Pillar 3 Report

For the year ended
31 December 2016

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 Risks and Uncertainties on pages 50 to 58 in the 2016 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 58 of the 2016 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.

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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 2016 Annual Financial Report.

Key metrics

The following key metrics reflect the Group's risk profile (as described on pages 20 to 22 of the Risk management section). During 2016, 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.

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)*
€ 10,307 million	**€ 11,772 million**	**€ 8,314 million**	**€ 9,591 million**
(2015: € 9,285 million)	(2015: € 11,048 million)	(2015: € 7,675 million)	(2015: € 9,162 million)

Common equity tier 1 ratio *(transitional)*	Total capital ratio *(transitional)*	Common equity tier 1 ratio *(fully loaded)*	Total capital ratio *(fully loaded)*
19.0%	**21.7%**	**15.3%**	**17.6%**
(2015: 15.9%)	(2015: 18.9%)	(2015: 13.0%)	(2015: 15.5%)

Risk weighted assets ("RWA")

Total RWA *(transitional)*	Credit risk *(transitional)*	Total RWA *(fully loaded)*	Credit risk *(fully loaded)*
€ 54,235 million	**€ 48,843 million**	**€ 54,419 million**	**€ 49,027 million**
(2015: € 58,549 million)	(2015: € 53,596 million)	(2015: € 59,058 million)	(2015: € 54,105 million)

Market risk *(transitional)*	Operational risk *(transitional)*	Market risk *(fully loaded)*	Operational risk *(fully loaded)*
€ 288 million	**€ 3,874 million**	**€ 288 million**	**€ 3,874 million**
(2015: € 457 million)	(2015: € 3,139 million)	(2015: € 457 million)	(2015: € 3,139 million)

Liquidity ratios

Liquidity coverage ratio ("LCR")	Net stable funding ratio ("NSFR")
128%	**120%**
(2015: 113%)	(2015:111%)

Leverage ratios

(transitional)	*(fully loaded)*
11.0%	**9.2%**
(2015: 9.3%)	(2015: 7.9%)

Key movements in capital and RWAs are detailed in Section 2 – Capital and capital management on pages 8 to 19.

1. Introduction and AIB Group key information

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 2016 Annual Financial Report.

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 2016 Annual Financial Report. Pillar 3 reports from previous years are also available on this website.

Background and context *(continued)*

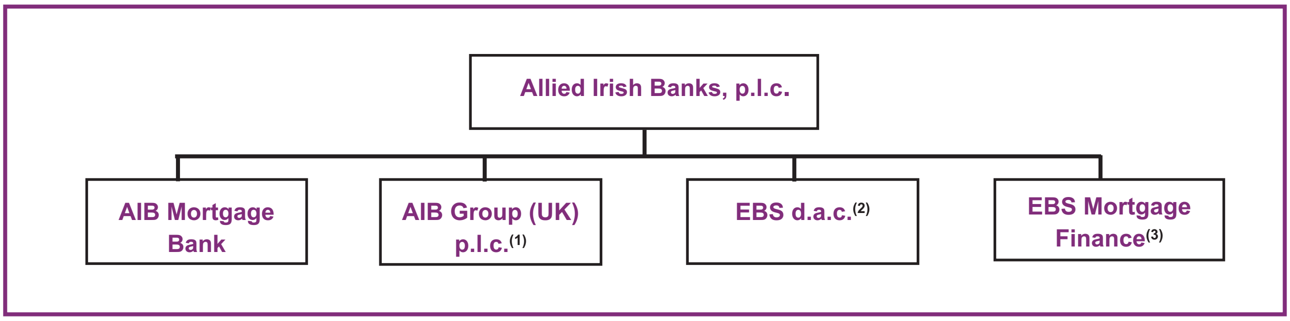
Verification

The Pillar 3 Disclosures have been subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the 2016 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 2016 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 2016 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 4 to this document.

Licensed banks within AIB Group
as at 31 December 2016



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

(2)On 12 September 2016, EBS Limited re-registered as a designated activity company (d.a.c.), as required under the Companies Act 2014. The registered name of the legal entity is now EBS d.a.c.

(3)EBS Mortgage Finance is a 100% owned subsidiary of EBS d.a.c. 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.

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

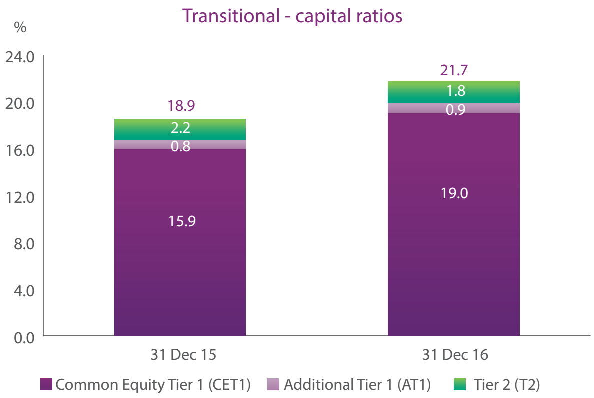
The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

The Group does this through an annual Internal Capital Adequacy Assessment Process ("ICAAP") and quarterly stress tests, which are both subject to supervisory review and evaluation. These are AIB's main capital management tools and give a clear picture of the Group's capital and material risks. The key stages in the ICAAP process are as follows:

– a Risk Appetite Statement is reviewed and approved by the Board annually;
– business strategy is set consistent with risk appetite which underpins the annual financial planning process;
– performance against plan and risk appetite is monitored monthly;
– 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 assess the resilience of the Group and inform capital needs as they arise; and
– the final stage of the ICAAP is the creation 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.

Performance during 2016

AIB's capital ratios improved in 2016 primarily due to profit for the period and a reduction in risk weighted assets ("RWAs"). The 2016 ratios are significantly in excess of regulatory requirements.



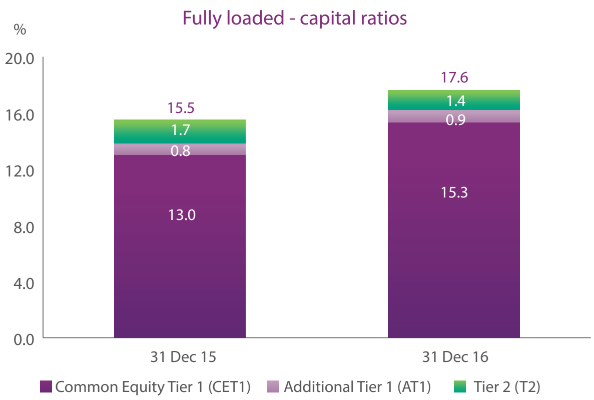


Table 1: Regulatory capital and capital ratios

The following table summarises AIB Group's capital position:

	CRD IV transitional basis		CRD IV fully loaded basis	
	31 December 2016 € m	31 December 2015 € m	**31 December 2016 € m**	31 December 2015 € m
Equity	**13,148**	12,148	**13,148**	12,148
Less: Additional Tier 1 Securities	**(494)**	(494)	**(494)**	(494)
Proposed ordinary dividend	**(250)**	–	**(250)**	–
Regulatory adjustments:				
Goodwill and intangibles	**(392)**	(292)	**(392)**	(292)
Cash flow hedging reserves	**(460)**	(354)	**(460)**	(354)
Reversal of fair value of contingent capital instrument	**–**	(46)	**–**	–
Available for sale securities reserves	**(445)**	(1,250)	**–**	–
Pension	**(140)**	(91)	**(126)**	(153)
Deferred tax	**(610)**	(317)	**(3,050)**	(3,171)
Expected loss deduction	**(28)**	–	**(46)**	–
Other	**(22)**	(19)	**(16)**	(9)
	(2,097)	(2,369)	**(4,090)**	(3,979)
Total common equity tier 1 capital	**10,307**	9,285	**8,314**	7,675
Additional tier 1 capital				
Additional Tier 1 Securities	**494**	494	**494**	494
Expected loss deduction	**(9)**	–	**–**	–
Total additional tier 1 capital	**485**	494	**494**	494
Total tier 1 capital	**10,792**	9,779	**8,808**	8,169
Tier 2 capital				
Subordinated debt	**783**	973	**783**	973
Credit provisions	**200**	287	**–**	20
Expected loss deduction	**(9)**	–	**–**	–
Other	**6**	9	**–**	–
Total tier 2 capital	**980**	1,269	**783**	993
Total capital	**11,772**	11,048	**9,591**	9,162
Risk weighted assets				
Credit risk	**48,843**	53,596	**49,027**	54,105
Market risk	**288**	457	**288**	457
Operational risk	**3,874**	3,139	**3,874**	3,139
Credit valuation adjustment	**1,225**	1,352	**1,225**	1,352
Other	**5**	5	**5**	5
Total risk weighted assets	**54,235**	58,549	**54,419**	59,058
	%	%	**%**	%
Common equity tier 1 ratio	**19.0**	15.9	**15.3**	13.0
Tier 1 ratio	**19.9**	16.7	**16.2**	13.8
Total capital ratio	**21.7**	18.9	**17.6**	15.5

2. Capital and capital management

Capital ratios at 31 December 2016

Transitional ratio

The Common Equity Tier 1 (CET1) transitional ratio increased to 19.0% at 31 December 2016 from 15.9% at 31 December 2015. The increase in the CET1 ratio was broadly driven by profit retained and a reduction in risk weighted assets ("RWAs"), partially offset by a proposed ordinary dividend payment of € 250 million.

CET1 capital increased by € 1,022 million to € 10,307 million at 31 December 2016. This consisted of an increase in shareholders' equity of € 1,000 million and positive regulatory adjustments of € 272 million partially offset by a proposed ordinary dividend payment of € 250 million.

The increase in shareholders' equity of € 1,000 million consisted of profit for the period of € 1,356 million offset by negative other comprehensive income of € 319 million and a distribution paid on the Additional Tier 1 instrument of € 37 million.

Negative other comprehensive income was driven by a reduction in available for sale securities reserves of € 359 million during the year (€ 195 million of which related to the realisation of the unrealised gain at 31 December 2015 in Visa Europe). There was also a revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulting in a net reduction in foreign currency translation reserves of € 168 million. This was partially offset by a net actuarial gain of € 103 million in retirement benefit schemes and an increase in the cash flow hedge reserve of € 106 million. The net actuarial gain arises through a combination of a) the gain arising from a change to the actuarial assumption of the nature and extent of any obligation to fund discretionary increases in pensions in payment in the Group's main Irish schemes which has been assessed following a review by the Board, including actuarial and external legal advice; b) the strong return on schemes' assets; c) the actuarial losses arising from significant reduction in discount rates; and d) the asset ceiling/minimum funding restrictions applying to certain Irish schemes. See page 272 in the Annual Financial Report for further details.
Regulatory adjustments increased by € 272 million. On 1 October 2016, Regulation (EU) 2016/445 removed a national derogation to exclude unrealised gains or losses on sovereign portfolios classified as available for sale ("AFS") in transitional CET1 capital. Of the positive regulatory adjustment in relation to AFS of € 805 million in the period, € 634 million related to AFS debt securities primarily due to the removal of this derogation with the remainder relating to AFS equity securities. This has been partially offset by (i) the deduction of the deferred tax asset ("DTA") relating to unutilised tax losses increasing by € 293 million as the phase-in rate increases from 10% to 20% in 2016, (ii) an increase of € 49 million in the pension deduction, (iii) an increase of € 100 million in intangible assets and (iv) the removal of an additional € 106 million in relation to the cash flow hedge reserve.

The CET1 transitional ratio, at 19.0%, is significantly in excess of the Single Supervisory Mechanism's minimum CET1 regulatory requirement of 9.0%.

The transitional tier 1 capital ratio increased to 19.9% at 31 December 2016 from 16.7% at 31 December 2015. The increase in the ratio is driven by the CET1 and RWAs movements outlined above.

There was a decrease in transitional tier 2 capital of € 289 million which was driven by the redemption of the contingent capital instrument in July 2016 and the reduction in adjustments for credit provisions.

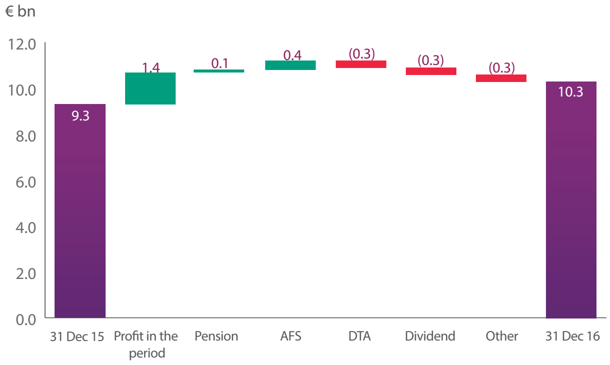
The transitional capital ratio increased from 18.9% at December 2015 to 21.7% at 31 December 2016.

Risk weighted assets

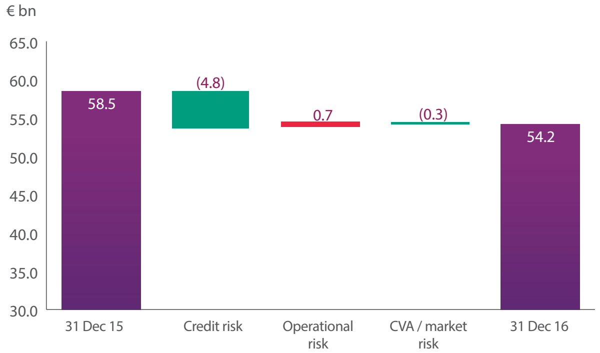
RWAs reduced by € 4.3 billion during 2016. Credit risk RWAs reduced by € 4.8 billion, while market risk and credit valuation adjustment ("CVA") RWAs decreased by € 0.2 billion and € 0.1 billion respectively. These decreases have been partially offset by increases in operational risk RWAs of € 0.7 billion (reflecting the increased levels of income in the annual calculation).

The reduction in credit risk RWAs was partly driven by foreign exchange movements of € 1.7 billion. Positive grade migration in portfolios, where AIB uses its own credit models to measure RWAs, drove a decrease of € 1.4 billion with loan redemptions, asset sales and other balance sheet reductions driving a decrease of € 8.3 billion. These were partially offset by new drawdowns which accounted for an increase in RWAs of € 6.6 billion.

Transitional CET1 - capital movements



Risk weighted assets (transitional) - movements



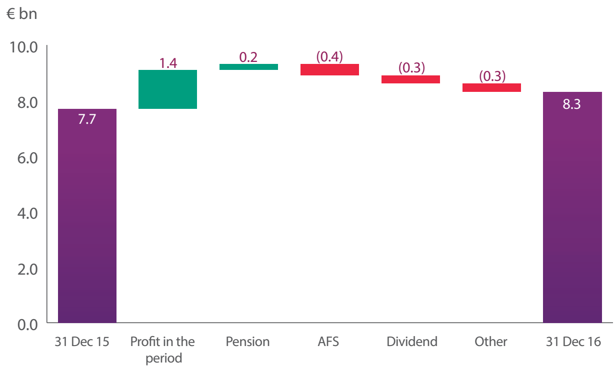
Fully loaded ratio

The fully loaded CET1 ratio increased to 15.3% at 31 December 2016 from 13.0% at 31 December 2015. The increase in the CET1 ratio was broadly driven by profit retained and a reduction in RWAs, partially offset by a proposed ordinary dividend payment of €250 million.

CET1 capital increased by €639 million to €8,314 million at 31 December 2016. This was primarily driven by:

- profit for the period of €1,356 million;
- a net actuarial gain in retirement benefit schemes for the period of € 103 million as previously described;
- the reduction in the available for sale securities reserves of € 359 million (€ 195 million relating to the realisation of the unrealised gain at 31 December 2015 in Visa Europe);
- revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulted in a net reduction in the foreign currency translation reserves of € 168 million; and
- the proposed payment of an ordinary dividend of € 250 million and a distribution paid on the Additional Tier 1 instrument of € 37 million.

Fully loaded CET1 - capital movements



There was a decrease in fully loaded tier 2 capital of € 210 million which was driven by the redemption of the Contingent Capital Notes in July 2016 and the reduction in adjustments for credit provisions.

The fully loaded total capital ratio increased to 17.6% at 31 December 2016 from 15.5% at 31 December 2015.

