD) – Standardised Approach *(continued)*

														2014
	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufact-uring	Other loans - personal	Other services	Property	Transport and communi-cation	Bank, sovereign and public sector	Other	Total exposures
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	18,886	–	18,886
Public sector entities	–	–	–	–	–	–	–	–	40	–	–	–	–	40
Institutions	–	–	–	–	–	–	–	–	–	–	–	305	–	305
Corporates	456	248	1,133	77	602	–	523	428	2,365	646	308	–	–	6,786
Retail	669	67	317	5	21	303	72	2,021	435	253	73	–	–	4,236
Secured by mortgages on immovable property	85	27	43	16	33	11,572	1	131	551	4,904	25	–	–	17,388
Exposures in default	283	191	481	11	99	2,827	52	470	292	2,998	28	–	–	7,732
Exposures associated with particularly high risk	3	214	4	–	14	–	–	–	13	602	–	–	–	850
Equity	–	–	–	–	87	–	–	–	12	–	–	–	–	99
Other items	–	–	1	–	–	–	1	–	2	–	–	–	5,111	5,115
Total	1,496	747	1,979	109	856	14,702	649	3,050	3,710	9,403	434	19,191	5,111	61,437

Table 7: Geographic[1] distribution of credit exposures (EAD) - Standardised Approach

2015

Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	14,309	–	–	–	14,309	16,696	16,712
Public sector entities	–	–	44	–	44	44	43
Institutions	173	–	1	52	226	258	268
Corporates	1,937	6,021	34	126	8,118	10,124	7,541
Retail	3,685	655	1	19	4,360	9,128	4,349
Secured by mortgages on immovable property	13,497	4,318	16	596	18,427	19,037	17,917
Exposures in default	3,922	770	81	52	4,825	8,703	6,632
Exposures associated with particularly high risk	762	12	–	4	778	1,594	806
Equity	51	25	–	–	76	84	89
Other items	4,498	280	1	–	4,779	4,780	4,871
	42,834	12,081	178	849	55,942	70,448	59,228

2014

Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	18,886	–	–	–	18,886	23,175	16,285
Public sector entities	–	–	40	–	40	40	37
Institutions	226	35	–	44	305	421	324
Corporates	2,025	4,655	10	96	6,786	8,561	6,340
Retail	3,565	648	–	23	4,236	8,666	4,366
Secured by mortgages on immovable property	12,239	4,372	48	729	17,388	18,141	17,497
Exposures in default	6,295	1,184	71	182	7,732	14,603	8,733
Exposures associated with particularly high risk	845	5	–	–	850	2,697	782
Equity	77	22	–	–	99	107	109
Other items	4,914	200	1	–	5,115	5,115	5,338
	49,072	11,121	170	1,074	61,437	81,526	59,811

[1]Geographic breakdown is based on the country of risk reflecting the CRD IV requirement.

[2]Total gross exposure is before CRM, CCFs and offsets.

[3]Average exposures over the period are based on total exposures i.e. EAD.

5. Credit risk – Standardised Approach

Table 8: Residual maturity of credit exposures (EAD) – Standardised Approach

										2015
Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments and central banks	72	5,858	822	336	1,496	1,944	3,420	361	–	14,309
Public sector entities	–	–	–	–	43	–	1	–	–	44
Institutions	17	165	–	–	–	–	–	44	–	226
Corporates	278	343	199	905	1,264	2,122	1,293	1,714	–	8,118
Retail	11	247	207	486	1,046	1,096	613	654	–	4,360
Secured by mortgages on immovable property	377	519	157	506	1,490	1,895	1,582	11,901	–	18,427
Exposures in default	453	72	183	246	164	183	380	3,144	–	4,825
Exposures associated with particularly high risk	87	17	15	25	42	30	60	338	164	778
Equity	–	–	–	–	–	–	–	–	76	76
Other items	567	6	–	26	75	–	–	–	4,105	4,779
	1,862	7,227	1,583	2,530	5,620	7,270	7,349	18,156	4,345	55,942

5. Credit risk – Standardised Approach

Table 8: Residual maturity of credit exposures (EAD) – Standardised Approach *(continued)*

										2014
Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments and central banks	–	10,387	–	–	2,412	–	4,316	1,771	–	18,886
Public sector entities	–	–	39	–	–	–	1	–	–	40
Institutions	71	150	44	–	–	–	–	40	–	305
Corporates	129	199	222	854	1,179	1,830	856	1,517	–	6,786
Retail	7	182	149	1,154	577	807	589	771	–	4,236
Secured by mortgages on immovable property	280	496	795	486	1,299	1,274	1,373	11,385	–	17,388
Exposures in default	227	111	240	154	2,430	154	1,449	2,967	–	7,732
Exposures associated with particularly high risk	8	22	29	21	626	18	66	27	33	850
Equity	–	–	–	–	–	–	–	–	99	99
Other items	158	52	71	63	22	–	–	–	4,749	5,115
	880	11,599	1,589	2,732	8,545	4,083	8,650	18,478	4,881	61,437

5. Credit risk – Standardised Approach

Table 9: Total exposure (EAD) value (after CRM) split by external rating and credit quality assessment step

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment step € m	Total rated € m	Total unrated € m	2015 Total € m
Central governments and central banks	–	–	–	–	14,309	14,309	–	14,309
Public sector entities	–	–	–	–	–	–	44	44
Institutions	10	3	213	–	–	226	–	226
Corporates	–	–	–	–	–	–	8,118	8,118
Retail	–	–	–	–	–	–	4,360	4,360
Secured by mortgages on immovable property	–	–	–	–	–	–	18,427	18,427
Exposures in default	–	–	–	–	–	–	4,825	4,825
Exposures associated with particularly high risk	–	–	–	–	–	–	778	778
Equity	–	–	–	–	–	–	76	76
Other items	–	–	–	–	–	–	4,779	4,779
	10	3	213	–	14,309	14,535	41,407	55,942

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment step € m	Total rated € m	Total unrated € m	2014 Total € m
Central governments and central banks	–	–	–	–	18,886	18,886	–	18,886
Public sector entities	–	–	–	–	–	–	40	40
Institutions	–	233	35	–	37	305	–	305
Corporates	–	–	–	–	–	–	6,786	6,786
Retail	–	–	–	–	–	–	4,236	4,236
Secured by mortgages on immovable property	–	–	–	–	–	–	17,388	17,388
Exposures in default	–	–	–	–	–	–	7,732	7,732
Exposures associated with particularly high risk	–	–	–	–	–	–	850	850
Equity	–	–	–	–	–	–	99	99
Other items	–	–	–	–	–	–	5,115	5,115
	–	233	35	–	18,923	19,191	42,246	61,437

Table 10: Total exposure (EAD) value (after CRM) split by credit quality assessment step[1] – Standardised Approach

									2015
Exposure class	**Step 1 € m**	**Step 2 € m**	**Step 3 € m**	**Step 4 € m**	**Step 5 € m**	**Step 6 € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Central governments and central banks	–	14,309	–	–	–	–	14,309	–	14,309
Public sector entities	–	–	–	–	–	–	–	44	44
Institutions	54	166	3	3	–	–	226	–	226
Corporates	–	–	–	–	–	–	–	8,118	8,118
Retail	–	–	–	–	–	–	–	4,360	4,360
Secured by mortgages on immovable property	–	–	–	–	–	–	–	18,427	18,427
Exposures in default	–	–	–	–	–	–	–	4,825	4,825
Exposures associated with particularly high risk	–	–	–	–	–	–	–	778	778
Equity	–	–	–	–	–	–	–	76	76
Other items	–	–	–	–	–	–	–	4,779	4,779
	54	14,475	3	3	–	–	14,535	41,407	55,942

									2014
Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	–	18,886	–	–	–	–	18,886	–	18,886
Public sector entities	–	–	–	–	–	–	–	40	40
Institutions	40	265	–	–	–	–	305	–	305
Corporates	–	–	–	–	–	–	–	6,786	6,786
Retail	–	–	–	–	–	–	–	4,236	4,236
Secured by mortgages on immovable property	–	–	–	–	–	–	–	17,388	17,388
Exposures in default	–	–	–	–	–	–	–	7,732	7,732
Exposures associated with particularly high risk	–	–	–	–	–	–	–	850	850
Equity	–	–	–	–	–	–	–	99	99
Other items	–	–	–	–	–	–	–	5,115	5,115
	40	19,151	–	–	–	–	19,191	42,246	61,437

[1]The following ratings apply to the credit quality assessment steps:

Credit quality assessment step 1: AAA to AA (S&P/ Fitch / DBRS); Aaa to Aa3 (Moody's)

Credit quality assessment step 2: A+ to A- (S&P/ Fitch / DBRS); A1 to A3 (Moody's)

Credit quality assessment step 3: BBB+ to BBB- (S&P/ Fitch / DBRS); Baa1 to Baa3 (Moody's)

Credit quality assessment step 4: BB+ to BB- (S&P/ Fitch / DBRS); Ba1 to Ba3 (Moody's)

Credit quality assessment step 5: B+ to B- (S&P/ Fitch / DBRS); B1 to B3 (Moody's)

Credit quality assessment step 6: CCC+ and below (S&P/ Fitch / DBRS); Caa1 and below (Moody's)

6. Credit risk – Internal Ratings Based Approach

Exposures rated under the IRB Approach amounted to € 51,515 million, with a capital requirement of € 1,850 million as at 31 December 2015 (2014: exposures of € 52,945 million, capital requirement of € 1,817 million.

As set out on pages 20 and 21 of this document, the net € 1.4 billion decrease in total exposures rated under the IRB approach was driven by a € 1 billion decrease in "Central governments and central banks" together with a € 1.3 billion decrease in the "Retail" exposure class. These were partially offset by an increase of € 0.6 billion in the "Corporates" exposure class and an increase of € 0.4 billion in "Securitisation positions".

Regulatory approval and transition

As at 31 December 2015, the Group applied the IRB Approach to the portfolios and exposure classes listed in the table below, having received approval from the Regulator.

AIB portfolio	Exposure class
Bank	Institutions
Corporates	Corporates
Not-for-profit	Corporates
Project finance	Corporates
Commercial/large SME	Corporates
Sovereign	Central governments and central banks
Residential mortgages	Retail

The Group has an IRB roll-out plan to continue to transition Standardised portfolios to the IRB Approach and thus increase IRB coverage. The implementation of the transition of new portfolios to the IRB Approach is dependent on regulatory approval.

Governance of the rating process

AIB has a formalised governance framework in relation to the internal risk rating systems. The Group Asset and Liability Committee ("ALCo") acts as the Group's strategic balance sheet management forum which combines a business-decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the Director of Finance, and its membership includes the Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the heads of significant business areas. In ensuring sound capital and liquidity management and planning, the ALCo reviews and approves models for regulatory capital ('IRB Models'), for internal capital and for the calculation of expected and unexpected credit losses and stress testing.

Credit Risk Control function

The Credit Risk Control function within the Group is an integrated set of independent units which share responsibility for key control aspects of the Group's rating systems. These responsibilities include the design, implementation, oversight, and performance of the rating systems.

Use of rating models

Rating models and systems are core to credit and risk management in the Group, with the outputs from IRB models playing an essential role in a wide range of risk processes:

a) Credit approval: Grades assigned by IRB models are a key input to the assessment of credit applications. Grades are also used in determining the size of delegated credit authorities. The outputs of the models are also used in assessing risk-return and pricing of loans;
b) Risk management and decision-making processes: In the management of existing exposures grades, rating models are fundamental to management reporting and in determining the level and nature of management attention applied to exposures;
c) Internal capital allocation: The outputs from IRB models are an input to the Internal Capital Adequacy Assessment Process ("ICAAP") including stress tests of capital adequacy; and
d) Annual planning: Risk forecasts based on the outputs of IRB models are incorporated into the annual planning process.

Use of and process for recognising credit risk mitigation

When calculating the capital requirements for the IRB Approach, the Group takes account of collateral as a credit risk mitigant for residential real estate in its retail (residential mortgage) portfolio but does not currently recognise credit risk mitigation techniques in the sovereign, institution and corporate exposure classes, with the exception of financial collateral.

The Group uses its own estimates of LGD in the calculation of risk weighted assets for exposures secured on residential real estate in its retail (residential mortgage) portfolio originated in the Republic of Ireland, excluding those originated through EBS Limited. The Group's approach to taking, valuing and monitoring real estate collateral is consistent with its broad framework for credit risk mitigation as described on pages 69 to 72 of the 2015 Annual Financial Report.

Internal ratings process by exposure class

The following tables set out by portfolio, the exposure classes rated under the Foundation IRB Approach: Central governments and central banks; Institutions; and Corporates. It also sets out the Retail exposure class which is rated under the Advanced IRB Approach.

(a) Central governments and central banks

AIB portfolio	Portfolio description
Sovereign	Central governments
	Central banks
	Other specified multinational development banks and international organisations

Under the Foundation IRB Approach, internal rating models are used to assign central governments and central banks obligors to borrower grades to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures in calculating risk weighted assets.

The rating methodology used in assigning borrowers to grades was developed based on expert judgement using statistical tests (against the external ratings) in order to challenge the judgement where appropriate. The ratings are assigned based upon perceived political risk and economic risk of the sovereign. Due to the lack of internal default data, PDs are calibrated using historic default rates of external ratings. The definition of default is aligned to the CRR and is consistent with that used by the rating agencies. The Group's validation processes are rigorous and they test, inter alia, the rank ordering of borrowers in terms of probability of default (versus the external ratings), the stability of the ratings and the probability of default estimates.

(b) Institutions

AIB portfolio	Portfolio description
Bank	Banks
	Securities firms subject to the same regulation as banks

Under the Foundation IRB Approach, internal rating models are used to assign institution obligors to borrower grades to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures to calculate risk weighted assets.

Ratings are assigned on the basis of a hybrid model (a statistical model incorporating expert judgement). External ratings for the country of domicile are used to establish a 'country ceiling' on the rating and as an input into the quantitative score. Due to the lack of internal default data, PDs are calibrated to an equivalent external rating grade. The definition of default is aligned to the CRR and is consistent with that used by the rating agencies. The Group's validation processes are rigorous and they test, inter alia, the rank ordering of borrowers in terms of probability of default (versus the external ratings), the stability of the ratings and the probability of default estimates.

6. Credit risk – Internal Ratings Based Approach

(c) Corporates

AIB portfolio	Portfolio description
Commercial/large SME	Predominantly commercial business in the Republic of Ireland – all sectors except property, agriculture and start-ups.
Corporate	Entities that are engaged in the provision of goods or services with the intention of generating profit for the owners. Excluded from this category are: a) Financial service providers; b) Special purpose entities that do not have a diversified income stream; and c) Special purpose entities set up to facilitate securitisations.
Not-for-profit	Exposures to not-for-profit entities.
Project finance	Long-term loans made to projects in the energy, infrastructure and transportation sectors.

Under the Foundation IRB Approach, internal rating models are used to assign corporate obligors to borrower grades to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures in calculating risk weighted assets.

The ratings methodology and criteria used in assigning borrowers to grades vary across the models used for the four portfolios, but all the models use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. PDs are calibrated on the basis of internal default data, supplemented with and benchmarked against external data where available. The definition of default used for all four portfolios is consistent with the CRR definition. The Group's validation processes are rigorous. They test, inter alia, the rank ordering of borrowers in terms of probability of default (versus observed default rates), the stability of the ratings, the stability of the portfolio and the probability of default estimates.

(d) Retail

AIB portfolio	Portfolio description
Residential mortgages	Residential mortgage lending and first five buy-to-lets

The Group uses the Advanced IRB Approach for assessing its capital requirements for residential mortgages originated in the Republic of Ireland, excluding those originated through EBS, which use the Standardised Approach.

Under the Retail IRB Approach, the Group uses its own estimates of PD, LGD and EAD in calculating risk weighted assets. The rating methodology is primarily statistical, with limited use of expert judgement. Both application and behavioural scorecards are used in calculating the PD. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources. EAD is calculated both on drawn facilities and on 'pipeline' business (mortgages which have been sanctioned but not yet drawn down). The definition of default is consistent with the CRD definition of default. The Group's validation processes are rigorous and they test, inter alia, the rank ordering of borrowers in terms of probability of default (versus observed default rates), the stability of the ratings and the probability of default estimates. The LGD and EAD models are also subject to rigorous validation processes, with tests including the predicted LGD/EAD versus actual observed and the ability of the models to rank order on this basis.

Table 11: Industry distribution of credit exposures (EAD) – IRB Approach

Sector	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	Total € m
							2015
Agriculture	–	–	475	–	–	–	475
Construction	–	–	145	–	–	1	146
Distribution	–	–	3,781	–	–	1	3,782
Energy	–	–	398	–	–	–	398
Financial	–	–	193	–	159	–	352
Home loans	–	–	66	21,623	–	–	21,689
Manufacturing	–	–	1,668	–	–	–	1,668
Other loans:							
Personal	–	–	93	–	–	–	93
Other services	–	–	2,981	–	–	4	2,985
Property	–	–	303	–	–	–	303
Transport and communication	–	–	828	–	–	2	830
Bank, sovereign and public sector entities	10,195	8,234	7	–	358	–	18,794
	10,195	8,234	10,938	21,623	517	8	51,515

Sector	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	Total € m
							2014
Agriculture	–	–	403	–	–	–	403
Construction	–	–	220	–	–	–	220
Distribution	–	–	4,075	–	–	1	4,076
Energy	–	–	357	–	–	–	357
Financial	–	–	159	–	147	–	306
Home loans	–	–	16	22,953	–	–	22,969
Manufacturing	–	–	1,346	–	–	–	1,346
Other loans:							
Personal	–	–	131	–	–	–	131
Other services	–	–	2,144	–	–	1	2,145
Property	–	–	553	–	–	–	553
Transport and communication	–	–	929	–	–	3	932
Bank, sovereign and public sector entities	11,195	8,312	–	–	–	–	19,507
	11,195	8,312	10,333	22,953	147	5	52,945

As set out on pages 20 and 21 of this document, the net € 1.4 billion decrease in exposures rated under the IRB approach was driven by a € 1 billion decrease in “Central governments and central banks” together with a € 1.3 billion decrease in the “Retail” exposure class. These were partially offset by an increase of € 0.6 billion in the “Corporates” exposure class and an increase of € 0.4 billion in “Securitisation positions”.

6. Credit risk – Internal Ratings Based Approach

Table 12: Geographic[1] distribution of credit exposures (EAD) – IRB Approach

							2015
Exposure class	**Republic of Ireland € m**	**United Kingdom € m**	**United States of America € m**	**Rest of the World € m**	**Total exposures € m**	**Total gross exposures[2] € m**	**Average exposures over the period[3] € m**
Central governments and central banks	**–**	**5,033**	**82**	**5,080**	**10,195**	**10,128**	**10,549**
Institutions	**514**	**2,429**	**180**	**5,111**	**8,234**	**20,782**	**8,490**
Corporates	**7,720**	**484**	**2,126**	**608**	**10,938**	**12,100**	**10,508**
Retail	**21,532**	**46**	**13**	**32**	**21,623**	**21,696**	**22,273**
Securitisation positions	**14**	**16**	**378**	**109**	**517**	**517**	**309**
Non-credit obligation assets	**8**	**–**	**–**	**–**	**8**	**8**	**12**
	29,788	**8,008**	**2,779**	**10,940**	**51,515**	**65,231**	**52,141**

							2014
Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	97	4,689	313	6,096	11,195	11,225	17,180
Institutions	329	2,972	160	4,851	8,312	21,765	7,745
Corporates	7,750	483	1,600	500	10,333	11,575	10,698
Retail	22,864	46	13	30	22,953	23,031	23,550
Securitisation positions	19	–	128	–	147	147	232
Non-credit obligation assets	5	–	–	–	5	5	7
	31,064	8,190	2,214	11,477	52,945	67,748	59,412

[1]The geographic breakdown is based on country of risk reflecting the CRDIV requirement.

[2]Total gross exposure is before CRM, CCFs and offsets.

[3]Average exposures over the period are based on total exposures i.e. EAD.

The decrease in IRB exposures in the ‘Retail’ exposure class in the Republic of Ireland can be mainly attributed to restructuring activity and improving economic conditions. The increase in IRB exposures in the ‘Corporate’ exposure class in the United States of America is reflective of growth in the international corporate lending portfolio. The decrease in IRB exposures in the ‘Central governments and central banks’ exposure class in the Rest of the World is due to a reduction in exposures across a number of EU sovereigns and institutions.

