AIB Group Pillar 3 Disclosures
For the year ended 31 December 2014

Allied Irish Banks, p.l.c.

Important Information and Forward-Looking Statements

Important Information – Valuation

AIB has 523,438,445,437 (excluding 35,680,114 treasury shares) ordinary shares in issue, c. 99.8% of which are held by the Ireland Strategic Investment Fund (ISIF), mainly following the issue of 500 billion ordinary shares to the National Pension Reserve Fund Commission (the predecessor to the ISIF) at € 0.01 per share in July 2011. Based on the number of ordinary shares currently in issue and the closing share price of 3 March 2015, AIB trades on a valuation multiple of c. 6x (excluding the 2009 Preference Shares) the net asset value (NAV) of the Group as at 31 December 2014. The Group continues to note that the median for comparable European banks is c.1x NAV.

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', ' expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in the 'Principal risks and uncertainties' on pages 51 to 56 in the 2014 Annual Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 51 to 56 of the 2014 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

Contents

1. Introduction and AIB Group key information

Background and context

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

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

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

This document represents the Pillar 3 Disclosures for AIB Group as at 31 December 2014, as required by CRD IV, specifically Part 8 of CRR – Disclosures by Institutions.

A new system of financial supervision, the Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries has been established (in the Republic of Ireland this is the Central Bank of Ireland ("Central Bank" or "CBI")). The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-eurozone EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

Basis of disclosures

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

Allied Irish Banks, p.l.c. is a credit institution authorised by the Central Bank/SSM. Both the Parent Company 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. For AIB Group (UK) p.l.c., regulatory returns are filed with the Prudential Regulatory Authority ("PRA").

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

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

The Pillar 3 Disclosures have been prepared to explain the basis on which the Group has prepared and disclosed capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and should not be relied upon exclusively in making any judgement on the Group. They should be read in conjunction with the other information made public by AIB Group and available on the AIB Group website, including the 2014 Annual Financial Report.

Background and context

CRD IV implementation

The implementation of CRD IV, on 1 January 2014 introduced changes to the basis of preparation and disclosure requirements to Pillar 3 for the year-ended 31 December 2014. The impact of CRD IV on capital and risk weighted assets ("RWAs") is detailed in Section 2. Capital and capital management, from pages 7 to 13. Other changes to the Pillar 3 Disclosures for 2014 were:

– enhanced disclosures on capital to include tables on movements in capital and RWAs;
– the introduction of a credit valuation adjustment ("CVA") regulatory RWA;
– enhancement to the risk management disclosures to include risk profile and a governance overview of the Board of Directors;
– the introduction of the 'equity' exposure class under both Standardised and IRB;
– change in the basis on which geographic distribution is presented, reflecting the CRD IV requirement to base it on the country of risk of the counterparty;
– enhancement of disclosures to include a reconciliation of shareholders' equity – Appendix 1; and
– disclosures on asset encumbrance in line with 2014 EBA Guidelines – Appendix 6.

Frequency

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

Reporting conventions

In this report, comparative data is included, where relevant, and presented as reported under Basel II at 31 December 2013. CRD IV transitional adjustments at 1 January 2014 are also included.

Disclosure policy

The Group Disclosure Committee first approved the formal Pillar 3 disclosure policy during 2008, and the Group Disclosure Committee has reviewed and approved the policy in 2014.

Media and location

The Pillar 3 report is published on AIB Group's website (www.aibgroup.com), alongside the 2014 Annual Financial Report. Pillar 3 reports from previous years are also available on this website.

Verification

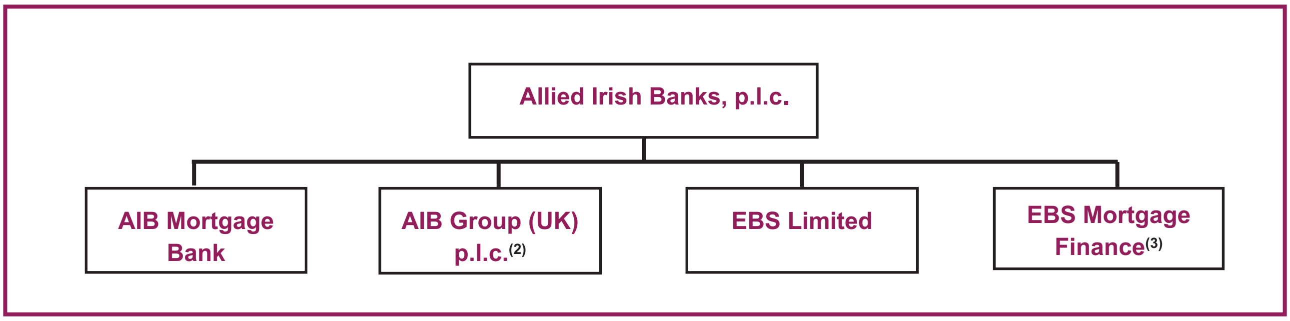
The Pillar 3 Disclosures have been subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the 2014 Annual Financial Report and have not been audited by the Group's external auditors. Any audited information that has been included in these disclosures is included in the 2014 Annual Financial Report.