The fully loaded CET1 ratio of 15.3% compares to 19.0% on a transitional basis at 31 December 2016. This reflects a difference of € 1,993 million in the amounts qualifying as CET1. The main drivers of this difference are:

- the full deduction of the DTA for unutilised tax losses of € 3,050 million. Under transitional rules, the phasing in deduction of the DTA increased to 20% in 2016 amounted to € 610 million; and
- the AFS reserves of € 1,113 million comprising unrealised gains in sovereign debt securities and equity securities are included in the fully loaded position, while € 668 million is included on a transitional basis at 31 December 2016.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a leverage ratio exposure. Based on full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 9.2% at 31 December 2016 (7.9% at 31 December 2015).

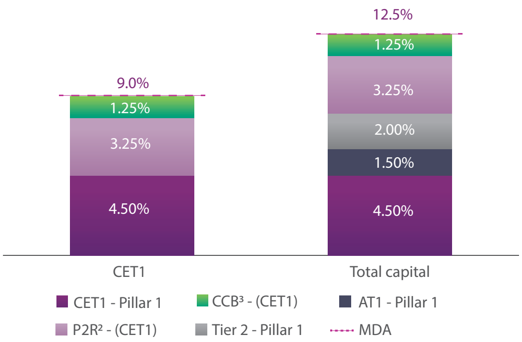
2. Capital and capital management

Supervisory review and evaluation process

On an annual basis, AIB Group submits extensive documentation on the ICAAP to its regulator as prescribed in the CRD IV frameworks. This documentation includes a description of AIB's internal capital models, its risk appetite framework, an asset quality analysis and capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the European Central Bank's ("ECB") Supervisory Review and Evaluation Process ("SREP") the outcome of which is communicated to AIB management.

AIB's minimum requirement set by the ECB for the transitional CET1 ratio is 9.0% and the minimum requirement for the transitional total capital ratio is 12.5% for 2017. This requirement excludes Pillar 2 guidance ("P2G") that is not publicly disclosed. The transitional CET1 and total capital ratios at 31 December 2016 were 19.0% and 21.7% respectively. Based on these ratios, AIB has a very significant buffer over maximum distributable amount[1] ("MDA") trigger levels.

2017 - SREP composition



[1]"MDA trigger level represents the ratio below which restrictions on paying dividends, inter alia, would be imposed.

[2]Capital Conservation Buffer ("CCB") rises to 2.5% by 2018.

[3]Pillar 2 Requirement ("P2R") is the capital buffer applied by the ECB following the SREP.

AIB has been designated as an Other Systemically Important Institution ("O-SII"). A buffer for O-SII will be applied at 0.5% from 2019, rising to 1.5% by 2021.

Dividends

The Board proposes to pay an ordinary dividend of € 250 million out of full year 2016 profits. This is subject to the approval of shareholders at the Annual General Meeting in April 2017.

Repayment of capital to the Irish State

AIB paid € 1.76 billion to the Irish Government in July 2016 in relation to the Contingent Capital Notes (€ 1.6 billion principal plus € 160 million coupon).

Ratings

In September 2016, Moody's upgraded AIB's long-term rating to Baa3 (investment grade) from Ba1 both with a positive outlook. The ratings action was driven by an improving operating environment, which led to an increase in the macro profile of Ireland under Moody's banking methodology, as well as favourable developments in other credit fundamentals, notably asset quality.

In August 2016, S&P reaffirmed AIB's long-term rating at BB+ with a positive outlook. S&P noted that the positive outlook highlighted the potential that S&P could revise upward its anchor for commercial banks in Ireland to reflect the decreasing macroeconomic risks they face in their domestic market.

In December 2016, Fitch affirmed AIB's rating at BB+ with a positive outlook. Fitch noted that this took account of AIB's strong domestic franchise, strengthened capitalisation, normalised funding and liquidity profiles and improving asset quality. Fitch noted that the UK's decision to leave the European Union could be a negative for the Irish economy. The extent of this impact, however, will only become clear over time as EU-UK negotiations develop.

		31 December 2016	
AIB long-term ratings	**Moody's**	**S&P**	**Fitch**
Long-term	**Baa3**	**BB+**	**BB+**
Outlook	**Positive**	**Positive**	**Positive**

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

In January 2017, S&P upgraded AIB's long term rating by one notch to BBB- (investment grade) with a stable outlook. This was driven by what S&P considers brisk economic growth in the Irish economy and the sustained recovery in property prices feeding through to the creditworthiness of AIB.

EBA 2016 stress test

The Group was subject to the 2016 EU-wide stress test conducted by the European Banking Authority ("EBA"), in co-operation with the Central Bank of Ireland, the ECB, the European Commission ("EC") and the European Systemic Risk Board ("ESRB"). The stress test was conducted on a Static Balance Sheet basis where the stress test was based on how the balance sheet as at 31 December 2015 would perform over three years under both baseline and adverse macroeconomic scenarios. Under the stress test, AIB's projected CET 1 under the adverse scenario was 7.4% on a transitional basis and 4.3% on a fully loaded basis.

The stress test does not reflect current or future improved financial performance. The results are incorporated into the Pillar 2 guidance received as part of the SREP. AIB had no required capital actions following the stress test and as noted on page 9, AIB's capital ratios increased during 2016 on both a fully loaded and transitional basis.

2. Capital and capital management

Table 2: Movements in total capital

The following table analyses the movements in total capital on a transitional basis:

	31 December 2016 € m	31 December 2015 € m
Common equity tier 1 capital at 1 January	**9,285**	9,717
Profit for the year	**1,356**	1,380
Other comprehensive income:		
Net actuarial gain in retirement benefit schemes	**103**	743
Net change in fair value of available for sale securities reserves	**(359)**	103
Net change in cash flow hedging reserves	**106**	(29)
Foreign currency translation reserves	**(168)**	31
Other	**(1)**	–
	(319)	848
Total comprehensive income for the year	**1,037**	2,228
	10,322	11,945
Conversion and repayment of 2009 Preference Shares	**–**	(1,700)
Proposed ordinary dividend/2009 Preference dividend payments	**(250)**	(166)
Payment of Additional Tier 1 distribution	**(37)**	–
Movements in regulatory adjustments:		
Goodwill and intangible assets	**(100)**	(118)
Cash flow hedging reserves	**(106)**	29
Reversal of fair value of contingent capital instrument[(1)]	**46**	143
Available for sale securities reserves	**805**	119
Pension	**(49)**	(648)
Deferred tax	**(293)**	(317)
Expected loss deduction	**(28)**	–
Other	**(3)**	1
Total movements in regulatory adjustments	**272**	(791)
Less: Accrued interest on Additional Tier 1 capital	**–**	(3)
Common equity tier 1 capital at 31 December	**10,307**	9,285
Additional tier 1 capital at 1 January	**494**	–
Issuance of Additional Tier 1 securities	**–**	494
Expected loss deduction	**(9)**	–
Total tier 1 capital at 31 December	**10,792**	9,779
Total tier 2 capital at 1 January	**1,269**	1,008
Issuance of subordinated loan capital	**–**	750
Regulatory amortisation adjustment	**(190)**	(315)
Eligible credit provisions	**(87)**	(166)
Expected loss deduction	**(9)**	–
Other	**(3)**	(8)
Total tier 2 capital at 31 December	**980**	1,269
Total capital at 31 December	**11,772**	11,048

(1)Reversal of amortisation in 2016 and 2015 of initial fair value adjustment.

Table 3: Reconciliation of shareholders' equity to regulatory capital

	31 December 2016 € m	2015 € m
Total shareholders' equity[(1) (2)]	**13,148**	12,148
Less: Additional Tier 1 capital	**(494)**	(494)
Accrued coupon on Additional Tier 1 capital	**(3)**	(3)
Proposed dividend	**(250)**	–
	12,401	11,651
Regulatory adjustments:		
Goodwill and intangible assets[(3)]:		
Intangible assets[(2)]	**(392)**	(289)
Associated company goodwill	**–**	(3)
	(392)	(292)
Cash flow hedging reserves[(4)(5)]	**(460)**	(354)
Adjustment required to the carrying value of € 1.6bn Contingent Capital Tier 2 Notes due 2016[(6)(7)]:	**–**	(46)
Available for sale securities reserves[(5)(9)]	**(445)**	(1,250)
Pension:		
Revenue reserves relating to pension schemes in surplus[(3)]	**(126)**	(153)
Regulatory adjustment relating to pension schemes in deficit[(7)]	**52**	183
Pension filter[(7)]	**(66)**	(121)
	(140)	(91)
Deferred tax[(3)(8)]	**(610)**	(317)
Prudent valuation adjustment[(10)]	**(13)**	(7)
Revaluation reserves[(5)(7)(11)]	**(6)**	(9)
Expected loss deduction[(15)]	**(28)**	–
Common equity tier 1 capital	**10,307**	9,285
Additional Tier 1 securities[(2)]	**494**	494
Expected loss deduction[(15)]	**(9)**	–
Total tier 1 capital	**10,792**	9,779
Tier 2 capital		
Subordinated debt:		
Subordinated liabilities and other capital instruments[(2)]	**791**	2,318
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
	783	2,386
Regulatory adjustments:		
Regulatory adjustment to Contingent Capital Tier 2 Notes[(12)]	**–**	(1,413)
IRB excess of impairment provisions over expected losses[(13)]	**–**	20
Expected loss deduction[(3)(15)]	**(9)**	–
IBNR relating to standardised portfolios[(14)]	**200**	267
Revaluation reserves[(5)(7)(11)]	**6**	9
	197	(1,117)
Total tier 2 capital	**980**	1,269
Total capital	**11,772**	11,048

See footnotes on the following page.

2. Capital and capital management

Reconciliation of shareholders' equity to regulatory capital *(continued)*

(1)The capital figures reflect the audited 2016 year-end profit for the Group. These have also been included in the quarterly SSM regulatory capital reporting for December 2016.

(2)Per statement of financial position in the 2016 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 2016 Annual Financial Report.

(6)The Contingent Capital Notes matured on 28 July 2016 and were redeemed at their nominal value of € 1.6 billion.

(7)Transitional arrangements as described under CRR article 481, the 40% transitional rate has been applied for 2016 (2015: 60%).

(8)Transitional arrangements as described under CRR article 478, the 20% transitional rate has been applied for 2016 (2015: 10%).

(9)Transitional arrangements as described under CRR articles 467 and 468 as per Regulation (EU) 2016/445 of the European Central Bank of 14 March 2016.

(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 matured on 28 July 2016.

(13)As described under CRR Article 62.

(14)Transitional arrangements as described under CRR Article 486, the 60% transitional rate has been applied for 2016 (2015: 70%).

(15)Transitional arrangements as described under CRR Articles 469, 472 and 478.

Table 4: Movements in risk weighted assets

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

						31 December 2016
	Credit risk € m	Market risk € m	Operational risk € m	Credit valuation adjustment € m	Other € m	Total € m
At 1 January	**53,596**	**457**	**3,139**	**1,352**	**5**	**58,549**
Asset size and quality	**(3,093)**	**(169)**	**–**	**(127)**	**–**	**(3,389)**
Model updates	**–**	**–**	**–**	**–**	**–**	**–**
Methodology and policy	**–**	**–**	**–**	**–**	**–**	**–**
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	**–**
Foreign exchange movements	**(1,660)**	**–**	**–**	**–**	**–**	**(1,660)**
Other	**–**	**–**	**735**	**–**	**–**	**735**
At 31 December	**48,843**	**288**	**3,874**	**1,225**	**5**	**54,235**

						2015
	Credit risk € m	Market risk € m	Operational risk € m	Credit valuation adjustment € m	Other € m	Total € m
At 1 January	54,348	471	2,822	1,468	5	59,114
Asset size and quality	(2,376)	(14)	–	(116)	–	(2,506)
Model updates(1)	577	–	–	–	–	577
Methodology and policy	–	–	–	–	–	–
Acquisitions and disposals	–	–	–	–	–	–
Foreign exchange 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.

The movements as outlined in the above table can be partly explained by the reduction in gross loans and receivables to customers during 2016. The increase in new lending was off-set by loan redemptions, restructures, write-offs and disposals as well as currency and other movements. The improvement in credit quality has also had an impact on the figures above.

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.

			2016
	Total exposures[1] € m	Risk weighted assets € m	Minimum capital requirement[2] € m
Credit risk – Standardised Approach	49,636	27,693	2,215
Credit risk – IRB Approach	49,971	21,150	1,692
Market risk – Standardised Approach (Table 4b)	N/A	288	23
Operational risk – Standardised Approach	N/A	3,874	310
Credit valuation adjustment – Standardised Approach	N/A	1,225	98
Other	N/A	5	–
	99,607	54,235	4,338

			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 – Standardised Approach	N/A	1,352	108
Other	N/A	5	–
	107,457	58,549	4,683

[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.

	2016 € m	2015 € m
Interest rate position risk requirement ("PRR")[1]	22	35
Equity rate PRR	1	2
	23	37

[1]Position risk requirement ("PRR") – for definition see glossary page 114.

2. Capital and capital management

Table 4c: Countercyclical capital buffer

The countercyclical buffer ("CCyB") was introduced under CRD IV. The CCyB could require institutions to hold up to 2.5% additional CET 1 capital and is effective from 1 January 2016. National designated authorities will deploy CCyB rates when excessive credit growth is determined to be connected with a build-up of system-wide risk. In the table below, the CCyB rates as set by Hong Kong, Sweden and Norway as at 31 December 2016 are shown. It is worth noting that the Central Bank of Ireland and the Financial Policy Committee in the UK set their CCyB rate at 0% as at 31 December 2016. AIB had an overall CCyB additional capital requirement of €1 million as at 31 December 2016.

The following table sets out the Group's countercyclical capital buffer by geographical location at 31 December 2016:

												2016
	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements[1]					
	Exposure value for Standardised Approach (SA)	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	General credit exposures	Trading book exposures	Securitis-ation exposures	Total	Own funds require-ment weights	Counter-cyclical capital buffer rate
Breakdown by country	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	%	%
Hong Kong	1	2	–	–	–	–	0	–	–	0	0.004	0.63
Sweden	0	18	–	–	–	–	3	–	–	3	0.069	1.50
Norway	1	–	–	–	–	–	0	–	–	0	0.001	1.50
Other	37,850	32,121	6	–	–	546	3,694	0	4	3,698	99.926	–
Total	37,852	32,141	6	–	–	546	3,697	0	4	3,701	100.00	

[1]Based on 8% of risk weighted assets.

Amount of institution–specific countercyclical capital buffer	31 December 2016
Total risk exposure amount (€ m)	54,235
Institution–specific countercyclical capital buffer rate (%)[1]	0.0011%
Institution–specific countercyclical capital buffer requirement (€ m)	1

[1]Countercyclical capital buffer rate multiplied by Own funds requirement weights by country breakdown.

Table 4d: 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 9.2% at 31 December 2016 (7.9% at 31 December 2015). This primarily reflects an increase in tier 1 capital as outlined above.

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 at 31 December 2016 and 2015:

		2016		2015
	Transitional	Fully loaded	Transitional	Fully loaded
Summary reconciliation of accounting assets and leverage ratio exposures	€ m	€ m	€ m	€ m
Total assets as per published financial statements	95,622	95,622	103,122	103,122
Adjustments for:				
Derivative financial instruments	666	666	759	759
Securities financing transactions (“SFTs”)	209	209	672	672
Off-balance sheet items	2,766	2,766	2,902	2,902
Other	(1,328)	(3,333)	(1,976)	(3,588)
Total leverage ratio exposure	97,935	95,930	105,479	103,867
Leverage ratio common disclosure				
On-balance sheet exposures (excluding derivatives and SFTs)				
On-balance sheet items	94,106	94,106	100,939	100,939
Asset amounts deducted in determining tier 1 capital	(1,626)	(3,631)	(2,366)	(3,977)
	92,480	90,475	98,573	96,962
Derivative exposures				
Replacement cost associated with all derivative transactions	1,814	1,814	1,698	1,698
Add-on amounts for PFE[(1)] associated with all derivative transactions	666	666	759	759
	2,480	2,480	2,457	2,457
Securities financing transaction exposures				
Gross SFT assets	7,642	7,642	15,332	15,332
Net amount of cash payable/receivable of gross SFT assets	(7,642)	(7,642)	(14,458)	(14,458)
Counterparty credit risk exposure for SFT assets	209	209	672	672
	209	209	1,546	1,546
Other off-balance sheet exposures				
Off-balance sheet exposures at gross notional amount	11,199	11,199	11,122	11,122
Adjustments for conversion to credit equivalent amounts	(8,433)	(8,433)	(8,220)	(8,220)
	2,766	2,766	2,902	2,902
Total leverage ratio exposures	97,935	95,930	105,478	103,867
Tier 1 capital at 31 December	10,792	8,808	9,779	8,169
Leverage ratio	11.0%	9.2%	9.3%	7.9%
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	94,106	94,106	100,939	100,939
Of which:				
Exposures treated as sovereigns	21,090	21,090	23,875	23,875
Institutions	5,139	5,139	5,583	5,583
Secured by mortgages on immovable property	34,477	34,477	36,219	36,219
Retail exposures	4,283	4,283	4,312	4,312
Corporate	15,102	15,102	14,838	14,838
Exposures in default	6,885	6,885	7,732	7,732
Other exposures	7,130	7,130	8,380	8,380
	94,106	94,106	100,939	100,939

[(1)]Potential future exposure (“PFE”).