Table 13: Residual maturity of credit exposures (EAD) – IRB Approach

							2015
Residual maturity	**Central governments and central banks € m**	**Institutions € m**	**Corporates € m**	**Retail € m**	**Securitisation positions € m**	**Non-credit obligation assets € m**	**Total € m**
On demand	**5,051**	**691**	**659**	**47**	**–**	**2**	**6,450**
< 3 months	**–**	**1,058**	**226**	**96**	**–**	**1**	**1,381**
3 < 6 months	**–**	**48**	**254**	**29**	**–**	**1**	**332**
6 months < 1 year	**–**	**101**	**861**	**165**	**–**	**2**	**1,129**
1 < 3 years	**1,183**	**1,935**	**1,584**	**242**	**–**	**2**	**4,946**
3 < 5 years	**1,128**	**2,583**	**3,398**	**381**	**–**	**–**	**7,490**
5 < 10 years	**2,833**	**1,613**	**2,402**	**2,208**	**35**	**–**	**9,091**
10 years+	**–**	**205**	**1,554**	**18,455**	**482**	**–**	**20,696**
	10,195	**8,234**	**10,938**	**21,623**	**517**	**8**	**51,515**

							2014
Residual maturity	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	Total € m
On demand	4,180	2	281	28	–	1	4,492
< 3 months	193	1,486	221	108	–	1	2,009
3 < 6 months	85	27	389	14	–	1	516
6 months < 1 year	155	949	2,406	37	–	1	3,548
1 < 3 years	950	1,966	1,645	210	–	1	4,772
3 < 5 years	2,619	2,262	2,264	535	–	–	7,680
5 < 10 years	3,013	1,446	1,840	2,192	–	–	8,491
10 years+	–	174	1,287	19,829	147	–	21,437
	11,195	8,312	10,333	22,953	147	5	52,945

The longer maturities continue to be driven by the ‘Retail’ exposure class, which comprises certain residential mortgage exposures, given that the average life of a mortgage is longer than other exposures.

6. Credit risk – Internal Ratings Based Approach

IRB internal obligor grades

For the purpose of measuring credit risk for business decisions and managing capital, all relevant exposures are assigned to a rating system and within that to an internal risk grade. A grade is assigned on the basis of rating criteria within each rating model from which estimates of PD are derived. Individual rating models are refined and recalibrated on an ongoing basis as required.

For the purposes of Pillar 3 reporting, the Group has used a 13-point ratings master scale which provides a framework for aggregating, comparing and reporting exposures with a similar PD across all lending portfolios. Under the ratings master scale:

Grades 1 – 3 typically include strong corporate and commercial lending combined with elements of the retail portfolios and residential mortgages;
Grades 4 – 10 typically include new business written and existing satisfactorily performing exposures across all portfolios. The lower end of this category (Grade 10) includes a portion of the Group's criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type); and
Grades 11 – 13 contain the remainder of the Group's criticised loans, including impaired loans, together with loans written at a high PD where there is a commensurate higher margin for the risk taken.

The table below shows AIB's mapping of the relationship between its internal grade master scale bands for sovereigns and banks to external rating agency grades:

		2015
Internal grade	**External ratings (sovereigns)**	**External ratings (banks)**
Grade 1 – 3	AAA to BBB-	AAA to A-
Grade 4 – 10	BB+ to B-	BBB+ to B-
Grade 11 – 13	CCC+ to D	CCC+ to D

6. Credit risk – Internal Ratings Based Approach

Table 14: IRB – Obligor grade disclosures (excluding securitisations)

The following table sets out an analysis of exposure at default ("EAD")[1] by exposure class and obligor grade, excluding securitisations rated on IRB approved models.

2015

	Central governments and central banks		Institutions		Corporates		Retail		Non-credit obligation assets		Total IRB[2]	
Obligor grade	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %
Grade 1 – 3	10,195	4	7,441	29	1,516	51	8,090	6	–	–	27,242	14
Grade 4 – 10	–	–	793	44	6,449	118	9,375	47	6	100	16,623	74
Grade 11 – 13	–	–	–	–	2,973	84	4,158	107	2	100	7,133	97
	10,195	4	8,234	30	10,938	99	21,623	43	8	100	50,998	45

2014

	Central governments and central banks		Institutions		Corporates		Retail		Non-credit obligation assets		Total IRB[2]	
Obligor grade	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %
Grade 1 – 3	11,195	5	7,494	18	1,068	47	7,371	6	–	–	27,128	11
Grade 4 – 10	–	–	803	72	5,441	120	9,815	48	3	100	16,062	74
Grade 11 – 13	–	–	15	234	3,824	58	5,767	98	2	100	9,608	82
	11,195	5	8,312	24	10,333	89	22,953	47	5	100	52,798	43

[1]Includes EAD in relation to impaired loans.

[2]Excludes EAD of securitisation positions of € 517 million (2014: € 147 million). These are analysed in greater detail on pages 49 to 51.

The increase in risk weight % for the "Institutions" exposure class during 2015 was due to a new model being deployed in October 2014. Most exposures were re-rated under the new model during 2015 as part of the annual review cycle. Following restructuring and improving economic conditions for both 'Corporates' and 'Retail' exposure classes, the level of impaired loans (0% risk weighted) within grades 11 to 13 has reduced, accordingly, the weighted average risk weight percentage for these grades has increased.

6. Credit risk – Internal Ratings Based Approach

Table 15: IRB – Probability of default by geography (excluding securitisations)

The following table sets out an analysis of exposure at default ("EAD")[1] and probability of default ("PD") by exposure class and geography, excluding securitisations and non-credit obligation assets rated on IRB approved models.

2015

	Central governments and central banks		Institutions		Corporates		Retail		Total IRB	
	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD
Country of risk	€ m	%	€ m	%	€ m	%	€ m	%	€ m	%
Republic of Ireland	–	0.00	514	0.25	6,305	3.31	18,377	1.26	25,196	1.75
United Kingdom	5,033	0.00	2,429	0.11	474	1.06	30	4.32	7,966	0.08
United States of America	82	0.00	180	0.06	2,114	0.74	9	2.12	2,385	0.67
Rest of the World	5,080	0.00	5,111	0.08	547	1.24	22	3.21	10,760	0.07
Total performing	10,195	0.00	8,234	0.10	9,440	2.50	18,438	1.26	46,307	1.01
Defaulted	–		–		1,498	100.0	3,185	100.0	4,683	100.0
Total exposures	10,195	0.00	8,234	0.10	10,938	15.86	21,623	15.81	50,990[2]	10.11

2014

	Central governments and central banks		Institutions		Corporates		Retail		Total IRB	
	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD
Country of risk	€ m	%	€ m	%	€ m	%	€ m	%	€ m	%
Republic of Ireland	97	0.00	329	3.33	5,357	3.75	18,186	1.37	23,969	1.92
United Kingdom	4,689	0.00	2,972	0.08	472	1.23	26	3.57	8,159	0.11
United States of America	313	0.00	160	0.04	1,600	0.83	9	2.36	2,082	0.65
Rest of the World	6,096	0.00	4,851	0.04	404	2.21	21	4.18	11,372	0.10
Total performing	11,195	0.00	8,312	0.19	7,833	2.92	18,242	1.37	45,582	1.08
Defaulted	–		–		2,500	100.0	4,711	100.0	7,211	100.0
Total	11,195	0.00	8,312	0.19	10,333	26.41	22,953	21.62	52,793[2]	14.60

[1]Includes EAD in relation to impaired loans.

[2]Excludes EAD of securitisation positions of € 517 million (2014: € 147 million) and other non-credit obligation assets of € 8 million (2014: € 5 million).

The reduction in the average PD % for Republic of Ireland exposures in the "Institutions" exposure class is driven by improved risk rating of exposures during 2015. The reduction in PD in the performing exposures of the "Corporates" exposure class is driven by the growth in the domestic and international corporate portfolios.

Table 15a: IRB – Exposure-weighted average loss given default

The following table sets out the Group's retail exposures rated under IRB by obligor grade for (i) exposures at default ("EAD") and (ii) weighted average loss given default ("LGD") percentages for each of the obligor grades:

	2015		2014	
	Retail		Retail	
Obligor grade	EAD € m	Exposure – weighted average LGD %	EAD € m	Exposure – weighted average LGD %
Grade 1 – 3	**8,090**	**27**	7,371	27
Grade 4 – 10	**9,375**	**28**	9,815	29
Grade 11 – 13	**4,158**	**35**	5,767	35
	21,623	**29**	22,953	30

There was no material change in the LGD model during 2015. As more realised loss data becomes available the model will continue to be refined.

7. Credit risk mitigation

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan; however, AIB uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are described below. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function. The methodologies applied and processes used to assess the value of property assets taken as collateral are described on pages 69 to 71 of the 2015 Annual Financial Report.

Collateral

The principal collateral types for loans and receivables are:

– Charges over business assets such as premises, inventory and accounts receivables;
– Mortgages over residential and commercial real estate; and
– Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and receivables is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

Collateral is not usually held against loans and receivables to financial institutions including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement.

It is Group policy to obtain a valuation for collateral by an appropriately qualified source at the time of lending.

Collateral is discussed in more detail in the "Risk management" section of the 2015 Annual Financial Report on pages 69 to 71, which includes a discussion on the methodologies used for valuing collateral. Further information in relation to repurchase transactions is set out in Section 9 – Counterparty credit risks on pages 45 and 46.

Credit risk mitigation for regulatory capital requirements calculation

AIB takes limited account of credit risk mitigation in its calculation of minimum Pillar 1 capital; consequently, the credit and market risk concentrations within the credit risk mitigation taken are deemed not to be material.

Of the gross Standardised exposures of € 70,448 million before credit risk mitigation at 31 December 2015 (2014: € 81,526 million), € 5,615 million (2014: € 9,431 million) relating to NAMA senior bonds is guaranteed by the Irish Government, whilst none was covered by eligible financial collateral. For the IRB Approach, of the gross exposures of € 65,231 million before credit risk mitigation at 31 December 2015 (2014: € 67,748 million), Nil was covered by eligible financial collateral (2014: € 2 million).

8. Credit risk – Credit profile of the loan portfolio

AIB's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. The credit quality of the customer loan portfolio is discussed in detail on pages 83 to 140 of the 2015 Annual Financial Report.

Past due

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. "Past due days" is a term used to describe the cumulative numbers of days a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower has:
- breached an advised limit;
- been advised of a limit lower than the then current outstanding; or
- drawn credit without authorisation.

When a loan or exposure is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

Impairment

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. When loans are deemed to be impaired, the Group raises specific impairment provisions in a timely and consistent way across portfolios. The Group utilises two types of impairment provision: (a) Specific; and (b) Incurred but not reported ("IBNR") which represents a collective provision relating to the portfolio of performing loans. Details of the methodologies adopted by the Group in identifying, monitoring and managing impaired loans are set out on pages 73 to 82 of the 2015 Annual Financial Report, whilst the relevant accounting policy can be found on pages 229 to 231 of the 2015 Annual Financial Report.

The following table profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography.

Table 16: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

					2015
Industry	Loans and receivables to customers – gross of provisions € m	Of which: loans past due but not impaired € m	Of which: impaired € m	Balance sheet specific impairment provisions € m	Specific impairment provision (credit)/ charge for the year € m
Agriculture	1,795	130	171	76	(32)
Energy	339	3	38	15	–
Manufacturing	2,107	35	162	102	5
Property and construction	11,532	405	4,308	2,475	(216)
Distribution	5,831	137	1,071	551	(62)
Transport	1,239	6	60	57	2
Financial	1,102	8	147	60	(14)
Other services	5,888	89	464	291	18
Personal: Residential mortgages	36,818	1,056	5,966	2,045	(204)
Other	3,512	149	698	486	(5)
	70,163	2,018	13,085	6,158	(508)
Geography					
Republic of Ireland	58,559	1,799	11,401	5,121	(500)
United Kingdom	11,482	219	1,684	1,037	(8)
United States of America	122	–	–	–	–
	70,163	2,018	13,085	6,158	(508)

[1]The geographic breakdown in this table is based on the location of the office recording the transaction.

8. Credit risk – Credit profile of the loan portfolio

Table 16 : Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution *(continued)*

					2014
Industry	Loans and receivables to customers – gross of provisions € m	Of which: loans past due but not impaired € m	Of which: impaired € m	Balance sheet specific impairment provisions € m	Specific impairment provision (credit)/charge for year € m
Agriculture	1,818	127	302	185	(32)
Energy	265	3	83	40	11
Manufacturing	1,733	37	233	144	(12)
Property and construction	15,537	475	8,836	5,478	(90)
Distribution	6,253	188	2,109	1,217	(45)
Transport	1,010	10	100	69	2
Financial	887	15	183	96	13
Other services	5,646	143	763	493	64
Personal: Residential mortgages	38,846	1,323	8,509	2,877	(4)
Other	3,837	203	1,044	716	18
	75,832	2,524	22,162	11,315	(75)
Geography					
Republic of Ireland	63,662	2,284	19,341	9,643	(185)
United Kingdom	12,123	240	2,821	1,672	108
United States of America	47	–	–	–	2
	75,832	2,524	22,162	11,315	(75)
Specific provision credit in relation to loans and receivables to banks				–	(7)
Total specific provisions for impairment on loans and receivables				11,315	(82)

[1]The geographic breakdown in this table is based on the location of the office recording the transaction.

Table 17: Movements in provisions for impairment on loans and receivables

	2015 € m	2014 € m
At 1 January	**12,406**	17,090
Exchange translation adjustments	**131**	150
Credit to income statement – customers	**(925)**	(178)
Credit to income statement – banks	**–**	(7)
Amounts written off	**(4,593)**	(4,655)
Disposals	**(195)**	–
Recoveries of amounts written off in previous years	**8**	6
At 31 December	**6,832**	12,406

Statement of financial position impairment provisions of € 6,832 million (2014: € 12,406 million) comprise specific provisions of € 6,158 million (2014: € 11,315 million) and IBNR provisions of € 674 million (2014: € 1,091 million). The credit to the income statement in 2015 of € 925 million (2014: credit of € 185 million) comprises a specific provision writeback of € 508 million (2014: a writeback of € 82 million, of which € 75 million related to customers and € 7 million related to banks) and a release of IBNR provisions of € 417 million (2014: release of € 103 million) for unidentified losses in the performing book.

Further information and analysis is available on pages 95 to 99 of the 2015 Annual Financial Report.

Loss experience in the preceding period – IRB Approach

An analysis of the expected loss ("EL") and actual loss experience (specific provision charge incurred) by exposure class for the year ended 31 December 2015 is outlined in table 18 below.

Regulatory EL provides a view of the expected losses that are likely to emerge in the performing loan book over a 12 month period, using through-the-cycle estimates of PD, LGD and EAD. In order to compare the expected loss to the actual loss, these estimates would need to be compared to all realised losses which may have materialised after the assets have gone through their life cycle. As life cycles last for a significant number of years it is not possible to show this comparison. Additionally, the actual asset loss information does not provide a suitable alternative because it is measured at a point in time. This should be taken into consideration with regard to Table 18 below.

The EL would generally expect to be lower than the actual loss in periods of low defaults and vice versa in periods of high default. The reducing trend from earlier years is driven by the economic crisis and the large provisions during that period. Provisions have returned to lower levels which drives an EL which is higher than provisions in more recent years.

Table 18: Expected loss analysis – IRB Approach

Exposure class	**Total expected loss[1] at 31 December 2014 € m**	**2015 Actual loss € m**	Total expected loss[1] at 31 December 2013 € m	2014 Actual loss € m	Total expected loss[1] at 31 December 2012 € m	2013 Actual loss € m
Institutions	**–**	**–**	–	–	1	–
Corporates	**191**	**67**	246	86	191	252
Retail exposures secured by immovable property collateral non-SME	**112**	**38**	124	101	86	265
Securitisation positions[2]	**–**	**–**	–	–	–	–
	303	**105**	370	187	278	517

[1]Expected loss is derived at the end of the preceding year.

[2]Under the IRB Approach, rating agency ratings, as opposed to EL, are used in the determination of capital for securitisation positions. For this reason, AIB Group does not calculate EL for securitisation positions.

The reduction in EL in the Corporate exposure class is due to the growth in the Irish and international lending portfolio where the PDs are generally lower than the existing portfolio. There has also been a reduction in the criticised exposures for this portfolio.

The income statement specific provision charge for the year ended 31 December 2015, of which the actual loss on the IRB Approach is a component, is discussed in detail in the "Risk management" section of the 2015 Annual Financial Report.

8. Credit risk – Credit profile of the loan portfolio

Risk weightings for IRB models

The Group's risk weightings for IRB models as at 31 December 2015 are detailed below. The weightings are influenced by the grade profile and associated PD of the portfolios, having applied the regulatory LGD of 45% for the majority(1) of the non-retail portfolios (31 December 2014: 45% for the majority), and the Group's own estimate of LGD for the retail portfolio (residential mortgages), which had an average LGD of 29% applied as at 31 December 2015 (31 December 2014: 30%).

(1)An LGD of 45% is applied to senior exposures, whilst LGDs of 11.25% and 75.00% are applied to covered bonds and subordinated exposures, respectively.

Table 19: CRD risk weightings as a percentage of EAD for IRB models

IRB rating models(1)	2015 %	2014 %
Sovereign	**4**	5
Bank	**29**	9
Commercial	**133**	131
Corporate	**102**	108
Not-for-profit	**127**	103
Project finance	**141**	122
Residential mortgage	**39**	47

(1)Non-retail loans classified as defaulted have been excluded from the calculation of the risk weightings as a percentage of EAD as these loans influence the EL calculation and not the risk weighted assets calculation.

A new bank model was deployed in October 2014 and due to the annual review cycle the majority of the impact occurred in 2015. The increases in the 'Not-for-profit' and 'Project finance' models were as a result of changes in the portfolio profiles, however, in both these portfolios there are a small number of borrowers.

9. Counterparty credit risks

Assigning internal capital and credit limits for counterparty credit exposure

The Group is predominately exposed to counterparty credit exposure through its portfolio of derivatives and repurchase agreements ('repos').

Derivatives

Credit exposure arises on derivative transactions as there is a risk that the counterparty to the contract defaults prior to its maturity. If, at that time, the Group incurs a loss in order to replace the contract, this gives rise to a claim on the counterparty.

The credit exposure on derivatives is managed in the same way as other types of credit exposure. The Group applies the same credit control and risk management policies as relate to counterparty credit approval, limit setting and monitoring procedures.

Counterparty Credit Exposure (“CCE”) consists partly of current replacement cost (or mark-to-market) of the contracts and partly of potential future exposure. The potential future exposure component is an estimation which reflects possible changes in market values during the remaining life of the individual contract. The CCE for an individual counterparty will take into account the existence of valid bilateral netting or collateral agreements, where these are in place.

AIB applies the standardised method for calculating exposure amounts for the purposes of calculating internal capital on counterparty credit exposure for derivatives.

Pre-settlement CCE limits must be approved in advance of any transactions being entered into by the appropriate credit approval authority. This forms part of the normal credit management and review process. Settlement and maturity limits must conform to general credit policy requirements. Limits on the maximum residual maturity of derivative activities are governed by individual counterparty maturity constraints.

Those sanctioning CCE limits must be satisfied that they sufficiently understand the risks involved in the proposed transactions and the models used to measure the exposures arising. It is Group practice, where possible and relevant, that all appropriate documentation, such as facility letters or International Swaps and Derivatives Association (“ISDA”) agreements be put in place before any limits are made available for use. Further details of master netting agreements are set out in note 47 in the 2015 Annual Financial Report.

The Group uses a volatility-based risk weighting for internal purposes to determine potential future exposure values. These weightings or add-on-factors are derived from a rolling 3-year historical time series of price volatility data, raised to a 95th percentile one-tailed confidence interval. The Group updates these add-on-factor tables, which are organised by product, currency and residual maturity, on a monthly basis (except for repo products, where the add-on-factor tables are reviewed annually). Pre-settlement CCE limits for derivative transactions are established by reference to the specific transaction’s add-on-factors equivalent.

Although Credit Support Annexes (“CSAs”) are taken into consideration when setting the internal credit risk utilisation for derivative counterparties, they are not recognised as credit risk mitigation for reducing the exposure at default on the derivative transactions in the Pillar 1 regulatory capital calculations.

The Group has established the capacity to clear derivatives in line with European Markets Infrastructure Regulation requirements for central counterparty clearing.

Repurchase agreements

AIB Group is active in repurchase transactions in capital market instruments. This is achieved through repo/reverse repo products and Sell Buy Back (“SBB”)/Buy Sell Back (“BSB”) products (together called repurchase transactions). Repurchase transactions are undertaken on both a bilateral and tri-party basis.

Where appropriate netting documentation is in place, both sets of products also become legally equivalent from a credit mitigation perspective. The Group only engages in such transactions once the appropriate documentation has been executed.

Risk management functions, independent of the front office, have responsibility for managing the margining of the Group’s bilateral repo/reverse repo and SBB/BSB activities. Margining has been predominantly cash-based although the documentation in general allows for securities to be used as collateral. Tri-party margining is managed through Euroclear. The associated credit risk is managed in the same way as other types of credit exposure. Exposures are calculated to take account of historical price volatility reflecting the maturity of both the collateral and repurchase transaction. The exposures are aggregated with all other exposures to the counterparty.

