PILLAR 3 DISCLOSURES 2011

AIB Group
31 December 2011

Forward-looking statements

A number of statements contained in this document will not be based on historical fact, but will be "forward-looking" statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934. Actual results may differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, financial instability within the Eurozone, global, national and regional economic conditions, further national austerity and budget measures, levels of market interest rates, credit or other risks of lending and investment activities, competitive, legislative and regulatory factors and technology change. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made.

Contents

1. Introduction and AIB Group key information 6
Overview 6
Key events in 2011 impacting AIB Group 7

2. Capital and capital management 9
Introduction 9
Capital Requirements Directive 9
Financial Measures Programme 9
Recapitalisation by the Irish Government / other capital movements 10
Regulatory capital ratios 11

3. Risk management 15
Introduction 15
Risk factors 15
Risk framework 15
Individual risk types 15

4. Credit Risk – Overview 17

5. Credit Risk – Standardised Approach 19
Use of external credit ratings 19

6. Credit risk - Foundation Internal Ratings Based Approach 27
Regulatory approval and transition 27
Internal ratings process by exposure class 28
Foundation IRB obligor grades 33

7. Credit Risk Mitigation 36

8. Credit Risk – Impairment 37
Impairment 37
Past due 38
Loss experience in the preceding period – Foundation IRB Approach 41

9. Counterparty credit risks 43
Assigning internal capital and credit limits for counterparty credit exposure 43
Policies for securing collateral and establishing credit reserves 44
Policies with respect to one-way exposures 44
Change in credit rating 44
Credit derivative hedges 44
Derivatives counterparty credit risk 45
Credit derivative transactions product distribution 46

10. Securitisations 47
Objectives in relation to securitisation activity 47
Extent of the Group's involvement in each securitisation 47
Accounting policies 48
Securitisation risks, monitoring and hedging policies 48
Calculating risk weighted exposure amounts 48
External Credit Assessment Institutions 49

11. Equity exposures in the banking book 52

12. Non-trading interest rate risk 55

Appendix 1: Parent and subsidiary disclosures 56

Appendix 2: Own funds 61

Appendix 3: Remuneration Disclosures 65

Glossary of definitions and explanations 69

Background and context

Background

This document represents the 'Pillar 3' disclosures for AIB Group as at 31 December 2011, as required by directives 2006/48/EC, 2006/49/EC and 2010/76/EU, known as the Capital Requirements Directive ("CRD") relating to the taking up and pursuit of the business of credit institutions.

The CRD, which was transposed into Irish law at the end of 2006, was the basis for implementing the Basel II framework in the European Union. This framework is based on three pillars. Pillar 1 ('minimum capital requirements') defines rules for the calculation of credit, market and operational risk. Under Pillar 2 ('supervisory review') banks may estimate their own internal capital requirements through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

Basis of disclosures

Allied Irish Banks, p.l.c. ("AIB" or the "Parent Company") and its subsidiaries (collectively "AIB Group" or "Group") prepares 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 of Ireland ("Central Bank"). Both the Parent Company and the Group are required to file regulatory returns with the Central Bank for the purpose of assessing, *inter alia*, their capital adequacy and their balance sheets.

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

The disclosures contained in this report have been prepared for Allied Irish Banks, p.l.c. and its subsidiaries on a Group consolidated basis as at 31 December 2011. These disclosures cover both the Pillar 3 qualitative and quantitative disclosure requirements and incorporate the requirements of the amending Directive 2010/76/EU which sets out additional requirements for the trading book, re-securitisations and the supervisory review of remuneration policies.

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 2011 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.

Disclosure policy

The Group Disclosure Committee first approved the formal Pillar 3 disclosure policy during 2008, and the Group Disclosure Committee has reviewed the policy in 2011.

Media and location

The Pillar 3 report is published on AIB Group's website (www.aibgroup.com), alongside the 2011 Annual Financial Report. Pillar 3 reports from previous years are also available on this website.

Verification

The Pillar 3 disclosures have been subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the 2011 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 2011 Annual Financial Report.

1. Introduction and AIB Group key information

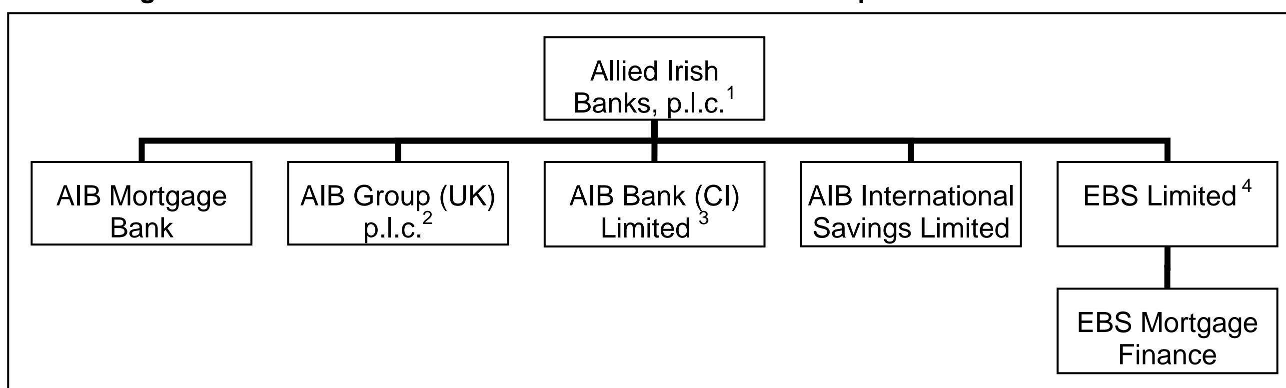
Overview

i. Basis of consolidation for accounting and prudential purposes

Allied Irish Banks, p.l.c. is the parent company in AIB Group and is a European Economic Area institution regulated by the Central Bank. AIB Group prepares consolidated financial statements under International Financial Reporting Standards ("IFRS") as issued by the IASB and adopted by the EU for statutory reporting purposes ("the Consolidated Accounts"). Additionally, AIB Group is required to prepare regulatory returns ("the Regulatory Returns") for the purpose of assessing its capital adequacy and monitoring its balance sheet. All subsidiaries are consolidated for both Group statutory and regulatory purposes. Details of significant subsidiary (a) capital requirements and (b) risk weighted assets are set out in Appendix 1.

On 1 April 2011, AIB disposed of its interests in Bank Zachodni WBK S.A ('BZWBK') and on 1 July 2011, AIB acquired EBS Limited (formerly EBS Building Society). These subsidiaries were deconsolidated/consolidated respectively with effect from these dates.

Organisational structure of licensed banks within AIB Group as at 31 December 2011



ii. 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 and investment firms 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 would be unable to remit capital to the parent when to do so would result in such ratios being breached.

iii. 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 of 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 70 of the Capital Requirements Directive ("CRD") concerning the ability of institutions to include certain subsidiaries in their individual regulatory return. 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.

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[1] On 1 April 2011, AIB completed the sale of its interest in BZWBK which had previously been consolidated into this return.

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

[3] On 5 April 2012, AIB announced that it is winding down its operations in Jersey and the Isle of Man and that it intends to cease operating on these islands on 31 December 2013.

[4] On 1 July 2011, AIB completed the acquisition of EBS Limited, a fully licensed wholly owned subsidiary. This acquisition is detailed in Note 24 of the 2011 Annual Financial Report.

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 return on a solo consolidation basis.

In accordance with the discretion provided for in Article 72 of the CRD (and except for the information presented in Annex II of the CRD), AIB Group presents its Pillar 3 information on an AIB Group consolidated basis.

Key events in 2011 impacting AIB Group

The following are considered important events that took place in 2011 impacting AIB Group.

1. *PCAR / PLAR / capital update*

On 31 March 2011, the Central Bank published the Financial Measures Programme Report which details the outcome of its review of the Prudential Capital Assessment Review ("PCAR") and the Prudential Liquidity Assessment Review ("PLAR") requirements of the domestic Irish banks. Following these assessments, which took place in February/March 2011, the Central Bank announced the following:

- a minimum capital target for AIB of 10.5% core tier 1 in a base scenario and 6% core tier 1 in a stressed scenario;
- a target loan to deposit ratio of 122.5% by 2013, through a combination of run-off and deleveraging; and
- a requirement to raise € 13.3 billion capital, of which € 1.4 billion was to be in the form of contingent capital (€ 10.5 billion plus a € 2.8 billion capital buffer).

On the acquisition of EBS on 1 July 2011, AIB also assumed the PCAR requirement of € 1.5 billion for EBS of which € 0.2 billion was to be in the form of contingent capital.

In total, the PCAR requirement for the enlarged AIB Group amounted to € 14.8 billion.

The PCAR stress testing was carried out by BlackRock Solutions on behalf of the Central Bank. The approach used to determine the Group's capital requirement included (in both base and stress scenarios) the combined effect of the following:

- An assessment of operating performance and losses that may emerge over the 2011 – 2013 three year period;
- An overlay from bringing forward an element of losses in the years after 2013 back into the 2011 – 2013 period;
- A further overlay buffer for other future losses, events or shocks over the entire lifetime of loans.

The Group's capital requirements, as set out in Central Bank's Financial Measures Programme, were met by 31 July 2011 through the various recapitalisation measures by the Irish Government in addition to certain measures undertaken by AIB. These are summarised in table 1 below, with more detail included in "Capital and capital management" on pages 10 to 15.

Table 1: Recapitalisation measures to meet PCAR 2011 requirements

	€bn
Liability management exercise - June/July 2011	**2.1**
Equity placing - 27 July 2011	**5.0**
Capital contributions - 28 July 2011	**6.1**
Core tier 1 recapitalisation	**13.2**
Contingent capital instrument (tier 2)	**1.6**
Total recapitalisation	**14.8**

Information on the methodology and assumptions adopted by BlackRock Solutions are available at www.centralbank.ie.

2. *Listing status*

On 25 January 2011, AIB shares ceased trading on the Main Securities Market ("MSM") of the Irish Stock Exchange and the London Stock Exchange and were listed on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange, prior to market opening on 26 January 2011.

On 25 August 2011, AIB delisted from the New York Stock Exchange ("NYSE"), from which time AIB's American Depositary Shares were no longer traded on the NYSE.

3. *Relationship with the Irish Government/shareholding in AIB*

The Irish Government has taken a range of measures to stabilise the Irish banking system since the commencement of the financial crisis in 2008 including the injection of equity and preference share capital into AIB. The Irish Government now holds 99.8% of the ordinary shares of AIB following the equity capital injections. Amongst the measures taken were:

- Guarantee schemes;
- Credit Institutions (Stabilisation) Act 2010;
- Investments in AIB;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Acquisition of EBS Limited;
- Relationship framework;
- Central Bank and Credit Institutions (Resolution) Act 2011.

These measures are outlined in the 2011 Annual Financial Report under 'Summary of relationship with the Irish Government' on page 357. Certain of these measures are also outlined in this report.

4. *Subordinated Liabilities Order*

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. This Act provides the legislative basis for reorganising and restructuring the Irish banking system agreed in the joint EU/IMF Programme for Ireland. This Act provides broad powers to the Minister for Finance and since the enactment of this legislation, the Minister has invoked certain of his powers under the Act in relation to AIB which are outlined in the 2011 Annual Financial Report under 'Summary of relationship with the Irish Government' on page 357.

One such power invoked by the Minister was the issue by the High Court, following an application by the Minister, of a Subordinated Liabilities Order (the "SLO") on 14 April 2011. This order related to all outstanding subordinated liabilities and other capital instruments, including certain tier 1 capital instruments of AIB. The effect of the SLO was to amend the terms of such instruments as follows:

a) mandatory interest falling due on certain subordinated liabilities is to be payable by AIB in its sole discretion, and the maturity date of the subordinated liabilities was extended to 2035;
b) in respect of certain subordinated liabilities, restrictions on (i) the payment of any distribution or dividend on any other junior or parity securities of AIB; or (ii) any repurchase or redemption of such junior or parity securities, have been removed; and
c) in respect of certain subordinated liabilities, (i) the requirement to pay any arrears of interest on such liabilities upon the payment of any dividends by AIB has been removed, and (ii) the payment of any coupon on such liabilities following the payment of a dividend by AIB is now entirely at the option of AIB.

4. *Organisation restructure 2011*

On 17 May 2011, arising from a review of its organisational structure, AIB announced a restructure of its operations, whereby the divisional structure was replaced by an integrated bank which comprises the following segments - Personal & Business Banking; Corporate, Institutional and Commercial Banking; AIB UK; EBS (which was acquired on 1 July 2011); Group; and Non-Core. Details of these segments are set out on page 265 of the 2011 Annual Financial Report.

The Non-Core unit was set up to assist with the deleveraging process, and houses, manages and disposes of selected assets.

2. Capital and capital management

Introduction

The objectives of the Group's capital management policy are at all times to comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risks inherent in its business and to support its future development. The Group does this through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. The minimum regulatory capital requirements set by the Central Bank, which reflect the requirements of the Capital Requirements Directive, establish a floor of 4% under which the core tier 1 capital ratio must not fall (8% for total capital ratio). These ratios were the capital adequacy requirements effective as at 31 December 2010. Following the Prudential Capital Assessment Review ("PCAR") in March 2011 which was carried out as part of the Financial Measures Programme, the Central Bank announced a new minimum capital target for AIB of 10.5% core tier 1 in a base scenario and 6% core tier 1 in a stressed scenario. These target ratios form the basis of the Group's capital management policy and are the capital adequacy requirements effective as at 31 December 2011. As at 31 December 2011, following recapitalisation, the actual core tier 1 capital ratio was 17.9%.

Capital Requirements Directive

The Capital Requirements Directive ("CRD"), which came into force on 1 January 2007, is the EU directive that establishes the regulatory capital adequacy requirements for credit institutions. It is set out in three distinct 'pillars'. Pillar 1 is concerned with the calculation of the minimum capital requirements for credit risk, market risk and operational risk. Under Pillar 2, banks are required to estimate their own internal capital requirements to cover all material risks (not limited to the pillar 1 risks) as part of their ICAAP which is then subject to supervisory review and evaluation (known as the "SREP"). Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

Since it came into effect, the CRD has been amended a number of times ("CRD II" and "CRD III"). These amendments reflected in the main; new requirements on hybrid tier one capital instruments; updates to the large exposures regime; improved risk management requirements for securitisations; and changes to trading book capital requirements. These amendments have not had a material impact on the capital position of the Group. CRD IV is currently being drafted and is expected to come into effect on a phased basis from 2013, and fully effective from 1 January 2018. It is based on the Basel 3 recommendations, which were developed in response to the recent banking crisis and aims to strengthen the capital adequacy of banks by:

- increasing the quality of eligible capital the banks can include in their capital base for capital adequacy purposes;
- increasing the quantity of capital held by setting significantly higher minimum capital ratios and identifying capital buffers that can be imposed by national supervisors according to their assessment of risk exposure; and
- introducing two new liquidity requirements comprising the Liquidity Coverage Ratio and the Net Stable Funding Ratio.

Financial Measures Programme

Under the terms of the Joint EU-IMF Programme for Ireland, a PCAR exercise was carried out during March 2011. The outcome of this review was published by the Central Bank in the Financial Measures Programme Report on 31 March 2011. The Central Bank based its decision on required recapitalisation on loan-loss projections, along with further assumptions concerning the prospective income, expenditure, and deleveraging plans. The total PCAR capital requirement announced for AIB was € 13.3 billion, of which € 1.4 billion was required to be in the form of contingent capital. This announcement superseded the previous PCAR announcements made in 2010. Following the acquisition of EBS on 1 July 2011, AIB also assumed the PCAR requirement for EBS which amounted to € 1.5 billion, of which € 0.2 billion was required to be in the form of contingent capital. In total, the PCAR requirement for the Group, post the EBS acquisition, was € 14.8 billion (of which € 1.6 billion was required to be form of contingent capital), to be completed by the end of July 2011.

Recapitalisation by the Irish Government / other capital movements

The Group's capital base has undergone significant changes in the past twelve months, principally, the recapitalisation of the Group by the Irish Government following the completion of the Central Bank's Financial Measures Programme outlined above.

In addition, core tier 1 capital increased through the disposal in April 2011 of BZWBK. This was offset by losses from continuing operations in the income statement. Furthermore, capital contributions arising on the acquisition of EBS Limited and the transfer of business from Anglo Irish Bank Corporation increased core tier 1 capital by € 2.3 billion.