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 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 adequately 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; and
– Risks relating to business operations, governance and internal control systems.

The principal risks and uncertainties pertaining to each of these categories are described in detail on pages 50 to 58 of the 2016 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 frameworks and policies approved by the Board (or Board delegation) 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 59 to 61 of the 2016 Annual Financial Report. In addition, the Directors' Statement on the effectiveness of the system of Risk Management and Internal Controls is on pages 208 to 209 of the 2016 Annual Financial Report.

The Group's risk appetite is defined as the amount of risk that the Group is willing to accept or tolerate in order to deliver on its strategic, and business objectives and ambition. The Group Risk Appetite Statement ("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 5 of this report.

Individual risk types

The following individual risk types have been identified through the Group's risk assessment process:
– Credit risk;
– Restructure execution risk;
– Funding and liquidity risk;
– Capital adequacy risk;
– Market risk;
– Operational risk;
– Regulatory compliance and conduct risk;
– Culture risk;
– Business risk;
– Pension risk; and
– Model risk

The individual risk types listed above are described in detail on pages 62 to 170 of the 2016 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 or residential mortgages, can impact the overall level of credit risk. At 31 December 2016, the Group used a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk.

A description of AIB Group's approach to credit risk including (a) 'measurement of credit risk'; (b) 'credit risk mitigants'; and (c) 'credit risk monitoring' are set out on pages 63 to 75 of the 2016 Annual Financial Report. While details on 'Loan loss provisioning' are on pages 76 to 82 of the 2016 Annual Financial Report.

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 factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors. AIB Group uses the Standardised Approach for assessing its capital requirements for trading book market risk. As set out on page 17, of the total minimum capital requirement of € 4,338 million at 31 December 2016, the minimum capital requirement for market risk amounts to € 23 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 159 and 160 of the 2016 Annual Financial Report. A sensitivity analysis of the Group's banking book to movements in interest rates is set out on pages 162 to 165 of the 2016 Annual Financial Report, together with a Value at Risk ("VaR") profile for both the banking and trading book.

In addition, there is a capital charge for 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. At the 31 December 2016, the minimum capital requirement for CVA was € 98 million.

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 arising from inadequate or failed internal processes, people and systems or from external events. This includes legal risk – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which include product, project, people and property, continuity and resilience, information and security and outsourcing. AIB Group uses the Standardised Approach for assessing its capital requirements for operational risk. As set out on page 17, of the total minimum capital requirement of € 4,338 million at 31 December 2016, the minimum capital requirement for operational risk amounts to € 310 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 pages 166 and 167 of the 2016 Annual Financial Report.

3. Risk management

Governance overview

AIB's Governance Framework ("the 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 10 Independent Non-Executive Directors and 2 Executive Directors. Full details of the responsibilities of the Board and its sub-committees are set out on pages 185 to 204 of the 2016 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 172 to 175 of the 2016 Annual Financial Report, which comply with Regulation 79 of S.I. 158/2014 (European Union (Capital Requirements) Regulations 2014). This regulation established 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 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. A Board-approved Policy for the Assessment of the Suitability of Members of the Board, which outlines the board appointments process, is in place, in accordance with European Banking Authority Guidelines.

The Relationship Framework specified by the Minister for Finance ("the Minister"), 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.

Policy on Diversity

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. In February 2015, the Board approved a Board Diversity Policy (the "Policy") 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. The Board achieved this target in October 2016. The search for Board candidates will continue to be conducted, and nominations/appointments made, with due regard to the benefits of diversity on the Board. However, all appointments to the Board are ultimately based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board. It is intended that, henceforth, the percentage of females on the Board will remain at or exceed 25 per cent.

The Terms of Reference of the Nomination and Corporate Governance Committee are available on the Corporate Governance section of the Group's website at aib.ie/investorrelations. Performance relative to the diversity target set out in the Policy is published on the Group's website.

Risk Management

The Board Risk Committee ("the Committee"), which comprises 5 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 9 occasions during 2016. Further details relating to the Board Risk Committee are available on pages 190 to 197 of the 2016 Annual Financial Report.

A description of the flow of information to the management body relating to risk is available on pages 59 to 61 of the 2016 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 62 to 170 of the 2016 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 2016, 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 34 to 36 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:

			2016			2015
	Total exposures	Risk weighted assets	Minimum capital requirement CRD IV	Total exposures	Risk weighted assets	Minimum capital requirement CRD IV
Exposure class	€ m	€ m	€ m	€ m	€ m	€ m
Standardised exposure class						
Central governments and central banks	11,739	–	–	14,309	1	–
Public sector entities	44	44	3	44	44	3
Institutions[(1)]	–	–	–	226	58	5
Corporates	7,544	7,544	603	8,118	8,118	649
Retail	4,332	3,249	260	4,360	3,270	262
Secured by mortgages on immovable property[(2)]	17,135	9,595	768	18,427	10,938	875
Exposures in default[(3)]	4,226	5,329	426	4,825	5,738	459
Exposures associated with particularly high risk	673	1,010	81	778	1,167	93
Equity	68	166	13	76	188	15
Other items	3,875	756	61	4,779	948	76
Total Standardised Approach	49,636	27,693	2,215	55,942	30,470	2,437
IRB exposure class						
Central governments and central banks	9,784	337	27	10,195	376	30
Institutions	7.499	2,201	176	8,234	2,483	199
Corporates	11,200	11,042	883	10,938	10,854	868
Retail[(4)]	20,932	7,511	601	21,623	9,345	747
Securitisation positions	546	49	4	517	60	5
Non-credit obligation assets	10	10	1	8	8	1
Total IRB Approach	49,971	21,150	1,692	51,515	23,126	1,850
Total credit risk[(5)]	99,607	48,843	3,907	107,457	53,596	4,287

(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 45 to 46.

(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, where total exposures decreased by € 6.3 billion during 2016, the main drivers were within the “Central governments and central banks” and “Secured by mortgages on immovable property” exposure classes which decreased by € 2.6 billion and € 1.3 billion respectively.

The € 2.6 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 € 1.3 billion decrease in the “Secured by mortgages on immovable property” exposure class is due to redemptions/repayments outpacing new lending.

IRB exposure class

The decrease of € 1.5 billion in the IRB portfolio can be attributed to the “Retail” and “Institutions” exposure classes where a decrease in exposure of € 691 million and € 735 million were observed respectively.

Total RWAs reduced by € 1.9 billion of which € 1.8 billion related to the “Retail” exposure class and can be mainly attributed to the improvement in credit quality in 2016.

Other

Non-performing loans and receivables to customers

In addition, for regulatory reporting purposes, the Group discloses details of its non-performing loans as defined, under regulatory and EBA Implementing Technical Standards.

Details on the Group’s non-performing loans are disclosed on page 125 of the 2016 Annual Financial Report.

Forbearance

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan (‘forbearance measure’) for reasons relating to the actual or apparent financial stress or distress of that borrower.

Definitions of the Forbearance strategy and solutions are outlined in detail in section 3.1 – Credit Risk Management of the 2016 Annual Financial Report (pages 73 – 75). Detailed disclosures on the quantum of loans in forbearance are set out in Risk Management – Additional Credit Information of the 2016 Annual Financial Report (pages 131 – 144).

The 31 December 2016 disclosures as set out in the Annual Financial Report 2016 comply with the definition of Forbearance in the EBA Implementing Technical Standards.

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

The 2016 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 2016, the total assets under IFRS were € 96 billion whereas the total regulatory EAD was € 100 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 € 1.5 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 € 0.9 billion non-collateralised repurchase agreement borrowings and volatility add-on at 31 December 2016. 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 € 0.7 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 60% of unrealised gains or losses resulting in the EAD being lower by € 0.9 billion.
- Items not included in credit risk EAD, which are deducted from regulatory capital of € 1.2 billion, consist of deferred tax of € 0.6 billion, intangible assets of € 0.4 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 € 49,636 million (2015: € 55,942 million), with a capital requirement of € 2,215 million as at 31 December 2016 (2015: € 2,437 million). The main drivers of the decrease in exposures occurred in the "Central governments and central banks" and "Secured by mortgages on immovable property" exposure classes which decreased by € 2.6 billion and € 1.3 billion respectively. Pages 23 to 25 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 27 to 31 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 as outlined above.

Of the total standardised exposures after CRM of € 49,636 million (2015: € 55,942 million), € 11,739 million (2015: € 14,535 million) have been assigned a credit quality assessment step based on CBI guidelines.

The exposure amounting to € 11,739 million (2015: € 14,309 million) which have been assigned a credit quality assessment step relate to Irish sovereign bonds (€ 9.9 billion) and NAMA senior bonds (€ 1.8 billion). Whilst the NAMA senior bonds do not have an external credit rating, the Group has attributed to them a rating of A (2015: A-) which is the Ireland sovereign external rating at 31 December 2016, 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

														2016
	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	–	–	–	–	–	–	–	–	–	–	–	11,739	–	11,739
Public sector entities	–	–	–	–	–	–	–	–	–	–	–	44	–	44
Corporates	565	251	1,449	228	640	–	490	388	2,203	941	389	–	–	7,544
Retail	739	79	336	9	18	35	83	2,158	519	269	87	–	–	4,332
Secured by mortgages on immovable property	4	27	26	–	31	12,143	7	43	527	4,318	9	–	–	17,135
Exposures in default	115	55	202	2	95	1,618	42	206	106	1,782	3	–	–	4,226
Exposures associated with particularly high risk	–	164	1	–	68	–	–	–	61	379	–	–	–	673
Equity	–	–	–	–	66	–	–	–	2	–	–	–	–	68
Other items	–	–	–	–	–	–	–	–	–	–	–	–	3,875	3,875
Total	1,423	576	2,014	239	918	13,796	622	2,795	3,418	7,689	488	11,783	3,875	49,636

5. Credit risk – Standardised Approach

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

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

							2016
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	11,739	–	–	–	11,739	13,304	12,221
Public sector entities	–	–	44	–	44	44	43
Institutions	–	–	–	–	–	–	123
Corporates	2,154	5,087	31	272	7,544	9,426	7,582
Retail	3,914	404	1	13	4,332	9,118	4,383
Secured by mortgages on immovable property	13,362	3,668	15	90	17,135	17,694	17,901
Exposures in default	3,381	485	49	311	4,226	6,802	4,351
Exposures associated with particularly high risk	600	5	68	–	673	1,089	726
Equity	47	21	–	–	68	68	79
Other items	3,703	170	1	1	3,875	3,875	4,336
	38,900	9,840	209	687	49,636	61,420	51,745

							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

[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.

Some commercial mortgage exposures from ‘Secured by mortgages on immovable property’ class in the ‘Rest of the World’ category have moved into the ‘Exposures in default’ in the 12 months to the 31 December 2016. This resulted in an increase of € 259 million in default exposures in this category.

5. Credit risk – Standardised Approach

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

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	2016 Total exposures € m
Central governments and central banks	1,618	1,823	–	1,140	3,096	1,626	2,083	353	–	11,739
Public sector entities	–	–	–	–	43	–	1	–	–	44
Corporates	178	151	241	740	1,372	1,864	1,327	1,372	299	7,544
Retail	4	186	170	374	1,278	1,242	631	447	–	4,332
Secured by mortgages on immovable property	300	393	163	297	1,171	1,455	1,474	11,882	–	17,135
Exposures in default	1,210	335	180	152	194	282	373	1,500	–	4,226
Exposures associated with particularly high risk	290	6	11	36	106	70	13	12	129	673
Equity	–	–	–	–	–	–	–	–	68	68
Other items	622	135	–	2	8	–	–	–	3,108	3,875
	4,222	3,029	765	2,741	7,268	6,539	5,902	15,566	3,604	49,636

5. Credit risk – Standardised Approach

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

										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	2,114	1,293	1,521	201	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	7,262	7,349	17,963	4,546	55,942

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	2016 Total € m
Central governments and central banks	–	–	–	–	11,739	11,739	–	11,739
Public sector entities	–	–	–	–	–	–	44	44
Corporates	–	–	–	–	–	–	7,544	7,544
Retail	–	–	–	–	–	–	4,332	4,332
Secured by mortgages on immovable property	–	–	–	–	–	–	17,135	17,135
Exposures in default	–	–	–	–	–	–	4,226	4,226
Exposures associated with particularly high risk	–	–	–	–	–	–	673	673
Equity	–	–	–	–	–	–	68	68
Other items	–	–	–	–	–	–	3,875	3,875
	–	–	–	–	11,739	11,739	37,897	49,636

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

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

2016

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	–	11,739	–	–	–	–	11,739	–	11,739
Public sector entities	–	–	–	–	–	–	–	44	44
Corporates	–	–	–	–	–	–	–	7,544	7,544
Retail	–	–	–	–	–	–	–	4,332	4,332
Secured by mortgages on immovable property	–	–	–	–	–	–	–	17,135	17,135
Exposures in default	–	–	–	–	–	–	–	4,226	4,226
Exposures associated with particularly high risk	–	–	–	–	–	–	–	673	673
Equity	–	–	–	–	–	–	–	68	68
Other items	–	–	–	–	–	–	–	3,875	3,875
	–	11,739	–	–	–	–	11,739	37,897	49,636

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

[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 € 49,971 million, with a capital requirement of € 1,692 million as at 31 December 2016 (2015: exposures of € 51,515 million, capital requirement of € 1,850 million).

As set out on pages 23 to 25 of this document, the net € 1.5 billion decrease in total exposures rated under the IRB approach was driven by a € 735 million decrease in “institutions” together with a € 691 million decrease in the “Retail” exposure class.

Regulatory approval and transition

As at 31 December 2016, 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 exposure 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 d.a.c. 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 2016 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 uses 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

							2016
Sector	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	Total € m
Agriculture	–	–	397	–	–	–	397
Construction	–	–	304	–	–	–	304
Distribution	–	–	3,767	–	–	1	3,768
Energy	–	–	500	–	–	–	500
Financial	–	–	187	–	465	–	652
Home loans	–	–	17	20,932	–	–	20,949
Manufacturing	–	–	1,848	–	–	1	1,849
Other loans:							
Personal	–	–	67	–	–	–	67
Other services	–	–	2,641	–	–	2	2,643
Property	–	–	364	–	–	–	364
Transport and communication	–	–	1,072	–	–	6	1,078
Bank, sovereign and public sector entities	9,784	7,499	36	–	81	–	17,400
	9,784	7,499	11,200	20,932	546	10	49,971

							2015
Sector	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	Total € m
Agriculture	–	–	475	–	–	–	475
Construction	–	–	145	–	–	1	146
Distribution	–	–	3,781	–	–	1	3,782
Energy	–	–	398	–	–	–	398
Financial	–	–	193	–	491	–	684
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	–	26	–	18,462
	10,195	8,234	10,938	21,623	517	8	51,515

As set out on pages 23 to 25 of this document, the net € 1.5 billion decrease in exposures rated under the IRB approach was driven by a € 735 million decrease in “Institutions” together with a € 691 million decrease in the “Retail” exposure class. These were partially offset by an increase of € 262 million in the “Corporates” exposure class.

6. Credit risk – Internal Ratings Based Approach

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

2016							
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	**–**	**4,752**	**282**	**4,750**	**9,784**	**9,934**	**9,806**
Institutions	**648**	**2,285**	**198**	**4,368**	**7,499**	**13,823**	**8,001**
Corporates	**7,734**	**391**	**2,278**	**797**	**11,200**	**12,477**	**10,987**
Retail	**20,846**	**42**	**11**	**33**	**20,932**	**21,103**	**21,297**
Securitisation positions	**27**	**–**	**519**	**–**	**546**	**546**	**522**
Non-credit obligation assets	**10**	**–**	**–**	**–**	**10**	**10**	**17**
	29,265	**7,470**	**3,288**	**9,948**	**49,971**	**57,893**	**50,630**

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

(1)The geographic breakdown is based on 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.

The decrease in IRB exposures in the 'Retail' exposure class in the Republic of Ireland can be mainly attributed to the improving credit quality of the portfolio.