9. Counterparty credit risks

Repurchase agreements *(continued)*

In addition to the normal credit control and risk management policies relating to counterparty credit approval, limit setting and monitoring procedures, the following credit terms receive additional focus for repurchase transactions:

– Acceptable collateral;
– Acceptable counterparties;
– Appropriate nominal exposure limits by counterparty;
– Appropriate risk weighted exposure limits by counterparty; and
– Haircut amounts (where appropriate).

AIB applies the Financial Collateral Comprehensive method for the purposes of calculating counterparty credit exposure for repurchase type transactions.

Policies for securing collateral and establishing credit reserves

It is Group practice, where possible and relevant, that ISDA Master Agreements are put in place to cover derivatives business on a counterparty specific basis. It is also Group practice in relation to wholesale market counterparts to supplement ISDA documentation with a CSA to accommodate the reduction of net exposure on an agreed basis, and in line with market practice, by way of transferring a margin amount, typically cash (as opposed to securities).

AIB employs robust procedures and processes to control the residual risk that may arise when taking financial collateral, including strategy, consideration of the underlying credit and collateral management/valuation process. In addition, the Group has established standards to ensure legal certainty exists and that there is a low correlation between the credit quality of the obligor and the collateral value.

Policies with respect to wrong-way exposures

AIB’s measurement of credit risk exposure takes into account the requirement to ensure that related risks are correctly measured e.g. where a reverse-repurchase counterpart provides collateral which could be considered to be highly correlated with their own credit risk, no value is assigned to such collateral. Similarly, market risk measurements are designed to ensure wrong way risk is captured correctly e.g. the calculation of credit valuation adjustment (“CVA”) on the purchase of a credit default swap (“CDS”) from a counterpart with a highly correlated credit risk profile ensures the double exposure to this credit risk is captured.

Change in credit rating

A downgrade in the Group’s credit rating could have the effect of reducing the market value threshold for margin calls on some of the CSAs. This would result in a potential increase in the amount of collateral the Group would have to provide against the derivatives within the CSAs. However, due to the very small number of CSAs with downgrade triggers, this is not deemed a significant risk for the Group. In addition, a downgrade in the Group’s credit rating could lead to an increase in the haircuts that would be demanded by counterparties in repurchase transactions. This would lead to an increase in the quantum of securities being pledged by the Group as collateralised. In the past, some counterparties required an ‘independent amount’ to be deposited in advance of transacting derivative business. As at the end of 2015, the Group had two CSAs in place which require AIB to post independent amounts.

Credit derivative hedges

The Group had three index linked CDS positions in place as at 31 December 2015. These positions are being used for the management of funding valuation adjustments ("FVA") and CVA portfolio sensitivities. In total, € 340 million in nominal value of CDSs were purchased to offset the impact of widening market credit spreads on the FVA and CVA. In the calculation of regulatory CVA, these CDSs were not treated as eligible hedges, and accordingly, did not reduce the counterparty credit risk capital requirement.

Derivatives counterparty credit risk

The table below analyses the counterparty credit risk exposure of derivative transactions, the positive fair value of which is presented in line with the technical disclosure requirements of CRD IV and as reported for regulatory purposes. Over the counter ("OTC") derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary.

Table 20: Counterparty credit risk – trading and banking book

						2015
	Positive fair value of contracts	**Add-ons**	**Gross positive fair value of contracts (incl. add-ons)**	**Netting benefits**	**Financial collateral held**	**Net derivatives credit exposure**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
OTC derivatives	**1,743**	**725**	**2,468**	**–**	**–**	**2,468**
Credit derivatives	**–**	**34**	**34**	**–**	**–**	**34**
Total derivatives	**1,743**	**759**	**2,502**	**–**	**–**	**2,502**

						2014
	Positive fair value of contracts	Add-ons	Gross positive fair value of contracts (incl. add-ons)	Netting benefits	Financial collateral held	Net derivatives credit exposure
	€ m	€ m	€ m	€ m	€ m	€ m
OTC derivatives	2,038	653	2,691	–	–	2,691
Credit derivatives	–	34	34	–	–	34
Total derivatives	2,038	687	2,725	–	–	2,725

Derivatives, such as interest rate swaps, options and forward rate agreements, currency swaps and options, and equity index options are used for trading purposes while interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

The Group maintains trading positions in a number of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

The positive fair value of derivative contracts will not agree to that for derivative financial instruments in the Group's 2015 Annual Financial Report. The table above shows the net derivative exposure to each counterparty, taking into account mark to market movements and accrued interest, whereas on the financial balance sheet these are shown gross and also includes a CVA adjustment.

9. Counterparty credit risks

Derivatives counterparty credit risk *(continued)*

The table below analyses the notional value of credit derivative transactions, according to their origin and the purposes for which they are used:

Table 21: Credit derivative transactions product distribution

	2015			
	Notional credit derivative transactions			
	Group's own credit portfolio use		**Intermediation activities**	
Credit derivative product type	**Purchased € m**	**Sold € m**	**Purchased € m**	**Sold € m**
Credit default swaps	**340**	**–**	**–**	**–**
	340	**–**	**–**	**–**

	2014			
	Notional credit derivative transactions			
	Group's own credit portfolio use		Intermediation activities	
Credit derivative product type	Purchased € m	Sold € m	Purchased € m	Sold € m
Credit default swaps	340	–	–	–
	340	–	–	–

10. Securitisations

Objectives in relation to securitisation activity

The Group utilises securitisations primarily to support the following business objectives:

– as an investor, to invest in transactions that offer an appropriate risk-adjusted return opportunity; and
– as an originator, to support its funding activities.

Extent of the Group's involvement in each securitisation

Investor

AIB has primarily been an investor in senior tranches of securitisations issued by US Government related financial institutions, which are held as part of its investment portfolio. This investment portfolio is classified as financial investments 'available for sale' in the financial statements.

A further small portfolio of securitisations comprises predominantly investment grade rated collateralised loan obligations ("CLOs") and residential mortgage backed securities ("RMBS") transactions. This portfolio is held for investment purposes and is classified as 'loans and receivables' in the financial statements.

Originator

At present, the Group is primarily an originator of securitisations in order to support its funding activities. The Group sold loans and receivables to customers, mainly mortgages and credit card receivables, to two special purpose entities ("SPEs") and, in addition, the Group controls three SPEs which had been set up by EBS prior to its acquisition by AIB. These SPEs have issued notes or deposits to external investors on terms which result in the Group retaining the majority of ownership risks and rewards.

In addition, in December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme ") a restructure of the funding of the deficit in the UK scheme. The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

The loans and receivables continue to be recognised on the Group's statement of financial position and the Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans and receivables sold. Similarly, the transferred loans and receivables have not been derecognised for Pillar 1 purposes. These loans and receivables amounted to € 4,294 million at 31 December 2015 and are included in Table 16 in Section 8 – Credit risk – Credit profile of the loan portfolio.

Sponsor

The Group is not currently a sponsor of securitisations.

Summary of securitisation activity

During 2015, the Group purchased € 370 million securitisation assets for investment purposes comprising US RMBS, CLOs and UK RMBS. At 31 December 2015, the Group's exposure to securitisation assets as an investor amounted to € 517 million. There were no new securitisations originated during 2015.

Further details on the Group's securitisation vehicles are contained in 'Off-balance sheet arrangements and transferred financial assets' Note 50 to the consolidated financial statements in the 2015 Annual Financial Report.

Accounting policies

In accordance with the Group's accounting policy, the Group consolidates SPEs when the substance of the relationship indicates that AIB controls the SPE. In assessing control, all relevant factors are considered, both quantitative and qualitative. The primary form of SPE utilised by the Group are securitisations and employee compensation trusts. The accounting policy is set out on pages 217 and 218 under 'Basis of consolidation' in the 2015 Annual Financial Report.

The Group derecognises financial assets when the contractual rights to receive cash flows from the assets have expired or the Group has transferred its contractual rights to receive cash flows from the assets and either all the risks and rewards of ownership of the assets have transferred to a third party external to the Group or a significant portion, but not all, of the risks and rewards have been transferred outside the Group. The risks include credit risk and interest rate risk.

10. Securitisations

Accounting policies *(continued)*

If substantially all of the risks and rewards of ownership associated with the financial asset are transferred outside the Group, the financial asset is derecognised. The asset is derecognised in its entirety if the transferee has the ability to sell the financial asset; otherwise, the financial asset continues to be recognised to the extent of the Group's continuing involvement. Only in the event that derecognition is achieved are sales and any resultant gain or loss on sales recognised in the financial statements.

Securitisation risks, monitoring and hedging policies

The risks inherent within securitisation activity include those applicable to other types of financial instruments such as credit risk, liquidity risk, market risk, non-trading interest rate risk, structural foreign exchange risk and operational risk. Such risks are identified, managed and monitored in line with the Group's Risk Management Framework as described on pages 60 to 62 of the 2015 Annual Financial Report and which are described in further detail in the "Risk management" section of the 2015 Annual Financial Report.

The asset backed securities credit policy details the qualifying criteria for investments in securitisation assets. The encumbrance policy is a key policy within the Liquidity Risk Management Framework which details the roles and responsibilities within AIB with regard to the management, reporting, control and oversight of asset encumbrance risk.

There is an interest rate hedge in place for a large part of the interest rate exposure on securitisation assets held within the available for sale bond portfolio. Securitisation assets held within loans and receivables in the financial statements are typically unhedged.

Calculating risk weighted exposure amounts

AIB Group uses the IRB Approach to calculate the risk-weighted exposure amount for its securitisation positions within which the Ratings Based Method is primarily used. Under this approach, where investments are rated, risk weights are assigned to securitisation tranches on the basis of the credit ratings applied to these by approved External Credit Assessment Institutions ("ECAIs"). The process used to assign credit assessments to risk weights follows the mapping guidelines issued by the European Banking Authority ("EBA") and adopted by the Central Bank.

AIB uses the following ECAIs for securitisation exposures:
– Standard & Poor's Ratings Services;
– Fitch Ratings;
– Moody's Investors Service; and
– Dominion Bond Rating Service.

Where there is no credit rating, but other criteria are met to apply a risk band other than unrated, the Supervisory Formula Method is applied to the exposures to establish the relevant risk weight.

Tables 22 and 23 analyse the Group's total securitisation positions (including re-securitisations) by exposure type and risk weight, while table 24 analyses the Group's re-securitisation positions by risk weight.

Table 22: Securitisation positions – by exposure type of underlying exposure

	2015				2014			
	Securitisation positions – outstanding amount				Securitisation positions – outstanding amount			
	Retained		Purchased	Total	Retained		Purchased	Total
Exposure type	**Originator € m**	**Sponsor € m**	**Investor € m**	**€ m**	Originator € m	Sponsor € m	Investor € m	€ m
Residential mortgages	–	–	374	374	–	–	127	127
Commercial mortgages	–	–	–	–	–	–	–	–
Leasing	–	–	1	1	–	–	1	1
Loans to corporates and SMEs	–	–	128	128	–	–	–	–
Re-securitisations	–	–	14	14	–	–	19	19
Total	–	–	517	517	–	–	147	147

Table 23: Securitisation positions – risk weight bands

	2015				2014			
	Securitisation positions – outstanding amount				Securitisation positions – outstanding amount			
	Retained		Purchased	Total	Retained		Purchased	Total
Risk weight band	Originator € m	Sponsor € m	Investor € m	€ m	Originator € m	Sponsor € m	Investor € m	€ m
7% – 9%	–	–	378	378	–	–	127	127
10% – 19%	–	–	83	83	–	–	–	–
20% – 49%	–	–	41	41	–	–	–	–
50% – 74%	–	–	15	15	–	–	12	12
75% – 99%	–	–	–	–	–	–	–	–
100% – 249%	–	–	–	–	–	–	–	–
250% – 349%	–	–	–	–	–	–	1	1
350% – 424%	–	–	–	–	–	–	–	–
425% – 649%	–	–	–	–	–	–	–	–
650% – 1249%	–	–	–	–	–	–	–	–
1250% or deducted	–	–	–	–	–	–	7	7
Total	–	–	517	517	–	–	147	147

Table 24: Re-securitisation positions – risk weight bands

	2015				2014			
	Securitisation positions – outstanding amount				Securitisation positions – outstanding amount			
	Retained		Purchased	Total	Retained		Purchased	Total
Risk weight band	Originator € m	Sponsor € m	Investor € m	€ m	Originator € m	Sponsor € m	Investor € m	€ m
7% – 9%	–	–	–	–	–	–	–	–
10% – 19%	–	–	–	–	–	–	–	–
20% – 49%	–	–	–	–	–	–	–	–
50% – 74%	–	–	14	14	–	–	12	12
75% – 99%	–	–	–	–	–	–	–	–
100% – 249%	–	–	–	–	–	–	–	–
250% – 349%	–	–	–	–	–	–	–	–
350% – 424%	–	–	–	–	–	–	–	–
425% – 649%	–	–	–	–	–	–	–	–
650% – 1249%	–	–	–	–	–	–	–	–
1250% or deducted	–	–	–	–	–	–	7	7
Total	–	–	14	14	–	–	19	19

11. Equity exposures in the banking book

AIB calculates its capital requirements for equity exposures in the banking book using the Standardised Approach. The Group's equity activity can be divided into the following sub-categories:

(i) Non-discretionary equity positions resulting from debt equity swaps, holdings of NAMA subordinated debt and a membership interest in Visa Europe, investments in associates and other strategic/miscellaneous investments.

(ii) Discretionary investments which are predominantly private equity funds. Investments are undertaken in order to generate income and to support SME initiatives and the Irish economy.

The principal accounting policies applied by the Group to equity investments are informed by International Accounting Standards (“IAS”) IAS 28 and IAS 39 which set out the rules for classification, balance sheet recognition, methods of valuation (i.e. fair value) and income and impairment recognition. Further information in relation to the Group accounting policies for financial assets, which include equities, can be found in the Group’s 2015 Annual Financial Report.

Investments in associated undertakings are initially recorded at fair value. Following initial recognition, an associate is accounted for using the equity method of accounting. The carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. Other banking book equities are carried on the balance sheet at fair value.

The cumulative realised gains from sales and liquidations of equity investments in the banking book amounted to € 8 million for the year ended 31 December 2015 (2014: € 20 million). The total unrealised gains on equity investments in the banking book amounted to € 696 million, gross of tax, as at 31 December 2015 (2014: unrealised gains € 338 million). Provisions for impairment on available for sale equity investments of Nil (2014: Nil) were included in the income statement in 2015.

An unrealised gain after tax, of € 220 million (2014: Nil) on equity investments in the banking book is included in CET1 capital on a transitional basis. On a fully loaded basis, for 2015, € 549 million (2014: € 294 million) is included in CET1 capital.

Table 25: Banking book equity values

		2015	2014
		Carrying value € m	€ m
Equity exposures			
Unquoted	Exposure to equities or the equity tranche in a structured transaction or SPE[1]	741	387
Funds	Exposure to the equity component of a managed investment fund	40	26
		781	413
Investments in associated undertakings		70	69
Less: goodwill[2]		(3)	(3)
		67	66
		848[3]	479[3]
Of which:			
Risk weighted assets		432	479
Deducted from capital		–	–
		432	479

[1]Of which € 432 million (2014: € 374 million) relates to NAMA subordinated bonds and € 294 million (2014: Nil) relates to Visa Europe.

[2]Deducted from Tier 1 capital.

[3]2015 includes € 694 million of unrealised gains/losses, 40% of which under CRD IV transitional rules is included in risk weighted assets. In 2014, 100% of these unrealised gains/losses were included in risk weighted assets.

Table 26: Risk weighted asset equivalents of equity exposures

	2015		2014	
	Exposure € m	Risk weighted assets € m	Exposure € m	Risk weighted assets € m
Equity investments subject to a 100% risk weight	201	201	375	375
Equity investments subject to a 150% risk weight	157	236	33	50
Equity investments subject to a 250% risk weight	74	185	71	179
	432	622	479	604

12. Non–trading interest rate risk

Non-trading interest rate risk is defined as the current or prospective risk to both the Group's capital and earnings arising from movements in underlying interest rates. Also referred to as Interest Rate Risk in the Banking Book ("IRRBB"), it reflects a combination of banking book treasury activity and interest rate risk arising in the Group's retail, commercial and corporate operations.

AIB's banking book activity includes its money market business and management of internal funds flows with the Group's businesses. Non-trading interest rate risk in retail, commercial and corporate banking activities can arise from a variety of sources, including where those assets and liabilities and off-balance sheet instruments have different repricing dates, interest rate basis or behavioural characteristics. As a core risk management principle, the Group requires that the Treasury function manages, and is responsible for, all material interest rate risk throughout the Group. This banking book risk is managed as part of Treasury's overall interest rate risk position.

Non-trading interest rate risk is estimated on the basis of establishing the repricing profile of each asset, liability and off-balance sheet product. For non-interest rate sensitive customer liabilities (primarily, current and demand deposit accounts), prudent assumptions regarding their average life are made based on the stability or 'stickiness' of the portfolio. Behavioural assumptions are also applied in relation to net impaired loan balances and potential prepayment activity for the fixed rate mortgage portfolio. Similarly, an assumed average maturity is assigned to the Group's net free reserves (i.e. shareholder equity). AIB undertakes behavioural analysis of customer balances to support the average life assumptions applied to these portfolios and the results of this analysis, along with the stability of the underlying portfolios are reviewed periodically by the Group ALCo. A suite of interest rate and behavioural scenarios, including the impact of +/- 200 basis points ("bps") parallel interest rate shocks, are considered for internal risk management and risk limit utilisation purposes. In all scenarios, interest rates are floored at zero.

Basis risk is incorporated as part of the overall analysis of non-trading interest rate risk and arises, principally, in relation to the net cash flow position in respect of European Central Bank ("ECB") repo funding balances and tracker mortgages linked to the ECB Refi rate.

The volatility of structural interest rate risk on Group earnings is managed by using a variety of strategies, including the maintenance of a portfolio of instruments with interest rates fixed for several years.

The Group employs a Principal Components Analysis ("PCA") methodology as the basis of its ICAAP for interest rate risk in the banking book. PCA is a standard method for analysing interest rate term structure factor sensitivity (i.e. PCA identifies the three most predictive elements driving interest rate changes, namely parallel shift, twist and bow, and uses these in the determination of alternative stressed portfolio valuation). The ICAAP IRRBB estimate also incorporates the impact of a firm-wide stress scenario which AIB applies across all material risk factors.

Group ALCo is responsible for review of the Group's IRRBB profile on a monthly basis with details relating to the ICAAP profile being considered on a semi-annual basis, as part of the Group's wider ICAAP management process.

Table 27: Non-trading interest rate risk variation

The following table presents the sensitivity of AIB's banking book non-traded market risk to a range of interest rate scenarios. For example, the table shows that the present value of AIB's open interest rate risk position at 31 December 2015 would decrease by € 58 million if there was an instantaneous parallel upward shift in interest rates of 200 basis points, equating to a 0.5% change in the Group's Own Funds.

	2015		2014	
Interest rate risk variation	**Absolute € m**	**% of own funds**	Absolute € m	% of own funds
Interest rates + 1%	**(29)**	**0.3**	5	0.1
Interest rates – 1%	**9**	**0.1**	(22)	0.2
Interest rates + 2%	**(58)**	**0.5**	60	0.6
Interest rates – 2%	**(16)**	**0.1**	(46)	0.4
PCA Rates Higher	**(78)**	**0.7**	(104)	1.0
PCA Rates Lower	**(18)**	**0.2**	(87)	0.8

The absolute level of interest rate risk sensitivity, as represented by the +200 bps shock measure increased over the course of 2015. Within this movement, there were two primary offsetting drivers, namely:

- The exposure to an upward stress scenario associated with the Group's treasury discretionary risk position increased during 2015 as AIB returned to sustainable viability and treasury activity returned to more normalised levels reflecting their evolving view of market rates and investment opportunity; and
- The contribution of basis risk within the total IRRBB measure fell during 2015, due mainly to a reduction in the forecast level of net ECB dependence, i.e. the principal basis risk arises as a function of the spread between the ECB refi rate (used as the reference rate for AIB's tracker mortgages) and Euribor.