The following capital movements which arose during the year impacted capital ratios:

Year end performance 2011

The consolidated financial statements of AIB Group for the year ended 31 December 2011, showed a loss of € 2.3 billion. Of this amount, a € 3.9 billion loss arose on continuing operations offset by a profit of € 1.6 billion from the disposal of AIB's interests in BZWBK which included € 0.1 billion which arose from operations for the period to the date of disposal.

The 2011 Annual Financial Report is available on the Group's website: www.aibgroup.com.

Sale of BZWBK

The sale of AIB's Polish interests which had been announced on 10 September 2010 was completed on 1 April 2011. These interests comprised its entire shareholding in BZWBK representing approximately 70.36% of BZWBK's issued share capital, and its 50% shareholding in BZWBK AIB Asset Management S.A.

The proceeds on sale amounting to € 3.1 billion gave rise to a profit on disposal of € 1.5 billion. The equivalent core tier 1 impact for AIB Group arising from the disposal was € 1.5 billion. In addition, risk weighted assets reduced by € 10.5 billion.

Liability management exercises

During 2011, AIB generated core tier 1 capital of € 3.6 billion as a result of liability management exercises which were completed in January and June/July 2011.

Details of these transactions are set out on pages 271 and 272 of the 2011 Annual Financial Report and are also provided in full statements available on the Group's website: www.aibgroup.com

Transfer of deposit business from Anglo Irish Bank

On 24 February 2011, AIB announced that it had agreed with the NPRFC, pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court, to the immediate transfer of € 6.9 billion deposits and € 11.9 billion NAMA senior bonds from Anglo Irish Bank Corporation to AIB. AIB also announced that it had agreed to the transfer of Anglo Irish Bank Corporation (International) PLC in the Isle of Man, including customer deposits of € 1.6 billion, to AIB by way of a share sale. A capital contribution of € 1.5 billion was generated on the date of this transaction which is included in core tier 1 capital.

Acquisition of EBS Limited

On 1 July 2011, AIB acquired the entire share capital of EBS Limited for a nominal consideration of € 1. This followed an agreement on 26 May 2011 between EBS, the Minister for Finance and AIB whereby it was agreed that AIB and EBS would be combined to form one of the two pillar banks in the Republic of Ireland. As part of the transaction, EBS, which previously operated as a building society, was demutualised and was issued a banking licence by the Central Bank. The acquisition of EBS increased risk weighted assets by € 10.1 billion and resulted in a capital contribution of € 0.8 billion in the Group financial statements. This capital contribution is included within core tier 1 capital.

Placing of € 5 billion in ordinary share capital

On 26 July 2011, following renominalisation of each ordinary share capital from € 0.32 per share to one € 0.01 ordinary share and thirty one deferred shares of € 0.01, AIB issued 500 billion ordinary shares of € 0.01 each to the NPRFC under a placing agreement. This raised € 5 billion in core tier 1 capital.

Issue of € 1.6 billion Contingent Capital Tier 2 Notes due 2016

On 26 July 2011, AIB issued € 1.6 billion in contingent capital notes ('CCNs') to the Minister for Finance for cash consideration of € 1.6 billion. Interest is payable annually in arrears at a fixed rate of 10% per annum on the nominal amount outstanding. These notes, which are unsecured, mature in 2016 and qualify as subordinated tier 2 instruments. They rank as (a) junior to claims of all holders of unsubordinated obligations of AIB; (b) pari passu with the claims of holders of all other subordinated obligations of AIB which qualify as consolidated tier 2 capital of the Group for regulatory purposes or which rank, or are expressed to rank, pari passu with the CCNs; and (c) senior to the claims of all other subordinated obligations of AIB which rank junior to the CCNs including any subordinated obligations of AIB which qualify as tier 1 capital of the Group for regulatory purposes.

While the CCNs are outstanding, if the Core tier 1 capital ratio (the CET Ratio after the CRD IV implementation date) falls below the Trigger ratio of 8.25%, the CCNs are immediately and mandatorily redeemable and will convert to ordinary shares of AIB at a conversion price of € 0.01 per share.

Capital contributions by the Minister for Finance and the NPRFC

On 28 July 2011, the Minister for Finance and the NPRFC made capital contributions of € 2.283 billion and € 3.771 billion respectively (total € 6.054 billion) to AIB for nil consideration. These capital contributions constituted core tier 1 capital for regulatory purposes. Neither the Minister nor the NPRFC has an entitlement to seek repayment of these capital contributions.

Regulatory capital ratios

The recapitalisation of the Group by the Irish Government is reflected in a significant strengthening of the Group's capital ratios in the period from 31 December 2010 to 31 December 2011, during which the Group's core tier 1 ratio increased from 4.0% to 17.9%. Total capital ratio increased from 9.2% to 20.5%. An analysis of the components of the capital base is set out below in Table 2.

Table 2: Capital adequacy information – components of capital base

		2011 €m		2010 €m
Tier 1				
Paid up share capital and related share premium		**10,096**		9,054
Eligible reserves		**5,313**		(4,776)
Equity non-controlling interests in subsidiaries		**-**		501
Regulatory adjustments				
Intangible assets and goodwill	**178**		(704)	
Other regulatory deductions	**85**		(147)	
		(263)		(851)
Core tier 1 capital		**15,146**		3,928
Supervisory deductions from tier 1[1]				
Unconsolidated financial investments		**(2)**		
Securitisations		**(79)**		
Core tier 1 capital (including supervisory deductions)[1]		**15,065**		
Non-equity non-controlling interests in subsidiaries		**-**		189
Non-cumulative perpetual preferred securities		**-**		138
Reserve capital instruments		**-**		239
Supervisory deductions from tier 1 capital				
Unconsolidated financial investments	**-**		(68)	
Securitisations	**-**		(191)	
		-		(259)
Total tier 1 capital		**15,065**		4,235
Tier 2 (2)				
Eligible reserves		**125**		212
IBNR provisions		**795**		929
Subordinated perpetual loan capital		**-**		197
Subordinated term loan capital		**1,472**		3,931
Supervisory deductions from tier 2 capital				
Unconsolidated financial investments	**(2)**		(67)	
Holdings in other credit and financial institutions	**(79)**		(191)	
		(81)		(257)
Total tier 2 capital		**2,311**		5,011
Gross capital		**17,376**		9,246
Supervisory deductions – Holdings in insurance undertakings		**(74)**		(141)
Total capital		**17,302**		9,105
Risk weighted assets				
Credit risk		**77,863**		89,415
Market risk		**560**		1,494
Operational risk		**5,856**		7,859
Total risk weighted assets		**84,279**		98,768
Capital ratios				
Core tier 1		**17.9%[1]**		4.0%
Total		**20.5%**		9.2%[2]

[1] At 31 December 2011, under the Central Bank's Financial Measures Programme ("FMP"), AIB is required to report its core tier 1 capital with 50:50 supervisory deductions now being applied to the core tier 1 capital calculation. These deductions were previously deducted from tier 1 capital. This methodology is consistent with that used to calculate capital shortfalls for participating institutions in the Prudential Capital Assessment Review ("PCAR") 2011.

[2] At 31 December 2010, the Group benefited from derogations from certain regulatory capital requirements granted on a temporary basis by the Central Bank. The requirement for derogations arose as a result of loan impairment provisions at 31 December 2010. These derogations which remained in place until the completion of the liability management exercise on 24 January 2011 are now cancelled.

Table 3 below, summarises the risk weighted assets ("RWA"), minimum capital requirements and total exposures ("EAD") of the Group at 31 December 2011. These are further analysed throughout this report.

Table 3: Group capital adequacy information

			2011
	Total exposures	**Risk weighted assets**	**Minimum capital requirement**
	€m	**€m**	**€m**
Credit risk – Standardised approach	**87,435**	**50,428**	**4,035**
Credit risk – IRB approach	**69,173**	**27,428**	**2,196**
Market risk – Standardised approach	**N/A**	**563**	**45**
Operational risk – Standardised approach	**N/A**	**5,856**	**468**
	156,608	**84,275**	**6,744**

			2010
	Total exposures	Risk weighted assets	Minimum capital requirement
	€m	€m	€m
Credit risk – Standardised approach	72,183	60,376	4,830
Credit risk – IRB approach	109,573	29,039	2,323
Market risk – Standardised approach	N/A	1,494	120
Operational risk – Standardised approach	N/A	7,859	629
	181,756	98,768	7,902

Table 3b: Market risk – minimum capital requirement

Market risk – minimum capital requirement	**2011 €m**	2010 €m
Interest rate PRR[1]	**28**	53
Equity rate PRR	**2**	4
Foreign exchange PRR	**2**	36
Investment firms	**13**	27
	45	120

Decrease of €14.5 billion in risk weighted assets ("RWAs").

- Credit risk accounted for a decrease of € 11.6 billion. Amongst the principal drivers of the decrease was deleveraging which includes disposals, repayments, and provisions related to non-core assets (excluding BZWBK). The disposal of BZWBK on 1 April 2011 resulted in a decrease of € 9.2 billion. These decreases were offset by increases in credit RWAs of € 9.6 billion arising from the acquisition of EBS. Deterioration in borrower credit ratings also increased credit RWAs.
- Market and operational risk accounted for a decrease of € 2.9 billion in total RWAs. The disposal of BZWBK was mainly responsible for the decrease in operational risk RWAs and also contributed to the decrease in market risk RWAs.

Core tier 1 capital increased by €11.2 billion to 31 December 2011 due mainly to:

- €5 billion equity placing;
- Capital contributions totalling € 8.3 billion (€ 6.1 billion from the Irish Government, € 0.8 billion resulting from the EBS acquisition, and € 1.4 billion relating to the transfer of Anglo Irish Bank businesses);
- Liability Management Exercises (LME) gains of €3.6 billion;
- € 1.5 billion gain on the disposal of AIB's shareholding in BZWBK, offset by underlying losses in the Group.

[1] Position risk requirement

The net impact of these movements together with the decrease in risk weighted assets is an increase in the core tier 1 capital ratio from 4.0% as at 31 December 2010 to 17.9% at 31 December 2011.

Tier 1 capital increased by € 10.8 billion to 31 December 2011. In addition to the aforementioned factors relating to the increase in core tier 1 capital, the LME in June/July 2011 resulted in a € 566 million reduction in non-core tier 1 capital instruments, partially offset by a reduction in the supervisory deductions relating to unconsolidated financial investments and securitisations (there is no deduction for expected loss on IRB portfolios as IRB provisions exceed expected loss).

Tier 2 capital decreased by € 2.7 billion in the period, from € 5.0 billion at 31 December 2010 to € 2.3 billion at 31 December 2011. This was mainly due to:

- A reduction of € 4.2 billion approximately due to the LMEs; and
- An increase due to the issue of € 1.6 billion of new subordinated debt in the form of the contingent capital instruments.

The total capital ratio increased from 9.2% at 31 December 2010 to 20.5% as at 31 December 2011 which reflects the net movements in tier 1 and tier 2 capital as detailed above, a decrease in the supervisory deduction which relates to the life business joint venture with Aviva, and the reduction in risk weighted assets.

EBA Stress Tests

On 15 July 2011, the results of an EU-wide EBA stress test on European banks were published. The stress test, which set a threshold for passing of 5% core tier 1 ratio, showed that AIB would have a core tier 1 ratio of 11.7% (10.0% excluding contingent capital) at December 2012 following the application of the stress test and the raising of capital required by PCAR. AIB was found to have no further capital raising requirements as a result of the EBA stress test.

The EBA conducted a further stress test during the second half of 2011 on certain sovereign exposures. On this occasion, the threshold was raised to 9% core tier 1 capital ratio. The results, which were published on the 8 December 2011, confirmed that AIB did not require any additional capital.

3. Risk management

Introduction

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations. AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core aspects of which are described on page 69 of the 2011 Annual Financial Report.

Risk factors

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

- macro-economic and geopolitical risk;
- macro-prudential, regulatory and legal risks to the business model; and,
- risks relating to business operations, governance and internal control systems.

The risks pertaining to each of these categories are described in detail on pages 62 to 68 of the 2011 Annual Financial Report.

Risk framework

The Group remains adversely affected by the economic and financial crisis at a global and European level and specifically in terms of how it has impacted on the Irish financial system in general and the Group in particular. In these circumstances, the Group's risk profile remains at an elevated level. The key risk factors to which the Group is exposed are referred to above. The governance and organisation framework through which the Group manages and seeks where possible to mitigate these risks is described on pages 70 and 71 of the 2011 Annual Financial Report.

Individual risk types

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

- Credit risk;
- Market risk;
- Operational risk;
- Liquidity risk;
- Non-trading interest rate risk;
- Structural foreign exchange risk;
- Regulatory compliance risk;
- Pension risk.

The individual risk types listed above are described in detail on pages 72 – 181 of the 2011 Annual Financial Report, with prefaces to Credit, Market and Operational risk included below. Further discussion on Credit Risk can also be found in Sections 4 – 9 of this Report.

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 it has 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, and derivatives. Concentrations in particular portfolio sectors, such as property, can impact the overall level of credit risk. As at 31 December 2011, the Group uses a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk.

Market risk
Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors such as adverse movements in the level or volatility of market prices of items such as debt instruments, equities and currencies. Where the uncertainty is expressed as a potential loss in value, it represents a risk to the income and capital position of the Group. The Group assumes market risk as a result of its balance sheet and capital management activity. The Group's Treasury function assumes market risk as a consequence of the risk management services it provides to its client base and through risk positioning in selected wholesale markets. In addition, the Treasury function is also authorised to trade on its own account in selected wholesale markets. The strategies employed are desk and market specific and are approved on an annual basis through the Group's Risk Appetite Framework governance process. AIB Group uses the Standardised Approach for assessing its capital requirements for market risk.

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 information technology, business continuity, heath and safety risks, and legal risk. AIB Group uses the Standardised Approach for assessing its capital requirements for operational risk.

4. Credit Risk – Overview

One of the Group's main source 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 risks in AIB Group arise from traditional lending activities to customers, sovereigns and banks. Credit risk also arises through the use of derivatives, off-balance sheet guarantees and commitments and through the Group's trading and 'available for sale' 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 of the 2011 Annual Financial Report.

The Capital Requirements Directive ("CRD") provides two approaches for the calculation of minimum regulatory capital requirements for credit risk:

a) The Standardised Approach; and
b) Internal Ratings Based Approach ("IRB Approach"), which can be sub divided into
    i. Foundation Internal Ratings Based Approach ("Foundation IRB Approach");
    ii. Advanced Internal Ratings Based Approach ("Advanced IRB Approach"); and
    iii. Retail Internal Ratings Based Approach ("Retail IRB 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 IRB Approach 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"). 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 – this uses internal estimates of all three risk components.

As at 31 December 2011, 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 uses 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 a Foundation IRB Approach).

As at 31 December 2011, 64.8% (2010: 67.5%) of the Group's credit risk capital requirement was calculated on the basis of the Standardised Approach. The movement in 2011 reflects both the disposal of BZWBK and deleveraging activities offset by the acquisition of EBS. The remaining credit risk capital requirement (35.2%) was calculated using the Foundation IRB Approach.

The Group's exposures under both Standardised and Foundation IRB approaches are set out in Sections 5 and 6. Additional commentary on specific credit risks arising from certain transactions including derivative transactions, repurchase agreements and securitisations are set out in Sections 9 and 10 of this document.

These disclosures have been provided on a Group consolidated basis and include assets which, as at 31 December 2011, were held for sale. Further information and analysis is available in the 2011 Annual Financial Report on the Group website: www.aibgroup.com.

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

a) The Group reports exposure values as Exposure at Default ("EAD").
b) Total gross exposure is before Credit Risk Mitigation ("CRM"), Credit Conversion Factors ("CCFs") and offsets;
c) Total exposure is after CRM, CCFs and after specific offsets;
d) Items belonging to high risk categories include, subject to the discretion of competent authorities, exposures associated with particularly high risks such as investments in venture capital firms and private equity investments;
e) Collective Investment Undertakings ("CIU") include:

i) undertakings where the sole object is the collective investment in transferable securities of capital raised from the public and which operate on the principle of risk-spreading; and
ii) units which are, at the request of the holders, repurchased or redeemed, directly or indirectly, out of those undertakings' assets. Action taken by a CIU to ensure that the stock exchange value of its units does not vary significantly from their net asset value shall be regarded as equivalent to such repurchase or redemption.

f) "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.