1. Introduction and AIB Group key information

Basis of consolidation for accounting and prudential purposes

Allied Irish Banks, p.l.c. is the parent company in AIB Group and is an institution regulated by the Central Bank/SSM. AIB Group prepares consolidated financial statements under IFRS as issued by the International Accounting Standards Board ("IASB") and adopted by the EU for statutory reporting purposes ("the Consolidated Accounts"). Additionally, AIB Group is required to prepare regulatory returns ("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 subsidiaries are set out in Appendix 2 to this document.

Licensed banks within AIB Group[(1)]
as at 31 December 2014



[(1)] AIB ceased its operations in Jersey and the Isle of Man on 31 December 2013. However, both AIB Bank (CI) Limited and AIB International Savings Limited are still consolidated for financial reporting into AIB Group but no longer hold banking licenses as at 31 December 2014.

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

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

Transfer of capital between parent company and its subsidiaries

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

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

Captal initiatives

There were no capital initiatives during 2014 which impacted on the Group's capital ratios.

Solo consolidation

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

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

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

Associated undertakings

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

2. Capital and capital management

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

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

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

Capital regulation

The EU adopted legislative package, known as CRD IV, came into force on 1 January 2014, with some of its provisions being phased-in from 2014. CRD IV consists of the CRR which is directly applicable across firms in the EU, and the new CRD, which has been implemented by member states of the European Economic Area through national law.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 gave effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 gave effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. CRD IV measures include:

– enhanced requirements for quality and quantity of capital. CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Some of the new provisions of CRD IV are being introduced on a phased basis from 2014, these typically follow 20% in 2014, 40% in 2015 etc. until 2018. The main exception[(1)] to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015. AIB commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 9 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV;
– a liquidity coverage ratio ("LCR") which will require banks to have sufficient high quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors. An additional measure is the net stable funding ratio ("NSFR") which is a longer term structural ratio designed to address liquidity mismatches. The NSFR provides incentives for banks to use stable funding;
– a leverage ratio which is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system as a whole. The implications of the leverage ratio will be closely monitored prior to its possible move to a binding requirement on 1 January 2018;
– a single set of harmonised prudential rules which banks throughout the EU must respect. The new rules remove a large number of national options and discretions that were previously available; and
– other measures including enhanced governance, sanctions, capital buffers, remuneration controls and improved transparency.

[(1)]The CBI published its 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013, updated on 21 May 2014 to reflect national transposition of CRD IV, which clarifies the application of CRD IV transitional rules in Ireland.

2. Capital and capital management

A new system of financial supervision, the SSM, comprising the ECB and the national competent authorities of EU countries has been established. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-eurozone EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

The Bank Recovery and Resolution Directive (“BRRD”) and the Single Resolution Mechanism (“SRM”) mark another step by European authorities in improving the stability of the financial system, adding a common recovery and resolution framework to the already established SSM. The overarching goal of the new bank recovery and resolution framework established by the BRRD/SRM package is to break the linkages between national banking systems and sovereigns. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the ‘bail-in’ of senior creditors where necessary. This specific ‘bail-in’ of certain senior creditors is not required to be brought into force until the beginning of 2016. Relevant capital metrics in this regard include:

– the Minimum Requirement Eligible Liabilities (“MREL”) which is being introduced as part of the BRRD. It is designed to ensure that banks have sufficient loss-absorbing capacity through capital and liabilities eligible to be bailed in.
– the Total Loss Absorption Capacity (“TLAC”) which is a proposed minimum requirement for total capital. It is proposed to be imposed from 2019 on banks that are deemed by the Financial Stability Board (“FSB”) to be globally systemically important banks (“G–SIBs”) (currently a list of 30 banks not including AIB).

The Group’s transitional Common Equity Tier 1 (“CET1”) ratio was 16.4% as at 31 December 2014, an increase of 140 bps in the year. The fully loaded CET1 ratio was 11.8% including the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the fully loaded CET1 reduces to 5.9%. These levels of capital will enable the Group to progress on-going discussions with the Department of Finance on determining the appropriate level and mix of capital for the Group.

Comprehensive assessment

During 2014, the European Banking Authority (“EBA”) and the European Central Bank (“ECB”) in conjunction with AIB’s National Competent Authority, the Central Bank of Ireland (“CBI”), conducted a European wide comprehensive assessment (“CA”) stress test exercise on the adequacy of banks’ capital. The results of the CA confirmed that AIB has capital buffers comfortably above minimum requirements under all stress test assessment scenarios. AIB therefore did not require any additional capital as a result of the CA process. See Appendix 3 for further details.

Capital structure

Resolutions to reorganise the share capital of the Group were passed at an extraordinary general meeting held on 19 June 2014. These included the renominalisation of the ordinary shares and a resolution to allow for the increase of distributable reserves by € 5.0 billion. An application was made to the High Court in July 2014 for approval of that increase in distributable reserves. On 15 October 2014, the High Court granted an order permitting a share capital reduction which gave rise to additional distributable reserves totalling € 5.0 billion. This reduction was effected on 16 October 2014.