Appendix 1: Statement of financial position

The following table sets out the statement of financial position for AIB Group prepared under IFRS and disclosed in the Annual Financial Report:

	2015 € m
Assets	
Cash and balances at central banks	4,950
Items in course of collection	153
Disposal groups and non-current assets held for sale	8
Trading portfolio financial assets	1
Derivative financial instruments	1,698
Loans and receivables to banks	2,339
Loans and receivables to customers	63,240
NAMA senior bonds	5,616
Financial investments available for sale	16,489
Financial investments held to maturity	3,483
Interests in associated undertakings	70
Intangible assets	289
Property, plant and equipment	344
Other assets	785
Current taxation	35
Deferred taxation	2,897
Prepayments and accrued income	503
Retirement benefit assets	222
Total assets	**103,122**
Liabilities	
Deposits by central banks and banks	13,863
Customer accounts	63,383
Trading portfolio financial liabilities	86
Derivative financial instruments	1,781
Debt securities in issue	7,001
Current taxation	31
Other liabilities	1,108
Accruals and deferred income	653
Retirement benefit liabilities	368
Provisions for liabilities and commitments	382
Subordinated liabilities and other capital instruments	2,318
Total liabilities	**90,974**
Shareholders' equity	
Share capital	1,696
Share premium	1,386
Other equity interests	494
Reserves	8,572
Total shareholders' equity	**12,148**
Total liabilities and shareholders' equity	**103,122**

Appendix 2: Reconciliation of shareholders' equity

Reconciliation of shareholders' equity to regulatory capital as at 31 December 2015

	2015 € m	2014 € m
Total shareholders' equity[(1) (2)]	**12,148**	11,572
Less: Additional Tier 1 capital	**(494)**	–
Accrued interest on Additional Tier 1 capital	**(3)**	–
Dividend on 2009 Preference Shares	**–**	(280)
	11,651	11,292
Regulatory adjustments:		
Goodwill and intangible assets[(3)]:		
Intangible assets[(2)]	**(289)**	(171)
Associated company goodwill	**(3)**	(3)
	(292)	(174)
Cash flow hedging reserves[(4)(5)]	**(354)**	(383)
Adjustment required to the carrying value of € 1.6bn Contingent Capital Tier 2 Notes due 2016[(6)(7)]:	**(46)**	(189)
Available for sale securities reserves[(5)(9)]	**(1,250)**	(1,369)
Pension:		
Revenue reserves relating to pension schemes in surplus[(3)]	**(153)**	(121)
Regulatory adjustment relating to pension schemes in deficit[(7)]	**183**	856
Pension filter[(7)]	**(121)**	(178)
	(91)	557
Deferred tax[(3)(8)]	**(317)**	–
Prudent valuation adjustment[(10)]	**(7)**	–
Revaluation reserves[(5)(7)(11)]	**(9)**	(17)
Common equity tier 1 capital	**9,285**	9,717
Additional Tier 1 capital		
Additional Tier 1 capital[(2)]	**494**	–
Total tier 1 capital	**9,779**	9,717
Tier 2 capital		
Subordinated debt:		
Subordinated liabilities and other capital instruments[(2)]	**2,318**	1,451
Instruments not allowable for capital purposes	**(8)**	(8)
Adjustment required to the carrying value of € 1.6bn Contingent Capital Tier 2 Notes due 2016[(6)]	**76**	189
	2,386	1,632
Regulatory adjustments:		
Regulatory adjustment to Contingent Capital Tier 2 Notes[(12)]	**(1,413)**	(1,094)
IRB excess of impairment provisions over expected losses[(13)]	**20**	136
IBNR relating to standardised portfolios[(14)]	**267**	317
Revaluation reserves[(5)(7)(11)]	**9**	17
	(1,117)	(624)
Total tier 2 capital	**1,269**	1,008
Total capital	**11,048**	10,725

See footnotes on the following page.

[1]The capital figures reflect the audited 2015 year-end profit for the Group. The quarterly SSM regulatory capital reporting process will include these profits in due course.

[2]Per statement of financial position in the 2015 Annual Financial Report.

[3]Deductions applied as described under CRR article 36.

[4]Prudential filter applied as described under CRR article 33.

[5]Per statement of changes in equity in the 2015 Annual Financial Report.

[6]The difference between the carrying value and the nominal value of the Contingent Capital Notes in shareholders' equity is included in tier 2 capital subject to phasing arrangements. See note 41 to the 2015 Annual Financial Report for further detail.

[7]Transitional arrangements as described under CRR article 481, the 60% transitional rate has been applied for 2015.

[8]Transitional arrangements as described under CRR article 478, the 10% transitional rate has been applied for 2015.

[9]Transitional arrangements as described under CRR articles 467 and 468.

[10]Per Article 34 and 105 of the CRR.

[11]Revaluation reserves regulatory capital adjustment portion treated as tier 2.

[12]Per Article 64 of CRR. Instrument matures on 28 July 2016.

[13]As described under CRR Article 62.

[14]Transitional arrangements as described under CRR Article 486, the 70% transitional rate has been applied for 2015.

Appendix 3: Capital Reorganisation

AIB announced in its 2014 Annual Financial Report and in its 2015 Half-Yearly Financial Report, that it had been engaged in discussions with the Irish Minister for Finance ('the Minister') regarding the simplification and rationalisation of its capital structure. The outcome of the engagement with the Minister was the Capital Reorganisation completed in December 2015.

The Capital Reorganisation was designed to enable AIB to:
– initially return € 1.7 billion of capital to the Irish Government in line with AIB's obligations under its EU Restructuring Plan;
– create a sound and sustainable base on which to grow AIB's business;
– meet regulatory requirements under CRD IV and the Banking Recovery and Resolution Directive ("BRRD");
– allow future payment of dividends on ordinary shares as and when conditions permit;
– more closely align the Group's capital structure with market norms and investor expectations; and
– position AIB for a return to private ownership over time.

In order to implement the Capital Reorganisation, the 3.5 billion 2009 Preference Shares were to be partially converted to ordinary shares and partially redeemed. A condition for the conversion/redemption of the 2009 Preference Shares was the issuance of specific debt capital instruments by AIB. In November 2015, AIB issued € 750 million of subordinated Tier 2 notes (see 'Subordinated liabilities and other capital instruments' Note 41 to the consolidated financial statements in the 2015 Annual Financial Report) and on 3 December 2015, AIB issued € 500 million Additional Tier 1 ("AT1") securities (see 'Other equity interests' Note 44 to the consolidated financial statements in the 2015 Annual Financial Report).

At an Extraordinary General Meeting ("EGM") held on 16 December 2015, shareholders approved the resolutions with respect to the Capital Reorganisation enabling the implementation of the following actions:
– Partial redemption of the 2009 Preference Shares: 1,360 million of the 3,500 million 2009 Preference Shares were redeemed for cash at 125% of the subscription price resulting in a repayment of € 1.7 billion of capital to the Irish State;
– Conversion of the remainder of the 2009 Preference Shares: 2,140 million 2009 Preference Shares were converted into ordinary shares of € 0.0025 each at 125% of the subscription price, resulting in 155.1 billion additional ordinary shares;
– A dividend payment of € 166 million was made to the NTMA on 17 December 2015, being the accrued dividend on the 2009 Preference Shares from 13 May 2015 to the date of conversion/redemption of the 2009 Preference Shares;
– AIB cancelled all its outstanding treasury shares with no impact on capital ratios – see 'Own shares' Note 43 to the consolidated financial statements in the 2015 Annual Financial Report; and
– Ordinary share consolidation: On conversion of the 2009 Preference Shares, AIB had 678.6 billion existing ordinary shares of € 0.0025 nominal value per share in issue. On 21 December 2015, consolidation of these existing ordinary shares resulted in shareholders receiving one new ordinary share of € 0.625 for every 250 existing ordinary shares with a nominal value of € 0.0025. Following the consolidation, AIB now has 2.7 billion new ordinary shares of € 0.625 nominal value in issue of which the Irish Government holds 99.9%. The consolidation of ordinary shares did not impact capital ratios;
– EBS Promissory Note Redemption: In conjunction with the partial redemption of the 2009 Preference Shares, the EBS Promissory Note issued by the Minister in 2010 and held as an available for sale financial asset by AIB Group was redeemed at its carrying value of € 225 million and subsequently cancelled. See 'Related party transactions' Note 54 to the consolidated financial statements in the 2015 Annual Financial Report for further detail; and
– Potential issue of warrants to the Minister: AIB received approval, at the EGM held on 16 December 2015, to enter into a Warrant Agreement with the Minister which, following a Regulated Market Event, would entitle the Minister to subscribe for new ordinary shares with a nominal value of € 0.625 per share, subject to a maximum of 9.99% of the issued ordinary share capital. See 'Related party transactions' Note 54 to the consolidated financial statements in the 2015 Annual Financial Report for further detail.

The redemption/conversion of the 3.5 billion 2009 Preference Shares resulted in a net increase in CRD IV fully loaded capital of € 1.8 billion.

For further detail on the redemption/conversion of the 2009 Preference Shares and the ordinary share consolidation see 'Share Capital' Note 42 to the consolidated financial statements in the 2015 Annual Financial Report.

In addition, as part of the Board's consideration of an appropriate capital structure for AIB and related discussions with the Minister, the Board considered AIB's options in relation to the € 1.6 billion Convertible Contingent Tier 2 Capital Notes ("CCNs") issued to the Minister. The Board concluded, that given the short time remaining to the scheduled maturity of the CCNs in July 2016, it is not in the best interests of the shareholders to take any measures in respect of the CCNs before their scheduled maturity. Accordingly, the CCNs will continue to form part of AIB's capital structure.

Specific details in relation to the CCNs are set out in 'Subordinated liabilities and other capital instruments' Note 41 to the consolidated financial statements in the 2015 Annual Financial Report.

Appendix 4: Group leverage ratio

Table 28: Leverage ratio calculation for AIB Group

The following table analyses the calculation of the leverage ratio (as per the Delegated Act implementation in January 2015) on a transitional and fully loaded basis as at 31 December 2015:

	2015	
Summary reconciliation of accounting assets and leverage ratio exposures	**Transitional € m**	**Fully loaded € m**
Total assets per 2015 Annual Financial Report	103,122	103,122
Adjustments for:		
Derivative financial instruments	759	759
Securities financing transactions ("SFTs")	672	672
Off-balance sheet items	2,902	2,902
Other	(1,976)	(3,588)
Total leverage ratio exposure	105,479	103,867

	2015	
Leverage ratio common disclosure	**Transitional € m**	**Fully loaded € m**
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items	100,939	100,939
Asset amounts deducted in determining tier 1 capital	(2,366)	(3,977)
	98,573	96,962
Derivative exposures		
Replacement cost associated with all derivative transactions	1,698	1,698
Add-on amounts for PFE[(1)] associated with all derivative transactions	759	759
	2,457	2,457
Securities financing transaction exposures		
Gross SFT assets	15,332	15,332
Net amount of cash payable/receivable of gross SFT assets	(14,458)	(14,458)
Counterparty credit risk exposure for SFT assets	672	672
	1,546	1,546
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	11,122	11,122
Adjustments for conversion to credit equivalent amounts	(8,220)	(8,220)
	2,902	2,902
Total leverage ratio exposures	105,478	103,867
Tier 1 capital at 31 December	9,779	8,169
Leverage ratio[(2)]	9.3%	7.9%

	2015	
On-balance exposures (excluding derivatives, SFTs and exempted exposures)	**Transitional € m**	**Fully loaded € m**
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	100,939	100,939
Of which:		
Exposures treated as sovereigns	23,875	23,875
Institutions	5,583	5,583
Secured by mortgages on immovable property	36,219	36,219
Retail exposures	4,312	4,312
Corporate	14,838	14,838
Exposures in default	7,732	7,732
Other exposures	8,380	8,380
	100,939	100,939

[(1)]Potential future exposure ("PFE").

[(2)]For 2014, the leverage ratio under the Delegated Act on a transitional and fully loaded basis was 8.8% and 3.2% respectively.

Appendix 5: Own funds

Summary information on the main components of own funds, and their terms and conditions as applicable, is set out below. Further information relating to the terms and conditions is published separately at www.investorrelations.aib.ie.

Common equity tier 1

Common equity tier 1 ("CET1") comprises shareholders' equity adjusted as appropriate in accordance with the provisions of CRD IV. In December 2015, the Group reorganised its capital base, details of which are set out in Appendix 3.

Shareholders' equity

The principal components of shareholders' equity are set out below:

Share capital/share premium

Ordinary share capital comprising shares of the parent company represent funds raised by issuing shares in return for cash or other consideration. When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Capital contributions

Capital contributions represent the receipt of non-refundable consideration arising from transactions with the Irish Government. These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and (d) non-refundable receipts from the Irish Government and the NPRFC(1).

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received are largely non-cash in nature. In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, the excess was accounted for as a non-distributable capital contribution. However, according as NAMA repays these bonds, the proceeds received will be deemed to be distributable and the relevant amount will be transferred from the capital contribution account to revenue reserves.

AIB issued contingent convertible capital notes to the Irish Government where the proceeds of issued amounting to € 1.6 billion exceeded the fair value of the instruments issued. This excess has been accounted for as a capital contribution and will be treated as distributable according as fair value adjustment on the notes amortises to the income statement.

The non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC(1) are distributable. These are included in revenue reserves.

Other capital reserves

Other capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Revaluation reserves

Revaluation reserves represent the unrealised surplus, net of tax, which arose on revaluation of properties prior to the implementation of IFRS at 1 January 2004.

Available for sale securities reserves

Available for sale securities ("AFS") reserves represent the net unrealised gains and losses, net of tax, arising from the recognition in the statement of financial position of AFS financial investments at fair value. The CRR sets out transitional provisions in relation to AFS assets where the net unrealised gains and losses are transitioned into capital on a phased basis up to the end of 2017. In addition, the CRR provides the option for institutions to apply a filter to unrealised gains and losses on sovereign exposures measured at fair value until the adoption of IFRS 9 which replaces IAS 39. AIB has opted to apply this filter.

Cash flow hedging reserves

Cash flow hedging reserves represent the gains and losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss. These reserves are not allowable for capital adequacy purposes.

(1)National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

Shareholders' equity *(continued)*

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from share premium and capital redemption reserves following Irish High Court approval. They are shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

Foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

Regulatory adjustments to shareholders' equity

The following deductions have been made in accordance with CRD IV in computing regulatory capital:

- Goodwill and intangibles –deducted from capital;
- Cash flow hedging reserves – not included in capital;
- Reversal of fair value adjustment on the € 1.6 billion Contingent Capital Tier 2 Notes due 2016 – see below;
- Available for sale securities reserves – AFS reserves of € 1,250 million are excluded on a transitional basis at 31 December 2015;
- Pension filter – phase out of Basel II adjustment, 60% deducted in 2015;
- Pension reserves in surplus – deduct from capital the total pension reserves of schemes in surplus;
- Pension deficit – 40% of the pension deficit is deducted from CET1 as per CRD IV phasing rules for 2015; and
- Deferred tax assets that rely on future profitability – is deducted from capital at 10% per annum, commencing in 2015.

Additional Tier 1

On 3 December 2015, as part of its capital reorganisation, AIB issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as equity in the statement of financial position ('Other equity interests'), are included in AIB's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Interest on the securities, at a fixed rate of 7.375% per annum, is payable semi-annually in arrears on 3 June and 3 December, commencing on 3 June 2016. On the first reset date on 3 December 2020, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year rate plus a margin of 7.339 %. AIB has sole and absolute discretion at all times to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. In addition, there are certain limitations on the payment of interest if such payments are prohibited under Irish banking regulations or regulatory capital requirements, if AIB has insufficient reserves available for distribution or if AIB fails to satisfy the solvency condition as defined in the securities' terms. Any interest not paid on an interest payment date by reason of the provisions as to cancellation of interest or by reason of the solvency condition set out in the terms and conditions, will not accumulate or be payable thereafter.

The securities are perpetual securities with no fixed redemption date. AIB may, in its sole and full discretion, redeem all (but not some only) of the securities on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the Single Supervisory Mechanism/Central Bank of Ireland who has set out certain conditions in relation to redemption, purchase, cancellation and modification of these securities. In addition, the securities are redeemable at the option of AIB for certain regulatory or tax reasons.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the company's ordinary shares) and with the holders of preference shares, if any, which have a preferential right to a return of assets in a winding- up of AIB. They rank ahead of the holders of ordinary share capital of the company but junior to the claims of senior creditors.

If the CET1 ratio of Allied Irish Banks p.l.c. or the Group at any time falls below 7% (a Trigger Event) and is not in winding-up, subject to certain conditions AIB may write down the AT1s by the lower of the amount necessary to generate sufficient common equity tier 1 capital to restore the CET1 ratio to 7% or the amount that would reduce the prevailing principal amount to zero. To the extent permitted in order to comply with regulatory capital and other requirements, AIB may at its sole and full discretion reinstate any previously written down amount.

Appendix 5: Own funds

Shareholders' equity *(continued)*

Tier 2

Tier 2 capital broadly includes qualifying subordinated loan capital and other tier 2 securities in issue, eligible collective impairment provisions and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the Internal Ratings Based Approach ("IRBA") portfolios over the accounting impairment provisions on the IRBA portfolios and material holdings in financial companies.

€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, AIB issued € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020.

These notes mature on 26 November 2025 but can be redeemed in whole but not in part at the option of AIB on the optional redemption date on 26 November 2020, subject to the approval of the Financial Regulator with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes will bear interest on the outstanding nominal amount at a fixed rate of 4.125%, payable annually in arrears on 26 November each year. The interest rate will be reset on 26 November 2020 to Eur 5 year Mid Swap rate plus the initial margin of 395 basis points.

Other subordinated term loan capital

At 31 December 2015, other subordinated term loan capital with a carrying value of € 36 million is included within Tier 2 capital. These include the balances outstanding on dated loan capital which were issued under the European Medium Term Note programme. During 2011, all outstanding amounts were either redeemed or purchased for cash apart from residual balances which were subject to a Subordinated Liabilities Order ("SLO"). The contractual maturity date changed to 2035 as a result of the SLO, with coupons payable at the option of AIB. No coupons were paid on these instruments in 2015.

€ 1.6 billion Contingent Capital Tier 2 Notes due 2016

On 26 July 2011, AIB issued € 1.6 billion in nominal value of Contingent Capital Notes ("CCNs") to the Minister for Finance of Ireland for a cash consideration of € 1.6 billion. Under IFRS, the fair value of these notes was recorded as € 1,153 million with € 447 million accounted for as a capital contribution and included within capital reserves. The fair value adjustment of € 447 million amortises to the income statement over the life of the instruments. However, for regulatory capital purposes, the fair value adjustment net of cumulative amortisation is filtered out in CET1 capital. The nominal value of € 1.6 billion is included within tier 2 capital. However, a restriction applies to their inclusion in regulatory capital as they are amortised on a straight line basis during the last five years to maturity.

IRB excess of provisions over expected eligible losses

For performing IRB exposures, the total expected loss ("EL") is compared to the total 'incurred but not reported' ("IBNR") impairment provisions in the financial statement allocated to IRB loans. If EL is greater than these provisions, the excess is deducted from CET1. For non-performing IRB exposures, the total EL is compared to the total specific impairment provisions. If EL is greater than the specific provisions, the excess is deducted from CET1. Any excess of impairment provisions (IBNR and specific) over EL is added to tier 2 capital up to a limit of 0.6% of IRB risk weighted assets.

IBNR standardised add back

This represents the excess of IBNR provisions over expected loss for Standardised exposures up to a maximum of 1.25% of RWAs. This is a Basel II adjustment which will be phased out under CRD IV by 2021. At 31 December 2015, 70% of this can be included in Tier 2 capital.

Appendix 6: Parent company and subsidiary disclosures

Set out below are the capital base, the minimum capital requirements and the leverage ratio for the parent company and licensed bank subsidiaries in AIB Group as at 31 December 2015 and 31 December 2014:

– Allied Irish Banks, p.l.c. (parent);
– AIB Mortgage Bank;
– AIB Group (UK) p.l.c.;
– EBS Limited; and
– EBS Mortgage Finance.

The CRD capital ratios are based on Pillar 1 ('minimum capital requirements') under the CRD.

Figures reported for Allied Irish Banks, p.l.c. and EBS Limited reflect the solo consolidation basis. Figures reported for AIB Group (UK) p.l.c. represent the position as reported to its local regulator (the Prudential Regulation Authority ("PRA")). The closing exchange rate on 31 December 2015 used to translate sterling ("£") to Euro is € 1 = £ 0.7340 (2014: € 1 = £ 0.7789), consistent with the 2015 Annual Financial Report.

In addition, see pages 64 to 96 for further relevant information for the significant subsidiaries in AIB Group.