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

Table 4: Total exposures (EAD) by exposure class and related minimum capital requirements

	2011		2010	
Exposure class	**Total exposures €m**	**Minimum capital requirement €m**	Total exposures €m	Minimum capital requirement €m
Standardised exposure class				
Central governments and central banks	**25,576**	**2**	8,473	-
Regional governments or local authorities	**-**	**-**	29	-
Administrative bodies and non-commercial undertakings	**39**	**3**	191	15
Institutions[1]	**3,122**	**58**	248	6
Corporates	**8,952**	**715**	14,172	1,129
Retail	**5,597**	**336**	8,540	512
Secured on real estate property	**26,409**	**1,451**	25,803	1,833
Past due items[2]	**10,946**	**1,001**	8,777	894
Items belonging to regulatory high risk categories	**448**	**54**	1,528	183
Covered Bonds	**490**	**9**	-	-
Collective investment undertakings	**-**	**-**	14	1
Securitisations	**88**	**24**	-	-
Other items	**5,768**	**382**	4,408	257
Total for Standardised Approach	**87,435**	**4,035**	72,183	4,830
Foundation IRB exposure class				
Central governments and central banks	**18,148**	**7**	43,225	17
Institutions[1]	**7,379**	**160**	11,556	136
Corporates	**15,751**	**875**	24,251	1,421
Retail[3]	**25,044**	**935**	25,668	553
Securitisation positions	**2,845**	**218**	4,864	195
Non-credit obligation assets	**6**	**1**	9	1
Total for Foundation IRB Approach	**69,173**	**2,196**	109,573	2,323
Total for Credit Risk[4]	**156,608**	**6,231**	181,756	7,153

[1] Institutions exposure class predominantly relates to banks.

[2] The Basel asset class "Past due items" relates only to standardised exposures and comprises exposures that are greater than 90 days past due or defaulted, and those impaired. A profile of contractually past due (but not impaired) facilities, for both the Standardised and Foundation IRB Approaches, is contained in table 15 of Section 8 of this Report.

[3] Secured by real estate collateral.

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

5. Credit Risk – Standardised Approach

Exposures rated under Standardised Approach amounted to € 87,435 million, with a capital requirement of € 4,035 million as at 31 December 2011 (2010: exposures of € 72,183 million, capital requirement of € 4,830 million). This amounts to 64.8% (2010: 67.5%) of the total capital requirement for credit risk. The increase in exposures rated under Standardised Approach in 2011 reflects the acquisition of EBS during 2011 (exposures of € 21,668 million at 31 December 2011) offset by the disposal of BZWBK and deleveraging activities during the year.

The following tables analyse the Credit Risk Exposures under the Standardised Approach by sector on the following bases:

a) Industry (Table 5);
b) Geography (Table 6); and
c) Residual maturity (Table 7).

Use of external credit ratings

AIB uses Standard and Poor's Rating Services, Moody's Investors Service and Fitch Ratings as its nominated External Credit Assessment Institutions ("ECAIs") for a small part of its credit risk corporate asset class exposures under the Standardised Approach (see also Section 10).

Exposures to which credit ratings are assigned are mapped to risk weights using mapping guidelines issued by the Central Bank. These guidelines are identical to those issued by the European Banking Authority ("EBA")[1]. The externally rated credit risk exposures represent 23% of standardised exposures and 12.9% of the total (Standardised Approach and Foundation IRB Approach) credit risk exposures (2010: 11.8% and 4.7% respectively). An immaterial portion has been rated using credit quality assessment steps. These relate to exposures where a preferential risk weight is applied to the exposures when there is no rating agency but other criteria are met to apply a risk bucket other than unrated.

Of the total Standardised exposures after credit risk mitigation amounting to € 87,435 million (2010: € 72,183 million), € 20,202 million (2010: € 8,254 million) is rated by ECAIs, the majority of which (€ 20,073 million) relates to the NAMA bonds received as consideration for the loans and receivables transferred to NAMA during 2010 and 2011 and the transfer of the Anglo deposit business to the Group during 2011. € 136 million (2010: € 144 million) is rated using credit quality assessment steps. These are set out in tables 8 and 9 in this section.

[1] The European Banking Authority ("EBA") was established by Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010. The EBA has officially come into being as of 1 January 2011 and has taken over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors ("CEBS").

Table 5: Industry distribution of credit exposures (EAD) – Standardised Approach

2011

Exposure class	Agriculture €m	Construction €m	Distribution €m	Energy €m	Financial €m	Home loans €m	Manufacturing €m	Other loans - personal €m	Other services €m	Property €m	Transport & communication €m	Bank, sovereign & public sector €m	Other €m	Total exposures €m
Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	25,576	-	25,576
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	-	39	-	39
Institutions	-	-	-	-	-	-	-	-	-	-	-	3,122	-	3,122
Corporates	533	236	1,501	72	821	8	354	1,012	3,074	637	403	-	301	8,952
Retail	665	125	445	9	33	648	105	2,585	532	354	96	-	-	5,597
Secured on real estate property[1]	219	73	67	-	111	15,219	7	87	354	10,235	34	-	3	26,409
Past due items	335	587	691	13	28	2,358	79	801	315	5,700	39	-	-	10,946
Items belonging to regulatory high risk categories	6	98	11	1	14	1	25	-	58	227	7	-	-	448
Covered Bonds	-	-	-	-	490	-	-	-	-	-	-	-	-	490
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	88	-	-	-	-	-	-	-	-	88
Other items	-	1	2	-	60	-	3	1	11	2	-	-	5,688	5,768
	1,758	1,120	2,717	95	1,645	18,234	573	4,486	4,344	17,155	579	28,737	5,992	87,435

[1] The total exposures (EAD) in the secured on real estate property exposure class includes a significant portion of property portfolios in CICB, PBB and AIB UK, as well as residential mortgages in EBS and AIB UK.

Table 5: Industry distribution of credit exposures (EAD) – Standardised Approach

2010

Exposure class	Agriculture €m	Construction €m	Distribution €m	Energy €m	Financial €m	Home loans €m	Manufacturing €m	Other loans - personal €m	Other services €m	Property €m	Transport & communication €m	Bank, sovereign & public sector €m	Other €m	Total exposures €m
Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	8,473	-	8,473
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	29	-	29
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	-	191	-	191
Institutions	-	-	-	-	-	-	-	-	-	-	-	248	-	248
Corporates	658	434	2,702	123	1,193	12	989	1,548	4,237	1,410	652	-	214	14,172
Retail	846	307	810	17	58	714	322	4,088	763	396	219	-	-	8,540
Secured on real estate property[1]	85	670	411	26	185	6,131	505	90	625	17,015	60	-	-	25,803
Past due items	177	1,144	500	5	52	546	108	874	300	5,025	45	-	1	8,777
Items belonging to regulatory high risk categories	-	396	5	7	18	-	31	-	54	1,012	5	-	-	1,528
Collective investment undertakings	-	-	-	-	14	-	-	-	-	-	-	-	-	14
Other items	-	7	6	19	243	-	5	1	27	-	2	-	4,098	4,408
	1,766	2,958	4,434	197	1,763	7,403	1,960	6,601	6,006	24,858	983	8,941	4,313	72,183

[1] The total exposures (EAD) in the secured on real estate property exposure class includes a significant portion of property portfolios in AIB Bank ROI, AIB Bank UK, Capital Markets and CEE, as well as residential mortgages in AIB Bank UK and CEE.

Table 6: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

								2011
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total exposures	Total gross exposures	Average exposures over the period
Exposure class	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	25,575	-	-	-	1	25,576	25,525	23,974
Regional governments or local authorities	-	-	-	-	-	-	-	13
Administrative bodies and non-commercial undertakings	19	-	-	20	-	39	39	72
Institutions	1,028	2,069	-	19	6	3,122	3,578	3,481
Corporates	3,362	5,543	-	41	6	8,952	10,626	11,310
Retail	4,510	1,041	-	-	46	5,597	10,294	6,846
Secured on real estate property[2]	19,544	6,545	-	204	116	26,409	26,849	32,487
Past due items	8,862	2,045	-	39	-	10,946	20,058	11,109
Items belonging to regulatory high risk categories	392	18	-	38	-	448	554	848
Covered Bonds	490	-	-	-	-	490	490	488
Collective investment undertakings	-	-	-	-	-	-	-	5
Securitisations	88	-	-	-	-	88	88	87
Other items	4,593	1,173	-	1	1	5,768	5,777	4,830
	68,463	18,434	-	362	176	87,435	103,878	95,550

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

[2] The total exposures (EAD) in the secured on real estate property exposure class includes a significant portion of property portfolios in CICB, PBB and AIB UK, as well as residential mortgages in EBS and AIB UK.

Table 6: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

2010

Exposure class	Republic of Ireland €m	United Kingdom €m	Poland €m	United States of America €m	Rest of the world €m	Total exposures €m	Total gross exposures €m	Average exposures over the period €m
Central governments and central banks	8,418	-	50	-	5	8,473	8,523	3,317
Regional governments or local authorities	-	-	29	-	-	29	59	25
Administrative bodies and non-commercial undertakings	-	-	4	187	-	191	192	389
Institutions	22	208	10	-	8	248	533	72
Corporate	5,530	6,839	1,502	297	4	14,172	16,549	14,591
Retail	5,253	1,166	2,059	-	62	8,540	13,864	9,100
Secured on real estate property[2]	10,710	8,829	5,114	653	497	25,803	26,267	24,401
Past due items	6,544	1,831	334	58	10	8,777	13,054	6,790
Items belonging to regulatory high risk categories	1,467	16	-	45	-	1,528	1,605	1,081
Collective investment undertakings	-	-	14	-	-	14	14	13
Other items	2,749	873	764	20	2	4,408	4,418	3,449
	40,693	19,762	9,880	1,260	588	72,183	85,078	63,228

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

[2] The total exposures (EAD) in the secured on real estate property exposure class includes a significant portion of property portfolios in AIB Bank ROI, AIB Bank UK, Capital Markets and CEE, as well as residential mortgages in AIB Bank UK and CEE.

Table 7: Residual maturity of credit exposures (EAD) – Standardised Approach

2011

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	**304**	**24,152**	**-**	**-**	**397**	**128**	**349**	**246**	**-**	**25,576**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Administrative bodies and non-commercial undertakings	**-**	**-**	**-**	**-**	**38**	**-**	**-**	**1**	**-**	**39**
Institutions	**1,208**	**495**	**1,071**	**32**	**194**	**99**	**7**	**16**	**-**	**3,122**
Corporates	**413**	**791**	**446**	**1,412**	**1,739**	**718**	**1,004**	**2,429**	**-**	**8,952**
Retail	**15**	**414**	**174**	**1,386**	**801**	**947**	**704**	**1,156**	**-**	**5,597**
Secured on real estate property[1]	**288**	**1,282**	**706**	**1,943**	**3,438**	**1,423**	**1,901**	**15,428**	**-**	**26,409**
Past due items	**261**	**660**	**225**	**4,070**	**864**	**1,508**	**407**	**2,951**	**-**	**10,946**
Items belonging to regulatory high risk categories	**11**	**36**	**60**	**217**	**52**	**46**	**25**	**1**	**-**	**448**
Covered Bonds	**-**	**21**	**-**	**43**	**179**	**242**	**5**	**-**	**-**	**490**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securitisations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88**	**-**	**88**
Other items	**1**	**46**	**1**	**70**	**337**	**-**	**3**	**-**	**5,310**	**5,768**
	2,501	**27,897**	**2,683**	**9,173**	**8,039**	**5,111**	**4,405**	**22,316**	**5,310**	**87,435**

2010

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	-	8,423	-	-	50	-	-	-	-	8,473
Regional governments or local authorities	2	5	-	1	5	4	6	6	-	29
Administrative bodies and non-commercial undertakings	-	39	27	8	113	1	2	1	-	191
Institutions	200	15	5	-	5	2	21	-	-	248
Corporates	164	1,487	676	2,466	3,308	1,703	1,248	3,120	-	14,172
Retail	21	635	350	1,942	1,552	1,785	960	1,295	-	8,540
Secured on real estate property[1]	496	3,314	1,472	3,662	4,097	3,283	2,231	7,248	-	25,803
Past due items	378	627	222	4,617	464	1,436	196	837	-	8,777
Items belonging to regulatory high risk categories	28	418	107	687	41	40	55	152	-	1,528
Collective investment undertakings	4	-	-	2	8	-	-	-	-	14
Other items	167	1	3	108	121	18	-	-	3,990	4,408
	1,460	14,964	2,862	13,493	9,764	8,272	4,719	12,659	3,990	72,183

[1] The total exposures (EAD) for 2011 in the secured on real estate property exposure class includes a significant portion of property portfolios in CICB, PBB and AIB UK as well as residential mortgages in EBS and AIB UK.

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Table 8: Standardised Approach credit risk exposure class

2011

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
Central governments and central banks	-	-	7	-	25,272	25,279	297	25,576
Regional governments or local authorities	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	38	-	-	-	-	38	1	39
Institutions	1,277	986	-	-	859	3,122	-	3,122
Corporates	47	-	-	-	7	54	8,898	8,952
Retail	-	-	-	-	-	-	5,597	5,597
Secured on real estate property	-	-	-	-	-	-	26,409	26,409
Past due items	-	-	-	-	-	-	10,946	10,946
Items belonging to regulatory high risk categories	37	-	-	-	-	37	411	448
Covered Bonds	-	-	-	-	403	403	87	490
Collective investment undertakings	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	88	88
Other items	-	-	-	-	-	-	5,768	5,768
	1,399	986	7	-	26,541	28,933	58,502	87,435

2010

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
Central governments and central banks	-	-	7	-	8,146	8,153	320	8,473
Regional governments or local authorities	-	-	-	-	-	-	29	29
Administrative bodies and non-commercial undertakings	159	-	28	-	-	187	4	191
Institutions	26	-	-	-	6	32	216	248
Corporates	123	-	40	-	43	206	13,966	14,172
Retail	-	-	-	-	-	-	8,540	8,540
Secured on real estate property	-	-	-	-	36	36	25,767	25,803
Past due items	2	-	-	-	-	2	8,775	8,777
Items belonging to regulatory high risk categories	44	-	-	-	-	44	1,484	1,528
Collective investment undertakings	-	-	-	-	-	-	14	14
Other items	-	-	-	-	-	-	4,408	4,408
	354	-	75	-	8,231	8,660	63,523	72,183

Table 9: Total Exposure (EAD) value (after CRM) split by credit quality assessment step [1] – Standardised Approach

2011

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	3,872	31	20,073	1,303	-	-	25,279	297	25,576
Regional governments or local authorities	-	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	38	-	-	-	-	-	38	1	39
Institutions	923	1,852	326	21	-	-	3,122	-	3,122
Corporates[2]	15	10	12	17	-	-	54	8,898	8,952
Retail	-	-	-	-	-	-	-	5,597	5,597
Secured on real estate property	-	-	-	-	-	-	-	26,409	26,409
Past due items	-	-	-	-	-	-	-	10,946	10,946
Items belonging to regulatory high risk categories	-	-	-	-	31	6	37	411	448
Covered Bonds	148	105	46	104	-	-	403	87	490
Collective investment undertakings	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	-	88	88
Other items	-	-	-	-	-	-	-	5,768	5,768
	4,996	1,998	20,457	1,445	31	6	28,933	58,502	87,435

2010

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	8	74	8,071	-	-	-	8,153	320	8,473
Regional governments or local authorities	-	-	-	-	-	-	-	29	29
Administrative bodies and non-commercial undertakings	155	-	32	-	-	-	187	4	191
Institutions	5	5	-	-	-	22	32	216	248
Corporates	36	58	88	24	-	-	206	13,966	14,172
Retail	-	-	-	-	-	-	-	8,540	8,540
Secured on real estate property	-	-	5	-	-	31	36	25,767	25,803
Past due items	-	-	-	-	-	2	2	8,775	8,777
Items belonging to regulatory high risk categories	-	-	-	-	33	11	44	1,484	1,528
Collective investment undertakings	-	-	-	-	-	-	-	14	14
Other items	-	-	-	-	-	-	-	4,408	4,408
	204	137	8,196	24	33	66	8,660	63,523	72,183

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

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 B3 (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)

[2] Of the total exposures of € 87,435 million at 31 December 2011, only €379 million (31 December 2010: € 38 million) is covered by eligible financial collateral.