Table 1: Regulatory capital and capital ratios

The following table summarises AIB Group's capital position:

Basel II as reported 31 December 2013 € m		CRD IV transitional basis 31 December 2014 € m	CRD IV transitional basis Pro-forma 1 January 2014 € m	CRD IV fully loaded basis[(1)] 31 December 2014 € m	CRD IV fully loaded basis[(1)] Pro-forma 1 January 2014 € m
	Core/common equity tier 1 capital				
10,494	Gross common equity tier 1	**11,572**	10,494	**11,572**	10,494
–	Less: preference dividend	**(280)**	–	**(280)**	–
10,494	Common equity tier 1 after preference dividend	**11,292**	10,494	**11,292**	10,494
	Regulatory adjustments				
(179)	– Goodwill and intangibles	**(174)**	(179)	**(174)**	(179)
(34)	– Cash flow hedging reserves	**(383)**	(34)	**(383)**	(34)
(284)	– Reversal of fair value of contingent capital instrument	**(189)**	(284)	**–**	–
(642)	– Available for sale securities reserves	**(1,369)**	(649)	**–**	–
(151)	– Pension	**557**	(132)	**(121)**	(54)
–	– Deferred tax	**–**	–	**(3,640)**	(3,838)
(158)	– Unconsolidated financial investments	**–**	–	**–**	–
(120)	– Other	**(17)**	(93)	**–**	–
(1,568)		**(1,575)**	(1,371)	**(4,318)**	(4,105)
8,926	**Core/common equity tier 1 capital**	**9,717**	9,123	**6,974**	6,389
	Tier 2 capital				
833	Subordinated debt	**538**	828	**538**	828
595	Credit provisions	**453**	453	**136**	132
140	Other	**17**	93	**–**	–
	Regulatory adjustments				
(158)	– Unconsolidated financial investments	**–**	–	**–**	–
1,410	**Total tier 2 capital**	**1,008**	1,374	**674**	960
10,336	**Total capital**	**10,725**	10,497	**7,648**	7,349
	Risk weighted assets				
59,038	Credit risk	**54,348**	56,489	**54,348**	56,489
177	Market risk	**471**	177	**471**	177
3,174	Operational risk	**2,822**	3,174	**2,822**	3,174
–	Credit valuation adjustment	**1,468**	1,037	**1,468**	1,037
6	Other	**5**	6	**5**	6
62,395	**Total risk weighted assets**	**59,114**	60,883	**59,114**	60,883
14.3%	**Core tier 1/common equity tier 1 ratio**	**16.4%**	15.0%	**11.8%**	10.5%
16.6%	**Total capital ratio**	**18.1%**	17.2%	**12.9%**	12.1%

[(1)]Fully loaded ratios are calculated including the 2009 Preference Shares (which will continue to be considered CET1 until 31 December 2017).

2. Capital and capital management

Capital ratios at 1 January 2014

Transitional ratio

On implementation of CRD IV, the pro-forma CET1 ratio on a transitional basis at 1 January 2014 was 15.0%. This compared to a Basel II core tier 1 ratio of 14.3% at 31 December 2013.

Under CRD IV, the supervisory deductions in relation to Ark Life (unconsolidated financial investments), which were deducted 50:50 from tier 1 and tier 2 capital under Basel II, were no longer applicable.

Under CRD IV, the main changes to risk weighted assets ("RWAs") were: a) a substantial element of deferred tax assets was removed from the credit RWAs; b) the life assurance business, Ark Life, generated additional credit RWAs; and c) a credit valuation adjustment was included, where AIB is required to hold additional capital for entering into over-the-counter ("OTC") derivative contracts.

Fully loaded ratio

On implementation of CRD IV, the pro-forma CET1 ratio on a fully loaded basis at 1 January 2014 was 10.5%. This compared to a Basel II core tier 1 ratio of 14.3% at 31 December 2013. Under CRD IV, deferred tax assets relating to unutilised tax losses are deducted in arriving at a fully loaded CET1 ratio. In addition, the available for sale ("AFS") reserves and pension reserves form part of the fully loaded CET1 ratio. The movements in RWA from Basel II to CRD IV are explained above.

Capital ratios at 31 December 2014

Transitional ratio

The CET1 transitional ratio has increased from 15.0% at 1 January 2014 to 16.4% at 31 December 2014. This is driven primarily by profit of € 915 million generated during 2014 and a release of € 75 million in Tier 2 capital to CET1 following the disposal of Ark Life, partly offset by the impact of the higher pension deficit at 31 December 2014 which arose as a result of a decrease in the discount rate applied in the valuation of pension liabilities. A deduction, being a foreseeable charge, has been made in respect of the full dividend of € 280 million due on 13 May 2015 on the 2009 Preference Shares. This has reduced CET1 and total capital ratios by 0.5%.

The decrease in credit risk RWAs of € 2.1 billion reflects a reduction in net loans in addition to the impact of the disposal of Ark Life. The RWAs attaching to operational risk reduced by € 352 million, reflecting the reduced levels of income in the annual calculation.

The CET1 transitional ratio, at 16.4%, is significantly in excess of the minimum CET1 regulatory requirements. The total capital ratio has increased from 17.2% at 1 January 2014 to 18.1% at 31 December 2014. This reflects the increase in CET1 capital described above, offset by a € 366 million reduction in tier 2 capital, primarily relating to a) the continuing reduction in the Tier 2 qualifying amount of the contingent capital instrument that is due to mature in July 2016 and b) the transfer of Tier 2 capital to CET1 following the disposal of Ark Life.

The capital figures reflect the audited 2014 year end profit for the Group. The quarterly SSM regulatory capital reporting process will include these profits in due course.