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

Residual maturity	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	2016 Total € m
On demand	4,959	645	837	155	–	2	6,598
< 3 months	35	735	359	281	–	1	1,411
3 < 6 months	90	241	333	24	–	2	690
6 months < 1 year	362	132	809	49	–	2	1,354
1 < 3 years	1,166	1,610	1,454	204	–	2	4,436
3 < 5 years	1,246	2,301	3,825	366	–	1	7,739
5 < 10 years	1,926	1,664	2,681	2,322	–	–	8,593
10 years+	–	171	902	17,531	546	–	19,150
	9,784	7,499	11,200	20,932	546	10	49,971

Residual maturity	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	2015 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

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:

		2016
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.

2016

	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	9,784	3	6,728	28	1,974	48	8,760	6	–	–	27,246	14
Grade 4 – 10	–	–	771	39	6,903	117	8,699	44	8	100	16,381	74
Grade 11 – 13	–	–	–	–	2,323	88	3,473	92	2	100	5,798	90
	9,784	3	7,499	29	11,200	99	20,932	36	10	100	49,425	43

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

(1) Includes EAD in relation to impaired loans.

(2) Excludes EAD of securitisation positions of € 546 million (2015: € 517 million). These are analysed in greater detail on pages 53 to 55.

There was no material change in the risk weights with the exception of the "Retail" exposure class. This decrease was due to the improved credit quality of the mortgage portfolio.

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.

2016

	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	–	–	648	0.22	6,721	2.66	17,920	0.83	25,289	1.30
United Kingdom	4,752	–	2,285	0.09	383	0.71	30	4.82	7,450	0.08
United States of America	282	–	198	0.08	2,272	0.67	8	0.88	2,760	0.51
Rest of the World	4,750	0.01	4,368	0.09	738	0.65	23	2.15	9,879	0.10
Total non–defaulted	9,784	0.00	7,499	0.10	10,114	1.99	17,981	0.84	45,378	0.71
Defaulted	–		–		1,086	100.0	2,951	100.0	4,037	100.0
Total exposures	9,784	0.00	7,499	0.10	11,200	11.50	20,932	14.82	49,415	7.89

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 non–defaulted	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

[1] Includes EAD in relation to impaired loans.

[2] Excludes EAD of securitisation positions of € 546 million (2015: € 517 million) and other non-credit obligation assets of € 10 million (2015: € 8 million).

There is a reduction in the average PD % for the exposure classes "Corporates" and "Retail" due to the improved risk rating of exposures during 2016.

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:

	2016		2015	
	Retail		Retail	
	EAD	Exposure – weighted average LGD	EAD	Exposure – weighted average LGD
Obligor grade	€ m	%	€ m	%
Grade 1 – 3	8,760	27	8,090	27
Grade 4 – 10	8,699	28	9,375	28
Grade 11 – 13	3,473	34	4,158	35
	20,932	29	21,623	29

There was no material change in the LGD model during 2016. 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 2016 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 by an appropriately qualified source at the time of lending.

Further details on collateral are set out in the "Risk management" section of the 2016 Annual Financial Report on pages 69 to 71, which describes the methodologies used for valuing collateral. Further information in relation to repurchase transactions is set out in Section 9 – Counterparty credit risks on pages 49 to 52.

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 € 61,420 million before credit risk mitigation at 31 December 2016 (2015: € 70,448 million), € 1,799 million (2015: € 5,615 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 € 57,893 million before credit risk mitigation at 31 December 2016 (2015: € 65,231 million), Nil was covered by eligible financial collateral (2015: Nil).

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 126 of the 2016 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 non-impaired 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 2016 Annual Financial Report, whilst the relevant accounting policy can be found on pages 243 to 245.

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

					2016
	Loans and receivables to customers – gross of provisions	Of which: loans past due but not impaired	Of which: impaired	Balance sheet specific impairment provisions	Specific impairment provision (credit)/ charge for the year
Industry	€ m	€ m	€ m	€ m	€ m
Agriculture	1,773	95	121	40	12
Energy	459	7	32	11	5
Manufacturing	2,029	13	76	53	(8)
Property and construction	9,394	362	2,724	1,350	(74)
Distribution	5,439	128	681	305	(21)
Transport	1,405	9	38	34	(8)
Financial	684	2	144	94	37
Other services	5,706	108	312	180	7
Personal: Residential mortgages	35,239	933	4,576	1,728	(110)
Other	3,100	170	432	252	(11)
	65,228	1,827	9,136	4,047	(171)
Geography					
Republic of Ireland	55,766	1,680	8,151	3,508	(143)
United Kingdom	9,342	147	985	539	(28)
United States of America	120	–	–	–	–
	65,228	1,827	9,136	4,047	(171)
Specific provision credit in relation to loans and receivables to banks				–	–
Total specific provisions for impairment on loans and receivables				4,047	(171)

[(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)*

					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)
Specific provision credit in relation to loans and receivables to banks				–	–
Total specific provisions for impairment on loans and receivables				6,158	(508)

[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

	2016 € m	2015 € m
At 1 January	**6,832**	12,406
Exchange translation adjustments	**(130)**	131
Credit to income statement – customers	**(294)**	(925)
Amounts written off	**(1,829)**	(4,593)
Disposals	**–**	(195)
Recoveries of amounts written off in previous years	**10**	8
At 31 December	**4,589**	6,832

Statement of financial position impairment provisions of € 4,589 million (2015: € 6,832 million) comprise specific provisions of € 4,047 million (2015: € 6,158 million) and IBNR provisions of € 542 million (2015: € 674 million). The credit to the income statement in 2016 of € 294 million (2015: credit of € 925 million) comprises a specific provision writeback of € 171 million (2015: a writeback of € 508 million) and a release of IBNR provisions of € 123 million (2015: release of € 417 million) for unidentified losses in the non-impaired book.

Further information and analysis is available on pages 95 to 99 of the 2016 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 2016 is outlined in table 18 below.

Regulatory EL provides a view of the expected losses that are likely to emerge in the non-defaulted 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 2015 € m	2016 Actual loss € m	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
Institutions	–	–	–	–	–	–
Corporates	162	45	191	67	246	86
Retail exposures secured by immovable property collateral non-SME	104	39	112	38	124	101
Securitisation positions(2)	–	–	–	–	–	–
	266	84	303	105	370	187

(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 of 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 and positive grade migration. The reduction in EL of the "Retail exposures secured by immovable property collateral non-SME" exposure class is the result of positive grade migration and continuing strengthening of house prices in the Republic of Ireland.

The income statement specific provision charge for the year ended 31 December 2016, of which the actual loss on the IRB Approach is a component, is discussed in detail in the "Risk management" section of the 2016 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 2016 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 (2015: 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 2016 (2015: 29%).

[1]An LGD of 45% is applied to senior exposures, whilst LGDs of 11.25% and 75% 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]	2016 %	2015 %
Sovereign	**4**	4
Bank	**29**	29
Commercial	**130**	133
Corporate	**101**	102
Not-for-profit	**112**	127
Project finance	**117**	141
Residential mortgage	**30**	39

[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.

The decrease in residential mortgage risk weightings was due to an improvement in the credit quality of the residential mortgage portfolio. The decreases in the 'Not-for-profit' and 'Project finance' models were as a result of changes in the portfolio profiles, however, both these portfolios comprised 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 mark-to-market method for calculating the Pillar 1 capital 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 44 in the 2016 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 historical price data, and computed to a 95% confidence level. 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. AIB commenced central clearing of over the counter (“OTC”) derivatives in April 2015.

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. The transactions are executed by authorised personnel in the Treasury function.

An independent middle office function in the Finance department has 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 criteria 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 Pillar 1 capital for 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.

Wrong-way exposures

AIB's measurement of counterparty credit risk exposure against limits for foreign exchange, interest rate, inflation and equity derivatives does not include a consideration for wrong way risk. Wrong way risk is unlikely to be a feature of such transactions. AIB's measurement of counterparty credit exposure against limits for reverse repurchase agreements and for collateral swaps requires that consideration be given to correlation between collateral value and the counterparty default probability when determining the add on factor.

Collateral required in the event of a credit downgrade

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 collateral.

There are no clauses in AIB's CSA agreements which would generate a change in Minimum Transfer Amount if ratings were to fall from current levels.

Derivative Clearing

Clearing of certain derivative transactions is now mandatory for AIB under Article 4 of EMIR (Clearing Obligation). The clearing obligation requires AIB to clear interest rate swaps (primarily) with an authorised Central Clearing Party (termed a 'CCP'; AIB uses LCH SwapClear) which is completed through a 'Clearing Broker'; AIB's clearing brokers are HSBC and Barclays. Cleared derivatives eliminate exposure to bilateral counterparties, replacing these counterparties with the CCP.

Collateral held

At 31 December 2016, AIB held the following amounts for cash margin/collateral in respect of bilaterally cleared derivatives, sale and repurchase agreements and centrally cleared derivatives. All values are in Euro equivalent and rounded to the nearest million; CSA € 391 million, GMRA € 6 million and derivatives clearing € 4 million.

Credit derivative hedges

Index linked CDS contracts are used by the Group to hedge credit spread risk associated with funding valuation adjustments ("FVA") and credit valuation adjustments ("CVA") to the fair value of derivative positions. At 31 December 2016, no index CDS positions were in place, however such hedges were used periodically throughout 2016. In the calculation of regulatory CVA, any CDSs in place 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 which is presented in line with the technical disclosure requirements of CRD IV and as reported for regulatory purposes. 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

						2016
	Positive fair value of contracts	**Add-ons[1]**	**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	**1,819**	**666**	**2,485**	**–**	**–**	**2,485**
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Total derivatives	**1,819**	**666**	**2,485**	**–**	**–**	**2,485**

						2015
	Positive fair value of contracts	Add-ons[1]	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

[1]Add-ons – for definition, see Glossary page 110.

Derivatives, such as interest rate swaps, options and forward rate agreements, currency swaps and options, equity index options and credit derivatives are used for trading purposes (including for risk reduction purposes within the trading book) while interest rate swaps, currency swaps and cross currency interest rate swaps 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.

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

				2016
	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	–	–	–	–
	–	–	–	–

				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	–	–	–

10. Securitisations

Objectives in relation to securitisation activity

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

– as an investor, as part of the management of its interest rate and liquidity risks through Treasury,
– 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 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.

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

AIB does not have any trading securitisation exposures.

Originator

At present, the Group is an originator of securitisations in order to support its funding activities. The Group sold loans and receivables to customers, mainly mortgages to special purpose entities ("SPEs"), which, in turn, issued notes or deposits to external investors. In addition, the Group has contractual relationships with three SPEs which had previously been set up by EBS prior to its acquisition by AIB. The notes or deposits issued by the SPEs are on terms which resulted in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised on the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. Similarly, the transferred loans and receivables have not been derecognised for Pillar 1 purposes. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' in the Group's statement of financial position.

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.

Sponsor

The Group is not currently a sponsor of securitisations.

Summary of securitisation activity

During 2016, the Group purchased € 261 million securitisation assets for investment purposes comprising US RMBS, CLOs and UK RMBS. During 2016, AIB sold € 183 million in non-senior exposures, backed primarily by loans to corporates and SMEs, realising a loss on disposal of € 1.3 million. At 31 December 2016, the Group's exposure to securitisation assets as an investor amounted to € 546 million (€ 517 million at 31 December 2015).

In November 2016, the decision to exercise the call option on the "Goldcrest" credit card securitisation was made and Goldcrest is being liquidated. There were no new securitisations originated during 2016.

In December 2016, Emerald Mortgages No 4 Limited, announced to the Irish Stock Exchange that it had received notice from its parent (EBS d.a.c.) of its intention to refinance loan notes which Emerald 4 held.

Further details on the Group's securitisation vehicles are contained in 'Off-balance sheet arrangements and transferred financial assets' Note 47 to the consolidated financial statements in the 2016 Annual Financial Report.

10. Securitisations

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 231 and 232 under 'Basis of consolidation' in the 2016 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.

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.

Securitisations which are fair valued are subject to the Group's Valuation of Financial Instruments Policy which requires that positions should be valued through direct pricing, as opposed to marking to model, if a reliable and directly observable price for the financial instrument in question is available. In 31 December 2016, all of AIB's fair valued securitisation positions were valued by marking to market.

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 59 to 61 of the 2016 Annual Financial Report and which are described in further detail in the "Risk management" section of the 2016 Annual Financial Report.

In 2016, AIB's exposure to securitisation positions as an investor was almost exclusively to senior tranches of securitisations which benefit from subordination and other structural features of standard securitisations (e.g. excess spread). Underlying assets were predominantly comprised of residential mortgage loans.

AIB has a specific credit policy in place which outlines the types of securitisations which are in scope for investment along with the approval process applicable. Securitisations are assessed based on their underlying credit and structural characteristics, and a rating-based matrix applies to hold levels.

The funding and liquidity (including asset encumbrance) policy is a key policy within the Funding and Liquidity Framework and Policy which details the roles and responsibilities within AIB with regard to the management, reporting, control and oversight of asset encumbrance risk.

AIB Group does not partake in the use of credit hedging or unfunded credit protection to mitigate the risks of retained securitisation and re-securitisation exposures.

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 principally 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;
– 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

	2016				2015			
	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	–	–	532	532	–	–	374	374
Leasing	–	–	–	–	–	–	1	1
Loans to corporates and SMEs	–	–	–	–	–	–	128	128
Re-securitisations	–	–	14	14	–	–	14	14
Total	–	–	546	546	–	–	517	517

Table 23: Securitisation positions – risk weight bands

	2016				2015			
	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%	–	–	532	532	–	–	378	378
10% – 19%	–	–	–	–	–	–	83	83
20% – 49%	–	–	–	–	–	–	41	41
50% – 74%	–	–	14	14	–	–	15	15
75% – 99%	–	–	–	–	–	–	–	–
100% – 249%	–	–	–	–	–	–	–	–
250% – 349%	–	–	–	–	–	–	–	–
350% – 424%	–	–	–	–	–	–	–	–
425% – 649%	–	–	–	–	–	–	–	–
650% – 1249%	–	–	–	–	–	–	–	–
1250% or deducted	–	–	–	–	–	–	–	–
Total	–	–	546	546	–	–	517	517

Table 24: Re-securitisation positions – risk weight bands

	2016				2015			
	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	–	–	14	14
75% – 99%	–	–	–	–	–	–	–	–
100% – 249%	–	–	–	–	–	–	–	–
250% – 349%	–	–	–	–	–	–	–	–
350% – 424%	–	–	–	–	–	–	–	–
425% – 649%	–	–	–	–	–	–	–	–
650% – 1249%	–	–	–	–	–	–	–	–
1250% or deducted	–	–	–	–	–	–	–	–
Total	–	–	14	14	–	–	14	14

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 Visa inc. preference shares, 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 2016 Annual Financial Report note 1 (m), page 237.

Investments in associated undertakings are initially recorded at cost. 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 € 272 million for the year ended 31 December 2016 (2015: € 8 million). The net unrealised gains on equity investments in the banking book amounted to € 446 million, gross of tax, as at 31 December 2016 (2015: net unrealised gains € 694 million). Provisions for impairment on available for sale equity investments of Nil (2015: Nil) were included in the income statement in 2016.

An unrealised gain after tax, of € 233 million (2015: € 220 million) on equity investments in the banking book is included in CET1 capital on a transitional basis. On a fully loaded basis, for 2016, € 389 million (2015: € 549 million) is included in CET1 capital.

Table 25: Banking book equity values

		2016 Carrying value € m	2015 Carrying value € m
Equity exposures			
Unquoted	Exposure to equities or the equity tranche in a structured transaction or SPE[1]	**553**	741
Funds	Exposure to the equity component of a managed investment fund	**52**	40
		605	781
Investments in associated undertakings		**65**	70
Less: goodwill[2]		**–**	(3)
		65	67
		670[3]	848[3]
Of which:			
Risk weighted assets		**493**	432
Deducted from capital		**–**	–
		493	432

[1]Of which € 466 million (2015: € 432 million) relates to NAMA subordinated bonds and € 70 million relates to Visa Inc, (2015: € 294 million previously Visa Europe).

[2]Deducted from Tier 1 capital in 2015.

[3]2016 includes € 446 million of unrealised gains/losses, 60% of which under CRD IV transitional rules is included in risk weighted assets. In 2015, 40% of these unrealised gains/losses were included in risk weighted assets.