6. Credit risk - Foundation Internal Ratings Based Approach

Exposures rated under Foundation IRB Approach amounted to € 69,173 million, with a capital requirement of € 2,196 million as at 31 December 2011 (2010: exposures of € 109,573 million, capital requirement of € 2,323 million). This amounts to 35.2% (2010: 32.5%) of the total capital requirement for credit risk.

Regulatory approval and transition

As at 31 December 2011, the Group used the Foundation IRB Approach for the portfolios and exposure classes listed in the table below, having previously received approval from the Central Bank.

Segment	AIB Portfolio	Exposure class
Personal & Business Banking	Commercial / large SME Residential Mortgages	Corporates Retail
Corporate, Institutional & Commercial Banking	Bank Corporates Not-for-profit Project finance Commercial / large SME Sovereign Residential Mortgages	Institutions Corporates Corporates Corporates Corporates Central governments and central banks Retail
AIB UK	Bank Sovereign	Institutions Central governments and central banks

AIB monitors its roll-out plans to transition other standardised portfolios in the Group to the Foundation IRB Approach.

Governance of the rating process

AIB has a formalised governance framework around the entire internal ratings model process. The Credit Risk Measurement Committee is chaired by the Chief Risk Officer. The Board has designated the Credit Risk Measurement Committee as the body responsible for approval of material aspects of credit risk measurement systems and processes. The Committee's responsibilities include:

a) ensuring that the credit risk rating models used in regulatory capital calculations comply with the requirements of the CRD;
b) approval of Group standards for the development, validation, maintenance and use of credit risk rating models;
c) approval of new credit risk rating models to be used in the estimation of minimum regulatory capital requirements, and approval of changes to these models;
d) establishment and maintenance of governance structures and processes required for credit risk rating model development and validation; and
e) confirmation that the requirements for independence in the above processes have been met.

Credit Risk Control function

The Credit Risk Control function within the Group is an integrated set of independent units and functions which share responsibility for key control aspects of the Group's rating systems. These responsibilities include rating model development, use, performance monitoring and oversight. For further information please see "Risk management – Framework" on pages 70 & 71 of the 2011 Annual Financial Report.

Use of rating models

Rating models and systems are core to credit and risk management in the Group. In recent years, the Group has invested significantly in the development and enhancement of these models and has greatly expanded their use in credit processes. The outputs from Foundation IRB models play an essential role in a wide range of risk processes:

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

Use of and process for recognising credit risk mitigation

When calculating the capital requirements for Foundation IRB Approach the Group takes account of collateral as a credit risk mitigant for residential real estate in its retail (home mortgage) portfolio but does not 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 (home mortgage) portfolio. The Group's approach to taking, perfecting, valuing and monitoring real estate collateral is consistent with its broad framework for credit risk mitigation as described in Section 7.

Internal ratings process by exposure class

The following tables set out the divisional analysis split out by portfolio for the exposure classes (a) Corporates; (b) Central governments and central banks; (c) Institutions; and (d) Retail rated under the Foundation IRB Approach.

(a) Corporates

The following portfolios within the Group's IRB Approach approval are treated under the corporates exposure class:

Segment	AIB Portfolio	Portfolio description
Personal & Business Banking	Commercial / large SME	Predominantly commercial business - all sectors except property.
Corporate, Institutional & Commercial Banking	Corporate	Companies 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.
	Commercial / large SME	Predominantly commercial business - all sectors except property.
	Not-for-profit	Exposures to not-for-profit entities in Allied Irish America.
	Project finance	Long-term loans made to projects in the energy, infrastructure and transportation sectors in Europe, North America, Middle East and Asia-Pacific.

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 four models, but all four models use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. PDs are calibrated on the basis of both internal and external available loss data and through benchmarking. External ratings, where available, play a role in both the assignment and calibration process, but their role is that of one factor amongst several others. The definition of default used for all four portfolios is consistent with the CRD definition. The Group's validation processes are rigorous. They test, *inter alia*, the rank ordering of borrowers in terms of probability of default, the stability of the ratings, the stability of the portfolio and the probability of default estimates.

Due to the significant increase in observed defaults rates in recent years in the Commercial / Large SME portfolios, the relevant rating models were recalibrated in 2011 to reflect the higher risk.

Central governments and central banks

The following portfolios within the Group's IRB Approach approval are treated under the central governments and central banks exposure class:

Segment	AIB Portfolio	Portfolio description
Corporate, Institutional & Commercial Banking	Sovereign	Central governments Central banks Other specified multinational development banks and international organisations
AIB UK	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.

Ratings are assigned on the basis of expert judgement, based upon perceived political risk, government policy risk, economic policy and external liquidity risk. PDs are calibrated on the basis of expert judgement, benchmarked to available external ratings. The definition of default is consistent with the CRD definition.

(b) Institutions

The following portfolios within the Group's IRB Approach approval are treated under the institutions exposure class:

Segment	AIB Portfolio	Portfolio description
Corporate, Institutional & Commercial Banking	Bank	Banks Securities firms subject to the same regulation as banks
AIB UK	Bank	Banks Securities firms subject to the same regulation as banks

Under the Foundation IRB Approach, internal rating models are used to assign institutional 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 or scorecard with some 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 consistent with that used by the rating agencies, which in general is considered to occur at an earlier stage than that defined by the CRD and hence considered to be more conservative.

(c) Retail

The following portfolio within the Group's IRB Approach approval is treated under the retail exposure class:

Segment	AIB Portfolio	Portfolio description
Personal & Business Banking	Home mortgages	Home mortgage lending and first five buy-to-lets
Corporate, Institutional & Commercial Banking	Home mortgages	Home mortgage lending and first five buy-to-lets

Under the IRB Approach for retail, the Group uses its own estimates of PD, LGD and EAD in calculating risk weighted assets for residential mortgages originated in Ireland, excluding those originated through EBS. The rating methodology is primarily statistical, with limited use of expert judgement. Application and behavioural scorecards are used. 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.

Due to the significant increase in observed defaults rates in recent years in the home mortgage portfolio, the home mortgage rating models were recalibrated in 2011 to reflect the higher risk.

Table 10: Industry distribution of credit exposures (EAD) - Foundation IRB Approach

2011

Sector	Central governments and central banks €m	Institutions €m	Corporates €m	Retail €m	Securitisation positions €m	Non-credit obligation assets €m	Total €m
Agriculture	-	-	427	-	-	-	427
Construction	-	-	662	-	-	-	662
Distribution	-	-	5,686	-	-	1	5,687
Energy	-	-	1,129	-	-	-	1,129
Financial	-	-	214	-	2,339	-	2,553
Home loans	-	-	33	25,044	-	-	25,077
Manufacturing	-	-	2,105	-	-	1	2,106
Other loans – personal	-	-	250	-	-	-	250
Other services	-	-	3,143	-	506	2	3,651
Property	-	-	645	-	-	-	645
Transport and communication	-	-	1,457	-	-	2	1,459
Bank, sovereign & public sector entities	18,148	7,379	-	-	-	-	25,527
	18,148	7,379	15,751	25,044	2,845	6	69,173

2010

Sector	Central governments and central banks €m	Institutions €m	Corporates €m	Retail €m	Securitisation positions €m	Non-credit obligation assets €m	Total €m
Agriculture	-	-	531	-	-	-	531
Construction	-	-	816	-	-	1	817
Distribution	-	-	6,624	-	-	3	6,627
Energy	-	-	1,908	-	-	-	1,908
Financial	-	-	406	-	3,864	-	4,270
Home loans	-	-	30	25,668	-	-	25,698
Manufacturing	-	-	4,127	-	-	1	4,128
Other loans – personal	-	-	277	-	-	-	277
Other services	-	-	6,431	-	1,000	2	7,433
Property	-	-	753	-	-	-	753
Transport and communication	-	-	2,348	-	-	2	2,350
Bank, sovereign & public sector entities	43,225	11,556	-	-	-	-	54,781
	43,225	11,556	24,251	25,668	4,864	9	109,573

Table 11: Geographic[1] distribution of credit exposures (EAD) - Foundation IRB Approach

2011

Exposure Class	Republic of Ireland €m	United Kingdom €m	Poland €m	United States of America €m	Rest of the World €m	Total exposures €m	Total gross exposures €m	Average exposures over the period €m
Central governments and central banks	**14,262**	**3,607**	**-**	**279**	**-**	**18,148**	**45,102**	**27,916**
Institutions	**5,263**	**1,999**	**-**	**117**	**-**	**7,379**	**12,146**	**8,656**
Corporates	**13,436**	**1,169**	**-**	**894**	**252**	**15,751**	**17,303**	**19,182**
Retail [2]	**25,044**	**-**	**-**	**-**	**-**	**25,044**	**25,124**	**25,323**
Securitisation positions	**2,625**	**-**	**-**	**220**	**-**	**2,845**	**2,844**	**3,681**
Non-credit obligation assets	**6**	**-**	**-**	**-**	**-**	**6**	**7**	**8**
	60,636	**6,775**	**-**	**1,510**	**252**	**69,173**	**102,526**	**84,766**

2010

Exposure Class	Republic of Ireland €m	United Kingdom €m	Poland €m	United States of America €m	Rest of the World €m	Total exposures €m	Total gross exposures €m	Average exposures over the period €m
Central governments and central banks	34,888	4,697	3,640	-	-	43,225	78,009	26,884
Institutions	9,701	1,202	292	361	-	11,556	22,005	13,493
Corporates	18,159	1,782	-	3,714	596	24,251	26,568	48,587
Retail [2]	25,668	-	-	-	-	25,668	25,817	25,787
Securitisation positions	4,508	-	-	356	-	4,864	4,864	5,764
Non-credit obligation assets	9	-	-	-	-	9	9	7
	92,933	7,681	3,932	4,431	596	109,573	157,272	120,522

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

[2] All exposures under the IRB Approach for retail are secured by real estate collateral and represent the residential mortgage portfolio in PBB & CICB (2010: AIB ROI).

Table 12: Residual maturity of credit exposures (EAD) – Foundation IRB Approach

							2011
Residual maturity	**Central governments and central banks €m**	**Institutions €m**	**Corporates €m**	**Retail €m**	**Securitisation positions €m**	**Non-credit obligation assets €m**	**Total €m**
On demand	**2,334**	**-**	**150**	**15**	**-**	**-**	**2,499**
< 3 months	**5,203**	**1,127**	**553**	**44**	**-**	**2**	**6,929**
3 < 6 months	**277**	**524**	**714**	**150**	**-**	**-**	**1,665**
6 months < 1 year	**195**	**2,324**	**3,546**	**61**	**1**	**1**	**6,128**
1 < 3 years	**2,425**	**1,450**	**4,289**	**174**	**66**	**3**	**8,407**
3 < 5 years	**3,147**	**749**	**1,769**	**430**	**48**	**-**	**6,143**
5 < 10 years	**3,824**	**1,007**	**1,960**	**1,796**	**168**	**-**	**8,755**
10 years +	**743**	**198**	**2,770**	**22,374**	**2,562**	**-**	**28,647**
	18,148	**7,379**	**15,751**	**25,044**	**2,845**	**6**	**69,173**

							2010
Residual maturity	Central governments and central banks €m	Institutions €m	Corporates €m	Retail €m	Securitisation positions €m	Non-credit obligation assets €m	Total €m
On demand	1,620	9	214	24	-	1	1,868
< 3 months	26,446	2,634	893	103	-	1	30,077
3 < 6 months	1,158	438	960	288	5	2	2,851
6 months < 1 year	1,618	2,071	3,717	137	9	2	7,554
1 < 3 years	3,544	3,172	7,721	234	40	3	14,714
3 < 5 years	3,916	1,108	4,616	365	281	-	10,286
5 < 10 years	4,163	1,808	2,580	1,735	331	-	10,617
10 years +	760	316	3,550	22,782	4,198	-	31,606
	43,225	11,556	24,251	25,668	4,864	9	109,573

Foundation IRB obligor grades

For the purpose of calculating credit risk and ultimately its capital requirement using the Foundation IRB Approach, AIB has allocated all relevant exposures to obligor grades and an associated PD. These obligor grades are a risk category within the Group's rating systems. An obligor grade is assigned to obligors on the basis of rating criteria within each rating model from which estimates of probability of default are derived. These rating models have been calibrated at an individual business unit level. These individual rating models continue to be refined and recalibrated based on experience.

For the purposes of aggregate reporting, the Group uses a 13 point ratings masterscale which provides a common and consistent framework for aggregating, comparing and reporting exposures across all lending portfolios. The ratings masterscale is PD based. Under the ratings masterscale:

- Grades 1 – 3 would typically include strong corporate and commercial lending combined with elements of the retail portfolios and residential mortgages;
- Grades 4 – 10 would 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);
- Grades 11 – 13 contains 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.

Table 13 sets out the analysis of EAD of the exposure classes by obligor grade, within the Foundation IRB Approach for the Group, excluding the securitisations rated on IRB approved models (2011: €2,844 million; 2010: €4,864 million), which are analysed in greater detail in Section 10.

Table 13: Foundation IRB - Obligor grade disclosures (excluding securitisations)

2011

Obligor grade	Central Government & central banks: Exposure value (EAD)[1] €m	Central Government & central banks: Exposure-weighted average risk weight %	Institutions: Exposure value (EAD)[1] €m	Institutions: Exposure-weighted average risk weight %	Corporates: Exposure value (EAD)[1] €m	Corporates: Exposure-weighted average risk weight %
Grade 1 - 3	**17,988**	**-**	**5,251**	**14**	**1,734**	**28**
Grade 4 - 10	**119**	**55**	**2,076**	**60**	**9,580**	**97**
Grade 11 - 13	**41**	**-**	**52**	**-**	**4,437**	**27**
	18,148	**-**	**7,379**	**27**	**15,751**	**69**

Obligor grade	Retail: Exposure value (EAD)[1] €m	Retail: Exposure-weighted average risk weight %	Non-credit obligation assets: Exposure value (EAD)[1] €m	Non-credit obligation assets: Exposure-weighted average risk weight %	Total Foundation - IRB[2]: Exposure value (EAD)[1] €m	Total Foundation - IRB[2]: Exposure-weighted average risk weight %
Grade 1 - 3	**5,160**	**5**	**-**	**100**	**30,133**	**5**
Grade 4 - 10	**14,801**	**23**	**4**	**100**	**26,580**	**52**
Grade 11 - 13	**5,083**	**158**	**2**	**100**	**9,615**	**96**
	25,044	**47**	**6**	**100**	**66,328**	**37**

2010

Obligor grade	Central Government & central banks: Exposure value (EAD)[1] €m	Central Government & central banks: Exposure-weighted average risk weight %	Institutions: Exposure value (EAD)[1] €m	Institutions: Exposure-weighted average risk weight %	Corporates: Exposure value (EAD)[1] €m	Corporates: Exposure-weighted average risk weight %
Grade 1 - 3	43,184	-	11,398	14	3,476	29
Grade 4 - 10	41	48	144	103	17,611	91
Grade 11 - 13	-	-	14	-	3,164	21
	43,225	-	11,556	15	24,251	73

Obligor grade	Retail: Exposure value (EAD)[1] €m	Retail: Exposure-weighted average risk weight %	Non-credit obligation assets: Exposure value (EAD)[1] €m	Non-credit obligation assets: Exposure-weighted average risk weight %	Total Foundation - IRB[3]: Exposure value (EAD)[1] €m	Total Foundation - IRB[3]: Exposure-weighted average risk weight %
Grade 1 - 3	12,514	4	1	100	70,573	6
Grade 4 - 10	10,651	22	7	100	28,454	66
Grade 11 - 13	2,503	163	1	100	5,682	83
	25,668	27	9	100	104,709	27

[1] Includes EAD in relation to impaired loans.

[2] Excludes EAD of securitisation positions of €2,845 million.

[3] Excludes EAD of securitisation positions of €4,864 million.