Fully loaded ratio

The transitional CET1 ratio of 16.4% compares to 11.8% on a fully loaded basis at 31 December 2014. This reflects a reduction in CET1 of € 2,743 million. The main drivers of this reduction are:

– the full deduction of the deferred tax assets of € 3,640 million under fully loaded (1 January 2014: € 3,838 million). Under transitional rules, the phasing in deduction of the deferred tax assets will commence in 2015 at 10% per annum.
– the AFS reserves of € 1,369 million, driven by unrealised gains in sovereign debt securities and the revaluation of the Group's NAMA subordinated bonds, are included in the fully loaded position while they are excluded on a transitional basis at 31 December 2014.
– the fully loaded CET1 position takes full account of the pension deficit within revenue reserves whereas under transitional rules the impact of this deficit has been restricted. The difference in treatment amounted to € 678 million at 31 December 2014.

The total capital ratio for AIB on a fully loaded basis has increased from 12.1% to 12.9%, reflecting the factors outlined above, partly offset by the continuing reduction in the Tier 2 qualifying amount of the contingent capital instrument.

The fully loaded capital ratios include the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the reported fully loaded CET1 of 11.8% at 31 December 2014 would reduce to 5.9%.

Table 2: Movements in total capital

The following table analyses the movements in total capital from 1 January 2014 to 31 December 2014:

		2014 € m
Gross common equity tier 1 capital at 1 January 2014		**10,494**
Profit for the year		915
Other comprehensive income:		
Net actuarial loss in retirement benefit schemes	(939)	
Net change in fair value of available for sale securities reserves	728	
Net change in cash flow hedging reserves	348	
Other	26	
		163
Total comprehensive income for the year		1,078
		11,572
Regulatory adjustments at 1 January 2014		(1,371)
Movements in regulatory adjustments:		
Goodwill and intangibles	5	
Cash flow hedging reserves	(349)	
Reversal of fair value of contingent capital instrument[1]	95	
Available for sale securities reserves	(720)	
Pension	689	
Other[2]	76	
		(204)
Total regulatory adjustments		(1,575)
Less: dividend on 2009 Preference Shares (payable May 2015)		(280)
Common equity tier 1 capital at 31 December 2014		**9,717**
Common equity tier 1 capital at 1 January 2014		**9,123**
Total tier 2 capital at 1 January 2014		**1,374**
Regulatory amortisation adjustment		(290)
Other[2]		(76)
Total tier 2 capital at 31 December 2014		**1,008**
Total capital at 31 December 2014		**10,725**
Total capital at 1 January 2014		**10,497**

[1]Reversal of amortisation in 2014 of initial fair value adjustment.

[2]Tier 2 capital now qualifying as Tier 1.

2. Capital and capital management

Table 3: Movements in risk weighted assets

The following table analyses the movements in risk weighted assets from 31 December 2013 to 31 December 2014:

						2014
	Credit risk	Market risk	Operational risk	Credit valuation adjustment	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m
RWAs Basel II as at 31 December 2013	**59,038**	**177**	**3,174**	**–**	**6**	**62,395**
CRD IV adjustments	(2,549)[1]			1,037[1]		(1,512)
RWAs CRD IV as at 1 January 2014	**56,489**	**177**	**3,174**	**1,037**	**6**	**60,883**
Book size and quality	(2,725)	294	–	431	(1)	(2,001)
Model updates[2]	190	–	–	–	–	190
Disposal of unconsolidated financial investment	(720)	–	–	–	–	(720)
Foreign currency movements	1,114	–	–	–	–	1,114
Other	–	–	(352)	–	–	(352)
RWAs as at 31 December 2014	**54,348**	**471**	**2,822**	**1,468**	**5**	**59,114**

[1]Adjustments on transition to CRD IV are as follows:

Credit risk adjustments	
The reduction in the credit risk RWAs is due to the following reasons:	
– Deferred tax assets relating to unutilised tax losses are risk weighted at 0% (previously 100%)	(3,785)
– Unconsolidated financial investment in Ark Life Assurance Company Limited (risk weighted at 250%)	720
– Other credit risk adjustments	516
Total credit risk CRD IV adjustments	(2,549)
Credit valuation adjustment (“CVA”)	
A risk weighted asset equivalent for CVA is now required under CRD IV.	1,037

[2]Model updates

Bank Model	166
Project Finance Model	24
	190

Table 4a: Group capital adequacy information

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

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

		2013			1 January 2014
	Total exposures[1] € m	Basel II risk weighted assets € m	Transition adjustments to CRD IV € m	CRD IV basis € m	Minimum capital requirement[2] € m
Credit risk – Standardised Approach	60,221	36,956	(2,868)	34,088	2,727
Credit risk – IRB Approach	64,900	22,082	319	22,401	1,792
Market risk – Standardised Approach (Table 4b)	N/A	177	–	177	15
Operational risk – Standardised Approach	N/A	3,174	–	3,174	254
Credit valuation adjustment	–	–	1,037	1,037	83
Other	–	6	–	6	–
	125,121	62,395	(1,512)	60,883	4,871[3]

Table 4b: Market risk - minimum capital requirement

	2014 € m	2013 € m
Interest rate position risk requirement ("PRR")[4]	**32**	11
Equity rate PRR	**6**	3
Investment firms	**–**	1
	38	15

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

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

[3] Restated for the impact of CRD IV transition, i.e. a reduced minimum capital requirement of € 121 million.

[4] Position risk requirement ("PRR") – for definition see glossary page 91.