Appendix 6: Parent company and subsidiary disclosures

Table 29: Capital base of significant subsidiaries as reported to the local regulator

					2015
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[13]	EBS Limited € m	EBS Mortgage Finance € m
Total shareholders' equity (excluding 2015 profits/losses)[14]	12,281	1,405	2,226	679	519
Less: Additional Tier 1 capital	(494)	–	–	–	–
Accrued interest on Additional Tier 1 capital	(3)	–	–	–	–
	11,784	–	–	–	–
Regulatory adjustments					
Goodwill and intangible assets[1]:					
Intangible assets	(278)	–	(4)	(7)	–
Cash flow hedging reserves[2]	(319)	–	6	1	–
Adjustment to € 1.6bn Contingent Capital Tier 2 Notes due 2016[3] [4]	(46)	–	–	–	–
Available for sale securities reserves[5]	(1,296)	–	20	146	–
Pension:					
Revenue reserves relating to pension schemes in surplus[1]	(2)	–	(473)	(2)	–
Regulatory adjustment relating to pension schemes[4]	155	–	–	28	–
Pension filter[4]	(58)	–	–	(2)	–
	95	–	(473)	24	–
Deferred tax[1][6]	(269)	(8)	(221)	(25)	–
IRB shortfall of credit risk adjustments to expected losses[1]	–	(7)	–	–	–
Prudent valuation adjustment[7]	(7)	–	–	–	–
Revaluation reserves[4] [8]	(6)	–	–	–	–
Common equity tier 1 capital	9,658	1,390	1,554	818	519
Additional Tier 1 capital					
Additional Tier 1 capital	494	–	–	–	–
Total tier 1 capital	10,152	1,390	1,554	818	519
Tier 2 capital					
Subordinated debt:					
Subordinated liabilities and other capital instruments	2,318	300	–	–	–
Instrument not allowable for capital purposes	(8)	–	–	–	–
Adjustment to € 1.6bn Contingent Capital Tier 2 Notes due 2016[3]	76	–	–	–	–
	2,386	300	–	–	–
Regulatory adjustments:					
Regulatory adjustment to € 1.6bn Contingent Capital Tier 2 Notes due 2016[9]	(1,413)	–	–	–	–
IRB excess of impairment provisions over expected losses[10]	84	–	–	–	–
IBNR relating to standardised portfolios[11]	154	4	–	25	20
IRB shortfall of credit risk adjustments to expected losses[12]	–	(3)	–	–	–
Revaluation reserves[4] [8]	6	–	–	–	–
	(1,169)	1	–	25	20
Total tier 2 capital	1,217	301	–	25	20
Total capital	11,369	1,691	1,554	843	539

Table 29: Capital base of significant subsidiaries as reported to the local regulator *(continued)*

	2015				
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m(13)	EBS Limited € m	EBS Mortgage Finance € m
Risk weighted assets:					
Credit risk	36,363	9,488	8,969	2,840	2,571
Market risk	457	–	–	–	–
Operational risk	1,953	454	573	160	189
Credit valuation adjustment	1,311	–	–	88	–
Total risk weighted assets	40,084	9,942	9,542	3,088	2,760

Capital ratios (exclusive of 2015 profits/losses)(14)	%	%	%	%	%
Common equity tier 1	24.1	14.0	16.3	26.5	18.8
Tier 1 ratio	25.3	14.0	16.3	26.5	18.8
Total capital	28.4	17.0	16.3	27.3	19.5

The capital ratios set out below include profits/losses for 2015. These profits/losses were not included in regulatory returns, apart from those of AIB Group (UK) p.l.c., submitted to the local regulator and disclosed above for the year ended 31 December 2015.

	2015				
Capital ratios (inclusive of 2015 profits/losses)	Allied Irish Banks, p.l.c. %	AIB Mortgage Bank %	AIB Group (UK) p.l.c. %	EBS Limited %	EBS Mortgage Finance %
Common equity tier 1	26.3	19.4	16.3	29.0	22.7
Tier 1 ratio	27.6	19.4	16.3	29.0	22.7
Total capital	30.6	22.4	16.3	29.8	23.4

(1)Deductions applied as described under CRR article 36.

(2)Prudential filter applied as described under CRR article 33.

(3)The difference between the carrying value and the nominal value of the Contingent Capital Notes in shareholders' equity is included in tier 2 capital subject to phasing arrangements. See note 41 to the 2015 Annual Financial Report.

(4)Transitional arrangements as described under CRR article 481.

(5)Transitional arrangements as described under CRR articles 467 and 468.

(6)Transitional arrangements as described under CRR article 478.

(7)Per Article 34 and 105 of the CRR.

(8)Revaluation reserves treated as tier 2 for regulatory capital purposes.

(9)Article of 64 of CRR. Instrument matures on 28 July 2016.

(10)Per article 62 of the CRR.

(11)Transitional arrangements as described under CRR article 486.

(12)Per articles 469, 472 and 478 of the CRR.

(13)Sterling amounts converted to euro equivalents at year end exchange rate.

(14)Apart from AIB Group (UK) p.l.c. which is included.

Appendix 6: Parent company and subsidiary disclosures

Table 29: Capital base of significant subsidiaries as reported to the local regulator *(continued)*

					2014
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[10]	EBS Limited € m	EBS Mortgage Finance € m
Total shareholders' equity	12,482	1,026	2,179	654	401
Regulatory adjustments					
Goodwill and intangible assets[1]:					
Intangible assets	(158)	–	(4)	(10)	–
Cash flow hedging reserves[2]	(327)	–	–	–	–
Adjustment to € 1.6bn Contingent Capital					
Tier 2 Notes due 2016[3][4]	(189)	–	–	–	–
Available for sale securities reserves[5]	(1,387)	–	(2)	152	–
Pension:					
Revenue reserves relating to pension schemes					
in surplus[1]	–	–	(402)	–	–
Regulatory adjustment relating to pension schemes[4]	788	–	–	68	–
Pension filter[4]	(106)	–	–	(3)	–
	682	–	(402)	65	–
Deferred tax[1]	–	–	(458)	(3)	–
Revaluation reserves[4][6]	(11)	–	–	–	–
Common equity tier 1 capital	11,092	1,026	1,313	858	401
Tier 2 capital					
Subordinated debt:					
Subordinated liabilities and other capital instruments	1,451	300	–	–	–
Instrument not allowable for capital purposes	(8)	–	–	–	–
Adjustment to € 1.6bn Contingent Capital					
Tier 2 Notes due 2016[3][4]	189	–	–	–	–
	1,632	300	–	–	–
Regulatory adjustments:					
Regulatory adjustment to € 1.6bn Contingent Capital					
Tier 2 Notes[7]	(1,094)	–	–	–	–
IRB excess of impairment provisions over expected					
losses[8]	75	61	–	–	–
IBNR relating to standardised portfolios[9]	237	7	–	31	29
Revaluation reserves[4][6]	11	–	–	–	–
Total tier 2 capital	861	368	–	31	29
Total capital	11,953	1,394	1,313	889	430

Table 29: Capital base of significant subsidiaries as reported to the local regulator *(continued)*

					2014
Capital ratios (inclusive of 2014 profits/losses)	Allied Irish Banks, p.l.c. %	AIB Mortgage Bank %	AIB Group (UK) p.l.c.[10] %	EBS Limited %	EBS Mortgage Finance %
Risk weighted assets:					
Credit risk	36,160	10,902	7,862	3,102	2,900
Market risk	471	–	–	–	–
Operational risk	1,936	349	480	145	149
Credit valuation adjustment	1,437	–	–	69	–
Total risk weighted assets	40,004	11,251	8,342	3,316	3,049

					2014
Capital ratios (inclusive of 2014 profits/losses)	Allied Irish Banks, p.l.c. %	AIB Mortgage Bank %	AIB Group (UK) p.l.c. %	EBS Limited %	EBS Mortgage Finance %
Common equity tier 1	28.9	12.5	15.7	26.8	17.0
Tier 1 ratio	28.9	12.5	15.7	26.8	17.0
Total capital	31.1	15.8	15.7	27.8	18.0

(1)Deductions applied as described under CRR article 36.

(2)Prudential filter applied as described under CRR article 33.

(3)The difference between the carrying value and the nominal value of the Contingent Capital Notes in shareholders' equity is included in tier 2 capital. See note 41 to the 2015 Annual Financial Report.

(4)Transitional arrangements as described under CRR article 481.

(5)Transitional arrangements as described under CRR articles 467 and 468.

(6)Revaluation reserves treated as tier 2 for regulatory capital purposes.

(7)Article of 64 of CRR. Instrument matures on 28 July 2016.

(8)Per article 62 of the CRR.

(9)Transitional arrangements as described under CRR article 486.

(10)Sterling amounts converted to euro equivalents at year end exchange rate.

Appendix 6: Parent company and subsidiary disclosures

Table 30: Minimum capital requirements of significant subsidiaries as reported to the local regulator

					2015
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[3]	EBS Limited € m	EBS Mortgage Finance € m
Standardised exposure class					
Central governments and central banks	–	–	–	–	–
Public sector entities	4	–	–	–	–
Institutions[1]	259	–	2	2	1
Corporates	519	–	446	1	–
Retail	224	–	37	–	–
Secured by mortgages on immovable property	308	28	173	136	148
Exposures in default[2]	225	24	41	73	57
Exposures associated with particularly high risk	87	–	–	–	–
Equity	109	–	12	–	–
Securitisation positions	–	–	–	–	–
Other items	54	1	7	15	–
Total Standardised Approach	1,789	53	718	227	206
IRB exposure class					
Central governments and central banks	30	–	–	–	–
Institutions[1]	196	1	–	–	–
Corporates	845	1	–	–	–
Retail	43	704	–	–	–
Securitisation positions	5	–	–	–	–
Non-credit obligation assets	1	–	–	–	–
Total IRB Approach	1,120	706	–	–	–
Total for credit risk	2,909	759	718	227	206
Total for market risk	37	–	–	–	–
Total for operational risk	156	36	45	13	15
Total for credit valuation adjustment	105	–	–	7	–
Total minimum capital requirements	3,207	795	763	247	221

[1]Institution exposure class predominantly relates to banks.

[2]The Basel asset class “Exposures in default” relates only to standardised exposures and comprises exposures that are greater than 90 days past due or unlikely to pay.

[3]Sterling amounts converted to euro equivalents at year end exchange rate.

Table 30: Minimum capital requirements of significant subsidiaries as reported to the local regulator *(continued)*

	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[3]	EBS Limited € m	EBS Mortgage Finance € m
					2014
Standardised exposure class					
Central governments and central banks	–	–	–	–	–
Public sector entities	3	–	–	–	–
Institutions[1]	312	1	1	2	1
Corporates	510	–	338	1	–
Retail	214	–	40	–	–
Secured by mortgages on immovable property	268	20	179	129	154
Exposures in default[2]	369	37	56	102	77
Exposures associated with particularly high risk	102	–	–	1	–
Equity	76	–	8	–	–
Securitisation positions	–	–	–	–	–
Other items	39	1	7	13	–
Total Standardised Approach	1,893	59	629	248	232
IRB exposure class					
Central governments and central banks	46	–	–	–	–
Institutions[1]	155	–	–	–	–
Corporates	738	–	–	–	–
Retail	53	812	–	–	–
Securitisation positions	8	–	–	–	–
Total IRB Approach	1,000	812	–	–	–
Total for credit risk	2,893	871	629	248	232
Total for market risk	37	–	–	–	–
Total for operational risk	155	28	38	12	12
Total for credit valuation adjustment	115	–	–	5	–
Total minimum capital requirements	3,200	899	667	265	244

[1]Institution exposure class predominantly relates to banks.

[2]The Basel asset class "Exposures in default" relates only to standardised exposures and comprises exposures that are greater than 90 days past due or unlikely to pay.

[3]Sterling amounts converted to euro equivalents at year end exchange rate.

Appendix 6: Parent company and subsidiary disclosures

Table 31: Leverage ratio calculation for significant subsidiaries

The following table analyses the calculation of the leverage ratio (as per the Delegated Act implementation in January 2015) on a transitional basis as at 31 December 2015:

				2015
Summary reconciliation of accounting assets and leverage ratio exposures	**AIB Mortgage Bank € m**	**AIB UK € m**	**EBS Limited € m**	**EBS Mortgage Finance € m**
Total assets as per published financial statements	20,157	17,594	12,916	5,347
Adjustments for:				
Derivative financial instruments	350	11	111	86
Securities financing transactions ("SFTs")	170	–	239	–
Off-balance sheet items	85	1,125	57	6
Adjustment for intragroup exposures excluded from the leverage ratio	–	(3,186)	–	–
Other	93	(673)	138	–
Total leverage ratio exposure	20,855	14,871	13,461	5,439
Leverage ratio common disclosure				
On-balance sheet exposures (excluding derivatives and SFTs)				
On-balance sheet items	20,015	14,269	12,836	5,327
Asset amounts deducted in determining tier 1 capital	(14)	(673)	138	–
	20,001	13,596	12,974	5,327
Derivative exposures				
Replacement cost associated with all derivative transactions	249	139	80	20
Add-on amounts for PFE[1] associated with all derivative transactions	350	11	111	86
	599	150	191	106
Securities financing transaction exposures				
Gross SFT assets	1,000	–	3,247	–
Net amount of cash payable/receivable of gross SFT assets	(1,000)	–	(3,247)	–
Counterparty credit risk exposure for SFT assets	170	–	239	–
	170	–	239	–
Other off-balance sheet exposures				
Off-balance sheet exposures at gross notional amount	210	2,657	171	11
Adjustments for conversion to credit equivalent amounts	(125)	(1,532)	(114)	(5)
	85	1,125	57	6
Total leverage ratio exposures	20,855	14,871	13,461	5,439
Tier 1 capital at 31 December	1,390	1,554	817	519
	%	%	%	%
Leverage ratio	6.7	10.4	6.1	9.5
On-balance exposures (excluding derivatives, SFTs and exempted exposures)	€ m	€ m	€ m	€ m
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	20,015	14,269	12,836	5,327
Of which:				
Covered bonds	–	–	2,280	–
Exposures treated as sovereigns	–	4,228	25	–
Institutions	409	132	3,163	60
Secured by mortgages on immovable property	17,302	3,513	3,967	4,554
Retail exposures	1	604	2	1
Corporate	4	4,441	1,397	–
Exposures in default	2,222	418	912	710
Other exposures	77	933	1,090	2
	20,015	14,269	12,836	5,327

[1]Potential future exposure ("PFE").

Additional disclosures of the significant subsidiaries of AIB Group

Article 13 of the CRR requires additional disclosures for each of the significant subsidiaries in AIB Group: AIB Mortgage Bank; AIB Group (UK) p.l.c.; EBS Limited; and EBS Mortgage Finance.

Only AIB Mortgage Bank calculates credit exposures under the IRB Approach for the purposes of regulatory reporting.

The tables on the following pages, analyse the credit exposures of each of the above named subsidiaries, for both the Standardised and IRB approaches, as applicable by:

- Industry distribution;
- Geographic distribution;
- Residual maturity;
- Analysis of external ratings and credit quality assessment steps;
- Obligor grade disclosures (for IRB only); and
- PD by geography (for IRB only).

The subsidiaries include intercompany exposures that are eliminated at an AIB Group consolidated reporting level.

Capital

The common equity tier 1 (“CET 1”) and total capital ratios for each of the above subsidiaries are detailed on table 29 on pages 64 and 65, together with a description of the regulatory deductions and filters applied. The main components of capital, which are applicable at a Group and subsidiary level, are described in detail in Appendix 5 ‘Own Funds’.

Section 2, ‘Capital and capital management’, outlines the ICAAP which AIB Group uses to ensure that it complies with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. AIB Group (UK) p.l.c. adopts the same approach for its own specific ICAAP with regard to regulatory capital requirements. The same principles apply as those described for AIB Group.

Risk management

As described in Section 3, ‘Risk management’, AIB Group has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks. The Group’s risk management framework supports this approach through a number of Board approved frameworks and policies which set out the key principles, roles and responsibilities and governance arrangements through which the Group’s material risks are managed. Each of AIB Mortgage Bank, EBS Limited and EBS Mortgage Finance relies on this Group framework and its supporting policies, processes and governance and has prepared a Risk Appetite Statement (“RAS”) based on the overall Group RAS. The principal risks and uncertainties and the risk framework are described in detail in the 2015 Annual Financial Report – pages 50 to 62.

The Board of AIB Group (UK) p.l.c. has approved a RAS which is aligned to the Group risk framework and adopts the same risk governance and structure as described in the 2015 Annual Financial Report.

Credit risk mitigation

The credit risk mitigation as described in Section 7 ‘Credit risk mitigation’ is equally applicable for each of the significant subsidiaries.

Past due and impaired exposures

The term ‘past due’ is defined on page 41. Details of the methodologies adopted by the Group in identifying, monitoring and managing impaired loans (including specific and collective impairment provisions) are set out on pages 73 to 82 of the Risk management section of the 2015 Annual Financial Report.

A geographic and industry analysis of the distribution of loans and receivables to customers which are past due and those which are impaired, together with their associated provisions, is detailed for each of the subsidiaries on pages 78, 85, 91 and 96. The tables are based on financial statement information.

Remuneration

Each of the significant subsidiaries is subject to AIB’s Remuneration Policy as detailed on page 192 of the 2015 Annual Financial Report in the Governance and oversight section.

Remuneration disclosures in relation to ‘identified staff’ for each of the subsidiaries is incorporated within Appendix 7: Remuneration disclosures on pages 97 to 99.

Appendix 6: Parent company and subsidiary disclosures

AIB Mortgage Bank

AIB Mortgage Bank issues mortgage covered securities for the purpose of financing mortgage loans secured on residential property in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007.

Table 32a: Industry distribution of credit exposures (EAD) – Standardised Approach

					2015
Exposure class	**Home loans €m**	**Property €m**	**Other €m**	**Bank, sovereign and public sector €m**	**Total exposures €m**
Institutions	**–**	**–**	**–**	**1,151**	**1,151**
Retail	**1**	**–**	**–**	**–**	**1**
Secured by mortgages on immovable property	**354**	**–**	**–**	**–**	**354**
Exposures in default	**215**	**–**	**–**	**–**	**215**
Other items	**–**	**–**	**80**	**–**	**80**
Total	**570**	**–**	**80**	**1,151**	**1,801**

					2014
Exposure class	Home loans €m	Property €m	Other €m	Bank, sovereign and public sector €m	Total exposures €m
Institutions	–	–	–	906	906
Retail	3	–	–	–	3
Secured by mortgages on immovable property	250	1	–	–	251
Exposures in default	362	–	–	–	362
Other items	–	–	167	–	167
Total	615	1	167	906	1,689

Table 32b: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

					2015
Exposure class	**Republic of Ireland €m**	**United Kingdom €m**	**Total exposures €m**	**Total gross exposures[2] €m**	**Average exposures over the period[3] €m**
Institutions	**1,151**	**–**	**1,151**	**2,143**	**1,107**
Retail	**1**	**–**	**1**	**1**	**2**
Secured by mortgages on immovable property	**354**	**–**	**354**	**359**	**289**
Exposures in default	**215**	**–**	**215**	**309**	**289**
Other items	**80**	**–**	**80**	**80**	**121**
	1,801	**–**	**1,801**	**2,892**	**1,808**

					2014
Exposure class	Republic of Ireland €m	United Kingdom €m	Total exposures €m	Total gross exposures[2] €m	Average exposures over the period[3] €m
Institutions	906	–	906	1,891	848
Retail	3	–	3	3	4
Secured by mortgages on immovable property	251	–	251	268	205
Exposures in default	360	2	362	634	425
Other items	167	–	167	167	193
	1,687	2	1,689	2,963	1,675

(1)The geographic breakdown is based on country of risk reflecting the CRD IV requirements.

(2)Total gross exposure is before CRM, CCFs and offsets.

(3)Average exposures over the period are based on total exposures i.e. EAD.

Appendix 6: Parent company and subsidiary disclosures

AIB Mortgage Bank

Table 32c: Residual maturity of credit exposures (EAD) – Standardised Approach

2015

Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Institutions	–	246	2	374	170	–	–	359	–	1,151
Retail	–	–	–	–	–	–	1	–	–	1
Secured by mortgages on immovable property	1	1	1	22	27	13	42	247	–	354
Exposures in default	6	–	–	8	16	6	43	136	–	215
Other items	–	–	–	–	–	–	–	–	80	80
	7	247	3	404	213	19	86	742	80	1,801

2014

Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Institutions	468	147	–	1	218	31	31	10	–	906
Retail	–	–	–	–	–	1	–	2	–	3
Secured by mortgages on immovable property	–	1	1	2	14	8	33	192	–	251
Exposures in default	–	–	–	3	24	22	60	253	–	362
Other items	–	–	–	–	–	–	–	–	167	167
	468	148	1	6	256	62	124	457	167	1,689

Appendix 6: Parent company and subsidiary disclosures

AIB Mortgage Bank

Table 32d: Total exposure (EAD) value (after CRM) split by external rating and credit quality assessment step

2015

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment step € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	–	–	–	1,151	1,151	–	1,151
Retail	–	–	–	–	–	–	1	1
Secured by mortgages on immovable property	–	–	–	–	–	–	354	354
Exposures in default	–	–	–	–	–	–	215	215
Other items	–	–	–	–	–	–	80	80
	–	–	–	–	1,151	1,151	650	1,801

2014

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment Steps € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	–	–	–	906	906	–	906
Retail	–	–	–	–	–	–	3	3
Secured by mortgages on immovable property	–	–	–	–	–	–	251	251
Exposures in default	–	–	–	–	–	–	362	362
Other items	–	–	–	–	–	–	167	167
	–	–	–	–	906	906	783	1,689

Table 32e: Total exposure (EAD) value (after CRM) split by credit quality assessment step[1] – Standardised Approach

2015

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	–	–	1,151	–	–	1,151	–	1,151
Retail	–	–	–	–	–	–	–	1	1
Secured by mortgages on immovable property	–	–	–	–	–	–	–	354	354
Exposures in default	–	–	–	–	–	–	–	215	215
Other items	–	–	–	–	–	–	–	80	80
	–	–	–	1,151	–	–	1,151	650	1,801

2014

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	35	–	–	871	–	906	–	906
Retail	–	–	–	–	–	–	–	3	3
Secured by mortgages on immovable property	–	–	–	–	–	–	–	251	251
Exposures in default	–	–	–	–	–	–	–	362	362
Other items	–	–	–	–	–	–	–	167	167
	–	35	–	–	871	–	906	783	1,689

[1]For details of the credit ratings applied to the credit quality assessment steps - see page 22.