Table 14: Foundation IRB - Exposure-weighted average LGD

	2011	
	Retail	
Obligor grade	**Exposure value (EAD) €m**	**Exposure-weighted average LGD %**
Grade 1 - 3	**5,160**	**18**
Grade 4 - 10	**14,801**	**22**
Grade 11 - 13	**5,083**	**29**
	25,044	**23**

	2010	
	Retail	
Obligor grade	Exposure value (EAD) €m	Exposure-weighted average LGD %
Grade 1 - 3	12,514	20
Grade 4 - 10	10,651	23
Grade 11 - 13	2,503	24
	25,668	22

7. Credit Risk Mitigation

Within both the Standardised and Foundation IRB Approaches, an important element in managing exposure to credit risk for AIB Group is the use of Credit Risk Mitigation ("CRM") techniques.

AIB takes collateral in support of its lending activities when it is deemed appropriate and has a set of written policies and procedures in place to guide lenders in the assessment, valuation and taking of such collateral. In some circumstances, depending on the customer standing and/or the nature of the product AIB may lend on an unsecured basis.

The main types of collateral for loans and receivables to customers are as follows:

- Home mortgages: The Group takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and be subject to a legal charge in favour of the Group.
- Corporate and commercial lending: For property related lending, it is normal practice to take a charge over the property being financed. This includes investment and development properties. For non-property related lending, collateral typically includes a charge over business assets such as stock and debtors but which may also include property. In some circumstances, personal guarantees supported by a lien over personal assets are also taken as security.
- Cross guarantees from companies within a connected group may also be taken to facilitate cross collateral cover. AIB rarely uses credit default swaps to mitigate credit risk. In assessing and approving overall credit limits for borrowers or groups of borrowers, the levels of guarantees given by such borrowers to third parties are taken into consideration. AIB monitors the nature and value of collateral by type, geography and sector.

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

AIB takes limited account of CRM in its calculation of minimum Pillar 1 capital. Of the total exposures of € 87,435 million at 31 December 2011, only € 379 million (31 December 2010: € 38 million) is covered by eligible financial collateral. In arriving at the € 379 million, netting and volatility adjustments have been taken account of. Of the remainder, € 20,073 million (2009: € 8,052 million) relating to NAMA senior bonds are guaranteed by the Irish Government. For the Foundation IRB Approach, the total exposures covered by eligible financial collateral is Nil (2010: Nil).

Credit Risk Mitigation is discussed in the "Risk Management" section of the Annual Financial Report 2011, whilst further information in relation to repurchase transactions is set out below in Section 9 Counterparty credit risks.

8. Credit Risk – Impairment

Impairment

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. When loans are deemed to be impaired, the Group raises specific impairment provisions in a timely and consistent way across portfolios. The Group utilises two types of impairment provision: (a) specific; and (b) Incurred but not reported ("IBNR") which represents a collective provision relating to the portfolio of performing loans. Details of the methodologies adopted by the Group in identifying, monitoring and managing impaired loans are set out on pages 79 to 82 of the 2011 Annual Financial Report, whilst the relevant accounting policy can be found on pages 238 to 240 of the 2011 Annual Financial Report.

Tables 15 and 16 below analyse loans and receivables to customers, including loans and receivables held for sale and include loans and receivables within continuing and discontinued operations.

Table 15: Contractually past due but not impaired[1] - industry and geographic[2] distribution

					2011
Industry	Past due 1 < 30 days €m	Past due 31 < 60 €m	Past due 61 < 90 days €m	Past due 91 days + €m	Total €m
Agriculture	54	37	10	43	144
Energy	4	-	1	5	10
Manufacturing	24	16	2	13	55
Construction and property	391	163	115	468	1,137
Distribution	153	75	45	206	479
Transport	10	7	2	7	26
Financial	6	1	1	6	14
Other services	87	30	13	75	205
Personal					
Home mortgages	1,067	489	253	460	2,269
Credit cards	50	16	11	9	86
Other personal	126	60	34	153	373
	1,972	894	487	1,445	4,798
Geography					
Republic of Ireland	1,750	832	457	1,371	4,410
United Kingdom	220	62	30	74	386
Poland	-	-	-	-	-
United States of America	-	-	-	-	-
Rest of the World	2	-	-	-	2
	1,972	894	487	1,445	4,798

[1] Contractually past due and not impaired: Under IFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

[2] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

Industry	Past due 1 < 30 days €m	Past due 31 < 60 €m	Past due 61 < 90 days €m	Past due 91 days + €m	Total €m
					2010
Agriculture	101	42	17	46	206
Energy	6	1	1	2	10
Manufacturing	60	18	12	18	108
Construction and property	682	500	219	861	2,262
Distribution	250	124	61	208	643
Transport	44	8	6	8	66
Financial	13	2	-	13	28
Other services	189	55	25	108	377
Personal					
Home mortgages	598	254	174	353	1,379
Credit cards	69	24	14	10	117
Other personal	259	113	60	232	664
	2,271	1,141	589	1,859	5,860
Geography					
Republic of Ireland	1,802	938	442	1,768	4,950
United Kingdom	226	139	130	59	554
Poland	220	64	17	3	304
United States of America	-	-	-	29	29
Rest of the World	23	-	-	-	23
	2,271	1,141	589	1,859	5,860

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:

a) has breached an advised limit;
b) has been advised of a limit lower than the then current outstanding; or
c) has 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.

Table 16: Loans and receivables to customers, impaired loans and provisions - industry and geographic[1] distribution

Industry	Loans and receivables to customers – gross of provisions €m	Impaired €m	Specific balance sheet provisions €m	Specific provision charge for year €m
				2011
Agriculture	**1,868**	**310**	**199**	**107**
Energy	**896**	**38**	**28**	**17**
Manufacturing	**2,071**	**436**	**251**	**203**
Construction and property	**24,490**	**11,899**	**6,469**	**3,816**
Distribution	**8,549**	**3,058**	**1,698**	**1,065**
Transport and communications	**1,329**	**127**	**90**	**57**
Financial	**1,368**	**191**	**142**	**113**
Other services	**7,025**	**951**	**567**	**435**
Personal				
Home loans	**45,226**	**6,343**	**1,788**	**1,386**
Other loans	**5,321**	**1,335**	**904**	**475**
Lease financing	**544**	**145**	**121**	**32**
	98,687	**24,833**	**12,257**	**7,706**

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

Table 16: Loans and receivables to customers, impaired loans and provisions - industry and geographic[1] distribution *(continued)*

Geography	Loans and receivables to customers – gross of provisions €m	Impaired €m	Specific balance sheet provisions €m	Specific provision charge for year €m
Republic of Ireland	**79,501**	**21,047**	**10,466**	**6,516**
United Kingdom	**18,209**	**3,725**	**1,777**	**1,128**
Poland	**-**	**-**	**-**	**-**
United States of America	**588**	**49**	**11**	**25**
Rest of the World	**389**	**12**	**3**	**37**
	98,687	**24,833**	**12,257**	**7,706**
IBNR provision			**2,684**	**179**
Specific provision in relation to loans and receivables to banks			**4**	**-**
Total provisions for impairment of loans and receivables			**14,945**	**7,885**

2010

Industry	Loans and receivables to customers – gross of provisions €m	Impaired €m	Specific balance sheet provisions €m	Specific provision charge for year €m
Agriculture	2,139	215	112	62
Energy	1,427	9	6	2
Manufacturing	4,666	433	190	101
Construction and property	30,362	7,853	3,136	2,846
Distribution	11,217	1,873	837	718
Transport and communications	1,715	106	58	62
Financial	2,074	78	49	55
Other services	9,814	578	276	302
Personal				
Home loans	32,805	1,211	256	173
Other loans	7,091	943	593	359
Lease financing	1,457	170	129	72
	104,767	13,469	5,642	4,752

Geography	€m	€m	€m	€m
Republic of Ireland	70,506	10,215	4,362	4,010
United Kingdom	22,610	2,524	976	587
Poland	8,641	587	259	114
United States of America	1,968	75	22	29
Rest of the World	1,042	68	23	12
	104,767	13,469	5,642	4,752
IBNR provision			2,330	1,368
Specific provision in relation to loans and receivables to banks			4	-
Total provisions for impairment of loans and receivables			7,976	6,120

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

Table 17: Movement in provisions for impairment of loans and receivables

			2011
	Specific €m	IBNR €m	Total €m
At 1 January	**5,646**	**2,330**	**7,976**
Exchange translation adjustments	**63**	**11**	**74**
Acquisition of subsidiaries	**393**	**345**	**738**
Transfer on disposal of subsidiary	**(276)**	**(84)**	**(360)**
Transfer between specific and IBNR provisions	**7,706**	**(7,706)**	**-**
Charge against income statement (see below)	**-**	**7,885**	**7,885**
Amounts written off	**(802)**	**-**	**(802)**
Recoveries of amounts written off in previous periods	**4**	**-**	**4**
Provisions on loans and receivables transferred to NAMA	**(473)**	**(97)**	**(570)**
Transfers out	**-**	**-**	**-**
At 31 December	**12,261**	**2,684**	**14,945**

			2010
	Specific €m	IBNR €m	Total €m
At 1 January	5,798	1,358	7,156
Exchange translation adjustments	33	7	40
Transfer between specific and IBNR provisions	4,752	(4,752)	-
Charge against income statement (see below)	-	6,120	6,120
Amounts written off	(813)	-	(813)
Recoveries of amounts written off in previous periods	48	-	48
Provisions on loans and receivables transferred to NAMA	(4,166)	(403)	(4,569)
Transfers out	(6)	-	(6)
At 31 December	5,646	2,330	7,976

The charge against income statement for 2011 of € 7,885 million (2010: € 6,120 million) comprises € 7,706 million (2010: € 4,752 million) of a specific provision charge for impaired loans and € 179 million (2010: € 1,368 million) of an incurred but not reported (“IBNR”) provision charge for unidentified losses in the performing book.

Further information and analysis is available in the 2011 Annual Financial Report on the Group’s website: www.aibgroup.com.

Loss experience in the preceding period – Foundation IRB Approach

An analysis of the expected loss ("EL") and actual loss experience by exposure class for the year ended 31 December 2011 is outlined in table 18.

Regulatory EL provides a view of the expected losses that are likely to emerge in the performing loan book within one year, using through-the-cycle estimates of grade PDs and recognises the grade profile of the book at the time at which the EL is estimated. It does not forecast changes that will emerge in the grade profile of the book in the relevant year, nor does it take into account any likely future changes in the credit environment.

Actual loss in the table below is the specific provision charged to the income statement for the year ended 31 December 2011 in relation to exposures newly impaired in the period and rated under the Foundation IRB approach at 31 December 2011. These specific provisions are driven by accounting standard requirements and are calculated at point in time. It is important to note these differences in interpreting the information in the tables below.

AIB Group monitors actual default and loss experience on an ongoing basis and uses this information in its review of PD estimates used in its rating tools. The PD of an individual credit will change with its grade profile.

The significant increase in actual loss in 2011 in Retail reflects the increased impairment in the Bank's residential mortgage portfolio.

Table 18: Expected loss analysis – Foundation IRB Approach

		2011
Exposure class	**Expected loss[1] €m**	**Actual loss €m**
Institutions	**1**	**-**
Corporates	**270**	**907**
Retail	**83**	**508**
Securitisation positions[2]	**-**	**96**
Total	**354**	**1,511**

Exposure class	**Expected loss[1] €m**	**Actual loss €m**
Retail exposures secured by real estate collateral	**83**	**508**
Total retail	**83**	**508**

		2010
Exposure class	Expected loss[1] €m	Actual loss €m
Institutions	1	-
Corporates	254	885
Retail	71	69
Securitisation positions[2]	-	24
Total	326	978

Exposure class	Expected loss[1] €m	Actual loss €m
Retail exposures secured by real estate collateral	71	69
Total retail	71	69

The Group's risk weightings for Foundation IRB models as at 31 December 2011 are detailed on table 19. These weightings are influenced by the grade profile and associated PD of the portfolios, having applied loss given defaults ("LGD") of 45% for all portfolios, with the exception of residential mortgages which had an average LGD of 23% applied as at 31 December 2011 (2010: 31 December 22%).

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

[2] Under the Foundation 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.

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

Foundation IRB rating models	**2011 %**	2010 %
Commercial	**111**	101
Mortgage	**47**	27
Corporates	**79**	82
Bank	**16**	15
Sovereign	**-**	-
Not-for-profit	**37**	26
Project finance	**102**	92

The amounts presented in the above table represent the CRD risk weightings as a percentage of EAD for the Foundation IRB portfolio, excluding the non-retail loans classified as defaulted as these loans influence the EL calculation and not the risk weighted assets calculation.

The change in the above percentage weightings in 2011 have been impacted by a combination of factors: an increase in the proportion of the loan book in default, a change in the grade profile of the performing book, loans transferred to NAMA and some deleveraging of the loan portfolio.

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 would incur a loss 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 simplified method for calculating exposure amounts for the purposes of calculating internal capital on counterparty credit exposure for derivatives.

Pre-settlement CCE limits must be approved in advance of any transactions being entered into by the appropriate credit approval authority. This forms a 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 available in note 28 in the 2011 Annual Financial Report.

The Group uses a volatility-based risk weighting for internal purposes to determine potential future exposure values. These weightings or *add-on-factors* are derived from a rolling 3-year historical time series of price volatility data, raised to a 95th percentile one-tailed confidence interval. The Group updates these *add-on-factor* tables, which are organised by product, currency and residual maturity, on a monthly basis (except for repo products, where the add-on-factor tables are updated 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 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.

Repurchase agreements

AIB Group is also active in repurchase transactions on 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 bilateral and tri-party basis.

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

Risk Management functions, independent of the front office, have responsibility for managing the margining of the Group's bilateral repo / reverse repo and SBB/BSB activities. Margining has been predominantly cash-based although the documentation in general allows for securities to be used as collateral. Tri-party margining is managed through Euroclear.

The associated credit risk is managed in the same way as other types of credit exposure. Exposures are calculated to take account of historical price volatility reflecting the maturity of both the collateral and repurchase transaction. The exposures are aggregated with all other exposures to the counterparty.

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

a) Acceptable collateral
b) Acceptable counterparties
c) Appropriate nominal exposure limits by counterparty
d) Appropriate risk weighted exposure limits by counterparty
e) Haircut amounts (where appropriate)

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

Policies for securing collateral and establishing credit reserves

It is Group practice, where possible and relevant, that ISDA Master Agreements are put in place to cover derivatives business on a counterparty specific basis. On a selective basis, the ISDA documentation has been supplemented with a Credit Support Annex to accommodate the reduction of net exposure on an agreed basis, and in line with market practice, by way of transferring a margin amount, typically cash (as opposed to securities).

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

Policies with respect to one-way exposures

Where the pattern of transactions with a given counterparty is dominated by trades in one direction (e.g. customer is buyer of US dollars, but not a seller), the resulting derivative exposure may be referred to as a 'one-way' exposure. Such counterparty exposures are subject to the credit process, including grade assessment, limit setting, exposure measurement and credit review.

Change in credit rating

A downgrade in the Group's credit rating would have the effect of reducing the market value threshold for margin calls on some of the Credit Support Annexes. This would result in a potential increase in the amount of collateral the Group would have to provide against the derivatives within the Credit Support Annexes. However, due to the very small number of Credit Support Annexes with downgrade triggers, this is not deemed a significant risk for the Group. In addition, a downgrade in the Group's credit rating would lead to an increase in the haircuts that would be demanded by counterparties in repurchase transactions. This would lead to an increase in the quantum of securities being pledged by the Group as collateralised. Some counterparties also require an 'independent amount' to be deposited in advance of transacting derivative business. During 2011, the level of independent amounts applied by two counterparties increased as the Group credit rating was downgraded.

Credit derivative hedges

The Group had minimal credit derivative hedging activity during the year ended 31 December 2011.

Derivatives counterparty credit risk

Table 20 analyses the counterparty credit risk exposure of derivative transactions, the positive fair value of which is presented after taking account of netting benefits, in line with their presentation in Note 28 of the 2011 Annual Finance Report and in accordance with the accounting policy.

Over the counter ("OTC") derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Credit derivatives are financial instruments with which credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection.