Leverage ratio

CRD IV also introduces a leverage ratio which is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the leverage ratio, including the 2009 Preference Shares, was 6% at 31 December 2014 (31 December 2013: 5%). This primarily reflects an increase in tier 1 capital as outlined above and a reduction in asset balances. Excluding the 2009 Preference Shares, the reported leverage ratio of 6% at 31 December 2014 would reduce to 3%.

Minimum Requirement Eligible Liabilities ("MREL")

Based on current guidance, AIB's MREL ratio at 31 December 2014 was 11.1% on a fully loaded basis (13.7% under transitional rules).

Total Loss Absorption Capacity ("TLAC")

Based on current guidance, AIB's TLAC ratio at 31 December 2014 was 12.9% on a fully loaded basis (18.1% under transitional rules).

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. To support this approach, a number of Board approved frameworks and policies are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. The core aspects of the Group's risk management approach are described on pages 57 to 59 of the 2014 Annual Financial Report.

Principal risks and uncertainties

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

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

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

This list of principal risks and uncertainties should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

The risks pertaining to each of these categories are described in detail on pages 51 to 56 of the 2014 Annual Financial Report.

Individual risk types

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

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

The individual risk types listed above are described in detail on pages 60 to 156 of the 2014 Annual Financial Report, with prefaces to Credit risk, Market risk and Operational risk included below. Further discussion on credit risk can also be found in Sections 4 to 9 of this Report.

Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that they had entered into. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, the trading portfolio, financial investments available for sale, and derivatives. Concentrations in particular portfolio sectors, such as property and construction, can impact the overall level of credit risk. At 31 December 2014, the Group used a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk.

Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through the interest rate and credit spread risk factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors. AIB Group uses the Standardised Approach for assessing its capital requirements for trading book market risk. As set out on page 13, of the total minimum capital requirement of € 4,729 million, the minimum capital requirement for market risk amounts to € 38 million. A description of AIB Group's (a) 'identification and assessment'; (b) 'management and mitigation'; and (c) 'monitoring and reporting' of market risk is set out on pages 150 to 151 of the 2014 Annual Financial Report. A sensitivity analysis of the Group's banking book to movements in interest rates is set out on page 153 of the 2014 Annual Financial Report, together with a Value at Risk ("VaR") profile for both the banking and trading book.

Individual risk types *(continued)*

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

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

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad range of individual risk types which include information technology, business continuity, health and safety risks, and legal risk. AIB Group uses the Standardised Approach for assessing its capital requirements for operational risk. As set out on page 13, of the total minimum capital requirement of € 4,729 million, the minimum capital requirement for operational risk amounts to € 226 million. A description of AIB Group’s (a) ‘identification and assessment’; (b) ‘management and mitigation’ and (c) ‘monitoring and reporting’ of operational risk as set out on page 154 of the 2014 Annual Financial Report.

Risk profile

AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks. In addition, a number of Board approved frameworks are in place through which the Group’s material risks are managed. The core aspects of the Group’s Risk Management Framework are set out on pages 57 to 59 of the 2014 Annual Financial Report. In addition, the Directors’ Statement on the effectiveness of the system of Risk Management and Internal Controls is on pages 177 to 178 of the 2014 Annual Financial Report.

The Group has a defined Risk Appetite Statement ("RAS") setting out in qualitative and quantitative terms the extent of risk the Group is willing to take for its material risks in pursuit of the strategy set out by the Board. The Group has defined processes for the identification and management of its material risks in the context of the Group strategy. The RAS covers business risk, capital risk, liquidity and funding risk, credit risk and operational risk, amongst others. There is on-going monitoring in place to assess the organisation’s risk profile against risk appetite and this information is reported to the Board.

The following is a summary of key risk metrics:

Capital	**31 December 2014**	1 January 2014
	%	%
Common equity tier 1 ratio	**16.4**	15.0
	€ m	€ m
Common equity tier 1 capital	**9,717**	9,123
Risk weighted assets	**€ m**	€ m
Total risk weighted assets	**59,114**	60,883
Credit risk	**54,348**	56,489
Market risk	**471**	177
Operational risk	**2,822**	3,174

Liquidity ratios	**31 December 2014 %**	31 December 2013 %
Liquidity Coverage ratio (“LCR”)	**116**	105
Net Stable Funding ratio (“NSFR”)	**112**	95

Key movements in capital and RWAs are detailed in Section 2 – Capital and capital management on pages 7 to 13. The LCR for 2014 has been estimated, based on current regulatory guidelines while the NSFR has been estimated, based on revised rules issued by the Basel Committee on Banking Supervision in January 2014. The LCR and NSFR at 31 December 2013, are estimated, based on the Group's interpretation of Basel III standards applicable at the time.The minimum LCR requirement is to be introduced in October 2015 at 60%, rising to 100% by January 2018. The minimum NSFR requirement is scheduled to be introduced in January 2018 at 100%.

3. Risk management

Governance overview

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

The Group's governance arrangements include a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors, to oversee the operations of the Group. The Board is currently composed of 7 Non-Executive Directors and 3 Executive Directors. Full details of the responsibilities of the Board and its sub-committees are set out on pages 168 to 176 of the 2014 Annual Financial Report.

Directorships held by Members of the Management Body

The Independent Non-Executive Directors hold a number of external directorships as set out on pages 158 and 159 of the 2014 Annual Financial Report, which adhere to Regulation 79 of S.I. 158/2014 (European Union (Capital Requirements) Regulations 2014). This regulation establishes limits on the number and nature of directorships permitted to be held by members of the management bodies of significant institutions.