AIB Mortgage Bank

As described in Section 4 Credit risk – Overview, the IRB Approach, which is subject to regulatory approval, allows banks to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes.

AIB Mortgage Bank uses the IRB Approach on credit exposures. Of the total of € 20,148 million, € 20,113 million is attributable to the 'Home loans' sector and € 35 million is attributable to the 'Bank, sovereign and public sector'.

Tables 33a and 33b analyse the exposures as to geography and residual maturity. The associated obligor grades attaching to the exposures are analysed on table 33c.

Table 33a: Geographic[1] distribution of credit exposures (EAD) – IRB Approach

							2015
Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Institutions	–	35	–	–	35	35	14
Corporates	10	–	–	–	10	10	10
Retail	20,014	44	12	33	20,103	20,175	20,671
	20,024	79	12	33	20,148	20,220	20,695

							2014
Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Corporates	9	–	–	–	9	9	13
Retail	21,176	44	13	30	21,263	21,341	21,816
	21,185	44	13	30	21,272	21,350	21,829

[1]The geographic breakdown is based on country of risk reflecting the CRD IV requirements.

[2]Total gross exposure is before CRM, CCFs and offsets.

[3]Average exposures over the period are based on total exposures i.e. EAD.

Table 33b: Residual maturity of credit exposures (EAD) – IRB Approach

	2015				2014		
Residual maturity	Institutions € m	Corporates € m	Retail € m	Total exposures € m	Corporates € m	Retail € m	Total exposures € m
On demand	35	1	23	59	–	17	17
< 3 months	–	–	93	93	–	101	101
3 < 6 months	–	–	27	27	–	10	10
6 months < 1 year	–	1	162	163	–	31	31
1 < 3 years	–	–	226	226	1	194	195
3 < 5 years	–	–	358	358	–	483	483
5 < 10 years	–	2	2,088	2,090	3	2,069	2,072
10 years+	–	6	17,126	17,132	5	18,358	18,363
	35	10	20,103	20,148	9	21,263	21,272

Appendix 6: Parent company and subsidiary disclosures

AIB Mortgage Bank

Table 33c: Obligor grade disclosures – IRB Approach

2015

Obligor grade	Institutions EAD € m	Institutions Exposure – weighted average risk weight %	Retail EAD € m	Retail Exposure – weighted average risk weight %	Retail Exposure – weighted average LGD[1] %	Corporates EAD € m	Corporates Exposure – weighted average risk weight %	Total IRB EAD € m	Total IRB Exposure – weighted average risk weight %
Grade 1 – 3	**35**	**27**	**7,440**	**6**	**25**	**–**	**–**	**7,475**	**6**
Grade 4 – 10	**–**	**–**	**8,805**	**48**	**26**	**1**	**119**	**8.806**	**48**
Grade 11 – 13	**–**	**–**	**3,858**	**109**	**31**	**9**	**86**	**3,867**	**109**
	35	**27**	**20,103**	**44**	**30**	**10**	**88**	**20,148**	**44**

2014

Obligor grade	Retail EAD € m	Retail Exposure – weighted average risk weight %	Retail Exposure – weighted average LGD[1] %	Corporates EAD € m	Corporates Exposure – weighted average risk weight %	Total IRB EAD € m	Total IRB Exposure – weighted average risk weight %
Grade 1 – 3	6,745	6	27	–	–	6,745	6
Grade 4 – 10	9,144	49	29	2	146	9,146	49
Grade 11 – 13	5,374	99	35	7	71	5,381	99
	21,263	48	30	9	86	21,272	48

[1]In estimating its regulatory capital requirements for credit risk for retail exposures, AIB uses internal estimates of each risk component, including loss given default ("LGD"). For all other exposure classes, AIB uses regulatory estimates of LGD.

AIB Mortgage Bank

Table 33d IRB – PD by geography

The following table sets out an analysis of exposure at default (“EAD”)[1] and probability of default (“PD”) by exposure class and geography.

2015

	Institutions		Corporates		Retail		Total IRB	
Country of risk	EAD € m	Average PD %	EAD € m	Average PD %	EAD € m	Average PD %	EAD € m	Average PD %
Republic of Ireland	–	–	4	20	17,115	1.30	17,119	1.30
United Kingdom	35	0.10	–	–	29	4.38	64	7.47
United States of America	–	–	–	–	9	2.13	9	2.13
Rest of the World	–	–	–	–	22	3.22	22	3.22
Total performing	35	0.10	4	20	17,175	1.30	17,214	1.32
Defaulted	–		6	100.0	2,928	100.0	2,934	100.0
Total exposures	35	0.10	10	64	20,103	15.68	20,148	15.69

2014

	Institutions		Corporates		Retail		Total IRB	
Country of risk	EAD € m	Average PD %	EAD € m	Average PD %	EAD € m	Average PD %	EAD € m	Average PD %
Republic of Ireland	–	–	5	6.90	16,837	1.40	16,842	1.40
United Kingdom	–	–	–	–	25	3.57	25	3.57
United States of America	–	–	–	–	9	2.37	9	2.37
Rest of the World	–	–	–	–	21	4.18	21	4.18
Total performing	–	–	5	6.90	16,892	1.41	16,897	1.41
Defaulted	–		4	100.0	4,371	100.0	4,375	100.0
Total exposures	–	–	9	47.65	21,263	21.68	21,272	21.69

[1]Includes EAD in relation to impaired loans.

AIB Mortgage Bank

Table 34a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

The following table profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography:

	2015				
Industry	**Loans and receivables to customers – gross of provisions € m**	**Of which: past due but not impaired € m**	**Of which: impaired € m**	**Specific balance sheet provisions € m**	**Specific impairment provision credit for the year € m**
Personal – Residential mortgages	**20,480**	**586**	**2,902**	**957**	**(165)**
Geography					
Republic of Ireland	**20,480**	**586**	**2,902**	**957**	**(165)**

	2014				
Industry	Loans and receivables to customers – gross of provisions € m	Of which: past due but not impaired € m	Of which: impaired € m	Specific balance sheet provisions € m	Specific impairment provision credit for the year € m
Personal – Residential mortgages	21,871	716	4,578	1,641	(81)
Geography					
Republic of Ireland	21,871	716	4,578	1,641	(81)

[1]The geographic breakdown in this table is based primarily on the location of the office recording the transaction.

Table 34b: Movements in provisions for impairment on loans and receivables

	2015 € m	2014 € m
At 1 January	**1,951**	2,301
Credit to income statement	**(323)**	(100)
Amounts written off	**(519)**	(250)
At 31 December	**1,109**	1,951

Appendix 6: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

AIB Group (UK) p.l.c. operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI). In GB, the segment operates under the name Allied Irish Bank (GB) from locations in major business centres and provides a full banking service to business customers and high net worth individuals. In NI, the segment operates under the trading name First Trust Bank from outlets across NI and provides a full banking service, including online, mobile and telephone banking to business and personal customers across the full range of customer segments – professionals, high net worth individuals, SMEs, as well as the public and corporate sectors.

Table 35a: Industry distribution of credit exposures (EAD) – Standardised Approach

														2015
	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufact-uring	Other loans - personal	Other services	Property	Transport and communi-cation	Bank, sovereign and public sector[1]	Other	Total exposures
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	4,227	–	4,227
Institutions	–	–	–	–	–	–	–	–	–	–	–	132	–	132
Corporates	41	392	1,340	111	463	11	538	113	1,824	413	329	–	–	5,575
Retail	33	9	48	1	15	173	6	201	50	72	2	–	–	610
Secured by mortgages on immovable property	1	36	23	–	45	1,887	1	74	177	1,303	3	–	–	3,550
Exposures in default	3	12	79	–	9	154	20	12	39	97	–	–	–	425
Exposures associated with particularly high risk	–	–	–	–	75	–	–	–	–	–	–	–	–	75
Other items	–	–	–	–	–	–	–	–	–	–	–	–	188	188
Total	78	449	1,490	112	607	2,225	565	400	2,090	1,885	334	4,359	188	14,782

[1]AIB Group (UK) p.l.c. bank and sovereign exposures are treated under the Standardised Approach for reporting to the PRA and treated under the IRB Approach at a consolidated reporting level.

Appendix 6: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

Table 35a: Industry distribution of credit exposures (EAD) – Standardised Approach *(continued)*

														2014
	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufact-uring	Other loans - personal	Other services	Property	Transport and communi-cation	Bank, sovereign and public sector[1]	Other	Total exposures
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	4,197	–	4,197
Institutions	–	–	–	–	–	–	–	–	–	–	–	164	–	164
Corporates	35	194	836	28	538	–	406	44	1,682	361	141	–	–	4,265
Retail	26	10	32	1	12	275	6	173	51	74	1	–	–	661
Secured by mortgages on immovable property	3	18	19	–	21	1,982	1	51	172	1,347	15	–	–	3,629
Exposures in default	–	15	92	8	3	178	4	8	76	209	3	–	–	596
Exposures associated with particularly high risk	–	–	–	–	40	–	–	–	–	–	–	–	–	40
Other items	–	–	–	–	–	–	–	–	–	–	–	–	198	198
Total	64	237	979	37	614	2,435	417	276	1,981	1,991	160	4,361	198	13,750

[1]AIB Group (UK) p.l.c. bank and sovereign exposures are treated under the Standardised Approach for reporting to the PRA and treated under the IRB Approach at a consolidated reporting level.

AIB Group (UK) p.l.c.

Table 35b: Geographic[(1)] distribution of credit exposures (EAD) – Standardised Approach

2015

Exposure class	United Kingdom € m	Ireland € m	Rest of the World € m	United States of America € m	Total exposures € m	Total gross exposures[(2)] € m	Average exposures over the period[(3)] € m
Central governments and central banks	4,227	–	–	–	4,227	4,227	4,423
Institutions	98	–	34	–	132	132	112
Corporates	5,390	78	107	–	5,575	6,842	4,965
Retail	587	9	14	–	610	920	657
Secured by mortgages on immovable property	3,492	26	32	–	3,550	3,626	3,716
Exposures in default	403	11	11	–	425	760	592
Exposures associated with particularly high risk	75	–	–	–	75	75	49
Other items	188	–	–	–	188	188	241
	14,460	124	198	–	14,782	16,770	14,755

2014

Exposure class	United Kingdom € m	Ireland € m	Rest of the World € m	United States of America € m	Total exposures € m	Total gross exposures[(2)] € m	Average exposures over the period[(3] € m
Central governments and central banks	4,197	–	–	–	4,197	4,197	3,900
Institutions	143	–	21	–	164	164	174
Corporates	4,122	97	46	–	4,265	5,166	3,763
Retail	636	10	15	–	661	969	729
Secured by mortgages on immovable property	3,511	36	82	–	3,629	3,723	3,809
Exposures in default	549	27	20	–	596	1,103	628
Exposures associated with particularly high risk	40	–	–	–	40	40	17
Other items	198	–	–	–	198	198	341
	13,396	170	184	–	13,750	15,560	13,361

[(1)]The geographic breakdown is based on country of risk reflecting the CRD IV requirements.

[(2)]Total gross exposure is before CRM, CCFs and offsets.

[(3)]Average exposures over the period are based on total exposures i.e. EAD.

Appendix 6: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

Table 35c: Residual maturity of credit exposures (EAD) – Standardised Approach

2015

Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments and central banks	4,227	–	–	–	–	–	–	–	–	4,227
Institutions	105	27	–	–	–	–	–	–	–	132
Corporates	191	176	126	720	1,011	1,825	995	531	–	5,575
Retail	4	27	21	32	100	103	96	227	–	610
Secured by mortgages on immovable property	148	71	75	117	475	658	403	1,603	–	3,550
Exposures in default	51	4	2	54	27	26	31	230	–	425
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	75	75
Other items	–	–	–	–	–	–	–	–	188	188
	4,726	305	224	923	1,613	2,612	1,525	2,591	263	14,782

2014

Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments and central banks	4,180	–	17	–	–	–	–	–	–	4,197
Institutions	164	–	–	–	–	–	–	–	–	164
Corporates	348	190	116	389	778	1,258	624	562	–	4,265
Retail	4	23	15	69	72	76	98	304	–	661
Secured by mortgages on immovable property	168	169	86	185	384	590	350	1,697	–	3,629
Exposures in default	67	19	24	31	13	272	44	126	–	596
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	40	40
Other items	–	–	–	1	–	–	–	–	197	198
	4,931	401	258	675	1,247	2,196	1,116	2,689	237	13,750

AIB Group (UK) p.l.c.

Table 35d: Total exposure (EAD) value (after CRM) split by external rating and credit quality assessment step

								2015
Exposure class	**Standard and Poor's (ECAI 1) € m**	**Moody's (ECAI 2) € m**	**Fitch (ECAI 3) € m**	**DBRS (ECAI 4) € m**	**Credit quality assessment step € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Central governments and central banks	**–**	**–**	**4,227**	**–**	**–**	**4,227**	**–**	**4,227**
Institutions	**–**	**1**	**131**	**–**	**–**	**132**	**–**	**132**
Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**5,575**	**5,575**
Retail	**–**	**–**	**–**	**–**	**–**	**–**	**610**	**610**
Secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**–**	**3,550**	**3,550**
Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**425**	**425**
Exposures associated with particularly high risk	**–**	**–**	**–**	**–**	**–**	**–**	**75**	**75**
Other items	**–**	**–**	**–**	**–**	**–**	**–**	**188**	**188**
	–	**1**	**4,358**	**–**	**–**	**4,359**	**10,423**	**14,782**

								2014
Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment step € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	–	–	4,197	–	–	4,197	–	4,197
Institutions	–	–	164	–	–	164	–	164
Corporates	–	–	–	–	–	–	4,265	4,265
Retail	–	–	–	–	–	–	661	661
Secured by mortgages on immovable property	–	–	–	–	–	–	3,629	3,629
Exposures in default	–	–	–	–	–	–	596	596
Exposures associated with particularly high risk	–	–	–	–	–	–	40	40
Other items	–	–	–	–	–	–	198	198
	–	–	4,361	–	–	4,361	9,389	13,750

Appendix 6: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

Table 35e: Total exposure (EAD) value (after CRM) split by credit quality assessment step[1] – Standardised Approach

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	2015 Total € m
Central governments and central banks	4,227	–	–	–	–	–	4,227	–	4,227
Institutions	73	58	1	–	–	–	132	–	132
Corporates	–	–	–	–	–	–	–	5,575	5,575
Retail	–	–	–	–	–	–	–	610	610
Secured by mortgages on immovable property	–	–	–	–	–	–	–	3.550	3,550
Exposures in default	–	–	–	–	–	–	–	425	425
Exposures associated with particularly high risk	–	–	–	–	–	–	–	75	75
Other items	–	–	–	–	–	–	–	188	188
	4,300	58	1	–	–	–	4,359	10,423	14,782

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	2014 Total € m
Central governments and central banks	4,197	–	–	–	–	–	4,197	–	4,197
Institutions	39	44	–	–	81	–	164	–	164
Corporates	–	–	–	–	–	–	–	4,265	4,265
Retail	–	–	–	–	–	–	–	661	661
Secured by mortgages on immovable property	–	–	–	–	–	–	–	3,629	3,629
Exposures in default	–	–	–	–	–	–	–	596	596
Exposures associated with particularly high risk	–	–	–	–	–	–	–	40	40
Other items	–	–	–	–	–	–	–	198	198
	4,236	44	–	–	81	–	4,361	9,389	13,750

[1]For details of the credit ratings applied to the credit quality assessment steps - see page 22.

AIB Group (UK) p.l.c.

Table 36a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

The following table profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography:

2015					
Industry	**Loans and receivables to customers – gross of provisions € m**	**Of which: past due but not impaired € m**	**Of which: impaired € m**	**Balance sheet specific impairment provisions € m**	**Specific impairment provision (credit)/ charge for the year € m**
Agriculture	**99**	**3**	**1**	**1**	**–**
Energy	**86**	**–**	**–**	**–**	**–**
Manufacturing	**470**	**23**	**15**	**7**	**(1)**
Property and construction	**2,191**	**60**	**205**	**124**	**7**
Distribution	**1,272**	**16**	**93**	**28**	**(3)**
Transport	**285**	**–**	**1**	**–**	**–**
Financial	**347**	**3**	**8**	**3**	**(1)**
Other services	**1,755**	**14**	**43**	**18**	**4**
Personal:Residential mortgages	**2,362**	**72**	**255**	**113**	**(8)**
Other	**333**	**9**	**46**	**33**	**1**
	9,200	**200**	**667**	**327**	**(1)**
Geography					
United Kingdom	**9,200**	**200**	**667**	**327**	**(1)**

2014					
Industry	Loans and receivables to customers – gross of provisions € m	Of which: past due but not impaired € m	Of which: impaired € m	Balance sheet specific impairment provisions € m	Specific impairment provision charge for the year € m
Agriculture	63	4	1	1	–
Energy	8	–	–	–	–
Manufacturing	404	3	24	14	1
Property and construction	2,195	87	380	196	16
Distribution	917	14	126	44	6
Transport	145	–	3	3	1
Financial	348	9	10	3	–
Other services	1,754	12	101	40	16
Personal: Residential mortgages	2,522	81	291	153	28
Other	381	10	48	39	4
	8,737	220	984	493	72
Geography					
United Kingdom	8,737	220	984	493	72

[1]The geographic breakdown in this table is based primarily on the location of the office recording the transaction.

Table 36b: Movements in provisions for impairment on loans and receivables

	2015 € m	2014 € m
At 1 January	**552**	577
Exchange translation adjustments	**36**	39
(Credit)/charge to income statement	**(4)**	39
Amounts written off	**(128)**	(103)
Recoveries of amounts written off in previous years	**(73)**	–
At 31 December	**383**	552

Appendix 6: Parent company and subsidiary disclosures

EBS Limited

EBS Limited operates in the Republic of Ireland and has a countrywide network of offices and a direct telephone based distribution division (EBS Direct). It also distributes mortgages to independent mortgage intermediaries through Haven Mortgages Limited, a subsidiary of EBS Group.