Table 20: Counterparty credit risk - trading & banking book

						2011
	Positive fair value of contracts €m	**Add-ons €m**	**Netting benefits €m**	**Gross positive fair value of contracts (incl. add-ons) €m**	**Financial collateral held €m**	**Net derivatives credit exposure €m**
OTC derivatives	**3,046**	**805**	**-**	**3,849**	**-**	**3,849**
Credit derivatives	**-**	**2**	**-**	**2**	**-**	**2**
Total derivatives	**3,046**	**807**	**-**	**3,851**	**-**	**3,851**

						2010
	Positive fair value of contracts €m	Add-ons €m	Netting benefits €m	Gross positive fair value of contracts (incl. add-ons) €m	Financial collateral held €m	Net derivatives credit exposure €m
OTC derivatives	3,315	1,181	-	4,496	-	4,496
Credit derivatives	-	3	-	3	-	3
Total derivatives	3,315	1,184	-	4,499	-	4,499

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

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

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

The Group has a number of ISDA Master Agreements (netting agreements) in place which may allow it to net the termination value of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The Group also has Credit Support Annexes in place which provide collateral for derivative contracts.

Credit derivative transactions product distribution

Table 21 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

				2011
	Notional credit derivative transactions			
	Group's own credit portfolio use		**Intermediation activities**	
	Purchased	**Sold**	**Purchased**	**Sold**
Credit derivative product type	**€m**	**€m**	**€m**	**€m**
Credit default swaps	**45**	**171**	**-**	**-**
	45	**171**	**-**	**-**

				2010
	Notional credit derivative transactions			
	Group's own credit portfolio use		Intermediation activities	
	Purchased	Sold	Purchased	Sold
Credit derivative product type [1]	€m	€m	€m	€m
Credit default swaps	60	312	-	-
	60	312	-	-

[1] Credit Linked Notes have been included with Credit Default Swaps in reporting the Credit Derivative Notional principal amount of €538 million within the 2010 Annual Financial Report.

10. Securitisations

Objectives in relation to securitisation activity

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

- as an investor, the Group has used securitisation as part of the management of its interest rate and liquidity risks through Global Treasury;
- as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity;
- as an originator of securitisations, to meet customer demand to offer a full range of investment opportunities by making available opportunities to invest in AIB-managed Collateralised Debt Obligations (“CDOs”) and Collateralised Bond Obligations (“CBOs”); and
- as an originator of securitisations to support the funding activities of the Group.

Extent of the Group’s involvement in each securitisation

The Group’s exposure to securitisations issued by other institutions reduced in 2011, whilst the CBO bond portfolio previously originated by the Group was liquidated during the year. In addition, three securitisation vehicles for which AIB had acted as an originator and investor were wound down.

Arising from the acquisition of EBS during the year, the Group assumed control of certain special purpose vehicles set up by EBS. These securitisation vehicles are discussed in detail below. There were no new securitisations originated by the Group in 2011.

Investor

Historically, AIB has primarily been an investor in securitisations issued by other credit institutions, the most significant investment in which has been through Global Treasury’s purchases of senior tranches of predominantly AAA-rated prime Residential Mortgage Backed Securities (“RMBS”), holdings of which have reduced over the course of 2011. This portfolio was originally purchased as part of Global Treasury’s primary interest rate and liquidity management objective, subject to qualifying criteria, including loan-to-value (“LTV”), seasoning, location and quality of originator. A smaller proportion of the overall portfolio is held in other asset classes, including a portfolio of AAA-rated US student loan asset backed securities and have also considerably reduced through sales in the course of 2011. The balance of these investments continue to benefit from US Government guarantees. All of these assets are reported in the available-for-sale portfolio.

The Group also has a smaller portfolio of investments in securitisations held by the Non-Core business unit. The portfolio consists of both cash and synthetic structures across a variety of asset classes, including CDOs, Commercial Mortgage Backed Securities (“CMBS”) and Residential Mortgage Backed Securities (“RBMS”).

On 18 February 2011, AIB Capital Markets PLC (“AIB CM”) entered into an agreement with GSO Capital Partners International LLP (“GSO”) pursuant to which the collateral management business of AIB CM in respect of four CDO securitisation transactions would be acquired by GSO. On 16 May 2011, AIB CM was replaced by GSO as investment manager for the four CDO securitisation transactions. The Group no longer has equity interests in these transactions. In addition, the CBO bond portfolio was liquidated in 2011. Assets under management of these vehicles at 31 December 2011 were Nil (2010: € 1,582 million).

Originator

During 2011, three securitisation vehicles for which AIB acted as an originator and invested in, namely Causeway Securities p.l.c.; Clogher Securities Limited; and Wicklow Gap Limited were wound down. The CBO bond portfolio previously originated by the Group was also liquidated during 2011.

Arising from the acquisition of EBS on 1 July 2011, AIB controls certain special purpose vehicles which had been set up by EBS. These securitisation structures support the funding activities of the Group. Included in the Group’s consolidated loans and receivables to customers is € 3,899 million of loans held through these EBS securitisation vehicles as follows:

Emerald Mortgages No.4 plc

The total carrying amount of the original residential property transferred by EBS Limited to Emerald Mortgages No.4 plc (‘Emerald 4’) as part of the securitisation amounted to € 1,500 million. The amount of transferred secured loans that the Group recognised at 31 December 2011 was € 915

million. The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 892 million. The carrying amount of the loan note in EBS issued to Emerald 4 amounts to € 917 million and is included on the Balance Sheet in "Customer accounts".

Emerald Mortgages No.5

The total carrying amount of original residential property transferred by EBS Limited to Emerald Mortgages No.5 ('Emerald 5') as part of the securitisation amounted to €2,500 million. The amount of transferred secured loans that the Group recognised at 31 December 2011 was € 2,003 million. Bonds were issued by Emerald 5 to EBS but these are not shown in the financial statements as they are eliminated on consolidation.

Mespil 1 RMBS Limited ('Mespil')

The amount of secured loans that the Group recognised at 31 December 2011 was € 981 million in relation to the loan transfers from EBS Limited and Haven Mortgages Limited (a subsidiary of EBS). The bonds issued by Mespil to EBS are not shown in the financial statements as these bonds are eliminated on consolidation.

Loans which have been securitised but which the Group has not derecognised in the financial statements (€ 3,899 million) are likewise not derecognised for Pillar 1 purposes. These loans are included in Table 16 "Loans and receivables to customers" tables in Section 8

Sponsor

The Group acts as a sponsor to securitisations where it has the ability to manage securitisation vehicles originated by other institutions. The Group is also an investor in these vehicles, and managing the assets provides the Group with the opportunity to manage the risk return profile of these assets.

Accounting policies

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.

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 in full. 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.

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 70 and 71 of the 2011 Annual Financial Report and as described in detail in the "Risk Management" section of the 2011 Annual Financial Report. Securitisation positions are typically unhedged.

Calculating risk weighted exposure amounts

AIB Group uses the IRB approach to calculate the risk-weighted exposure amount for the majority of our securitisation positions, within which we primarily use the Ratings Based Method. 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"). 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.

External Credit Assessment Institutions

AIB uses the following ECAIs for securitisation exposures:

- Standard & Poor's Ratings Services
- Fitch Ratings
- Moody's Investors Service
- Dominion Bond Rating Service

The process used to assign credit assessments to risk weights follows the mapping guidelines issued by the European Banking Authority ("EBA")[1] and adopted by the Central Bank. There is no outstanding amount of securitised revolving exposures. In relation to the following sets of tables:

i. *exposure type* refers to the assets that are contained in the pool on which the securitisation paper is issued;
ii. *traditional* securitisation means a securitisation involving the economic transfer of the exposures being securitised to a securitisation special purpose entity which issues securities. This is accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through sub participation. The securities issued do not represent payment obligations of the originator credit institution;
iii. *synthetic* securitisation means a securitisation where the tranching is achieved by the use of credit derivatives or guarantees, and the pool of exposures is not removed from the balance sheet of the originator credit institution;
iv. *outstanding amounts* are exposures gross of impairment provisions.

Table 22 details the Group's outstanding amount of exposures securitised by securitisation type and exposure type, and relate to exposures securitised in EBS. The AIB–managed CDO/CBO bond portfolio was liquidated during 2011. Assets under management of these portfolios at 31 December 2010 were €1,582 million.

Table 22: Outstanding amount of exposure securitised

						2011
	Outstanding amount of exposures securitised			Of which:		
	Traditional transactions	Synthetic transactions	Total	Impaired	Past due	Recognised losses
Exposure type	€m	€m	€m	€m	€m	€m
Residential mortgages	917		917	85	17	-
Commercial mortgages	-	-	-	-	-	-
Leasing	-	-	-	-	-	-
Loans to corporates or SMEs	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	917	-	917	85	17	-

Tables 23 and 24 analyse the Group's total securitisation positions (including re-securitisations) by exposure type and risk weight, whilst Table 24a analyses the Group re-securitisations positions by risk weight for 2011 only. Analysis of re-securitisations is a first time disclosure requirement for 2011, arising from the amending Directive 2010/76/EU.

[1] The European Banking Authority was established by Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010. The EBA officially came into being as of 1 January 2011 and has taken over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors ("CEBS").

Table 23: Securitisation positions – by exposure type of underlying exposure

2011

	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Exposure type	**€m**	**€m**	**€m**	**€m**
Residential mortgages	**23**	**-**	**1,970**	**1,993**
Commercial mortgages	**-**	**-**	**120**	**120**
Leasing	**-**	**-**	**6**	**6**
Loans to corporates or SMEs	**-**	**-**	**181**	**181**
Consumer loans	**-**	**-**	**109**	**109**
Re-securitisations	**-**	**165**	**359**	**524**
	23	**165**	**2,745**	**2,933**

2010

	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Exposure type	€m	€m	€m	€m
Residential mortgages	-	-	3,283	3,283
Commercial mortgages	-	86	307	393
Leasing	-	-	10	10
Loans to corporates or SMEs	24	284	453	761
Consumer loans	-	-	417	417
	24	370	4,470	4,864

Table 24: Securitisation positions - risk weight bands

2011

	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Risk weight band	**€m**	**€m**	**€m**	**€m**
7 – 10%	**-**	**-**	**1,636**	**1,636**
11 – 19%	**-**	**-**	**168**	**168**
20 – 49%	**-**	**-**	**171**	**171**
50 – 75%	**-**	**-**	**103**	**103**
75 – 99%	**-**	**-**	**-**	**-**
100 – 249%	**-**	**27**	**157**	**184**
250 – 349%	**-**	**96**	**139**	**235**
350 – 424%	**-**	**-**	**-**	**-**
425 – 649%	**-**	**-**	**158**	**158**
650 – 1249%	**-**	**42**	**55**	**97**
1250% or deducted	**23**	**-**	**158**	**181**
	23	**165**	**2,745**	**2,933**

Table 24: Securitisation positions - risk weight bands *(continued)*

				2010
	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Risk weight band	€m	€m	€m	€m
7 – 10%	-	-	4,933	4,933
11 – 19%	-	51	76	127
20 – 49%	-	65	89	154
50 – 75%	-	104	111	215
75 – 99%	-	-	-	-
100 – 249%	-	30	53	83
250 – 349%	-	-	50	50
350 – 424%	-	-	-	-
425 – 649%	-	-	44	44
650 – 1249%	-	224	55	279
1250% or deducted	28	22	391	441
	28	496	5,802	6,326

Table 24a: Re-securitisation positions - risk weight bands

				2011
	Securitisation positions – outstanding amount			
	Retained		**Purchased**	**Total**
	Originator	**Sponsor**	**Investor**	
Risk weight band	**€m**	**€m**	**€m**	**€m**
7 – 10%	**-**	**-**	**-**	**-**
11 – 19%	**-**	**-**	**-**	**-**
20 – 49%	**-**	**-**	**29**	**29**
50 – 75%	**-**	**-**	**41**	**41**
75 – 99%	**-**	**-**	**-**	**-**
100 – 249%	**-**	**27**	**103**	**130**
250 – 349%	**-**	**96**	**26**	**122**
350 – 424%	**-**	**-**	**-**	**-**
425 – 649%	**-**	**-**	**44**	**44**
650 – 1249%	**-**	**42**	**12**	**54**
1250% or deducted	**-**	**-**	**104**	**104**
	-	**165**	**359**	**524**

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 five sub-categories:

a) Quoted investments: a limited number of straight equity positions that are quoted on recognised stock exchanges;
b) Unquoted investments: typically comprising exposure to equities or the equity tranche in a structured transaction or SPE;
c) Managed funds: typically comprising exposure to the equity component of a managed investment fund;
d) Investments in associate undertakings which are held by the Group for strategic purposes.

While individual transactions will vary in structure, the Group's profit objectives are typically realised through a combination of fee income (e.g. structuring or management fees), dividend income and capital gains on realisation.

The principal accounting policies applied by the Group to equity investments is informed by International Accounting Standards 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 2011 Annual Financial Report. Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in the equity of the associated undertaking. Other banking book equities are carried on the balance sheet at fair value.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment (net of any accumulated impairment loss). For regulatory purposes, goodwill in associates is deducted directly from capital.

The cumulative realised gains from sales and liquidations in the banking book of equity investments amount to € 8 million for the year ended 31 December 2011 (2010: € 13 million excluding € 1 million for Poland).

The total unrealised gain as at 31 December 2011, gross of tax, in the banking book of equity investments amounts to € 2 million, all of which relates to other equity securities (2010: unrealised gain € 19 million, of which unrealised losses of € 51 million relates to NAMA subordinated bonds and unrealised gains of € 32 million relates to other equity securities). In addition, provisions for impairment of available for sale equity investments of €119 million (2010: €18 million) were included in the income statement in 2011.

An unrealised loss, after tax, of € 22 million (2010: € 73 million) is included in tier 1 capital whilst an unrealised gain, after tax, of € 24 million (2010: € 92 million) is included in tier 2 capital for regulatory capital calculations. There were no latent revaluation gains or losses. Further details in relation to this are contained in Appendix 2: Own funds.

Table 25: Banking book equity values

	Type	Nature		2011 Carrying value €m
Exchange traded exposures	Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges.		**54**
Other exposures	Unquoted	Exposure to equities or the equity tranche in a structural transaction or SPE		**181**[1]
	Funds	Exposure to the equity component of a managed investment fund.		**30**
	CDOs/CBOs	Equity interest in Collateralised Debt Obligation SPEs created and managed by Group on an ongoing basis.		**1**
				266
Investments in associate undertakings			**246**	
Less goodwill[2]			**(3)**	
				243
				509
Of which are risk weighted				**430**
Of which deducted from capital				**79**
				509

	Type	Nature		2010 Carrying value €m
Exchange traded exposures	Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges.		42
Other exposures	Unquoted	Exposure to equities or the equity tranche in a structural transaction or SPE		327[3]
	Funds	Exposure to the equity component of a managed investment fund.		91
	CDOs/CBOs	Equity interest in Collateralised Debt Obligation SPEs created and managed by Group on an ongoing basis.		26
				486
Investments in associate undertakings			301	
Less goodwill[2]			(3)	
				298
				784
Of which are risk weighted				507
Of which deducted from capital				277
				784

[1] Of which € 132 million relates to NAMA subordinated bonds (2010: € 169 million).
[2] Deducted from tier 1 capital.
[3] Of which € 172 million (Quoted: € 5 million, Unquoted: € 96 million, Funds € 71 million, CDOs/CBOs: Nil) relates to discontinued operations (i.e. Bank Zachodni WBK S.A.).

Table 26: Risk weighted asset equivalents of equity exposures

	2011	
	Exposure €m	**Risk weighted asset €m**
Equity investments subject to a 100% risk weight	**177**	**177**
Equity investments subject to a 150% risk weight	**253**	**380**
	430	**557**

	2010	
	Exposure €m	Risk weighted asset €m
Equity investments subject to a 100% risk weight	229	229
Equity investments subject to a 150% risk weight	278	417
	507	646

12. Non-trading interest rate risk

Non-trading interest rate risk is the Group's sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. The nature of interest rate risk arising in the banking book and the key assumptions used in measuring interest rate risk are detailed on page 178 of the 2011 Annual Financial Report.

The table below sets out the impact on the Group's own funds for a 1 per cent upward and 1 per cent downward interest rate shock, broken down by the Group's main currencies.