Criteria for the selection of Members of the Management Body

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

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

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

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

The Board Risk Committee, which comprises four Non-Executive Directors whom the Board has determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities, met on 10 occasions during 2014. Further details relating to the Board Risk Committee are available on pages 173 and 174 of the 2014 Annual Financial Report.

A description of the flow of information to the management body relating to risk is available on pages 57 to 59 of the 2014 Annual Financial Report.

4. Credit risk – Overview

One of the Group's main sources of income from on-going activities arises from granting credit. Accordingly, this exposes it to its most significant risk, namely credit risk. The most significant credit risk in AIB Group arise from traditional lending activities to corporate, commercial and personal customers and to sovereigns and banks. Credit risk also arises through the use of derivatives, off-balance sheet guarantees and commitments and through the Group's trading 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 on pages 60 to 138 of the 2014 Annual Financial Report.

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

i) The Standardised Approach; and

ii) The Internal Ratings Based Approach ("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[1], use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For non-retail exposures, there are two IRB approaches. Under the Foundation IRB Approach, banks use their own estimate of PD, and regulatory estimates of LGD and EAD. Under the Advanced IRB Approach, banks use their own estimates of all three risk components. For retail exposures, there is only one IRB Approach – this uses internal estimates of all three risk components.

As at 31 December 2014, the Group used a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the Foundation IRB Approach for certain sovereign, bank and corporate exposures, and to use the Retail IRB Approach for certain residential mortgage exposures. Henceforth, for ease of reference within this document, this combination of Foundation and Retail IRB approval will be referred to as approval to use the IRB Approach.

The Group's exposures under both Standardised and IRB approaches are set out in Section 5 – Credit risk – Standardised Approach and Section 6 – Credit risk – Internal Ratings Based Approach. Additional commentary on specific credit risks arising from certain transactions including derivative transactions, repurchase agreements and securitisation positions are set out in Section 9 – Counterparty credit risks and Section 10 – Securitisations. These disclosures have been provided on a Group consolidated basis.

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

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

[1] The portfolios for which AIB has received regulatory approval to use the IRB Approach are outlined on pages 28 to 30 of this document.

4. Credit risk – Overview

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

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

	2014		2013[6]	
Exposure class	Total exposures € m	Minimum capital requirement CRD IV € m	Total exposures € m	Minimum capital requirement Basel II € m
Standardised exposure class				
Central governments and central banks	18,886	–	16,044	–
Public sector entities	40	3	35	3
Institutions[1]	305	6	342	6
Corporates	6,786	543	5,776	462
Retail	4,236	254	4,539	272
Secured by mortgages on immovable property[2]	17,388	837	17,658	877
Exposures in default[3]	7,732	715	10,036	913
Exposures associated with particularly high risk	850	102	179	21
Securitisation positions	–	–	80	27
Equity	99	16	–	–
Other items	5,115	55	5,532	375
Total Standardised Approach	61,437	2,531	60,221	2,956
IRB exposure class				
Central governments and central banks	11,195	46	21,979	5
Institutions	8,312	157	7,236	86
Corporates	10,333	739	10,925	702
Retail[4]	22,953	867	24,069	941
Securitisation positions	147	8	684	32
Non-credit obligation assets	5	–	7	1
Total IRB Approach	52,945	1,817	64,900	1,767
Total credit risk[5]	114,382	4,348	125,121	4,723

Exposure classes throughout this document are the exposure classes outlined in CRD IV.

(1) Institutions exposure class predominantly relates to banks.

(2) Includes residential mortgages booked in EBS.

(3) The Basel asset class "Exposures in default" relates only to standardised exposures and comprises exposures that are greater than 90 days past due or unlikely to pay. A profile of contractually past due but not impaired facilities, for both the Standardised and IRB Approaches, is shown in table 16 on pages 37 and 38 of this report.

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

(5) Includes credit exposures arising as a result of repurchase transactions.

(6) On transition to CRD IV at 1 January 2014, the minimum capital requirement reduced to € 4,519 million. See table 4a for further details.

Overall total exposures fell by 8.6% (€ 10.7 billion) in 2014 compared to 2013, comprising a € 12.0 billion decrease in IRB exposures, partially offset by a € 1.2 billion increase in Standardised exposures.

The € 12.0 billion decrease in the IRB exposures was largely driven by a € 10.8 billion decrease in "Central governments and central banks" along with a € 1.1 billion decrease in the "Retail" exposure class and decreases of approximately € 0.5 billion in each of the "Corporates" and "Securitisation positions" exposure classes. This was partially offset by an increase of € 1.1 billion in the "Institutions" exposure class during the year. The large decrease in the "Central governments and central banks" exposure class reflects a reclassification of exposures from IRB to Standardised as well as disposals during the year. Irish Government bonds (EAD of € 13.9 billion at 31 December 2014 and EAD of € 9.4 billion at 31 December 2013) were reclassified from IRB to Standardised during 2014, allowing the Group to avail of the capital treatment under the Standardised Approach. The decrease in the "Retail" exposure class reflects loan amortisation and restructures whilst the decrease in the "Securitisation positions" exposure classes reflects the disposal of asset backed securities, principally Spanish bonds.