Table 26: Risk weighted asset equivalents of equity exposures

	2016 Exposure € m	2016 Risk weighted assets € m	2015 Exposure € m	2015 Risk weighted assets € m
Equity investments subject to a 100% risk weight	**299**	**299**	201	201
Equity investments subject to a 150% risk weight	**129**	**193**	157	236
Equity investments subject to a 250% risk weight	**65**	**163**	74	185
	493	**655**	432	622

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 all 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 measured and controlled in AIB using an economic value stress test approach. The interest rate sensitivity profiles of the various components of AIB's balance sheet are measured and severe but plausible interest rate shocks are applied to these profiles. The magnitude of the interest rate shocks are consistent with a one year holding period and a 99% confidence level. The resulting change in economic value as a result of the application of these shocks is the IRRBB economic value exposure.

In addition to the 99% one year IRRBB measure, interest rate risk in the banking book is quantified using a 95% one day VaR measure and sensitivity measures. VaR and interest rate sensitivity values are produced and reported daily while the 99% one year IRRBB measure is computed and reported on a monthly basis.

Basis risk, specifically ECB Refi / Euribor and Bank of England Base Rate / Libor basis risk, is a component of the IRRBB risk measurement model.

Certain components of the balance sheet such as non-maturity deposits and the Group's equity are modelled using behaviourally adjusted assumed lives. These assumed lives are determined using a combination of statistical analysis and management judgement. In addition, the group measures the IRRBB of its fixed rate mortgage net of assumed prepayment.

Table 27: Non-trading interest rate risk variation

The following table presents a summary of AIB's banking book non-traded market risk under 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 2016 would decrease by € 282 million if there was an instantaneous parallel upward shift in interest rates of 200 basis points. This value includes the impact of stressed changes in certain behavioural assumptions.

	Change in economic value	
Interest rate shock	**2016 € m**	2015 € m
99% 1 year shocks	**(198)**	(253)
+ 100 bps	**(103)**	(93)
+ 200 bps	**(282)**	(261)
- 100 bps	**20**	14
- 200 bps	**(52)**	(61)

The absolute level of interest rate risk sensitivity, as represented by the 99% IRRBB measure increased over the course of 2016. This is due to an increase in the basis point sensitivity of the banking book's economic value to interest rates and, to a lesser extent, to an increase in the basis risk sensitivity within the banking book.

The measurement of IRRBB from an economic value perspective within AIB has changed in 2016. AIB now uses a sensitivity based IRRBB model which is better suited for generating interest rate scenarios in a low/negative rate environment and which better models the interest rate sensitivity of the Group's behavioural assumptions.

13. Remuneration

Introduction

These disclosures provide additional information in relation to AIB's remuneration policies and practices and, more specifically, 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 applicable to all employees.

This section should be read in conjunction with AIB's Annual Financial Report 2016, in particular, the Corporate Governance Remuneration statement on pages 201 to 207.

Remuneration constraints

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

Decision making process and governance of remuneration

AIB's Remuneration Policy provides the overall framework under which all remuneration policies and practices are applied across the Group. The policy sets out the key components of AIB's current remuneration together with the approach to remuneration for key groups of individuals, including non-executive directors, senior executives, material risk takers, employees in control functions and all other employees. The scope of AIB's Remuneration Policy extends to all areas of the Group and includes all financial benefits available to employees. Further details in respect of AIB's remuneration policies and practices are outlined in the Annual Financial Report 2016.

The Remuneration Policy reflects the provisions of the Capital Requirements Directive ("CRD IV") and European Banking Authority guidelines on sound remuneration policies, notably their application to material risk takers and the application of a cap on the variable element of remuneration at 100 per cent of fixed remuneration for all staff across the Group in the event of the future introduction of variable incentive schemes.

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 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 CRD IV.

The Committee takes account of appropriate input from AIB's support and control functions to ensure that its decision making process is aligned with the bank's financial performance, regulatory guidelines and stakeholder interests. The Committee further controls the appointment of any external remuneration consultants or similar specialist advisors who provide it with advice.

Attraction and retention of key staff and skills

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. Inability to apply market aligned remuneration practices may negatively impact the Group's ability to achieve its longer term customer, financial and strategic targets. Additionally, The Group's ability to attract and retain key executives may be further impacted by Brexit as banks potentially migrating to Ireland in order to maintain a foothold in the EU financial services market will be able to offer market aligned remuneration and will not be subject to the same constraints on remuneration as AIB.

Link between pay and performance

AIB is committed to a simple and transparent reward structure which rewards employees fairly and competitively in order to grow and sustain the Group's business. Performance management plays a critical role in aligning individual objectives with AIB's overall customer strategy, financial and non-financial goals and brand values.

13. Remuneration

Link between pay and performance *(continued)*

During 2016, AIB introduced a new performance management framework which aims to translate the Groups' strategy and brand values into a combination of "what" and "how" objectives for each individual employee and thus measure not only what each employee delivers but also how they behave. The new framework is designed to support, coach and manage employee performance against agreed objectives and to recognise and reward employees in a fair and transparent way based on their contribution to AIB.

AIB's performance management framework is specifically designed to underpin AIB's customer centric behaviours and brand values. The Group's strategic objectives are cascaded down to individual employee level as part of a rigorous objective alignment process using a balanced scorecard comprising customer, financial, non-financial and risk objectives. 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.

Performance ratings are used to determine pay outcomes and provide a transparent link between performance and increases in base pay.

Current remuneration constraints prevent the Group from implementing market aligned remuneration policies and practices, notably the introduction of variable pay. Consequently, the Group is precluded from aligning the remuneration of key executives with the achievement of longer term customer, financial and strategic targets.

Remuneration of Identified Staff

AIB compiles a list of Identified Staff in accordance with an agreed process for the identification of material risk takers across the Group. The purpose of this process is to define the criteria by which staff in AIB are assessed as Identified Staff and also to set out the key responsibilities and governance requirements on sound remuneration policies in compliance with CRD IV and the EBA Guidelines. The process forms an addendum to the Remuneration Policy and was reviewed and approved by the Remuneration Committee in 2016. The list of Identified Staff is prepared in accordance with the criteria set out in EU Commission Delegated Regulation (EU) No. 604/2014. In compiling this list, AIB aligns the qualitative and quantitative criteria set out in the regulation to AIB's business and control structure, key committees, reporting lines, individual and collective levels of authority and key areas of responsibility.

During 2016, a total of 249 employees were considered as Identified staff (2015: 250). At 31 December 2016, Identified Staff comprised 224 (31 December 2015: 231).

Remuneration of Identified Staff in 2016 was principally comprised of fixed pay elements (directors' fees, employee base salary, fixed allowances and pension contributions). Variable pay constituted severance payments and compensation for loss of income from previous employment. Remuneration packages to compensate employees for loss of income from previous employments are made in exceptional cases only to attract and retain highly specialised key staff. Such awards are limited to the first year of employment. There were no bonuses, share options or other performance based remuneration paid to Identified staff in 2016.

The following tables set out the total remuneration of Identified Staff in 2016 and 2015.

Table 28a: Remuneration by business area

		AIB Ireland[(1)]	AIB UK	Group & International	Total
2016					
Total remuneration in 2016	**€ m**	**11.9**	**9.6**	**30.0**	**51.5**
(all forms of payments or benefits)	**Identified staff**	**50**	**63**	**136**	**249**
Total variable remuneration in 2016	**€ m**	**0.2**	**0.2**	**2.0**	**2.4**
(Severance payments in 2016)	**Identified staff**	**1**	**1**	**11**	**13**
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

[(1)]AIB Ireland includes Identified Staff engaged in the provision of retail, business and corporate banking activities in Ireland

Table 28b: Remuneration by functional area

		Functions				
		NEDs and senior management[(1)]	Control functions	Corporate functions	Other material risk takers	Total
2016						
Total remuneration in 2016	**€ m**	**27.1**	**6.4**	**3.2**	**14.8**	**51.5**
(all forms of payments or benefits)	**Identified staff**	**109**	**41**	**17**	**82**	**249**
Total fixed remuneration in 2016	**€ m**	**25.3**	**6.2**	**3.0**	**14.6**	**49.1**
(salaries and other fixed benefits including pension contributions)	**Identified staff**	**109**	**41**	**17**	**82**	**249**
Total variable remuneration in 2016	**€ m**	**1.8**	**0.2**	**0.2**	**0.2**	**2.4**
(Severance payments in 2016)	**Identified staff**	**10**	**1**	**1**	**1**	**13**
2015						
Total remuneration in 2015	**€ m**	21.6	6.3	4.5	17.6	50.0
(all forms of payments or benefits)	**Identified staff**	92	43	23	92	250
Total fixed remuneration in 2015	**€ m**	21.4	6.1	4.3	17.1	48.9
(salaries and other fixed benefits including pension contributions)	**Identified staff**	92	43	23	92	250
Total variable remuneration in 2015	**€ m**	0.2	0.2	0.2	0.5	1.1
(Severance payments in 2015)	**Identified staff**	1	2	1	3	7

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

Notes on remuneration 2016:

– The increased number and remuneration of NED's and Senior Management in 2016 reflects a flatter reporting structure driven by a combination of restructuring and new appointments at senior management team level;
– Total variable remuneration amounted to € 2.4 million (2015: € 1.1 million). This comprised of severance payments to 12 individuals which amounted to € 2.3 million and deferred payments in respects of compensation for loss of income from previous employment for 2 individuals which amounted to € 0.1 million;
– Under the severance programme, the highest severance payment to any one person in 2016 was GBP £ 190,000. Severance payments which represent redundancy remuneration for loss of office are calculated by reference to an approved generic formula are not taken into account for the purposes of the calculation of the variable to fixed pay ratio;
– There were no bonuses paid to Identified Staff during 2016 and no variable remuneration was paid in equity or other instruments;
– There was no new or deferred remuneration awarded in 2016 in respect of compensation for loss of income from previous employments;
– Deferred remuneration outstanding as at 31 December 2016 amounted to €100,000 in respect of compensation for loss of income from previous employment for one individual;
– Further details of Directors' remuneration are outlined on pages 205 to 207 in the Annual Financial Report 2016;
– Two individuals were identified as material risk takers during 2016 who were designated as Service Providers and whose remuneration was not directly paid by AIB. The individuals' total remuneration amounted to € 0.2 million and is included within fixed remuneration; and
– There were no employees whose total remuneration exceeded € 1 million during 2016.

Total remuneration

Total remuneration in AIB during 2016 continued to be principally comprised of fixed pay and pension elements. Remuneration was closely monitored in line with financial performance, budgetary parameters and the constraints arising from commitments provided to the State.

Increases in base salary arising from the 2016 General Pay Review were performance based, determined by performance against each individual's objectives which reflected AIB's strategy, goals and values. Additionally, performance continued to be recognised through limited increases in base pay in order to retain key staff and skills considered critical to the achievements of the bank's long term objectives.

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 general bonus schemes, long-term incentive plans or share incentive schemes in operation in 2016.

Further details in respect of total employee numbers and total employee remuneration are contained in Note 53 in the Annual Financial Report 2016.

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:

	2016 € m	2015 € m
Assets		
Cash and balances at central banks	**6,519**	4,950
Items in course of collection	**134**	153
Disposal groups and non-current assets held for sale	**11**	8
Trading portfolio financial assets	**1**	1
Derivative financial instruments	**1,814**	1,698
Loans and receivables to banks	**1,399**	2,339
Loans and receivables to customers	**60,639**	63,240
NAMA senior bonds	**1,799**	5,616
Financial investments available for sale	**15,437**	16,489
Financial investments held to maturity	**3,356**	3,483
Interests in associated undertakings	**65**	70
Intangible assets	**392**	289
Property, plant and equipment	**357**	344
Other assets	**248**	785
Current taxation	**13**	35
Deferred tax assets	**2,828**	2,897
Prepayments and accrued income	**444**	503
Retirement benefit assets	**166**	222
Total assets	**95,622**	103,122
Liabilities		
Deposits by central banks and banks	**7,732**	13,863
Customer accounts	**63,502**	63,383
Trading portfolio financial liabilities	**–**	86
Derivative financial instruments	**1,609**	1,781
Debt securities in issue	**6,880**	7,001
Current taxation	**18**	31
Deferred tax liabilities	**81**	–
Other liabilities	**973**	1,108
Accruals and deferred income	**484**	653
Retirement benefit liabilities	**158**	368
Provisions for liabilities and commitments	**246**	382
Subordinated liabilities and other capital instruments	**791**	2,318
Total liabilities	**82,474**	90,974
Equity		
Share capital	**1,696**	1,696
Share premium	**1,386**	1,386
Reserves	**9,572**	8,572
Total shareholders' equity	**12,654**	11,654
Other equity interests	**494**	494
Total equity	**13,148**	12,148
Total liabilities and equity	**95,622**	103,122

Appendix 2: 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.

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 amounting to € 1.6 billion exceeded the fair value of the instruments issued. This excess was accounted for as a capital contribution and was treated as distributable as the fair value adjustment on the notes amortised to the income statement. The Contingent Capital Notes were redeemed at maturity on 28 July 2016.

Non-refundable capital contributions amounting to € 6,054 million received from the Irish Government and the NPRFC(1) in 2011 are considered 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. Up to 30 September 2016, the CRR provided 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 had opted to apply this filter. On 1 October 2016, Regulation (EU) 2016/445 removed the derogation not to include unrealised gains or losses on sovereign portfolios classified as AFS in transitional CET1 capital. In summary, at 31 December 2016, 60% of available for sale reserves are included in common equity tier 1 capital on a CRD IV transitional basis, whereas, on a fully loaded basis, all available for sale reserves are included.

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

Appendix 2: Own funds

Shareholders' equity *(continued)*

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.

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;
– Available for sale securities reserves – AFS reserves of € 445 million are excluded on a transitional basis at 31 December 2016;
– Pension filter – phase out of Basel II adjustment, 40% deducted in 2016;
– Pension reserves in surplus – deduct from capital the total pension reserves of schemes in surplus;
– Pension deficit – 60% of the pension deficit is deducted from CET1 as per CRD IV phasing rules for 2016;
– Deferred tax assets that rely on future profitability – is deducted from capital at 10% per annum, commencing in 2015. Therefore 20% is deducted from capital in 2016; and
– Excess of expected loss over IRB provisions – deducted from capital (see page 65 for further information).

Additional Tier 1 Securities

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, 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 have 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 of 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.

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 ("IRB") portfolios over the accounting impairment provisions on the IRB 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 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

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained on certain dated loan capital instruments. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan agreements. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of AIB. These instruments will amortise to their nominal value in the period to their maturity in 2035.

€ 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 Tier 2 Notes ('CCNs') to the Minister for Finance of Ireland ('the Minister') for cash consideration of € 1.6 billion. The fair value of these notes at initial recognition was € 1,153 million with € 447 million being accounted for as a capital contribution from the Minister (note 39 to the consolidated financial statements in the Annual Financial Report 2016). Interest was payable annually in arrears on the nominal value of the notes at a fixed rate of 10% per annum. The CCNs were unsecured and subordinated obligations of AIB. The notes matured on 28 July 2016 and were redeemed at their nominal value of € 1.6 billion.

IRB excess of provisions over expected eligible losses

For non–defaulted 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 defaulted 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 2016, 60% of this can be included in Tier 2 capital.

Appendix 3: Encumbrance

Encumbrance

The following is the disclosure of on-balance sheet encumbered and unencumbered assets and off-balance sheet collateral as represented by median values of quarterly data points in 2016[1], based on the requirement in Part Eight of CRD IV and the 2014 EBA Guidelines (EBA/GL/2014/03). 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.

[1]December 2015 Encumbrance tables were reported at a point in time.

Encumbered and unencumbered assets held by the Group – Table A 2016

	2016			
	Encumbered assets		Unencumbered assets	
	Carrying amount € m	Fair value € m	Carrying amount € m	Fair value € m
Assets of the reporting institution	**21,001**		**68,051**	
Equity instruments	**–**	**–**	**596**	**596**
Debt securities	**6,523**[1]	**6,526**	**14,452**[1]	**14,519**
Other assets	**14,478**		**53,003**	

	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[1]	12,782
Other assets	15,227		62,307	

[1]Includes NAMA senior bonds.

Collateral received – Table B

	2016	
	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	**–**	**1,195**
Equity instruments	**–**	**–**
Debt securities	**–**	**687**
Other collateral received	**–**	**508**
Own debt securities issued other than own covered bonds or ABSs[1]	**–**	**–**

	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[1]	–	–

[1]Asset backed securities ("ABSs").

Encumbrance *(continued)*

Encumbered assets/collateral received and associated liabilities – Table C

		2016
	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	**14,088**	**19,394**

		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

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. As part of managing its funding requirements, the Group encumbers assets as collateral to support wholesale funding initiatives. In particular, encumbrance through the repo markets plays a role in funding the Group's financial investments available for sale portfolio. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) plc. In 2016, € 21,001 million (2015: € 27,580 million) of the Group's assets and collateral received were encumbered, primarily through these structures.