Table 27: Non-trading interest rate risk

				2011
	Interest rate risk variation			
	Absolute €m		**% of Own funds**	
Currency	**+1%**	**-1%**	**+1%**	**-1%**
EUR	**292**	**(366)**	**1.7**	**(2.1)**
GBP	**(8)**	**(47)**	**-**	**(0.3)**
PLN	**-**	**-**	**-**	**-**
USD	**5**	**(7)**	**-**	**-**
Other	**(4)**	**4**	**-**	**-**
	285	**(416)**	**1.7**	**(2.4)**

				2010
	Interest rate risk variation			
	Absolute €m		% of Own funds	
Currency	+1%	-1%	+1%	-1%
EUR	(80)	90	(0.9)	1.0
GBP	(4)	11	-	0.1
PLN	(9)	9	(0.1)	0.1
USD	(19)	16	(0.2)	0.2
Other	(6)	5	(0.1)	0.1
	(118)	131	(1.3)	1.5

The key driver of the change in non-trading interest rate risk sensitivity from December 2010 to December 2011 is the significant increase in the free funds relating to Net Interest Rate Insensitive Liabilities ("NIRIL") following the receipt of an equity injection from the Irish Minister for Finance and the NPRFC in July 2011.

Appendix 1: Parent and subsidiary disclosures

Article 72 of the CRD requires the Group to disclose various information on the calculation of capital ratios and own funds of its significant subsidiaries. The Group has provided this information on the following pages for the parent and significant subsidiaries as at 31 December 2011:

a) Allied Irish Banks, p.l.c.;
b) AIB Mortgage Bank;
c) AIB Group (UK) p.l.c.; and
d) EBS Limited
e) EBS Mortgage Finance

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

Figures reported for Allied Irish Banks, p.l.c. and EBS Limited reflect the solo consolidation basis. Figures reported for AIB Group (UK) p.l.c represent the position as reported to its local regulator. The closing exchange rate on 31 December 2011 used to translate sterling ("Stg£") to euro is €1 = Stg£ 0.83530, consistent with the 2011 Annual Financial Report.

Table 28: Capital base of significant subsidiaries - as reported to local regulators

	2011				
	Allied Irish Banks, p.l.c. €m	**AIB Mortgage Bank €m**	**AIB Group (UK) p.l.c. €m**	**EBS Limited[1] €m**	**EBS Mortgage Finance[1] €m**
Tier 1					
Paid up share capital and related share premium	10,096	1,345	3,760	924	477
Eligible reserves	3,209	(324)	(2,153)	36	(46)
Equity non-controlling interests in subsidiaries	-	-	-	-	-
Supervisory deductions from core tier 1 capital	(424)	-	(1)	(29)	(2)
Core tier 1 capital	12,881	1,021	1,606	931	429
Non-equity non-controlling interests in subsidiaries	-	-	-	-	-
Non-cumulative perpetual preferred securities	-	-	-	-	-
Reserve capital instruments	-	-	-	-	-
Supervisory deductions from tier 1 capital	-	-	-	-	-
Total tier 1 capital	12,881	1,021	1,606	931	429
Tier 2					
Fixed asset revaluation reserve	20	-	4	-	-
IBNR provisions (Standardised portfolio)	629	200	138	89	8
Subordinated perpetual loan capital	-	100	676	-	-
Subordinated term loan capital	1,472	80	-	-	-
Supervisory deductions from tier 2 capital	(200)	-	-	-	-
Total tier 2 capital	1,921	380	818	89	8
Gross capital	14,802	1,401	2,424	1,020	437
Supervisory deductions	-	-	(37)	-	-
Total capital	14,802	1,401	2,387	1,020	437
Risk weighted assets:					
Credit risk	58,863	12,111	10,013	6,941	3,738
Market risk	460	-	-	-	-
Operational risk	4,582	339	1,000	204	65
Capital floor	-	-	-	-	-
Total risk weighted assets	63,905	12,450	11,013	7,145	3,803
Capital ratios					
Core tier 1	20.2%	8.2%	14.6%	13.0%	11.3%
Tier 1	20.2%	8.2%	14.6%	13.0%	11.3%
Total	23.2%	11.2%	21.7%	14.3%	11.5%

[1] On 1 July 2011, AIB completed the acquisition of EBS Limited, a fully licensed wholly owned subsidiary. This acquisition is detailed in Note 24 of the 2011 Annual Financial Report.

Table 28: Capital base of significant subsidiaries - as reported to local regulators *(continued)*

				2010
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank[1] €m	AIB Group (UK) p.l.c. €m	Bank Zachodni WBK S.A. €m
Tier 1				
Paid up share capital and related share premium	9,054	530	2,665	184
Eligible reserves	(5,604)	(107)	(1,352)	1,205
Equity non-controlling interests in subsidiaries	-	-	-	38
Supervisory deductions from core tier 1 capital	(256)	-	(1)	(43)
Core tier 1 capital	3,194	423	1,312	1,384
Non-equity non-controlling interests in subsidiaries	189	-	-	-
Non-cumulative perpetual preferred securities	138	-	-	-
Reserve capital instruments	239	-	-	-
Supervisory deductions from tier 1 capital	(250)	-	-	(9)
Total tier 1 capital	3,510	423	1,312	1,375
Tier 2				
Fixed asset revaluation reserve	17	-	3	107
IBNR provisions (Standardised portfolio)	679	200	171	-
Subordinated perpetual loan capital	197	100	1,470	-
Subordinated term loan capital	3,931	45	-	99
Supervisory deductions from tier 2 capital	(250)	-	(332)	(9)
Total tier 2 capital	4,574	345	1,312	197
Gross capital	8,084	768	2,624	1,572
Supervisory deductions	-	-	(37)	-
Total capital	8,084	768	2,587	1,572
Risk weighted assets				
Credit risk	66,837	6,103	12,838	8,481
Market risk	772	-	-	109
Operational risk	5,174	217	1,162	1,377
Capital floor	-	3,129	-	-
Total risk weighted assets	72,783	9,449	14,000	9,967
Capital ratios				
Core tier 1	4.4%	4.5%	9.4%	13.9%
Tier 1	4.8%	4.5%	9.4%	13.8%
Total	11.1%	8.1%	18.5%	15.8%

[1] Following the application of the CRD requirements, the risk weightings of the assets within AIB Mortgage Bank reduced considerably. As a result AIB Mortgage Bank was the only licensed bank within AIB Group that was impacted by the capital floor requirements as discussed in section 4.

Table 29: Minimum capital requirement of significant subsidiaries - as reported to local regulators

	2011				
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank €m	AIB Group (UK) p.l.c. €m	EBS Limited[1] €m	EBS Mortgage Finance[1] €m
Standardised credit risk exposure class					
Central governments and central banks	-	-	-	2	-
Administrative bodies and non-commercial undertakings	3	-	-	-	-
Institutions[2]	865	2	-	22	5
Corporates	756	-	327	96	-
Retail	272	1	59	-	-
Secured on real estate property	552	35	291	209	249
Past due items[3]	598	45	44	123	44
Items belonging to regulatory high risk categories	68	-	-	1	-
Collective investment undertakings	-	-	-	-	-
Covered Bonds	-	-	-	11	-
Securitisation Positions	-	-	-	24	-
Other items	276	11	80	67	1
Total for Standardised Approach	3,390	94	801	555	299
Foundation IRB exposure class					
Central governments and central banks	6	-	-	-	-
Institutions[2]	160	-	-	-	-
Corporates	874	1	-	-	-
Retail	60	874	-	-	-
Securitisation positions	218	-	-	-	-
Non-credit obligation assets	1	-	-	-	-
Total for Foundation IRB Approach	1,319	875	-	-	-
Total for credit risk	4,709	969	801	555	299
Total for market risk	36	-	-	-	-
Total for operational risk	367	27	80	16	5
Total for capital floor	-	-	-	-	-
Total minimum capital requirement	5,112	996	881	571	304

[1] On 1 July 2011, AIB completed the acquisition of EBS Limited, a fully licensed wholly owned subsidiary. This acquisition is detailed in Note 24 of the 2011 Annual Financial Report.

[2] Institution exposure class predominantly relates to banks.

[3] The Basel asset class "Past due items" relates only to standardised exposures and comprises exposures that are greater than 90 days past due or defaulted, and those impaired.

Table 29: Minimum capital requirement of significant subsidiaries - as reported to local regulators *(continued)*

	Allied Irish Banks, p.l.c.	AIB Mortgage Bank[1]	AIB Group (UK) p.l.c.	Bank Zachodni WBK S.A
2010	€m	€m	€m	€m
Standardised credit risk exposure class				
Central governments and central banks	-	-	29	1
Administrative bodies and non-commercial undertakings	15	-	-	1
Institutions[2]	191	3	-	8
Corporates	937	-	754	119
Retail	319	-	66	121
Secured on real estate property	872	73	88	356
Past due items[3]	655	31	34	33
Items belonging to regulatory high risk categories	281	-	-	-
Collective investment undertakings	-	-	-	1
Other items	153	-	56	38
Total for Standardised Approach	3,423	107	1,027	678
Foundation IRB exposure class				
Central governments and central banks	2	-	-	-
Institutions[2]	133	-	-	-
Corporates	1,420	1	-	-
Retail	173	381	-	-
Securitisation positions	195	-	-	-
Non-credit obligation assets	1	-	-	-
Total for Foundation IRB Approach	1,924	382	-	-
Total for credit risk	5,347	489	1,027	678
Total for market risk	62	-	-	9
Total for operational risk	414	17	93	110
Total for capital floor	-	250	-	-
Total minimum capital requirement	5,823	756	1,120	797

[1] Following the application of the CRD requirements, the risk weightings of the assets within AIB Mortgage Bank reduced considerably. As a result AIB Mortgage Bank was the only licensed bank within AIB Group that was impacted by the capital floor requirements as discussed in section 4.

[2] Institution exposure class predominantly relates to banks.

[3] The Basel asset class “Past due items” relates only to standardised exposures and comprises exposures that are greater than 90 days past due or defaulted, and those impaired.

Appendix 2: Own funds

Summary information on the main components of own funds items, and their terms and conditions as applicable, is set out below. Further information on the terms and conditions of ordinary shares and the government preference shares is available in the 2011 Annual Financial Report on the Group website: www.aibgroup.com.

TIER 1

Core tier 1

Paid up share capital and related share premium

Ordinary, convertible non-voting and preference 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.

The paid up share capital and related share premium relates to the ordinary shares and the non-cumulative redeemable preference shares issued to the Irish Government, through the National Pension Reserve Fund Commission ("NPRFC"). The convertible non-voting shares were converted to ordinary shares on a one for one basis in April 2011.

Eligible reserves

Included in the eligible reserves are the following capital components:

Revenue reserves
Revenue reserves represent retained earnings of the parent company, subsidiaries and its associated undertakings. Revenue reserves are shown gross of the cumulative deficit within the defined benefit pension schemes. A capital contribution amounting to € 6,054 million which was received from the Irish Minister for Finance and the NPRFC in July 2011 is also included within revenue reserves.

Available for sale equity securities
Unrealised losses on available for sale equity securities are deducted from tier 1 eligible reserves.

Foreign currency translation reserves
The 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 reporting date.

Treasury shares
Where the parent or other members of the Group purchase the share capital of Allied Irish Banks, p.l.c., the consideration paid is deducted from total shareholders' equity as treasury shares. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Share based payment reserve
The share based payment expense charged to the income statement is credited to the share based payment reserve over the vesting period of the shares and options. Upon the grant of shares and the exercise of options, the amount in respect of the award credited to the share based payment reserve is transferred to revenue reserves.

Capital reserves
Capital reserves represent transfers from retained earnings in accordance with relevant legislation and also include capital contributions arising from the acquisition of the Anglo deposit business and the acquisition of EBS. The capital contribution arising from the Anglo transaction is treated as initially non-distributable as the assets received relates to NAMA bonds, however, as NAMA repays these bonds the proceeds will be deemed distributable and an equal amount will be transferred to revenue reserves. The capital contribution arising from the EBS transaction is treated as non-distributable as the related net assets received are largely non-cash in nature.

Capital redemption reserves
The capital redemption reserves of € 3,958 million represent the reserves created on the cancellation of deferred shares which arose from the renominalisation of AIB's ordinary share capital in July 2011.

Equity non-controlling interests in subsidiaries

Equity non-controlling interests in subsidiaries relate to interests of outside shareholders in consolidated subsidiaries. In April 2011, the Group disposed of its interests in BZWBK resulting in the extinguishment of its equity non-controlling interests.

Non-core tier 1

Non-equity non-controlling interests in subsidiaries

The € 1 billion Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') were issued through a Limited Partnership ("LPI") at par and had the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. At 31 December 2010, € 189 million remained outstanding following a partial redemption in June 2009.This outstanding balance was purchased in full for cash in June 2011.

Non-cumulative perpetual preferred securities

In June 2006 Stg£ 350 million and € 500 million Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') were issued at par through Limited Partnerships and had the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c.. At 31 December 2010, € 138 million in total remained outstanding on these two notes following partial redemption in June 2009. The outstanding balances were purchased in full for cash in June 2011.

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Reserve capital instruments

In February 2001, Reserve Capital Instruments ("RCIs") of € 500 million were issued by Allied Irish Banks, p.l.c. at an issue price of 100.069%. At 31 December 2010, € 239 million remained outstanding following the redemption in June 2009 of € 258 million of the RCI. The outstanding balances were purchased in full for cash in June 2011.

TIER 2

Eligible reserves

Fixed asset 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 equity securities
Unrealised gains on available for sale equity securities are included in tier 2 eligible reserves.

Credit provisions

Incurred but not reported provisions
For IFRS purposes impairment provisions on financial assets are required to be recognised in respect of losses that have been incurred but not reported ("IBNR"). An IBNR provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. This IBNR provision on the standardised portfolio is included as tier 2 capital.

IFRS provision excess
Where there is an excess of IFRS provision on IRBA portfolios over the expected loss on IRBA portfolios, this excess is included as tier 2 capital subject to regulatory thresholds.

Subordinated perpetual loan capital

At 31 December 2010, the balances outstanding on the instruments listed below totalled € 197 million:

a) US$ 100 million Floating Rate Primary Capital Perpetual Notes;
b) € 200 million Fixed Rate Perpetual Subordinated Notes; and
c) Stg£ 400 million Perpetual Callable Step-Up Subordinated Notes.

All outstanding balances were purchased in full for cash in June 2011.

Subordinated term loan capital

The balance outstanding on dated loan capital which was included within tier 2 capital at 31 December 2010 amounted to € 3,931 million. This capital had been issued under the European Medium Term Note programme. During 2011, all outstanding amounts were either redeemed or purchased for cash apart from which a residual which were subject to a Subordinated Liabilities Order ("SLO"). This resulted in a carrying value of € 32 million at 31 December 2011.

The SLO changed the terms of all outstanding instruments as follows:

- mandatory interest falling due on certain subordinated liabilities is to be payable by AIB in its sole discretion; and
- the maturity date of the subordinated liabilities was extended to 2025.

Details of the Group's dated loan capital are set out in pages 341 to 342 of the Annual Financial Report 2011.
On 26 July 2011, AIB issued € 1.6 billion in nominal value of contingent capital notes for a cash consideration of € 1.6 billion. Under IFRS, the fair value of these notes was recorded as € 1,153 million with € 447 million accounted for as a capital contribution and included within capital reserves. However, for regulatory capital purposes, the € 1.6 billion is included within tier 2 capital, albeit reduced by 10 percent due to maturity. The terms of these notes are set out in Section 2 "Capital and capital management".

Supervisory deductions from core tier 1

Goodwill and intangible assets
Goodwill and intangible assets are deducted from core tier 1 capital.

Pension filter
Cash contributions to pension schemes are agreed between the Trustees and the employer on a triennial basis and comprise an amount to cover the expected current service cost and an amount to eliminate any pension deficit arising at the triennial valuation. Excess contributions to eliminate a pension deficit are deducted from capital based on the rules applied by the local regulator.

Basel II related supervisory deductions from core tier 1 and tier 2 capital

Holdings in other credit and financial institutions
Holdings in other credit and financial institutions' equity capital or other qualifying capital instruments are required to be deducted if the holding exceeds 10% of the regulatory capital of the institution. The deduction amounts to the excess of the investment in these instruments over 10% of the regulatory capital of the institution. The required deduction is made 50% from core tier 1 and 50% from tier 2.

Expected loss adjustment
The expected loss on the IRB portfolios is compared to the IFRS provisions on the IRB Portfolios. The excess of the expected loss over the IFRS provisions is deducted 50% from core tier 1 and 50% from tier 2.

Securitisation positions
Certain securitisation exposures, where the Group is either an originator or an investor, are treated as deductions from capital and thus excluded from the risk weighted asset calculation. The required deduction is made 50% from core tier 1 and 50% from tier 2 capital.