Within the Standardised portfolio, which increased by € 1.2 billion in the year, the main drivers of the increase were in the “Central governments and central banks” and “Corporates” exposure classes which increased by € 2.8 billion and € 1.0 billion respectively, offset by a € 2.3 billion decrease in “Exposures in default” and some smaller decreases in other exposure classes. The € 2.8 billion increase in the “Central governments and central banks” exposure class is primarily due to the reclassification of exposures from IRB to Standardised in relation to Irish Government bonds (EAD of € 13.9 billion at 31 December 2014 and EAD of € 9.4 billion at 31 December 2013) as set out on page 29, offset by a € 6.3 billion repayment of NAMA senior bonds.

The increase in the “Corporates” exposure class of € 1.0 billion is reflected mainly in the “Property“, “Manufacturing” and “Financial” sectors due to the upgrade of loans (which had previously been classed as “Exposures in default”) in addition to new lending, particularly to the “Financial” sector. The € 2.3 billion decrease in the “Exposures in default” exposure class is mainly attributable to restructuring activity, asset sales, write-offs and loan amortisation in the property sector.

The minimum capital requirement under Basel II amounted to € 4,723 million. On transition to CRD IV on 1 January 2014, the minimum capital requirement amounted to € 4,519 million (see page 10 for further details on the changes to RWAs). The decrease in the minimum capital requirement (€ 171 million) comprises a decrease in the minimum capital requirement for Standardised exposures and an increase in the minimum capital requirement for IRB exposures, and was in line with movements in the exposures as outlined above.

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

The 2014 Annual Financial Report presents information based on IFRS accounting standards, whereas certain information presented in this Pillar 3 Disclosures has been compiled based on capital adequacy concepts and rules, as contained in the CRD. It should be noted that there are significant differences in the two bases of calculation of the financial data. This, in particular, relates to credit risk disclosures where the credit exposure under CRD is defined as the expected amount of exposure at default (“EAD”) and is estimated under specified regulatory rules. As at 31 December 2014, the total assets under IFRS were € 107 billion whereas the total regulatory EAD was € 114 billion, a difference of € 7 billion.

The main drivers of this difference are as follows:

– Impairment provisions on IRB exposures of € 3.3 billion are not reflected in the calculation of EAD for IRB portfolios, whereas from an IFRS perspective, these assets are shown net of all provisions.
– The inclusion in EAD of undrawn committed credit facilities, contingent liabilities and other off balance sheet items in the amount of € 2.4 billion. For the purposes of the calculation of EAD, regulatory credit conversion factors are applied to convert the contractual amount of a commitment into a credit equivalent amount. This is not reflected in the IFRS assets.
– The inclusion in EAD of € 2.1 billion non-collateralised repurchase agreement borrowings at 31 December 2014. The resulting exposure to banks and central banks arises in cases where the fair value of collateral provided to secure the borrowing is in excess of the cash received.
– The inclusion in EAD of derivatives add-on amounted to € 0.7 billion.
– Available for Sale (“AFS”) securities are carried at market value in IFRS assets, however they are reflected at book value in EAD, resulting in EAD being lower by € 1.8 billion.

5. Credit risk – Standardised Approach

Exposures rated under the Standardised Approach amounted to € 61,437 million, with a capital requirement of € 2,531 million as at 31 December 2014 (2013: exposures of € 60,221 million with a capital requirement of € 2,727 million[1]). The main drivers of the increase in exposures occurred in the "Central governments and central banks", "Corporates" and "Exposures associated with particularly high risk" exposure classes which increased by € 2.8 billion, € 1.0 billion and € 0.7 billion respectively, partially offset by a decrease in the "Exposures in default" exposure class of € 2.3 billion and smaller decreases in other asset classes. Pages 18 and 19 give further information on the movements year on year.

Use of external credit ratings

Under the CRD, Institutions are permitted to determine the risk weights of an exposure with reference to the credit assessments of External Credit Assessment Institutions ("ECAIs"). AIB uses Standard & Poor's Rating Services, Fitch Ratings, Moody's Investors Service and Dominion Bond Rating Service ("DBRS") as its nominated ECAIs for a small part of its credit risk exposures rated under the Standardised Approach (see also Section 10. Securitisations on pages 45 to 47). Exposures to which credit ratings are assigned are mapped to risk weights using mapping guidelines issued by the Central Bank of Ireland. These guidelines are identical to those issued by the European Banking Authority ("EBA").

Tables 9 and 10 on pages 26 and 27 give an analysis of the exposures rated under the Standardised Approach by ECAI and credit quality assessment step. Of the total Standardised exposures of € 61,437 million (2013: € 60,221 million) after credit risk mitigation, € 19,191 million has been assigned a credit quality assessment step using mapping guidelines issued by the Central Bank, of which € 268 million or 0.4% of the Standardised exposures (2013: € 471 million or 0.8% of the Standardised exposures) is rated by ECAIs.

Of the remaining exposures of € 18,923 million that have been assigned a credit quality assessment step, € 9,431 million relates to the NAMA senior bonds. Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A- (2013: BBB+) which is the Ireland sovereign external rating at 31 December 2014, as the bonds are guaranteed by the Irish Government. The bonds have been assigned a credit quality assessment step on that basis.

[1]At 1 January 2014 under CRD IV.