Table 37a: Industry distribution of credit exposures (EAD) – Standardised Approach

2015	**Financial € m**	**Home loans € m**	**Property € m**	**Bank, sovereign and public sector € m**	**Other € m**	**Total exposures € m**
Central governments and central banks	**–**	**–**	**–**	**25**	**–**	**25**
Institutions	**–**	**–**	**–**	**3,748**	**–**	**3,748**
Corporates	**1,397**	**–**	**–**	**–**	**–**	**1,397**
Retail	**–**	**2**	**–**	**–**	**–**	**2**
Secured by mortgages on immovable property	**–**	**3,959**	**61**	**–**	**–**	**4,020**
Exposures in default	**–**	**869**	**47**	**–**	**–**	**916**
Exposures associated with particularly high risk	**–**	**–**	**3**	**–**	**–**	**3**
Covered bonds	**2,280**	**–**	**–**	**–**	**–**	**2,280**
Equity	**612**	**–**	**–**	**–**	**–**	**612**
Other items	**–**	**–**	**–**	**–**	**378**	**378**
Total	**4,289**	**4,830**	**111**	**3,773**	**378**	**13,381**

2014	Financial € m	Home loans € m	Property € m	Bank, sovereign and public sector € m	Other € m	Total exposures € m
Central governments and central banks	–	–	–	523	–	523
Institutions	–	–	–	4,783	–	4,783
Corporates	1,212	–	–	–	–	1,212
Retail	–	1	–	–	–	1
Secured by mortgages on immovable property	–	3,509	150	–	–	3,659
Exposures in default	–	1,081	182	–	–	1,263
Exposures associated with particularly high risk	–	–	5	–	–	5
Covered bonds	1,807	–	–	–	–	1,807
Equity	612	–	–	–	–	612
Other items	–	–	–	–	379	379
Total	3,631	4,591	337	5,306	379	14,244

EBS Limited

Table 37b: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

							2015
Exposure class	**Republic of Ireland € m**	**United Kingdom € m**	**United States of America € m**	**Rest of the World € m**	**Total exposures € m**	**Total gross exposures[2] € m**	**Average exposures over the period[3] € m**
Central governments and central banks	**25**	**–**	**–**	**–**	**25**	**25**	**244**
Institutions	**3,704**	**–**	**–**	**44**	**3,748**	**6,839**	**4,212**
Corporates	**1,397**	**–**	**–**	**–**	**1,397**	**1,397**	**1,298**
Retail	**2**	**–**	**–**	**–**	**2**	**2**	**1**
Secured by mortgages on immovable property	**3,989**	**17**	**3**	**11**	**4,020**	**4,186**	**3,820**
Exposures in default	**896**	**10**	**3**	**7**	**916**	**1,528**	**1,124**
Exposures associated with particularly high risk	**3**	**–**	**–**	**–**	**3**	**11**	**4**
Covered bonds	**2,280**	**–**	**–**	**–**	**2,280**	**2,280**	**2,064**
Equity	**612**	**–**	**–**	**–**	**612**	**612**	**612**
Other items	**378**	**–**	**–**	**–**	**378**	**378**	**382**
	13,286	**27**	**6**	**62**	**13,381**	**17,258**	**13,761**

							2014
Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	523	–	–	–	523	523	398
Institutions	4,729	–	–	54	4,783	7,038	4,282
Corporates	1,212	–	–	–	1,212	1,212	1,163
Retail	1	–	–	–	1	1	1
Secured by mortgages on immovable property	3,635	13	3	8	3,659	3,861	3,602
Exposures in default	1,243	11	3	6	1,263	1,901	1,289
Exposures associated with particularly high risk	5	–	–	–	5	13	6
Covered bonds	1,807	–	–	–	1,807	1,807	2,260
Equity	612	–	–	–	612	612	567
Other items	379	–	–	–	379	379	398
	14,146	24	6	68	14,244	17,347	13,966

[1]The geographic breakdown is based on country of risk reflecting the CRD IV requirements.

[2]Total gross exposure is before CRM, CCFs and offsets.

[3]Average exposures over the period are based on total exposures i.e. EAD.

Appendix 6: Parent company and subsidiary disclosures

EBS Limited

Table 37c: Residual maturity of credit exposures (EAD) – Standardised Approach

									2015
Exposure class	**0 < 3 months € m**	**3 < 6 months € m**	**6 months < 1 year € m**	**1 < 3 years € m**	**3 < 5 years € m**	**5 < 10 years € m**	**10 years + € m**	**No maturity € m**	**Total exposures € m**
Central governments and central banks	25	–	–	–	–	–	–	–	25
Institutions	3,012	12	121	31	421	1	150	–	3,748
Corporates	–	–	–	–	9	–	1,388	–	1,397
Retail	–	–	–	–	–	–	2	–	2
Secured by mortgages on immovable property	21	1	2	12	76	271	3,637	–	4,020
Exposures in default	9	3	8	10	21	95	770	–	916
Exposures associated with particularly high risk	–	–	–	1	–	2	–	–	3
Covered bonds	–	–	–	–	–	–	2,280	–	2,280
Equity	–	–	–	–	–	–	–	612	612
Other items	6	–	–	–	–	–	–	372	378
	3,073	16	131	54	527	369	8,227	984	13,381

									2014
Exposure class	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments and central banks	316	–	–	–	–	–	207	–	523
Institutions	3,426	766	107	76	237	1	170	–	4,783
Corporates	–	–	–	–	–	16	1,196	–	1,212
Retail	–	–	–	–	–	1	–	–	1
Secured by mortgages on immovable property	26	1	5	23	55	235	3,314	–	3,659
Exposures in default	11	4	6	16	18	96	1,112	–	1,263
Exposures associated with particularly high risk	–	1	2	1	–	1	–	–	5
Covered bonds	–	–	–	–	–	–	1,807	–	1,807
Equity	–	–	–	–	–	–	–	612	612
Other items	6	–	–	–	–	–	–	373	379
	3,785	772	120	116	310	350	7,806	985	14,244

EBS Limited

Table 37d: Total exposure (EAD) value (after CRM) split by external rating and credit quality assessment step

								2015
Exposure class	**Standard and Poor's (ECAI 1) € m**	**Moody's (ECAI 2) € m**	**Fitch (ECAI 3) € m**	**DBRS (ECAI 4) € m**	**Credit quality assessment step € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Central governments and central banks	**–**	**–**	**–**	**–**	**25**	**25**	**–**	**25**
Institutions	**–**	**–**	**53**	**–**	**3,695**	**3,748**	**–**	**3,748**
Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**1,397**	**1,397**
Retail	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**–**	**4,020**	**4,020**
Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**916**	**916**
Exposures associated with particularly high risk	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Covered bonds	**–**	**–**	**–**	**–**	**2,280**	**2,280**	**–**	**2,280**
Equity	**–**	**–**	**–**	**–**	**–**	**–**	**612**	**612**
Other items	**–**	**–**	**–**	**–**	**–**	**–**	**378**	**378**
	–	**–**	**53**	**–**	**6,000**	**6,053**	**7,328**	**13,381**

								2014
Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment step € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	–	–	–	–	523	523	–	523
Institutions	–	63	–	–	4,720	4,783	–	4,783
Corporates	–	–	–	–	–	–	1,212	1,212
Retail	–	–	–	–	–	–	1	1
Secured by mortgages on immovable property	–	–	–	–	–	–	3,659	3,659
Exposures in default	–	–	–	–	–	–	1,263	1,263
Exposures associated with particularly high risk	–	–	–	–	–	–	5	5
Covered bonds	–	–	–	–	1,807	1,807	–	1,807
Equity	–	–	–	–	–	–	612	612
Other items	–	–	–	–	–	–	379	379
	–	63	–	–	7,050	7,113	7,131	14,244

EBS Limited

Table 37e: Total exposure (EAD) value (after CRM) split by credit quality assessment step[1] – Standardised Approach

									2015
Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	–	–	25	–	–	–	25	–	25
Institutions	–	–	53	–	3,695	–	3,748	–	3,748
Corporates	–	–	–	–	–	–	–	1,397	1,397
Retail	–	–	–	–	–	–	–	2	2
Secured by mortgages on immovable property	–	–	–	–	–	–	–	4,020	4,020
Exposures in default	–	–	–	–	–	–	–	916	916
Exposures associated with particularly high risk	–	–	–	–	–	–	–	3	3
Covered bonds	–	–	2,280	–	–	–	2,280	–	2,280
Equity								612	612
Other items	–	–	–	–	–	–	–	378	378
	–	–	2,358	–	3,695	–	6,053	7,328	13,381

									2014
Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	–	523	–	–	–	–	523	–	523
Institutions	–	3,592	–	–	1,191	–	4,783	–	4,783
Corporates	–	–	–	–	–	–	–	1,212	1,212
Retail	–	–	–	–	–	–	–	1	1
Secured by mortgages on immovable property	–	–	–	–	–	–	–	3,659	3,659
Exposures in default	–	–	–	–	–	–	–	1,263	1,263
Exposures associated with particularly high risk	–	–	–	–	–	–	–	5	5
Covered bonds	–	1,807	–	–	–	–	1,807	–	1,807
Equity	–	–	–	–	–	–	–	612	612
Other items	–	–	–	–	–	–	–	379	379
	–	5,922	–	–	1,191	–	7,113	7,131	14,244

[1]For details of the credit ratings applied to the credit quality assessment steps - see page 22.

EBS Limited

Table 38a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

The following table profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography:

					2015
Industry	**Loans and receivables to customers – gross of provisions € m**	**Of which: past due but not impaired € m**	**Of which: impaired € m**	**Balance sheet specific impairment provisions € m**	**Specific impairment provision (credit) for the year € m**
Property and construction	**218**	**15**	**131**	**80**	**1**
Personal – Residential mortgages	**5,312**	**157**	**1,333**	**485**	**(5)**
	5,530	**172**	**1,464**	**565**	**(4)**
Geography					
Republic of Ireland	**5,530**	**172**	**1,464**	**565**	**(4)**

					2014
Industry	Loans and receivables to customers – gross of provisions € m	Of which: past due but not impaired € m	Of which: impaired € m	Balance sheet specific impairment provisions € m	Specific impairment provision charge for the year € m
Property and construction	241	12	148	81	18
Personal – Residential mortgages	5,362	186	1,703	524	53
	5,603	198	1,851	605	71
Geography					
Republic of Ireland	5,603	198	1,851	605	71

[1]The geographic breakdown in this table is based primarily on the location of the office recording the transaction.

Table 38b: Movements in provisions for impairment on loans and receivables

	2015 € m	2014 € m
At 1 January	**700**	815
Credit to income statement	**(44)**	(26)
Amounts written off	**(35)**	(89)
At 31 December	**621**	700

EBS Mortgage Finance

EBS Mortgage Finance issues mortgage covered securities for the purpose of financing mortgage loans secured on residential property in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. EBS Mortgage Finance does not sell mortgage loans directly to the public. It has an origination agreement with EBS Limited whereby EBS continues to sell mortgage loans directly to the public and subsequently transfers loan portfolios to EBS Mortgage Finance for an appropriate consideration.

Table 39a: Industry distribution of credit exposures (EAD) – Standardised Approach

				2015
	Home loans € m	Bank, sovereign and public sector € m	Other € m	Total exposures € m
Institutions	–	166	–	166
Retail	1	–	–	1
Secured by mortgages on immovable property	4,567	–	–	4,567
Exposures in default	710	–	–	710
Other items	–	–	2	2
Total	**5,278**	**166**	**2**	**5,446**

				2014
	Home loans € m	Bank, sovereign and public sector € m	Other € m	Total exposures € m
Institutions	–	191	–	191
Secured by mortgages on immovable property	4,613	–	–	4,613
Exposures in default	961	–	–	961
Other items	–	–	10	10
Total	5,574	191	10	5,775

Table 39b: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

2015

Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Institutions	166	–	–	–	166	166	174
Retail	1	–	–	–	1	1	1
Secured by mortgages on immovable property	4,534	19	3	11	4,567	4,601	4,566
Exposures in default	694	10	1	5	710	992	865
Other items	2	–	–	–	2	2	4
	5,397	29	4	16	5,446	5,762	5,610

2014

Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Institutions	191	–	–	–	191	191	154
Secured by mortgages on immovable property	4,582	18	2	11	4,613	4,675	4,776
Exposures in default	945	10	1	5	961	1,297	963
Other items	10	–	–	–	10	10	16
	5,728	28	3	16	5,775	6,173	5,909

(1)The geographic breakdown is based on country of risk reflecting the CRD IV requirements.

(2)Total gross exposure is before CRM, CCFs and offsets.

(3)Average exposures over the period are based on total exposures i.e. EAD.

Appendix 6: Parent company and subsidiary disclosures

EBS Mortgage Finance

Table 39c: Residual maturity of credit exposures (EAD) – Standardised Approach

									2015
Exposure class	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Institutions	60	–	–	–	–	–	106	–	166
Retail	–	–	–	–	–	–	1	–	1
Secured by mortgages on immovable property	–	–	1	19	56	286	4,205	–	4,567
Exposures in default	–	–	1	10	6	35	658	–	710
Other items	–	–	–	–	–	–	–	2	2
	60	–	2	29	62	321	4,970	2	5,446

									2014
Exposure class	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Institutions	76	–	–	–	–	–	115	–	191
Secured by mortgages on immovable property	1	1	2	27	64	300	4,218	–	4,613
Exposures in default	1	–	2	5	13	46	894	–	961
Other items	–	–	–	–	–	–	–	10	10
	78	1	4	32	77	346	5,227	10	5,775

EBS Mortgage Finance

Table 39d: Total exposure (EAD) value (after CRM) split by external rating and credit quality assessment step

2015

Exposure class	**Standard and Poor's (ECAI 1) € m**	**Moody's (ECAI 2) € m**	**Fitch (ECAI 3) € m**	**DBRS (ECAI 4) € m**	**Credit quality assessment step € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Institutions	**5**	**–**	**24**	**–**	**137**	**166**	**–**	**166**
Retail	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**–**	**4,567**	**4,567**
Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**710**	**710**
Other items	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
	5	**–**	**24**	**–**	**137**	**166**	**5,280**	**5,446**

2014

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality assessment step € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	44	–	–	147	191	–	191
Secured by mortgages on immovable property	–	–	–	–	–	–	4,613	4,613
Exposures in default	–	–	–	–	–	–	961	961
Other items	–	–	–	–	–	–	10	10
	–	44	–	–	147	191	5,584	5,775

Table 39e: Total exposure (EAD) value (after CRM) split by credit quality assessment step[(1)] – Standardised Approach

2015

Exposure class	**Step 1 € m**	**Step 2 € m**	**Step 3 € m**	**Step 4 € m**	**Step 5 € m**	**Step 6 € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Institutions	**–**	**29**	**–**	**137**	**–**	**–**	**166**	**–**	**166**
Retail	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,567**	**4,567**
Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**710**	**710**
Other items	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
	–	**29**	**–**	**137**	**–**	**–**	**166**	**5,280**	**5,446**

2014

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	44	–	115	32	–	191	–	191
Secured by mortgages on immovable property	–	–	–	–	–	–	–	4,613	4,613
Exposures in default	–	–	–	–	–	–	–	961	961
Other items	–	–	–	–	–	–	–	10	10
	–	44	–	115	32	–	191	5,584	5,775

[(1)]For details of the credit ratings applied to the credit quality assessment steps - see page 22.

Appendix 6: Parent company and subsidiary disclosures

EBS Mortgage Finance

Table 40a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

The following table profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography:

					2015
Industry	**Loans and receivables to customers – gross of provisions € m**	**Of which: past due but not impaired € m**	**Of which: impaired € m**	**Balance sheet specific impairment provisions € m**	**Specific impairment provision charge for the year € m**
Personal – Residential mortgages	**5,546**	**175**	**965**	**253**	**18**
Geography					
Republic of Ireland	**5,546**	**175**	**965**	**253**	**18**

					2014
Industry	Loans and receivables to customers – gross of provisions € m	Of which: past due but not impaired € m	Of which: impaired € m	Balance sheet specific impairment provisions € m	Specific impairment provision charge for the year € m
Personal – Residential mortgages	5,959	250	1,279	280	12
Geography					
Republic of Ireland	5,959	250	1,279	280	12

[1]The geographic breakdown in this table is based primarily on the location of the office recording the transaction.

Table 40b: Movements in provisions for impairment on loans and receivables

	2015 € m	2014 € m
At 1 January	**336**	381
(Credit)/charge to income statement	**(10)**	22
Amounts written off	**(45)**	(67)
At 31 December	**281**	336

Appendix 7: Remuneration disclosures

Introduction

This section reflects the requirements of the Capital Requirements Directive (CRD IV) in relation to remuneration disclosures and should be read in conjunction with AIB's Annual Financial Report 2015 (Directors' Remuneration report, pages 192 to 195).

These disclosures summarise the decision making process and governance of remuneration, the link between pay and performance, the remuneration of those staff whose professional activities are considered to have a material impact on AIB's risk profile and the key components of AIB's remuneration structure.

Table 41a: Remuneration

The following table illustrates the total remuneration of identified staff in 2015 and 2014:

		AIB Ireland	AIB UK	Group & International	Total
2015					
Total remuneration in 2015	**€ m**	**12.5**	**9.3**	**28.2**	**50.0**
(all forms of payments or benefits)	**Identified staff**	**54**	**52**	**144**	**250**
Total variable remuneration in 2015	**€ m**	**0.4**	**0.3**	**0.4**	**1.1**
(Severance payments in 2015)	**Identified staff**	**3**	**1**	**3**	**7**
2014					
Total remuneration in 2014	**€ m**	11.5	4.5	21.8	37.8
(all forms of payments or benefits)	**Identified staff**	48	27	112	187
Total variable remuneration in 2014	**€ m**	–	–	0.2	0.2
(Severance payments in 2014)	**Identified staff**	–	–	1	1

Table 41b: Remuneration

		Functions			
		NEDs and senior management[(1)]	Key control functions	Other material risk takers	Total
2015					
Total remuneration in 2015	**€ m**	**21.6**	**6.3**	**22.1**	**50.0**
(all forms of payments or benefits)	**Identified staff**	**92**	**43**	**115**	**250**
Total fixed remuneration in 2015	**€ m**	**21.4**	**6.1**	**21.4**	**48.9**
(salaries and other fixed benefits including pension contributions)	**Identified staff**	**92**	**43**	**115**	**250**
Total variable remuneration in 2015	**€ m**	**0.2**	**0.2**	**0.7**	**1.1**
(Severance payments in 2015)	**Identified staff**	**1**	**2**	**4**	**7**
2014					
Total remuneration in 2014	**€ m**	21.0	5.6	11.2	37.8
(all forms of payments or benefits)	**Identified staff**	88	37	62	187
Total fixed remuneration in 2014	**€ m**	21.0	5.6	11.0	37.6
(salaries and other fixed benefits including pension contributions)	**Identified staff**	88	37	62	187
Total variable remuneration in 2014	**€ m**	–	–	0.2	0.2
(Severance payments in 2014)	**Identified staff**	–	–	1	1

[(1)]Non-Executive Directors, current Leadership Team and direct reports to the Leadership team members.

Appendix 7: Remuneration disclosures

Notes on remuneration 2015:

- Total variable remuneration of € 1.1 million comprised of severance payments to seven individuals under the approved voluntary severance scheme. Under the severance programme, the highest severance payment to any one person was £ 184,262;
- No variable remuneration was paid in equity or other instruments;
- There was no deferred remuneration awarded in 2015. Details of any options that vested in previous years and exercisable are contained in Note 12 “Share Based Compensation Schemes” in the 2015 Annual Financial Report;
- Subject to agreed claw back arrangements, payments were made to three identified staff which totalled € 450,000 representing a once-off contribution towards loss of compensation from previous employment;
- Directors’ remuneration is detailed in the Directors’ Remuneration report in ‘Governance and oversight’ in the 2015 Annual Financial Report; and
- Tables 41a and 41b includes 2 individuals identified as material risk takers during 2015 who were designated as Service Providers and whose remuneration was not directly paid by AIB. These costs amounted to € 570,870 and are included within fixed remuneration.

Remuneration of identified staff

AIB compiles the list of Identified Staff in full consultation with key business areas and control functions. The identification of material risk takers, whose professional activities are considered to have a material impact on the Group’s risk profile, is based on an assessment of qualitative and quantitative criteria. Identified Staff include:-

- Executive and non-executive members of the Board of Directors;
- Members of the Leadership Team and their direct reports, including members of Senior Management Teams;
- Heads of material business units and their direct reports, including organisational or legal entities, regions, key business lines or geographical locations;
- Heads of Risk, Compliance, Internal Audit and their direct reports;
- Senior management in Credit Risk including the Chief Credit Officer, Heads of Credit, their direct reports and other staff with authority to initiate, approve or veto credit proposals or to structure credit products;
- Senior management responsible for legal, finance, human resources, remuneration policy, IT, economic analysis and other key risk functions; and,
- Other key risk takers or higher remunerated staff whose professional activities individually or collectively exert influence on the institution’s risk profile, including the ability to enter into transactions, contracts and other risk positions or to approve or veto the introduction of new products.

During 2015, a total of 250 employees were considered Identified staff (2014: 187). As at 31 December 2015, Identified Staff comprised 231 (31 December 2014: 169).

Decision making process and governance

AIB’s Remuneration Policy is set and governed by the Group Remuneration Committee (the “Committee”) on behalf of the Board. The purpose, duties and membership of the Committee are determined by its Terms of Reference which may be viewed on the Group’s website www.aibgroup.com.

The scope of AIB’s Remuneration Policy includes all financial benefits available to employees and extends to all areas of the Group. The Committee’s responsibilities include making recommendations to the Board on remuneration policies and practices, on the remuneration of the Chairman of the Board (in his absence) and on variable incentive arrangements, when appropriate. The Committee determines the remuneration of the Chief Executive, Executive Directors and members of the Leadership Team. The Committee is also required to review the remuneration components of material risk takers (“Identified Staff”) as defined under the Capital Requirements Directive (CRD IV). The Committee controls the appointment of any external remuneration consultants or similar specialist advisors who provide it with advice.