The Group has seen a downward trend in encumbrance as the Group's funding requirement reduced mainly through a combination of financial investments available for sale portfolio redemptions, customer loan reductions and an increase in customer deposits. The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage backed asset 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. Unused bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between the parent and other Group entities (e.g. EBS d.a.c. and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

The Group had an encumbrance ratio of 21% as at 31 December 2016 (2015: 26%), i.e. PiT encumbrance. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. AIB Mortgage Bank and EBS Mortgage Finance are required to maintain minimum contractual overcollateralisation of 5% and minimum legislative overcollateralisation of 3% (both on a prudent market value basis). This is monitored by the Covered Asset Monitor on behalf of the Central Bank of Ireland. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for voluntary public commitment reasons.

At 31 December 2016, € 9,632 million (2015: € 9,217 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 € 39,159 million (2015: € 40,536 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.

Appendix 4: 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 2016 and 31 December 2015:

- Allied Irish Banks, p.l.c. (parent);
- AIB Mortgage Bank;
- AIB Group (UK) p.l.c.;
- EBS d.a.c.; 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 d.a.c. 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 2016 used to translate sterling (“£”) to Euro is € 1 = £ 0.8562 (2015: € 1 = £ 0.7340), consistent with the 2016 Annual Financial Report.

The capital base of the parent and each of the subsidiaries below apart from AIB Group (UK) p.l.c. has been prepared on a ‘transitional’ basis. AIB Group (UK) p.l.c. has been prepared on a ‘fully loaded’ basis.

In addition, see pages 78 to 109 for further relevant information for the significant subsidiaries in AIB Group.

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

2016	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[13]	EBS d.a.c. € m	EBS Mortgage Finance € m
Total shareholders' equity (including 2016 profits)[12]	12,159	2,308	1,932	960	747
Less: Additional Tier 1 capital	(494)	–	–	–	–
Accrued coupon on Additional Tier 1 capital	(3)	–	–	–	–
	11,662	2,308	1,932	960	747
Regulatory adjustments					
Intangible assets[1]	(373)	–	(13)	(6)	–
Cash flow hedging reserves[2]	(411)	–	(24)	8	–
Available for sale securities reserves[4]	(428)	–	–	24	–
Pension:					
Revenue reserves relating to pension schemes in surplus[1]	(2)	–	(400)	–	–
Regulatory adjustment relating to pension schemes[3]	358	–	–	35	–
Pension filter[3]	(27)	–	–	(1)	–
	329	–	(400)	34	–
Deferred tax[1][5]	(532)	(5)	(118)	(48)	–
IRB shortfall of credit risk adjustments to expected losses[1]	(32)	–	–	–	–
Prudent valuation adjustment[6]	(14)	–	–	–	–
Revaluation reserves[3] [7]	(4)	–	–	–	–
Significant investment in financial sector entities[1][9]	(2)	–	–	–	–
Common equity tier 1 capital	10,195	2,303	1,377	972	747
Additional Tier 1 capital					
Additional Tier 1 capital issuance	494	–	–	–	–
IRB shortfall of credit risk adjustments to expected losses[11]	(11)	–	–	–	–
Significant investment in financial sector entities[1][9]	(1)	–	–	–	–
Total tier 1 capital	10,677	2,303	1,377	972	747
Tier 2 capital					
Subordinated debt:					
Subordinated liabilities and other capital instruments	791	300	–	–	–
Instrument not allowable for capital purposes	(8)	–	–	–	–
	783	300	–	–	–
Regulatory adjustments:					
IRB excess of impairment provisions over expected losses[8]	–	6	–	–	–
IBNR relating to standardised portfolios[10]	107	4	–	24	17
IRB shortfall of credit risk adjustments to expected losses[11]	(11)	–	–	–	–
Revaluation reserves[3] [7]	4	–	–	–	–
Significant investment in financial sector entities[1][9]	(1)	–	–	–	–
	99	10	–	24	17
Total tier 2 capital	882	310	–	24	17
Total capital	11,559	2,613	1,377	996	764

Appendix 4: Parent company and subsidiary disclosures

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

					2016
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m(13)	EBS d.a.c. € m	EBS Mortgage Finance € m
Risk weighted assets:					
Credit risk	39,502	7,616	7,604	3,281	2,294
Market risk	288	–	–	–	–
Operational risk	2,457	419	521	268	125
Credit valuation adjustment	1,203	–	1	59	–
Total risk weighted assets	43,450	8,035	8,126	3,608	2,419

Capital ratios	%	%	%	%	%
Common equity tier 1	23.5	28.7	16.9	26.9	30.9
Tier 1 ratio	24.6	28.7	16.9	26.9	30.9
Total capital	26.6	32.5	16.9	27.6	31.6

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

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

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

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

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

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

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

(8)Per article 62 of the CRR.

(9)Transitional amounts as per CRR article 472.

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

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

(12)Apart from Allied Irish Banks, p.l.c. and AIB Group (UK) p.l.c. which exclude 2016 profits.

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

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 d.a.c. € 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	1,405	2,226	679	519
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	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

Appendix 4: Parent company and subsidiary disclosures

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 39 to the 2016 Annual Financial Report. These Notes matured on 28 July 2016 and were redeemed at their nominal value of € 1.6 billion.

(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 64 of the CRR. Instrument matured 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.

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

					2016
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[3]	EBS d.a.c. € m	EBS Mortgage Finance € m
Standardised exposure class					
Public sector entities	4	–	–	–	–
Institutions[1]	224	–	2	1	–
Corporates	426	–	395	4	–
Retail	238	–	22	–	–
Secured by mortgages on immovable property	241	12	148	144	139
Exposures in default[2]	239	30	27	57	44
Exposures associated with particularly high risk	73	–	–	–	–
Equity	560	–	8	49	–
Other items	51	1	6	6	–
Total Standardised Approach	2,056	43	608	261	183
IRB exposure class					
Central governments and central banks	27	–	–	–	–
Institutions[1]	172	1	–	–	–
Corporates	866	–	–	–	–
Retail	34	566	–	–	–
Securitisation positions	4	–	–	–	–
Non-credit obligation assets	1	–	–	–	–
Total IRB Approach	1,104	567	–	–	–
Total for credit risk	3,160	610	608	261	183
Total for market risk	23	–	–	–	–
Total for operational risk	197	34	36	21	10
Total for credit valuation adjustment	96	–	–	5	–
Total minimum capital requirements	3,476	644	644	287	193

(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 4: Parent company and subsidiary disclosures

Table 30: Minimum capital requirements 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[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 31: Leverage ratio calculation for the parent company and significant subsidiaries

The following table sets out the components of the leverage ratio calculation (as per the Delegated Act implementation in January 2015) on a transitional basis as at 31 December 2016:

					2016
Summary reconciliation of accounting assets and leverage ratio exposures	**Allied Irish Banks, p.l.c. € m**	**AIB Mortgage Bank € m**	**AIB Group (UK) p.l.c. € m**	**EBS d.a.c. € m**	**EBS Mortgage Finance € m**
Total assets as per published financial statements at 31 December 2016	78,984	19,492	15,639	12,885	4,953
Adjustments for:					
Derivative financial instruments	1,030	341	28	98	79
Securities financing transactions ("SFTs")	241	–	–	261	–
Off-balance sheet items	1,964	124	906	74	5
Adjustment for intragroup exposures excluded from the leverage ratio	–	–	–	–	–
Other	(1,225)	94	(717)	(30)	–
Total leverage ratio exposure	80,994	20,051	15,856	13,288	5,037
Leverage ratio common disclosure					
On-balance sheet exposures (excluding derivatives and SFTs)					
On-balance sheet items	74,940	19,399	15,315	12,849	4,934
Asset amounts deducted in determining tier 1 capital	(1,395)	(5)	(531)	(30)	–
	73,545	19,394	14,784	12,819	4,934
Derivative exposures					
Replacement cost associated with all derivative transactions	1,852	192	138	36	19
Add-on amounts for PFE[1] associated with all derivative transactions	1,030	341	28	98	79
	2,882	533	166	134	98
Securities financing transaction exposures					
Gross SFT assets	10,520	–	–	2,362	–
Net amount of cash payable/receivable of gross SFT assets	(8,158)	–	–	(2,362)	–
Counterparty credit risk exposure for SFT assets	241	–	–	261	–
	2,603	–	–	261	–
Other off-balance sheet exposures					
Off-balance sheet exposures at gross notional amount	8,464	474	2,175	236	10
Adjustments for conversion to credit equivalent amounts	(6,500)	(350)	(1,269)	(162)	(5)
	1,964	124	906	74	5
Total leverage ratio exposures	80,994	20,051	15,856	13,288	5,037
Tier 1 capital at 31 December	10,677	2,303	1,377	972	747
	%	%	%	%	%
Leverage ratio	13.2	11.5	8.7	7.3	14.8
On-balance exposures (excluding derivatives, SFTs and exempted exposures)	€ m	€ m	€ m	€ m	€ m
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	74,940	19,399	15,315	12,849	4,934
Of which:					
Covered bonds	–	–	–	1,454	–
Exposures treated as sovereigns	16,430	–	4,570	82	3
Institutions	22,435	470	2,422	3,492	49
Secured by mortgages on immovable property	4,074	16,717	2,892	4,307	4,353
Retail exposures	3,923	1	355	–	–
Corporate	13,548	–	4,038	1,680	–
Exposures in default	2,898	2,176	278	677	529
Other exposures	11,632	35	760	1,157	–
	74,940	19,399	15,315	12,849	4,934

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

Appendix 4: Parent company and subsidiary disclosures

Table 31: Leverage ratio calculation for the parent company and significant subsidiaries *(continued)*

The following table sets out the components of the leverage ratio calculation (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	Allied Irish Banks, p.l.c. € m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m	EBS d.a.c. € m	EBS Mortgage Finance € m
Total assets as per published financial statements at 31 December 2015	87,457	20,157	17,594	12,916	5,347
Adjustments for:					
Derivative financial instruments	1,138	350	11	111	86
Securities financing transactions ("SFTs")	755	170	–	239	–
Off-balance sheet items	1,989	85	1,125	57	6
Adjustment for intragroup exposures excluded from the leverage ratio	–	–	(3,186)	–	–
Other	(1,642)	93	(673)	138	–
Total leverage ratio exposure	89,697	20,855	14,871	13,461	5,439
Leverage ratio common disclosure					
On-balance sheet exposures (excluding derivatives and SFTs)					
On-balance sheet items	80,875	20,015	14,269	12,836	5,327
Asset amounts deducted in determining tier 1 capital	(1,900)	(14)	(673)	138	–
	78,975	20,001	13,596	12,974	5,327
Derivative exposures					
Replacement cost associated with all derivative transactions	1,718	249	139	80	20
Add-on amounts for PFE[(1)] associated with all derivative transactions	1,138	350	11	111	86
	2,856	599	150	191	106
Securities financing transaction exposures					
Gross SFT assets	19,759	1,000	–	3,247	–
Net amount of cash payable/receivable of gross SFT assets	(14,637)	(1,000)	–	(3,247)	–
Counterparty credit risk exposure for SFT assets	755	170	–	239	–
	5,877	170	–	239	–
Other off-balance sheet exposures					
Off-balance sheet exposures at gross notional amount	8,450	210	2,657	171	11
Adjustments for conversion to credit equivalent amounts	(6,461)	(125)	(1,532)	(114)	(5)
	1,989	85	1,125	57	6
Total leverage ratio exposures	89,697	20,855	14,871	13,461	5,439
Tier 1 capital at 31 December	10,152	1,390	1,554	818	519
	%	%	%	%	%
Leverage ratio	11.3	6.7	10.4	6.1	9.5
On-balance exposures (excluding derivatives, SFTs and exempted exposures)	€ m	€ m	€ m	€ m	€ m
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	80,875	20,015	14,269	12,836	5,327
Of which:					
Covered bonds	–	–	–	2,280	–
Exposures treated as sovereigns	19,622	–	4,228	25	–
Institutions	22,126	409	132	3,163	60
Secured by mortgages on immovable property	5,052	17,302	3,513	3,967	4,554
Retail exposures	3,697	1	604	2	1
Corporate	14,122	4	4,441	1,397	–
Exposures in default	2,844	2,222	418	912	710
Other exposures	13,412	77	933	1,090	2
	80,875	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 d.a.c.; 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 69 to 72, 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 2 '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. To support this approach, a number of frameworks and policies approved by the Board (or Board delegation) are in place 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 d.a.c. 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 2016 Annual Financial Report – pages 50 to 61.

The Board of AIB Group (UK) p.l.c. has approved a RAS which is aligned to the Group RAS and adopts the same risk governance and structure as described in the 2016 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 45. 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 in the 2016 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 84, 91, 97 and 102. 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 203 of the 2016 Annual Financial Report in the Governance and oversight section.

Remuneration disclosures in relation to 'identified staff' for each of the subsidiaries is incorporated within Section 13: Remuneration disclosures on pages 59 to 61.

Appendix 4: 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

					2016
Exposure class	**Home loans € m**	**Property € m**	**Other € m**	**Bank, sovereign and public sector € m**	**Total exposures € m**
Institutions	**–**	**–**	**–**	**968**	**968**
Retail	**1**	**–**	**–**	**–**	**1**
Secured by mortgages on immovable property	**255**	**–**	**–**	**–**	**255**
Exposures in default	**262**	**–**	**–**	**–**	**262**
Other items	**–**	**–**	**29**	**–**	**29**
Total	**518**	**–**	**29**	**968**	**1,515**

					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

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

					2016
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	**968**	**–**	**968**	**968**	**1,095**
Retail	**1**	**–**	**1**	**1**	**1**
Secured by mortgages on immovable property	**255**	**–**	**255**	**257**	**319**
Exposures in default	**262**	**–**	**262**	**331**	**219**
Other items	**29**	**–**	**29**	**29**	**58**
	1,515	**–**	**1,515**	**1,586**	**1,692**

					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

[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 4: Parent company and subsidiary disclosures

AIB Mortgage Bank

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

										2016
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	435	–	84	–	26	54	53	316	–	968
Retail	–	–	–	–	–	1	–	–	–	1
Secured by mortgages on immovable property	–	–	–	–	4	3	37	211	–	255
Exposures in default	27	12	2	12	8	14	63	124	–	262
Other items	–	–	–	–	–	–	–	–	29	29
	462	12	86	12	38	72	153	651	29	1,515

										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	373	178	–	8	200	19	47	326	–	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
	380	179	1	38	243	38	133	709	80	1,801

Appendix 4: 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

2016

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	–	–	–	–	968	968	–	968
Retail	–	–	–	–	–	–	1	1
Secured by mortgages on immovable property	–	–	–	–	–	–	255	255
Exposures in default	–	–	–	–	–	–	262	262
Other items	–	–	–	–	–	–	29	29
	–	–	–	–	968	968	547	1,515

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 Steps € 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

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

2016

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	–	–	–	968	–	–	968	–	968
Retail	–	–	–	–	–	–	–	1	1
Secured by mortgages on immovable property	–	–	–	–	–	–	–	255	255
Exposures in default	–	–	–	–	–	–	–	262	262
Other items	–	–	–	–	–	–	–	29	29
	–	–	–	968	–	–	968	547	1,515

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

(1)For details of the credit ratings applied to the credit quality assessment steps - see page 26.

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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 € 19,583 million, € 19,548 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

							2016
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	35
Corporates	–	–	–	–	–	–	9
Retail	19,465	40	10	33	19,548	19,719	19,844
	19,465	75	10	33	19,583	19,754	19,888

							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

(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

				2016				2015
Residual maturity	Institutions € m	Corporates € m	Retail € m	Total exposures € m	Institutions	Corporates € m	Retail € m	Total exposures € m
On demand	35	–	138	173	35	1	23	59
< 3 months	–	–	279	279	–	–	93	93
3 < 6 months	–	–	22	22	–	–	27	27
6 months < 1 year	–	–	42	42	–	1	162	163
1 < 3 years	–	–	194	194	–	–	226	226
3 < 5 years	–	–	346	346	–	–	358	358
5 < 10 years	–	–	2,198	2,198	–	2	2,088	2,090
10 years+	–	–	16,329	16,329	–	6	17,126	17,132
	35	–	19,548	19,583	35	10	20,103	20,148

Appendix 4: Parent company and subsidiary disclosures

AIB Mortgage Bank

Table 33c: Obligor grade disclosures – IRB Approach

									2016
	Institutions		Retail			Corporates		Total IRB	
Obligor grade	EAD €m	Exposure – weighted average risk weight %	EAD €m	Exposure – weighted average risk weight %	Exposure – weighted average LGD[1] %	EAD €m	Exposure – weighted average risk weight %	EAD €m	Exposure – weighted average risk weight %
Grade 1 – 3	**35**	**27**	**8,123**	**6**	**27**	**–**	**–**	**8,158**	**6**
Grade 4 – 10	**–**	**–**	**8,205**	**44**	**28**	**–**	**–**	**8,205**	**44**
Grade 11 – 13	**–**	**–**	**3,220**	**93**	**34**	**–**	**–**	**3,220**	**93**
	35	**27**	**19,548**	**36**	**28**	**–**	**–**	**19,583**	**36**

									2015
	Institutions		Retail			Corporates		Total IRB	
Obligor grade	EAD €m	Exposure – weighted average risk weight %	EAD €m	Exposure – weighted average risk weight %	Exposure – weighted average LGD[1] %	EAD €m	Exposure – weighted average risk weight %	EAD €m	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

[1]In calculating its credit risk regulatory capital requirements 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.