Supervisory deductions from gross capital

Holdings in insurance undertakings
Holdings in insurance undertakings are required to be deducted if the holding exceeds 10% of the capital of the institution. The deduction amounts to the excess of the investment in the institution over 10% of the capital of the institution. The required deduction is made from total capital.

Appendix 3: Remuneration Disclosures

Introduction

In December 2010 the Committee of European Banking Supervisors (CEBS) - now the European Banking Authority (EBA) - issued Guidelines on Remuneration Policies and Practices for application by financial institutions across the EU. This report addresses Section 5 of the Guidelines relating to Disclosure by providing further remuneration information in addition to that contained in the 2011 Annual Financial Report (Remuneration Committee and Remuneration policy and commentary pages 213 to 214 and Report on Directors' remuneration and interests pages 380 to 384). The report summarises AIB's principal remuneration policies and practices including the required design features of any schemes, decision making and the governance of remuneration, and the link between individual and company performance and remuneration.

AIB's remuneration levels continued to be closely managed in 2011 against a background of increasing competition for key skills and higher levels of staff turnover particularly in credit, IT and other financial services control functions. There were no bonus schemes or share schemes in operation in 2011 and any that are implemented in the future will be structured in line with the EBA Guidelines on Policies and Practices and AIB's revised remuneration policy. Salaries were generally frozen in 2011 and where increases were awarded to retain staff in key roles or in instances where staff stepped up to expanded roles with increased responsibilities, these were approved by the Remuneration Committee and managed within agreed budgetary parameters.

Aggregate quantitative data on remuneration for those members of staff in employment during 2011 and whose professional activities are considered to have a material impact on AIB's risk profile is detailed below.

Table 30 – Remuneration

Segments and Business Areas		Personal & Business Banking	Corporate, Institutional & Commercial Banking	AIB UK	Group Services & Transformation[1]	EBS[2]	Total for Continuing Operations
Total Remuneration in 2011 (All forms of payments of benefits)	€m	10.20	6.28	4.98	19.16	4.13	**44.75**
	Identified Staff	43	22	19	77	20	**181**

Functions		Retail Banking - Republic of Ireland	Corporate, Institutional & Commercial Banking	AIB UK	Control Functions	Finance, Treasury and Other Supports	Total for Continuing Operations
Total Remuneration in 2011 (All forms of payments of benefits)	€m	10.72	5.82	2.98	9.86	15.37	**44.75**
	Identified Staff	45	20	10	45	61	**181**
Total Fixed Remuneration in 2011 (Salaries and other fixed benefits including pension contributions)	€m	10.72	5.65	2.95	9.78	14.65	**43.75**
	Identified Staff	45	20	10	45	61	**181**
Total Variable Remuneration in 2011 (Additional payments or benefits depending on performance or, in certain cases, other contractual criteria)	€m	-	0.17	0.03	0.08	0.72	**1.00**
	Identified Staff	-	4	1	1	5	**11**

[1] Includes Group Services and Transformation, Chief Financial Office, Chief Risk Office, Non Core Unit, Corporate Affairs & Marketing, Office of Law Agent and Office of the Group Internal Auditor.

[2] Prior to its acquisition by AIB, EBS remuneration policies were set and governed by its Board Remuneration Committee until it was dissolved on 31 July 2011 following the acquisition by AIB.

- Variable remuneration includes 10 contractual payments totalling € 873,601 and one payment in lieu of notice of € 125,000; no variable remuneration was paid in equity or other instruments.
- There was no deferred remuneration awarded in 2011; details of any options that vested in previous years and exercisable are contained in Note 11 Share-based compensation schemes in the 2011 Annual Financial Report.
- There were no sign-on payments or severance payments in respect of the Identified Staff group during 2011.
- Details of Directors' remuneration are contained in Note 63 in the 2011 Annual Financial Report.
- The table above excludes 4 individuals identified as Material Risk Takers during 2011 but who are external executives/contractors not remunerated by AIB.

The list of Identified Staff was compiled in full consultation with the relevant business areas and control functions while taking account of the extent of individuals' reporting lines, and the degree to which individuals' decision making was subject to control and approval through credit committees or trading limits. One hundred and eighty one staff, together with four individuals in consultancy roles who are not employed by AIB, were identified as material risk takers in 2011 (from 126 in 2010). The increased number of material risk takers reflects the inclusion of roles in EBS and a further 27 staff who were in material risk taking roles for part of 2011. The Remuneration Disclosure Report 2011 can be viewed in the Investor Relations section of the website: www.aibgroup.com.

In summary the list covers:

- Members of the Executive Committee
- Other senior management such as members of the segmental management teams and those responsible for leading significant business lines including regions, trading and other pricing/funding activities
- Senior management in Credit Risk including the Chief Credit Officer, Head of Credit Personal and Business Banking, Head of Credit Corporate & Institutional and Commercial Banking, Chief Credit Officer UK and other staff with delegated authority to chair credit committees with discretion greater than € 10 million
- Senior staff responsible for compliance, finance, risk management, human resources and internal audit
- Other risk takers whose professional activities individually or collectively exert influence on the institution's risk profile, including staff capable of entering into contracts/positions and taking decisions that affect the institution's risk positions. e.g. traders and credit officers.

Incentive Scheme Design Features

AIB reviewed and adapted its remuneration policies in 2011 to take account of the remuneration requirements of the CRD III and the related EBA Guidelines to ensure that its remuneration policies and practices are fully consistent with, and promote effective risk management. There was little scope in practice to change the design characteristics of remuneration schemes (which are suspended) and to give effect to the required regulatory changes in 2011 because of the financial position of the bank, and the constraints on remuneration arising from AIB's commitments under the Subscription and Placing Agreements between AIB plc. and the National Pensions Reserve Fund Commission (NPRFC) and the National Treasury Management Agency (NTMA), the Minister for Finance.

AIB's Remuneration Policy which is approved by the AIB Board, contains a range of important remuneration design requirements which together will ensure that the remuneration of Identified Staff, and of any other employee at the discretion of the Remuneration Committee, is fully compliant with the EBA Guidelines. These requirements principally relate to:

- Quantitative and qualitative risk-adjusted performance measurement
- Deferral structures which will ensure performance is measured over both the short and medium term
- The inclusion of forfeiture, claw back and discretionary provisions in remuneration schemes

AIB

Decision Making and Governance

AIB's remuneration policies are set and governed by the Remuneration Committee of the Board whose purpose, duties and membership are set by its Terms of Reference which may be viewed on the Group's website www.aibgroup.com. The membership of the Remuneration Committee in 2011 was:

- Members: Mr Declan Collier; Mr David Hodgkinson (from 27 January 2011) and Mr Jim O'Hara (from 27 January 2011)
- Former Members during the year: Mr David Pritchard (resigned from the Board 26 July 2011) and Ms Anne Maher (resigned from the Board 26 July 2011).

The scope of the Committee's activities is broad based, ranging from setting pay policy to determining appropriate pension arrangements.

The capacity of the Committee to meet its additional regulatory responsibilities and to incentivise sustainable business performance was enhanced by:

- the requirement for cross-membership of Board Committees including the Risk and Audit Committees
- the requirement for the Chief Risk Officer to attend at least one meeting of the Committee annually;
- the addition of authority for the Committee to source external advice independent of company management.

The adoption of remuneration policies and practices, which are both fair and competitive and that drive sustainable performance over the long-term, is a key responsibility of the Board. The Board recognises the need to take account of appropriate input from AIB's control functions in its decision making, and to ensure that remuneration policies and practices are consistent with and promote effective risk management, and that they do not encourage excessive risk taking but support the maintenance of a sound capital base and the required liquidity levels. Striking this balance involves detailed consideration of remuneration matters by the Remuneration Committee whose members have no personal interest in the outcome.

The Terms of Reference of the Remuneration Committee were reviewed in 2011 by the Committee and its independent advisors Kepler Associates following which, changes were made with Board approval to reflect the regulatory guidance and changing market practice on governance and risk management. The governance and scope of AIB's remuneration policies and practices were extended to include all financial benefits for employees while confirming the company wide coverage of all remuneration policies.

The Remuneration Committee's responsibilities include recommending to the Board:

- remuneration policies and practices;
- the remuneration of the Chairman of the Board (in his absence); and
- performance related and share-based incentive schemes when appropriate.

The Committee also determines the remuneration of the Chief Executive and, in consultation with the Chief Executive, the remuneration of other Executive Directors and the other members of the Executive Committee, under advice to the Board. The Committee is also required to review the remuneration components of staff identified as material risk takers as defined by the EBA. Remuneration matters of a significant nature are considered by the Board as whole.

Kepler Associates provide independent advice to the Remuneration Committee on reward matters generally. The Committee controls the appointment of any external remuneration consultants or similar specialist advisors who provide it with advice.

AIB

Pay and Performance

AIB's remuneration policies are designed to support its business strategy by aligning the objectives and incentives of individual staff with AIB's financial and non-financial performance thereby ensuring a strong link between performance and reward. AIB's performance review process uses a balanced scorecard approach in the assessment of individual performance which in turn determines individual reward including base pay and other cash or share based incentives. Although AIB's incentive schemes are currently suspended, the design features of performance related pay, bonus schemes and share schemes reflect individual and Group performance measurement. The link between pay and performance is required under AIB's remuneration policy.

Total variable remuneration and individual incentive awards can be considerably reduced at the discretion of the Remuneration Committee. This discretion may be exercised by the Committee as necessary and will be applied particularly where:

- poor or negative financial performance occurs
- it is considered that a payout would adversely affect the maintenance of a sound capital base
- the payment of variable remuneration would prevent or delay a decrease in AIB's dependence on Government support.

Glossary of definitions and explanations

A

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

B

Banking book (also non-trading book) – The Group's banking book consists of its retail and corporate deposit books, Global Treasury's cash books and the Group's investment portfolios and derivatives hedging interest rate risk within these portfolios.

BZWBK – In Poland, the AIB Group operated, primarily in Western Poland, through its former subsidiary Bank Zachodni WBK S.A ("BZWBK"). On 10 September 2010, AIB announced its agreement to sell its interest in Poland. The sale completed on 1 April 2011.

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.

Central Bank - the Central Bank Reform Act, 2010, creates a new single unitary body – the Central Bank of Ireland - responsible for both central banking and financial regulation. The new structure replaces the previous related entities, the Central Bank and the Financial Services Authority of Ireland and the Financial Regulator. The Act commenced on 1 October 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 euro area. A key focus is the resolution of the financial crisis. This includes monitoring overall liquidity for the banking system.

Collective Investment Undertakings ("CIU") – is an exposure class and includes:

i. undertakings where the sole object is the collective investment in transferable securities of capital raised from the public and which operate on the principle of risk-spreading; and
ii. units which are, at the request of the holders, repurchased or redeemed, directly or indirectly, out of those undertakings' assets. Action taken by a CIU to ensure that the stock exchange value of its units does not vary significantly from their net asset value shall be regarded as equivalent to such repurchase or redemption.

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 shall be determined by the advised limit, unless the unadvised limit is higher.

Counterparty credit exposure ("CCE") – is an exposure or a potential credit exposure that may, for example, take the form of a loan of cash or securities (where the counterparty would traditionally be called the borrower), of securities posted as collateral, of a commitment or of exposure under an over the counter ("OTC") derivatives contract.

Credit conversion factor ("CCF") – converts off balance sheet items and items which are committed but undrawn into on balance sheet credit exposure equivalents.

Credit default swap ("CDS") – is 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 – are financial instruments with which credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be the exposure inherent in a financial asset such as a loan or might be generic credit risk such as the bankruptcy risk of an entity.

Credit linked note – A credit linked note is a promissory note that repays the principal plus a specified rate of interest in case a credit event occurs.

Credit risk mitigation ("CRM") – is a technique used by a credit institution to reduce the credit risk associated with an exposure or exposures which the credit institution continues to hold.

Credit support annex ("CSA") – provides credit protection by setting forth 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 ISDA. The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.

D

Debt restructuring – is the process whereby customers in arrears, facing cash flow or financial distress renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write-down of the balance. In certain circumstances, the loan balance may be swapped for equity in the counterparty.

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 Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.

Dilution risk – the risk that an amount receivable is reduced through cash or non-cash credits to the obligor.

Discontinued operations – according to IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, a discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

E

Economic loss – includes material discount effects, and material direct and indirect costs associated with collecting on the instrument.

Eligible financial collateral – is any of the following[1]

(a) cash on deposit with, or cash assimilated instruments held by, the lending credit institution;

(b) debt securities issued by central governments or central banks, which securities have a credit assessment by an ECAI or export credit agency recognised as eligible for the purposes of Articles 78 to 83 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 78 to 83;

(c) debt securities issued by institutions, which 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 78 to 83;

(d) debt securities issued by other entities, which 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 78 to 83;

(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 78 to 83;

(f) equities or convertible bonds that are included in a main index; and

(g) gold

Expected loss ("EL") – is the ratio of the amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one year period to the amount outstanding at default.

Exposure at default ("EAD") – represents the institution'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.

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

[1] Annex VIII, 1.3.1 of Directive 2006/48/EC

External Credit Assessment Institution (“ECAI”) – is a body which rates securities or debt offered by way of a public issue. The national supervisors are responsible for determining whether an ECAI meets the eligibility criteria listed in paragraph 91 of the paper “International Convergence of Capital Measurement and Capital Standards” issued by the Basel Committee in November 2005 (Basel II), so that banks incorporated in their jurisdictions can use the ECAIs risk assessments for the calculation of capital requirement under Basel II.

F

Fair value – according to the International Financial Reporting Standards (“IFRS”), fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arms length transaction.

G

Gross exposure – gross exposure is 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

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

Items belonging to regulatory high risk categories:[1]

- Paragraph 66. Subject to the discretion of competent authorities, exposures associated with particularly high risks such as investments in venture capital firms and private equity investments shall be assigned a risk weight of 150 %.
- Paragraph 67. Non past due items may be assigned a 150 % risk weight according to the provisions of this Part and for which value adjustments have been established may be assigned a risk weight of: (a) 100 %, if value adjustments are no less than 20 % of the exposure value gross of value adjustments; and (b) 50 %, if value adjustments are no less than 50 % of the exposure value gross of value adjustments.

L

Loss given default (“LGD”) – is the ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.

M

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

N

NAMA – National Assets Management Agency.

NPRFC – National Pension Reserve Fund Commission

NTMA – The National Treasury Management Agency

O

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

Originator – is either of the following:

(a) an entity which, either itself or through related entities, directly or indirectly, was 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 – 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.

[1] Annex VI Standardised Approach; Directive 2006/48/EC.

P

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

Position risk requirement (PRR) – a capital requirement applied to a position treated under BIPRU 7 (Market risk) as part of the calculation of the market risk capital requirement.

Probability of default ("PD") – is the probability of default of a counterparty over a one year period.

R

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

Revolving exposure – an exposure whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit, and an early amortisation provision shall be a contractual clause which requires, on the occurrence of defined events, investors' positions to be redeemed before the originally stated maturity of the securities issued.

Risk weighted assets ("RWA") – 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 formulae as defined in the Basel Accord to reflect the risks inherent in those assets.

S

Securitisation - a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having the following characteristics:

(a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and
(b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Securitisation position – an exposure to a securitisation.

Sponsor – a 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.

Synthetic securitisation – a securitisation where the transfer of risk is achieved by the use of credit derivatives or guarantees and the pool of exposures is not removed from the balance sheet of the originator credit institution.

T

Total exposure – see exposure value.
Trading book – The interest rate trading book includes all securities and interest rate derivatives that are held for trading purposes in Global Treasury. These are revalued daily at market prices (market to market) and any changes in value are immediately recognised in income.

Traditional securitisation – a securitisation involving the economic transfer of the exposures being securitised to a securitisation special purpose entity which issues securities. This is accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through sub-participation. The securities issued do not represent payment obligations of the originator credit institution.

V

Value at Risk ("VaR") – the Group's core risk measurement methodology is based on a variance co-variance application of the industry standard Value at Risk ("VaR") technique that incorporates the portfolio diversification effect within each standard risk factor (interest rate, 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 month holding period that would arise from a 'worst case' movement in market rates. This 'worst case' is derived from an observation of historical prices over a period of three years, assessed at a 99% statistical confidence level. Instruments with significant embedded or explicit option characteristics receive special attention, including Monte Carlo simulation and a full analysis of option sensitivities.