The Committee is cognisant of the need to attract, retain and embed the right skill-sets and behaviours which reflect AIB’s Brand Values and which enable AIB to deliver long term sustainable growth within the parameters of AIB’s risk appetite statement. In doing so, it takes account of appropriate input from AIB’s control functions to ensure that its decision making process is aligned with the Group’s financial performance, regulatory guidelines and stakeholder interests.

The Remuneration Policy reflects the provisions of the Capital Requirements Directive (CRD IV) and accompanying Capital Requirements Regulations (CRR), notably their application to material risk takers, the application of a cap on the variable element of remuneration at 100 per cent of fixed remuneration and the application of malus and clawback arrangements in the event of future operation of variable incentive schemes. The Remuneration Policy will be further updated in 2016 to reflect the final guidelines on

Decision making process and governance *(continued)*

sound remuneration practices as issued by the European Banking Authority on 21 December 2015.

AIB's remuneration practices operate under a number of constraints arising from State ownership, principally from the provisions of Placing and Subscription Agreements or through commitments provided by AIB to the Minister for Finance in respect of remuneration practices. These constraints cover the remuneration of directors, executives, employees and service providers across the Group. Remuneration is managed by the Remuneration Committee in accordance with these constraints.

The members of the Committee during 2015 were Richard Pym, Jim O'Hara, Peter Hagan and Tom Foley.

Link between Pay and Performance

Remuneration policies and practices are designed to provide fair and competitive remuneration while also attracting and retaining the right calibre of employees to drive the Group's future growth and success.

AIB's performance management system is designed to encourage high performance and sound customer centric behaviours in accordance with AIB's Brand Values. The Group's strategic objectives are cascaded down to individual level as part of a rigorous objective alignment process using a balanced scorecard approach and comprising both financial and non-financial objectives over a multi-year timeframe. This process sets out to ensure that employees have a clear understanding of how their own individual objectives contribute to the delivery of AIB's overall strategy.

In September 2015, a general pay increase of 2% was awarded to all employees earning up to €100,000 or £80,000, effective from 1 January 2015. This followed a recommendation by the Labour Relations Commission and represented AIB's first general pay review since 2008. The Commission also recommended that future salary increases be entirely performance based using an agreed performance matrix and determined by such factors as costs of living, the Group's financial performance, market movement and other relevant considerations. It was also recommended that the next pay review would be due from 1 April 2016.

Additionally, performance continued to be recognised through limited increases in base pay. These were undertaken under tight budgetary parameters in the context of the Group's financial performance and ongoing State support. Increases were restricted to retaining key staff and skills considered critical to the achievements of the Group's long term objectives.

Remuneration structure

During 2015, remuneration across the Group continued to be principally comprised of fixed pay and pension elements. Following the closure of all defined benefit pension schemes to future accrual on 31 December 2013, all employees were migrated to a new defined contribution scheme. There were no bonus or share schemes in operation in 2015.

Appendix 8: Encumbrance

Encumbrance

The asset encumbrance disclosure has been produced in line with the Group's interpretation of the 2014 EBA Guidelines on disclosure of encumbered and unencumbered assets and the tables below are based on the EBA reporting templates. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and, as a result, is no longer available to the Group to secure funding, to satisfy collateral needs or to be sold.

Template A – Assets

	2015			
	Encumbered assets		Unencumbered assets	
	Carrying amount € m	Fair value € m	Carrying amount € m	Fair value € m
Assets of the reporting institution	**27,264**		**75,858**	
Equity instruments	**–**	**–**	**781**	**781**
Debt securities	**12,037**[(1)]	**12,040**	**12,770**[(2)]	**12,782**
Other assets	**15,227**		**62,307**	

	2014			
	Encumbered assets		Unencumbered assets	
	Carrying amount € m	Fair value € m	Carrying amount € m	Fair value € m
Assets of the reporting institution	29,302		78,153	
Equity instruments	–	–	413	413
Debt securities	16,298[(1)]	16,305	13,331[(2)]	13,372
Other assets	13,004		64,409	

[(1)]Includes NAMA senior bonds amounting to € 1,240 million.

[(2)]Includes NAMA senior bonds amounting to € 4,376 million.

Template B – Collateral received

	2015	
	Fair value of encumbered collateral received or own own debt securities issued € m	Fair value of collateral received or own debt securities issued available for encumbrance € m
Collateral received by the reporting institution	**316**	**1,214**
Equity instruments	**–**	**–**
Debt securities	**316**	**1,001**
Other collateral received	**–**	**213**
Own debt securities issued other than own covered bonds or ABSs	**–**	**–**

	2014	
	Fair value of encumbered collateral received or own own debt securities issued € m	Fair value of collateral received or own debt securities issued available for encumbrance € m
Collateral received by the reporting institution	–	457
Equity instruments	–	–
Debt securities	–	113
Other collateral received	–	344
Own debt securities issued other than own covered bonds or ABSs	–	–

Template C – Encumbered assets/collateral received and associated liabilities

	2015	
	Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
	€ m	**€ m**
Carrying amount of selected financial liabilities	**20,054**	**25,382**

	2014	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	€ m	€ m
Carrying amount of selected financial liabilities	23,771	27,131

Template D – Information on importance of encumbrance

The ability to encumber certain pools of assets is a key element of the Group's funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding the Group's NAMA senior bonds and financial investments available for sale portfolios. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed in respect of derivative liabilities and sterling notes issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c..

The Group has seen, and would expect to continue to see a downward trend in encumbrance as the Group's funding requirement is reduced through NAMA bond repayments. The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage backed covered securities ("ACS"). In addition, the Group uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, the mortgage banks and the securitisation vehicles repo bonds centrally for liquidity management purposes. Bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a secured transaction. Secured funding between the parent and other Group entities (e.g. EBS Ltd and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

The Group had an encumbrance ratio of 26% as at 31 December 2015 (27%: 2014), i.e. it is point in time encumbrance. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility. At 31 December 2015, € 9,217 million (2014: € 13,523 million) of residential loan mortgages included in loans and receivables to customers are unencumbered but are regarded by the Group as readily encumberable as they are held in covered bond and securitisation structures. The remaining loan assets in this category € 40,536 million (2014: € 38,737 million), whilst unencumbered, are not regarded as being available in support of liquidity management at present. Other assets such as deferred tax assets, derivative assets, property, plant and equipment are not regarded as encumberable.

Glossary of definitions and explanations

A

Additional Tier 1 capital – In the context of CRD IV, additional Tier 1 Capital ("AT1") is a measure of a bank's financial strength as defined by the Capital Requirements Regulation.

AIB Group (UK) p.l.c. is a wholly owned subsidiary which trades in Northern Ireland as First Trust Bank and in Britain as Allied Irish Bank (GB).

Arrears – arrears relate to any interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue.

B

Banking book (also non-trading book) – a regulatory classification to support the regulatory treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on an available for sale or hold to maturity basis (e.g. available for sale ("AFS") securities portfolio). The Group's banking book consists of its retail and corporate deposit books, the Treasury function's cash books and the Group's investment portfolios and derivatives hedging interest rate risk within these portfolios.

Bank Recovery and Resolution Directive – The Bank Recovery and Resolution directive ("BRRD") is a European legislative package issued by the European Commission and adopted by EU Member States. The directive was finalised in July 2014 with the majority of provisions coming into effect 1 January 2015. The BRRD introduces a common EU framework for how authorities should intervene to address banks which are failing or are likely to fail. The framework includes early intervention and measures designed to prevent failure and in the event of bank failure for authorities to ensure an orderly resolution.

Basel II – a set of banking regulations issued in 2004 by the Basel Committee on Bank Supervision, which regulated finance and banking internationally. It was implemented into EU law by Directive 2006/48/EC and Directive 2006/49/EC. Basel II attempted to integrate Basel capital standards with national regulations, by setting the minimum capital requirements of financial institutions with the goal of ensuring institution liquidity.

Basel III – a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source;
- improve risk management and governance; and
- strengthen banks' transparency and disclosures. Basel III is part of the Committee's continuous effort to enhance the banking regulatory framework.

Basel III builds on the International Convergence of Capital Measurement and Capital Standards document (Basel II).
CRD IV implements the Basel III agreement in the EU framework.

Basis points ("bps") – One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

C

Carrying value – an accounting measure of value, where the value of an asset or a company is based on the figures in the company's statement of financial position (balance sheet). This is the amount at which an asset is recognised in the balance sheet after deducting accumulated depreciation and accumulated impairment. This is different from market value, as it can be higher or lower depending on the circumstances, the asset in question and the accounting practices that affect those assets.

Capital Requirements Directive ("CRD") – a capital adequacy legislative package issued by the European Commission and adopted by EU member states. The first CRD legislative package gave effect in the EU to the Basel II proposals and came into force on 20 July 2006. CRD II, which came into force on 31 December 2010, subsequently updated the requirements for capital instruments, large exposures, liquidity risk and securitisations. A further CRD III amendment updated market risk capital and additional securitisation requirements and came into force on 31 December 2011.

Capital Requirements Directive IV ("CRD IV") – CRD IV, which came into force on 1 January 2014, comprises a recast Capital Requirements Directive and a new Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. The Regulation contains the detailed prudential requirements for credit institutions and investment firms.

C

Central Bank of Ireland – the Central Bank of Ireland ("Central Bank" or "CBI") is responsible for both central banking and financial regulation and was created under the Central Bank Reform Act 2010. The Central Bank has a legal mandate, in both domestic legislation and under the Maastricht treaty, to contribute to financial stability both in Ireland and across the eurozone. Historically, the Central Bank of Ireland has had overall responsibility for the authorisation and supervision of credit institutions operating in Ireland. From 4 November 2014, a number of supervisory responsibilities and decision making powers moved to the ECB (see Single Supervisory Mechanism on page 107).

Collateralised loan obligations – A collateralised loan obligation ("CLO") is a security backed by a pool of debt, often low-rated corporate loans. CLOs are similar to collateralised mortgage obligations, except for the different type of underlying loan.

Collateralised mortgage obligations – A collateralised mortgage obligation ("CMO"), is a type of bond that is structured using mortgage-backed securities. The performance of these bonds depends on the quality of the home mortgages on which they are based.

Common equity tier 1 capital ("CET1") – the highest quality form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.

Common equity tier 1 capital ratio ("CET1 ratio") – a measurement of a bank's core equity capital compared with its total risk weighted assets.

Core tier 1 capital – the highest quality form of regulatory capital under Basel II that comprises called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank of Ireland.

Core tier 1 ratio – a Basel II measure of core tier 1 capital expressed as a percentage of risk weighted assets.

Counterparty credit exposure ("CCE") – is a measure of the amount that would be lost in the event that a counterparty to a financial contract defaults prior to its maturity. If, at that time the Group were to incur a loss to replace the contract, this would give rise to a claim on the counterparty. CCE consists partly of the contract's current replacement cost (or mark-to-market) and partly of potential future exposure. The potential future exposure component is an estimation which reflects possible changes in market values during the remaining life of the individual contract. The CCE for an individual counterparty will take into account the existence of valid bilateral netting or collateral agreements, where these are in place.

Credit conversion factor ("CCF") – converts off balance sheet items and items which are committed but undrawn into on balance sheet credit exposure equivalents. An estimate is made of the proportion of undrawn commitments expected to have been drawn at the point of default. Conversion factor is the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment is determined by the advised limit, unless the unadvised limit is higher.

Credit default swap ("CDS") – an agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.

Credit derivatives – financial instruments where credit risk connected with loans, bonds or other risk weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be the exposure inherent in a financial asset such as a loan or might be generic credit risk such as the bankruptcy risk of an entity.

Credit risk mitigation ("CRM") – techniques used by a credit institution to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantees; and credit protection.

Credit support annex ("CSA") – provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association ("ISDA"). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.

Glossary of definitions and explanations

D

Default – when a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in a CRD IV context when a loan is greater than 90 days past due and/or the borrower is unlikely to pay his credit obligations. This may require additional capital to be set aside.

E

EBA – The European Authority ("EBA") is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European Banking sector.

ECB Refi rate – When reference is made to the European interest rate, this often refers to the ECB Main Refinancing Operations ("refi") rate. The level of this refi rate is therefore the price that banks pay to borrow funds on a secured basis from the European Central Bank.

Eligible financial collateral – is any of the following:
(a) cash on deposit with, or cash assimilated instruments held by, the lending credit institution;
(b) debt securities issued by central governments and central banks, which securities have a credit assessment by an External Credit Assessment Institution ("ECAI") or export credit agency recognised as eligible for the purposes of Articles 111 to 113 and 135 to 136 of CRD IV which has been determined by the competent authority to be associated with credit quality step 4 or above under the rules for the risk weighting of exposures to central governments and central banks under Articles 111 to 113 and 135 to 136 of CRD IV;
(c) debt securities issued by institutions, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to credit institutions under Articles 111 to 113 and 135 to 136 of CRD IV;
(d) debt securities issued by other entities, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under Articles 111 to 113 and 135 to 136 of CRD IV;
(e) debt securities with a short-term credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures under Articles 111 to 113 and 135 to 136 of CRD IV;
(f) equities or convertible bonds that are included in a main index; and
(g) gold

Expected loss ("EL") – the amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one year period. EL is calculated by multiplying the EAD (an amount) by the PD (a percentage) and by LGD (a percentage).

Exposure at default ("EAD") – the expected or actual amount of exposure to the borrower at the time of default.

Exposure in default – the Basel asset class "Exposure in default" relates only to standardised exposures and comprises exposures that are greater than 90 days past due or defaulted, and those impaired.

Exposure value – for on balance sheet exposures, is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. No account is taken of the residual maturity or ratings from external credit rating agencies. For commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors.

External Credit Assessment Institution ("ECAI") – a credit rating agency that is registered or certified in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009;

F

Fair value – the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

G

Gross exposure – the exposure at default before Credit Risk Mitigation ("CRM"), Credit Conversion Factors ("CCF") and other offsets. See Credit Risk Mitigation and Credit Conversion Factor defined above.

I

Impaired loans – Loans are typically reported as impaired when interest thereon is 91 days or more past due or where a provision exists in anticipation of loss, except (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest, is adequately secured. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued but the increase of present value of impaired loans due to the passage of time is reported as interest income.

I

Internal Capital Adequacy Assessment Process ("ICAAP") – the Group's own assessment, through an examination of its risk profile from regulatory and economic capital perspectives, of the levels of capital that it needs to hold.

International Swaps and Derivatives Association ("ISDA") – represents participants in the privately negotiated derivatives industry. It is the largest global financial trade association, by number of member firms.

Ireland Strategic Investment Fund ("ISIF") – established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. The ISIF is controlled and managed by the NTMA. Pursuant to this Act, all property held by the National Pensions Reserve Fund Commission (the "NPRFC"), including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the NTMA on 22 December 2014.

Items associated with particular high risk – a CRD IV exposure class whereby institutions shall assign a 150 % risk weight to exposures, including exposures in the form of shares or units in a CIU that are associated with particularly high risks, where appropriate. Exposures with particularly high risks shall include any of the following exposures:

- investments in venture capital firms;
- investments in AIFs as defined in Article 4(1)(a) of Directive 2011/61/EU except where the mandate of the fund does not allow a leverage higher than that required under Article 51(3) of Directive 2009/65/EC;
- investments in private equity; and
- speculative immovable property financing.

L

Leverage ratio – To prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduces a non-risk-based leverage ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.

Liquidity Coverage Ratio ("LCR") – The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceed 60% on 1 January 2015 and 100% on 1 January 2018.

Loss Given Default ("LGD") – the expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.

Loan to value ("LTV") – LTV is an arithmetic calculation that expresses the amount of a loan as a percentage of the value of security/collateral. A high LTV indicates that there is less cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.

M

Market value – the prevailing price at which goods and/or services may be bought or sold in the open market.

N

National Asset Management Agency ("NAMA") – was established in December 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.

Net Interest Rate Insensitive Liabilities ("NIRIL") – relate to long term assets and liabilities which are not re-priceable on a permanent basis with changes in the general level of interest rates. Examples typically include current account and demand deposit portfolios and can be extended to include non-performing loans. Banks often have specific policies to manage the interest rate profile of these pools in order to manage the potential for earnings volatility with fluctuations in interest rates.

The National Pensions Reserve Fund Commission ("NPRFC") – was established in April 2001 to meet as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards, when these costs are projected to increase dramatically due to the ageing of the population. Following the establishment of the ISIF (controlled by the National Treasury Management Agency ("NTMA")) on 22 December 2014, by the NTMA (Amendment Act 2014) all property held by the NPRFC, including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the NTMA.

Glossary of definitions and explanations

N

The National Treasury Management Agency ("NTMA") – is a State body which operates with a commercial remit outside public service structures to provide asset and liability management services to the Irish Government.

Net Stable Funding Ratio ("NSFR") – The ratio of available stable funding to required stable funding over a 1 year time horizon.

O

Operational risk – is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and business risk.

Originator – is either of the following:
(a) an entity which, either itself or through related entities, directly or indirectly, is involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised;
(b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them.

Other items – a CRD IV definition which refers to other assets including land and buildings, plant and machinery, other fixtures and fittings, tools and equipment, payments on account and tangible assets in the course of construction.

P

Pillar 1 – minimum capital requirements – the part of the Basel Accord setting out the calculation of regulatory capital for credit, market and operational risk.

Pillar 2 – the supervisory review process – the part of the Basel Accord which sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well the financial institutions are assessing their risks and take appropriate actions in response to the assessments.

Pillar 3 – market discipline – the part of the Basel Accord which sets out the disclosure requirements for banks to publish certain details of their risks, capital and risk management, with the aim of strengthening market discipline.

Position risk requirement ("PRR") – capital requirement applied to a position treated under BIPRU* 7 (Market risk) as part of the calculation of the market risk capital requirement.
*BIPRU is the prudential sourcebook for banks, building societies and investments firms (Prudential Regulatory Authority ("PRA") in the UK).

Potential future exposure ("PFE") – is a measure of counterparty risk/credit risk and is defined as the maximum expected credit exposure over a specified period of time calculated at some level of confidence.

Principal Components Analysis ("PCA") – is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "demeaned"; adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (>95%) of yield curve movements can be explained using just three principal components (i.e. a parallel shift, twist and bow). PCA is a very useful tool in reducing dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.

Probability of default ("PD") – is the likelihood that a borrower will default on an obligation to repay.

R

Regulatory capital – capital which AIB holds, determined in accordance with rules established by the Central Bank of Ireland for the consolidated Group and by local regulators for individual Group companies.

Repurchase agreement ("repo") – short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the financial asset at a date in the future, repaying the proceeds of the loan. For the counterparty to the transaction it is termed a reverse repurchase agreement or a reverse repo.

R

Residential mortgage backed securities ("RMBS") – are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

Revolving exposure – exposure whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.

Risk weighted assets ("RWAs") – measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulae as defined in the Basel Accord to reflect the risks inherent in those assets.

S

Securitisation – securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flow into securities that can be issued and traded in the capital markets.

Securitisation position – an exposure to a securitisation.

The Single Resolution Mechanism ("SRM"), which implements the EU-wide BRRD in the Euro area, becomes fully operational on 1 January 2016. The full resolution powers of the Single Resolution Board ("SRB") apply as of 1 January 2016.

Single Supervisory Mechanism ("SSM") – system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

Historically, the Central Bank of Ireland has had overall responsibility for the authorisation and supervision of credit institutions operating in Ireland. From 4 November 2014, a number of supervisory responsibilities and decision making powers moved to the ECB.

The ECB is responsible for all core supervisory responsibilities as defined in the Council Regulation (EU) No. 1024/2013.The Central Bank retains responsibility for the supervision activities defined in the SSMR as non-core (e.g. anti-money laundering, consumer protection).

Special Purpose Entity ("SPE") – legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk.

Sovereign exposures – exposures to governments, ministries, departments of governments, embassies, consulates and exposures on account of cash balances and deposits with central banks.

Sponsor – credit institution other than an originator credit institution that establishes and manages an asset backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities.

Supervisory Formula Method – The Supervisory Formula Method ("SFM") is a formula based on the underlying asset portfolio's capital requirement calculated under the IRB Approach. It is used to calculate risk-weighted exposure amounts for unrated securitisation positions.

T

Tier 1 capital – measure of a bank's financial strength defined by the Basel Accord. It captures core tier 1 capital plus other tier 1 securities in issue, but is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the IFRS impairment provisions on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tier 2 capital – broadly includes qualifying subordinated debt and other tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provisions on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Total exposure – see exposure value.

Trading book – interest rate trading book includes all securities and interest rate derivatives that are held for trading purposes in the Treasury function. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognised in the income statement.

This page has been intentionally left blank

AIB Group, Bankcentre, PO Box 452, Dublin 4, Ireland
T: + 353 (1) 660 0311 group.aib.ie

Design and print management by Custodian Consultancy, 33 Lower Leeson Street, Dublin 2, Ireland