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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.

31 December 2016

	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	–	–	–	–	16,769	0.89	16,769	0.89
United Kingdom	35	0.10	–	–	28	5.00	63	2.27
United States of America	–	–	–	–	8	0.88	8	0.88
Rest of the World	–	–	–	–	23	2.15	23	2.15
Total non–defaulted	35	0.10	–	–	16,828	0.90	16,863	0.89
Defaulted	–	–	–	–	2,720	100.00	2,720	100.00
Total exposures	35	0.10	–	–	19,548	14.66	19,583	14.63

31 December 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 non–defaulted	35	0.10	4	20	17,175	1.30	17,214	1.32
Defaulted	–	–	6	100.00	2,928	100.00	2,934	100.00
Total exposures	35	0.10	10	64	20,103	15.68	20,148	15.69

[1]Includes EAD in relation to impaired loans.

There is a reduction in the average PD % for the exposure classes "Corporates" and "Retail" due to the improved risk rating of the exposures during 2016.

Appendix 4: Parent company and subsidiary disclosures

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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:

					2016
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	**19,690**	**511**	**2,191**	**770**	**(73)**
Geography					
Republic of Ireland	**19,690**	**511**	**2,191**	**770**	**(73)**

					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)

[(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

	2016 € m	2015 € m
At 1 January	**1,109**	1,951
Credit to income statement	**(59)**	(323)
Amounts written off	**(114)**	(519)
At 31 December	**936**	1,109

Appendix 4: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

AIB Group (UK) p.l.c. comprises of two trading entities operating in two distinct markets with different economies and operating environments: Allied Irish Bank (GB) ("AIB GB") which offers full banking services to predominantly business customers across Great Britain; and First Trust Bank ("FTB") which offers full banking services to business and personal customers across Northern Ireland.

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

														2016
	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	–	–	–	–	–	–	–	–	–	–	–	4,570	–	4,570
Institutions	–	–	–	–	–	–	–	–	–	–	–	77	–	77
Corporates	62	209	1,098	192	366	9	457	13	1,527	677	334	–	–	4,944
Retail	30	6	35	1	8	18	5	136	38	81	2	–	–	360
Secured by mortgages on immovable property	4	10	19	–	29	1,628	7	15	144	1,103	2	–	–	2,961
Exposures in default	1	10	55	–	6	111	21	8	20	48	–	–	–	280
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	46	–	–	–	–	–	–	–	–	46
Other	–	–	–	–	–	–	–	–	–	–	–	–	170	170
Total	97	235	1,207	193	455	1,766	490	172	1,729	1,909	338	4,647	170	13,408

[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 4: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

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

														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.

AIB Group (UK) p.l.c.

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

2016

Exposure class	United Kingdom	Ireland	Rest of the World	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	4,570	–	–	–	4,570	4,570	4,160
Institutions	54	20	3	–	77	2,441	70
Corporates	4,755	20	157	12	4,944	5,870	4,921
Retail	347	4	9	–	360	716	470
Secured by mortgages on immovable property	2,917	22	22	–	2,961	3,064	2,994
Exposures in default	266	10	4	–	280	498	318
Exposures associated with particularly high risk	–	–	–	–	–	–	6
Equity	46	–	–	–	46	46	49
Other items	170	–	–	–	170	170	191
	13,125	76	195	12	13,408	17,375	13,179

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

(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 4: Parent company and subsidiary disclosures

AIB Group (UK) p.l.c.

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

										2016
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	**4,570**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,570**
Institutions	**57**	**20**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77**
Corporates	**235**	**40**	**138**	**353**	**1,156**	**1,652**	**941**	**429**	**–**	**4,944**
Retail	**–**	**18**	**19**	**26**	**110**	**74**	**69**	**44**	**–**	**360**
Secured by mortgages on immovable property	**97**	**61**	**75**	**117**	**353**	**476**	**314**	**1,468**	**–**	**2,961**
Exposures in default	**122**	**7**	**9**	**6**	**11**	**22**	**22**	**81**	**–**	**280**
Exposures associated with particularly high risk	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**46**	**46**
Other items	**38**	**76**	**–**	**–**	**–**	**–**	**–**	**–**	**56**	**170**
	5,119	**222**	**241**	**502**	**1,630**	**2,224**	**1,346**	**2,022**	**102**	**13,408**

										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	35	86	–	–	–	–	–	–	67	188
	4,761	391	224	923	1,613	2,612	1,525	2,591	142	14,782

AIB Group (UK) p.l.c.

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

								2016
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	–	–	4,570	–	–	4,570	–	4,570
Institutions	–	23	34	–	20	77	–	77
Corporates	–	–	–	–	–	–	4,944	4,944
Retail	–	–	–	–	–	–	360	360
Secured by mortgages on immovable property	–	–	–	–	–	–	2,961	2,961
Exposures in default	–	–	–	–	–	–	280	280
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	46	46
Other items	–	–	–	–	–	–	170	170
	–	23	4,604	–	20	4,647	8,761	13,408

								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

Appendix 4: 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

2016

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	4,570	–	–	–	–	–	4,570	–	4,570
Institutions	36	21	–	20	–	–	77	–	77
Corporates	–	–	–	–	–	–	–	4,944	4,944
Retail	–	–	–	–	–	–	–	360	360
Secured by mortgages on immovable property	–	–	–	–	–	–	–	2,961	2,961
Exposures in default	–	–	–	–	–	–	–	280	280
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	–	46	46
Other items	–	–	–	–	–	–	–	170	170
	4,606	21	–	20	–	–	4,647	8,761	13,408

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	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

[1]For details of the credit ratings applied to the credit quality assessment steps - see page 26.

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:

2016

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	91	2	1	1	–
Energy	173	–	–	–	–
Manufacturing	440	3	3	3	(2)
Property and construction	1,877	54	130	82	13
Distribution	1,111	8	42	13	(6)
Transport	305	–	–	–	–
Financial	191	2	6	2	–
Other services	1,632	18	29	12	(2)
Personal: Residential mortgages	1,795	33	195	81	1
Other	253	5	31	24	(2)
	7,868	125	437	218	2
Geography – United Kingdom	7,868	125	437	218	2

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)

(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

	2016 € m	2015 € m
At 1 January	383	552
Exchange translation adjustments	(52)	36
(Credit)/charge to income statement	1	(4)
Amounts written off	(68)	(128)
Recoveries of amounts written off in previous years	1	–
Amounts written off on disposal of loan portfolio	–	(73)
At 31 December	265	383

Appendix 4: Parent company and subsidiary disclosures

EBS d.a.c.[1]

EBS d.a.c. 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 d.a.c.

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

						2016
	Financial	Home loans	Property	Bank, sovereign and public sector	Other	Total exposures
	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	82	–	82
Institutions	–	–	–	4,047	–	4,047
Corporates	1,680	–	–	–	–	1,680
Secured by mortgages on immovable property	–	4,320	58	–	–	4,378
Exposures in default	–	648	32	–	–	680
Exposures associated with particularly high risk	–	–	2	–	–	2
Covered bonds	–	–	–	1,454	–	1,454
Equity	–	–	–	612	–	612
Other items	–	–	–	–	247	247
Total	**1,680**	**4,968**	**92**	**6,195**	**247**	**13,182**

						2015
	Financial	Home loans	Property	Bank, sovereign and public sector	Other	Total exposures
	€ m	€ m	€ m	€ m	€ m	€ 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	1,397	4,830	111	6,665	378	13,381

[1]Previously known as EBS Limited.

EBS d.a.c.

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

2016

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	82	–	–	–	82	82	35
Institutions	4,034	–	–	13	4,047	6,249	3,682
Corporates	1,680	–	–	–	1,680	1,680	1,494
Retail	–	–	–	–	–	–	3
Secured by mortgages on immovable property	4,350	11	4	13	4,378	4,575	4,186
Exposures in default	666	8	2	4	680	1,186	785
Exposures associated with particularly high risk	2	–	–	–	2	8	2
Covered bonds	1,454	–	–	–	1,454	1,454	2,131
Equity	612	–	–	–	612	612	612
Other items	247	–	–	–	247	247	320
	13,127	19	6	30	13,182	16,093	13,250

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

[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 4: Parent company and subsidiary disclosures

EBS d.a.c.

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

										2016
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	78	4	–	–	–	–	–	–	–	82
Institutions	3,488	40	–	–	–	429	–	90	–	4,047
Corporates	–	54	–	–	5	–	–	1,621	–	1,680
Secured by mortgages on immovable property	1	30	3	6	31	49	297	3,961	–	4,378
Exposures in default	2	7	3	6	15	17	88	542	–	680
Exposures associated with particularly high risk	2	–	–	–	–	–	–	–	–	2
Covered bonds	–	–	–	–	–	–	–	1,454	–	1,454
Equity	–	–	–	–	–	–	–	–	612	612
Other items	6	–	–	–	–	–	–	–	241	247
	3,577	135	6	12	51	495	385	7,668	853	13,182

										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	25	–	–	–	–	–	–	–	–	25
Institutions	3,153	10	–	2	26	406	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
	3,178	46	4	12	49	512	369	8,227	984	13,381

EBS d.a..c.

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

2016

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	–	–	–	–	82	82	–	82
Institutions	–	–	21	–	4,026	4,047	–	4,047
Corporates	–	–	–	–	–	–	1,680	1,680
Secured by mortgages on immovable property	–	–	–	–	–	–	4,378	4,378
Exposures in default	–	–	–	–	–	–	680	680
Exposures associated with particularly high risk	–	–	–	–	–	–	2	2
Covered bonds	–	–	–	–	1,454	1,454	–	1,454
Equity	–	–	–	–	–	–	612	612
Other items	–	–	–	–	–	–	247	247
	–	–	21	–	5,562	5,583	7,599	13,182

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

EBS d.a.c.

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

									2016
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	–	82	–	–	–	–	82	–	82
Institutions	13	8	–	4,026	–	–	4,047	–	4,047
Corporates	–	–	–	–	–	–	–	1,680	1,680
Secured by mortgages on immovable property	–	–	–	–	–	–	–	4,378	4,378
Exposures in default	–	–	–	–	–	–	–	680	680
Exposures associated with particularly high risk	–	–	–	–	–	–	–	2	2
Covered bonds	–	1,454	–	–	–	–	1,454	–	1,454
Equity	–	–	–	–	–	–	–	612	612
Other items	–	–	–	–	–	–	–	247	247
	13	1,544	–	4,026	–	–	5,583	7,599	13,182

									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

[(1)]For details of the credit ratings applied to the credit quality assessment steps - see page 26.

EBS d.a.c.

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:

					2016
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	**189**	**10**	**99**	**60**	**(9)**
Personal – Residential mortgages	**5,376**	**168**	**1,038**	**446**	**(3)**
	5,565	**178**	**1,137**	**506**	**(12)**
Geography					
Republic of Ireland	**5,565**	**178**	**1,137**	**506**	**(12)**

					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
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)

(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

	2016 € m	2015 € m
At 1 January	**621**	700
Credit to income statement	**(27)**	(44)
Amounts written off	**(48)**	(35)
At 31 December	**546**	621

Appendix 4: Parent company and subsidiary disclosures

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 d.a.c. 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

				2016
	Home loans € m	Bank, sovereign and public sector € m	Other € m	Total exposures € m
Central governments and central banks	–	4	–	4
Institutions	–	147	–	147
Secured by mortgages on immovable property	4,357	–	–	4,357
Exposures in default	538	–	–	538
Total	**4,895**	**151**	**–**	**5,046**

				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

EBS Mortgage Finance

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

2016

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	4	–	–	–	4	4	1
Institutions	147	–	–	–	147	147	159
Retail	–	–	–	–	–	–	1
Secured by mortgages on immovable property	4,330	12	2	13	4,357	4,389	4,488
Exposures in default	524	6	2	6	538	798	609
Other items	–	–	–	–	–	–	2
	5,005	18	4	19	5,046	5,338	5,260

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

[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 4: Parent company and subsidiary disclosures

EBS Mortgage Finance

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

										2016
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	–	–	–	–	–	–	–	4
Institutions	49	–	–	–	–	–	–	98	–	147
Secured by mortgages on immovable property	–	–	1	2	30	58	292	3,974	–	4,357
Exposures in default	–	2	–	1	8	10	45	472	–	538
	49	6	1	3	38	68	337	4,544	–	5,046

										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	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

EBS Mortgage Finance

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

								2016
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	4	–	4
Institutions	–	–	19	–	128	147	–	147
Secured by mortgages on immovable property	–	–	–	–	–	–	4,357	4,357
Exposures in default	–	–	–	–	–	–	538	538
	–	–	19	–	132	151	4,895	5,046

								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

Appendix 4: Parent company and subsidiary disclosures

EBS Mortgage Finance

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

									2016
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	**–**	**4**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Institutions	**7**	**12**	**–**	**128**	**–**	**–**	**147**	**–**	**147**
Secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,357**	**4,357**
Exposures in default	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**538**	**538**
	7	**16**	**–**	**128**	**–**	**–**	**151**	**4,895**	**5,046**

									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

[1]For details of the credit ratings applied to the credit quality assessment steps - see page 26.

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:

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**
					2016
Personal – Residential mortgages	**5,167**	**160**	**753**	**258**	**19**
Geography					
Republic of Ireland	**5,167**	**160**	**753**	**258**	**19**

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
					2015
Personal – Residential mortgages	5,546	175	965	253	18
Geography					
Republic of Ireland	5,546	175	965	253	18

[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

	2016 € m	2015 € m
At 1 January	**281**	336
Charge/(credit) to income statement	**20**	(10)
Amounts written off	**(14)**	(45)
At 31 December	**287**	281

Appendix 5: Transitional and fully loaded own funds

AIB Group and its principal subsidiaries

The tables below set out the own funds of AIB Group and its principal subsidiaries (AIB Mortgage Bank, AIB Group (UK) p.l.c., EBS d.a.c. and EBS Mortgage Finance) in accordance with Article 5 of the Commission Implementing Regulation (EU) No.1423/2013:

		AIB Group			
		CRD IV transitional basis		CRD IV fully loaded basis	
		31 December 2016 € m	31 December 2015 € m	**31 December 2016 € m**	31 December 2015 € m
Common equity tier 1 capital: Instruments and reserves					
1	Capital instruments and the related share premium accounts				
	– Ordinary stock	**1,696**	1,696	**1,696**	1,696
	– Share premium	**1,386**	1,386	**1,386**	1,386
2	Retained earnings	**7,072**	5,689	**7,072**	5,689
3	Accumulated other comprehensive income (and other reserves)	**2,246**	2,879	**2,246**	2,879
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	**12,400**	11,650	**12,400**	11,650
Common equity tier 1 capital: regulatory adjustments					
7	Additional value adjustments/other	**(12)**	(6)	**(12)**	(6)
8	Intangible assets (net of related tax liability)	**(392)**	(292)	**(392)**	(292)
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(610)**	(317)	**(3,050)**	(3,171)
11	Fair value reserves related to gains or losses on cash flow hedges	**(460)**	(354)	**(460)**	(354)
12	Negative amounts resulting from the calculation of expected loss amounts	**(28)**	–	**(46)**	–
15	Defined benefit pension fund assets	**(126)**	(153)	**(126)**	(153)
26a	Regulatory adjustments relating to unrealised gains and losses	**(288)**	(921)	**–**	–
	of which – Unrealised gains on non-sovereign bonds	**(4)**	(3)	**–**	–
	– Unrealised gains on sovereign bonds	**(284)**	(918)	**–**	–
26b	Amount to be deducted from or added to Common equity tier 1 capital with regard to additional filers and deductions required pre CRR	**(177)**	(322)	**–**	–
	of which: – Defined benefit pension scheme	**52**	183	**–**	–
	– Property revaluation reserve	**(6)**	(9)	**–**	–
	– Minimum funding standard pension contributions	**(66)**	(121)	**–**	–
	– Fair value on CoCo bond	**–**	(46)	**–**	–
	– Unrealised gains on equity	**(157)**	(329)	**–**	–
28	**Total regulatory adjustments to Common equity tier (CET 1)**	**(2,093)**	(2,365)	**(4,086)**	(3,976)
29	**Common equity tier (CET 1) capital**	**10,307**	9,285	**8,314**	7,674
Additional tier 1 (AT1) capital: Instruments					
30	Capital instruments and the related share premium accounts				
31	– Classified as equity under applicable accounting standards	**494**	494	**494**	494
Additional tier 1 (AT1) capital: before regulatory adjustments		**494**	494	**494**	494
Additional tier 1 (AT1) capital: regulatory adjustments					
41a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to article 472 of regulation (EU) no.575/2013				
	– Shortfall of provision to expected losses	**(9)**	–	**–**	–
43	**Total regulatory adjustments to Additional tier 1 (AT1)**	**(9)**	–	**–**	–
44	**Additional tier 1 (AT1) capital**	**485**	494	**494**	494
45	**Tier 1 capital (T1 = CET 1 + AT1)**	**10,792**	9,779	**8,808**	8,168

AIB Group and its principal subsidiaries *(continued)*

		AIB Group			
		CRD IV transitional basis		CRD IV fully loaded basis	
		31 December 2016 € m	31 December 2015 € m	**31 December 2016 € m**	31 December 2015 € m
	Tier 2 (T2) capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts	**783**	973	**783**	973
50	Credit risk adjustments	**–**	20	**–**	20
	Tier 2 (T2) capital before regulatory adjustments	**783**	993	**783**	993
	Tier 2 (T2) capital: Regulatory adjustments				
56a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to article 472 of regulation (EU) no.575/2013				
	– Shortfall of provision to expected losses	**(9)**	–	**–**	–
56c	Amount to be deducted from or added to tier 2 capital with regard to additional filers and deductions required pre CRR	**206**	276	**–**	–
	of which: – IBNR provisions	**200**	267	**–**	–
	– Property revaluation reserve	**6**	9	**–**	–
57	**Total regulatory adjustments to tier 2 (T2) capital**	**197**	276	**–**	–
58	**Tier 2 (T2) capital**	**980**	1,269	**783**	993
59	**Total capital (TC = T1 + T2)**	**11,772**	11,048	**9,591**	9,161
60	**Total risk weighted assets**	**54,235**	58,549	**54,419**	59,058
	Capital ratios and buffers				
61	Common equity tier 1	**19.0%**	15.9%	**15.3%**	13.0%
62	Tier 1	**19.9%**	16.7%	**16.2%**	13.8%
63	Total capital	**21.7%**	18.9%	**17.6%**	15.5%
64	Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk exposure amount)	**0.6%**	–	**4.0%**	4.0%
65	of which: capital conservation buffer requirement	**0.625%**	–	**2.5%**	2.5%
66	countercyclical buffer requirement	**0.001%**	–	**0.001%**	–
67	systemic risk requirement	**–**	–	**1.5%**	1.5%
67a	*Other Systemically Important Institution (O-SII) buffer*	**–**	–	***1.5%***	*1.5%*
68	Common equity tier 1 available to meet buffers(1) (as a % of risk exposure amount)	**14.5%**	11.4%	**10.8%**	8.5%
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**77**	294	**77**	294
73	Direct and indirect holdings of the capital of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**65**	70	**65**	70
	Applicable caps on the inclusion of provision in Tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under Standardised approach	**346**	381	**346**	381
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to application of the cap)	**–**	20	**–**	20
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings - based approach	**127**	139	**127**	139

(1) CET 1 in excess of 4.5%.

Appendix 5: Transitional and fully loaded own funds

AIB Group and its principal subsidiaries *(continued)*

		AIB Mortgage Bank		AIB Group (UK) p.l.c.	
		CRD IV		CRD IV	
		transitional 31 December 2016 € m	fully loaded 31 December 2016 € m	transitional 31 December 2016 € m	fully loaded 31 December 2016 € m
	Common equity tier 1 capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts				
	– Ordinary stock	1,745	1,745	2,784	2,784
	– Share premium	–	–	–	–
2	Retained earnings	(17)	(17)	(2,828)	(2,828)
3	Accumulated other comprehensive income (and other reserves)	580	580	1,976	1,976
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	2,308	2,308	1,932	1,932
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments/other	–	–	–	–
8	Intangible assets (net of related tax liability)	–	–	(13)	(13)
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(5)	(26)	(118)	(118)
11	Fair value reserves related to gains or losses on cash flow hedges	–	–	(24)	(24)
12	Negative amounts resulting from the calculation of expected loss amounts	–	–	–	–
15	Defined benefit pension fund assets	–	–	(400)	(400)
26a	Regulatory adjustments relating to unrealised gains and losses:				
	of which – Unrealised gains on non-sovereign bonds	–	–	–	–
	– Unrealised gains on sovereign bonds	–	–	–	–
26b	Amount to be deducted from or added to Common equity tier 1 capital with regard to additional filers and deductions required pre CRR				
	of which: –Defined benefit pension scheme	–	–	–	–
	– Property revaluation reserve	–	–	–	–
	– Minimum funding standard pension contributions	–	–	–	–
	– Fair value on CoCo bond	–	–	–	–
	– Unrealised gains on equity	–	–	–	–
28	**Total regulatory adjustments to Common equity tier (CET 1)**	(5)	(26)	(555)	(555)
29	**Common equity tier (CET 1) capital**	2,303	2,282	1,377	1,377
	Additional tier 1 (AT1) capital: Instruments				
30	Capital instruments and the related share premium accounts				
31	– Classified as equity under applicable accounting standards	–	–	–	–
	Additional tier 1 (AT1) capital: before regulatory adjustments	–	–	–	–
	Additional tier 1 (AT1) capital: regulatory adjustments				
41a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to article 472 of regulation (EU) no.575/2013				
	– Shortfall of provision to expected losses	–	–	–	–
43	**Total regulatory adjustments to Additional tier 1 (AT1)**	–	–	–	–
44	**Additional tier 1 (AT1) capital**	–	–	–	–
45	**Tier 1 capital (T1 = CET 1 + AT1)**	2,303	2,282	1,377	1,377

AIB Group and its principal subsidiaries *(continued)*

		AIB Mortgage Bank CRD IV transitional 31 December 2016 € m	AIB Mortgage Bank CRD IV fully loaded 31 December 2016 € m	AIB Group (UK) p.l.c. CRD IV transitional 31 December 2016 € m	AIB Group (UK) p.l.c. CRD IV fully loaded 31 December 2016 € m
	Tier 2 (T2) capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts	300	300	–	–
50	Credit risk adjustments	6	6	–	–
	Tier 2 (T2) capital before regulatory adjustments	306	306	–	–
	Tier 2 (T2) capital: Regulatory adjustments				
56a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to article 472 of regulation (EU) no.575/2013				
	– Shortfall of provision to expected losses	–	–	–	–
56c	Amount to be deducted from or added to tier 2 capital with regard to additional filers and deductions required pre CRR	4	–	–	–
	of which: – IBNR provisions	4	–	–	–
	– Property revaluation reserve	–	–	–	–
57	**Total regulatory adjustments to tier 2 (T2) capital**	4	–	–	–
58	**Tier 2 (T2) capital**	310	306	–	–
59	**Total capital (TC = T1 + T2)**	2,613	2,588	1,377	1,377
60	**Total risk weighted assets**	8,035	8,035	8,126	8,126
	Capital ratios and buffers				
61	Common equity tier 1	28.7%	28.4%	16.9%	16.9%
62	Tier 1	28.7%	28.4%	16.9%	16.9%
63	Total capital	32.5%	32.2%	16.9%	16.9%
64	Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk exposure amount)	0.625%	2.5%	0.6%	2.5%
65	of which: – Capital conservation buffer requirement	0.625%	2.5%	0.625%	2.5%
66	– Countercyclical buffer requirement	–	–	–	–
67	– Systemic risk requirement	–	–	–	–
67a	*– Other Systemically Important Institution (O-SII) buffer*	–	–	–	–
68	Common equity tier 1 available to meet buffers[1] (as a % of risk exposure amount)	24.2%	23.9%	12.4%	12.4%
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	7	7
73	Direct and indirect holdings of the capital of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	37	37
	Applicable caps on the inclusion of provision in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to application of the cap)	4	–	–	–
77	Cap on inclusion of credit risk adjustments in T2 under Standardised approach	7	7	95	95
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to application of the cap)	6	6	–	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings - based approach	43	43	–	–

[1]CET 1 in excess of 4.5%.

Appendix 5: Transitional and fully loaded own funds

AIB Group and its principal subsidiaries *(continued)*

		EBS d.a.c.		EBS Mortgage Finance	
		CRD IV		CRD IV	
		transitional 31 December 2016 € m	fully loaded 31 December 2016 € m	transitional 31 December 2016 € m	fully loaded 31 December 2016 € m
	Common equity tier 1 capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts				
	– Ordinary stock	1,654	1,654	552	552
	– Share premium	–	–	–	–
2	Retained earnings	(787)	(787)	195	195
3	Accumulated other comprehensive income (and other reserves)	93	93	–	–
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	960	960	747	747
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments/other	–	–	–	–
8	Intangible assets (net of related tax liability)	(6)	(6)	–	–
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(48)	(239)	–	–
11	Fair value reserves related to gains or losses on cash flow hedges	8	8	–	–
12	Negative amounts resulting from the calculation of expected loss amounts	–	–	–	–
15	Defined benefit pension fund assets	–	–	–	–
26a	Regulatory adjustments relating to unrealised gains and losses:	30	–	–	–
	of which – Unrealised gains on non-sovereign bonds	30	–	–	–
	– Unrealised gains on sovereign bonds	–	–	–	–
26b	Amount to be deducted from or added to Common equity tier 1 capital with regard to additional filers and deductions required pre CRR:	28	–	–	–
	of which: – Defined benefit pension scheme	35	–	–	–
	– Property revaluation reserve	–	–	–	–
	– Minimum funding standard pension contributions	(1)	–	–	–
	– Fair value on CoCo bond	–	–	–	–
	– Unrealised gains on equity	(6)	–	–	–
28	**Total regulatory adjustments to Common equity tier (CET 1)**	12	(237)	–	–
29	**Common equity tier (CET 1) capital**	972	723	747	747
	Additional tier 1 (AT1) capital: Instruments				
30	Capital instruments and the related share premium accounts				
31	– Classified as equity under applicable accounting standards	–	–	–	–
	Additional tier 1 (AT1) capital: before regulatory adjustments	–	–	–	–
	Additional tier 1 (AT1) capital: regulatory adjustments				
41a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to article 472 of regulation (EU) no.575/2013				
	– Shortfall of provision to expected losses	–	–	–	–
43	**Total regulatory adjustments to Additional tier 1 (AT1)**	–	–	–	–
44	**Additional tier 1 (AT1) capital**	–	–	–	–
45	**Tier 1 capital (T1 = CET 1 + AT1)**	972	723	747	747

AIB Group and its principal subsidiaries *(continued)*

		EBS d.a.c. CRD IV transitional 31 December 2016 € m	EBS d.a.c. CRD IV fully loaded 31 December 2016 € m	EBS Mortgage Finance CRD IV transitional 31 December 2016 € m	EBS Mortgage Finance CRD IV fully loaded 31 December 2016 € m
	Tier 2 (T2) capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts	–	–	–	–
50	Credit risk adjustments	–	–	–	–
	Tier 2 (T2) capital before regulatory adjustments	–	–	–	–
	Tier 2 (T2) capital: Regulatory adjustments				
56a	Residual amounts deducted from Additional tier 1 capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to article 472 of regulation (EU) no.575/2013				
	– Shortfall of provision to expected losses	–	–	–	–
56c	Amount to be deducted from or added to tier 2 capital with regard to additional filers and deductions required pre CRR	24	–	17	–
	of which: – IBNR provisions	24	–	17	–
	– Property revaluation reserve	–	–	–	–
57	**Total regulatory adjustments to tier 2 (T2) capital**	24	–	17	–
58	**Tier 2 (T2) capital**	24	–	17	–
59	**Total capital (TC = T1 + T2)**	996	723	764	747
60	**Total risk weighted assets**	3,608	3,608	2,419	2,419
	Capital ratios and buffers				
61	Common equity tier 1	26.9%	20.0%	30.9%	30.9%
62	Tier 1	26.9%	20.0%	30.9%	30.9%
63	Total capital	27.6%	20.0%	31.6%	30.9%
64	Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk exposure amount)	0.625%	2.5%	0.625%	2.5%
65	of which: – Capital conservation buffer requirement	0.625%	2.5%	0.625%	2.5%
66	– Countercyclical buffer requirement	–	–	–	–
67	– Systemic risk requirement	–	–	–	–
67a	*– Other Systemically Important Institution (O-SII) buffer*	–	–	–	–
68	Common equity tier 1 available to meet buffers[1] (as a % of risk exposure amount)	22.4%	15.5%	26.4%	26.4%
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	–	–
73	Direct and indirect holdings of the capital of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	612	612	–	–
	Applicable caps on the inclusion of provision in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to application of the cap)	24	–	17	–
77	Cap on inclusion of credit risk adjustments in T2 under Standardised approach	41	41	29	29
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to application of the cap)	–	–	–	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings - based approach	–	–	–	–

[1]CET 1 in excess of 4.5%.

Glossary of definitions and explanations

A

Additional Tier 1 capital – Additional Tier 1 Capital (“AT1”) are securities issued by AIB and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Add–ons – the amounts calculated under the CRR “mark-to-market” method, based on product type and maturity, which reflect potential future exposure and which must be added to the positive fair value of contracts to establish the gross credit exposure of contracts

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

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 BRRD introduces a common EU framework for how authorities should intervene to address failure and in the event of bank failure for authorities to ensure an orderly resolution.

Banking book (also non-trading book) – A regulatory classification to support the regulatory capital 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. AFS or HTM securities portfolios).

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”) – Capital Requirements Directive (“CRD”): Capital adequacy legislation implemented by the European Union and adopted by Member States designed to ensure the financial soundness of credit institutions and certain investment firms and give effect in the EU to the Basel II proposals which came into force on 20 July 2006.

Capital Requirements Directive IV (“CRD IV”) – Capital Requirements Directive IV (“CRD IV”), which came into force on 1 January 2014, comprises a Capital Requirements Directive and a 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. Requirements Regulation (No. 575/2013) (“CRR”) and the Capital Requirements Directive (2013/36/EU).

C

Central Bank of Ireland – 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 below).

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 ratio – A measurement of a bank's common equity tier 1 capital expressed as a percentage of its total 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 inherent in a financial asset such as a loan or might be a generic credit risk such as the bankruptcy risk of an entity.

Credit risk mitigation ("CRM") – techniques used by lenders 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 Banking Authority ("EBA") is an independent EU Banking Authority which works to ensure effective and consistent prudential regulation and supervision across the European Banking sector.

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, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off balance sheet exposures, including 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.

Forbearance – Forbearance is the term used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.

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 more than 90 days 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") – 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.

Internal Ratings Based Approach ("IRBA") – The Internal Ratings Based Approach ("IRBA") allows banks, subject to regulatory approval, to 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").

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 Alternative Investment Funds 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") – 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 exceeds 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.

N

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.

Glossary of definitions and explanations

N

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.

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 – 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 canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, people risk and legal 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 the 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 – Regulatory capital which AIB holds, determined in accordance with rules established by the SSM/ECB 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.

Residential mortgage backed securities ("RMBS") – 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") – Risk weighted assets ("RWAs") are a 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 formulas 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, became 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") – The Single Supervisory Mechanism ("SSM") is a 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.

Special Purpose Entity ("SPE") – is a 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. This term is used interchangeably with SPV (special purpose vehicle).

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 – A measure of a bank's financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.

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.

Glossary of definitions and explanations

T

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.

V

Value at Risk –the Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).

W

Wrong Way Risk – For the purposes of measuring counterparty credit exposure, wrong way risk may be defined as either a) the probability of default of the counterparty being positively correlated with the quantum of credit exposure or b) the value of collateral held being negatively correlated with the probability of default of the counterparty.

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