5. Credit risk – Standardised Approach

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

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

5. Credit risk – Standardised Approach

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

	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufact-uring	Other loans - personal	Other services	Property	Transport and communi-cation	Bank, sovereign and public sector	Other	Total exposures
2013	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	16,044	–	16,044
Public sector entities	–	–	–	–	–	–	–	–	35	–	–	–	–	35
Institutions	–	–	–	–	–	–	–	–	–	–	–	342		342
Corporates	474	193	1,199	77	400	–	234	434	2,291	162	312	–	–	5,776
Retail	671	73	348	7	27	423	70	2,124	446	277	73	–	–	4,539
Secured by mortgages on immovable property	102	32	76	–	78	11,670	2	67	514	5,095	22	–	–	17,658
Exposures in default	285	423	624	10	164	2,428	112	567	272	5,130	21	–	–	10,036
Exposures associated with particularly high risk	5	42	4	–	11	–	12	–	33	72	–	–	–	179
Securitisation positions	–	–	–	–	80		–	–	–	–	–	–	–	80
Other items	–	–	1	–	35		1	–	7	–	–	–	5,488	5,532
	1,537	763	2,252	94	795	14,521	431	3,192	3,598	10,736	428	16,386	5,488	60,221

5. Credit risk – Standardised Approach

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

2014

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

2013

Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	16,044	–	–	–	16,044	16,997	17,477
Public sector entities	–	–	35	–	35	35	37
Institutions	302	40	–	–	342	442	668
Corporates	2,131	3,637	8	–	5,776	7,314	6,307
Retail	3,740	799	–	–	4,539	8,837	4,736
Secured by mortgages on immovable property	12,742	4,916	–	–	17,658	17,927	18,804
Exposures in default	8,407	1,629	–	–	10,036	22,077	10,937
Exposures associated with particularly high risk	175	4	–	–	179	231	200
Covered bonds	–	–	–	–	–	–	248
Securitisation positions	80	–	–	–	80	80	83
Other items	4,803	728	1	–	5,532	5,551	5,637
	48,424	11,753	44	–	60,221	79,491	65,134

[1]In 2014, the basis for the geographic breakdown changed reflecting the CRD IV requirement based on country of risk. The 2013 table has not been restated and is based on the location of the office recording the transaction.

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

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

5. Credit risk – Standardised Approach

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

										2014
Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments and central banks	–	10,387	–	–	2,412	–	4,316	1,771	–	18,886
Public sector entities	–	–	39	–	–	–	1	–	–	40
Institutions	71	150	44	–	–	–	–	40	–	305
Corporates	129	199	222	854	1,179	1,830	856	1,517	–	6,786
Retail	7	182	149	1,154	577	807	589	771	–	4,236
Secured by mortgages on immovable property	280	496	795	486	1,299	1,274	1,373	11,385	–	17,388
Exposures in default	227	111	240	154	2,430	154	1,449	2,967	–	7,732
Exposures associated with particularly high risk	8	22	29	21	659	18	66	27	–	850
Equity	–	–	–	–	–	–	–	–	99	99
Other items	158	52	71	63	22	–	–	–	4,749	5,115
	880	11,599	1,589	2,732	8,578	4,083	8,650	18,478	4,848	61,437

5. Credit risk – Standardised Approach

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

2013

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	–	15,740	–	–	84	–	–	220	–	16,044
Public sector entities	–	–	–	–	34	–	1	–	–	35
Institutions	3	302	–	–	–	–	–	37	–	342
Corporates	244	465	166	936	866	1,109	648	1,342	–	5,776
Retail	10	246	181	1,266	604	701	607	924	–	4,539
Secured by mortgages on immovable property	313	497	410	968	999	1,008	1,365	12,098	–	17,658
Exposures in default	342	181	185	4,534	301	1,330	498	2,665	–	10,036
Exposures associated with particularly high risk	5	8	28	88	16	1	7	26	–	179
Securitisation positions	–	–	–	–	–	–	–	80	–	80
Other items	–	7	1	11	–	–	–	–	5,513	5,532
	917	17,446	971	7,803	2,904	4,149	3,126	17,392	5,513	60,221

5. Credit risk – Standardised Approach

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

2014

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

2013

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	–	428	–	–	15,616	16,044	–	16,044
Public sector entities	–	–	–	–	–	–	35	35
Institutions	39	–	–	–	303	342	–	342
Corporates	4	–	–	–	–	4	5,772	5,776
Retail	–	–	–	–	–	–	4,539	4,539
Secured by mortgages on immovable property	–	–	–	–	–	–	17,658	17,658
Exposures in default	–	–	–	–	–	–	10,036	10,036
Exposures associated with particularly high risk	–	–	–	–	–	–	179	179
Securitisation positions	–	–	–	–	–	–	80	80
Other items	–	–	–	–	–	–	5,532	5,532
	43	428	–	–	15,919	16,390	43,831	60,221

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

2014

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

2013

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	119	–	15,616	309	–	–	16,044	–	16,044
Public sector entities	–	–	–	–	–	–	–	35	35
Institutions	153	114	–	75	–	–	342	–	342
Corporates	–	–	–	4	–	–	4	5,772	5,776
Retail	–	–	–	–	–	–	–	4,539	4,539
Secured by mortgages on immovable property	–	–	–	–	–	–	–	17,658	17,658
Exposures in default	–	–	–	–	–	–	–	10,036	10,036
Exposures associated with particularly high risk	–	–	–	–	–	–	–	179	179
Securitisation positions	–	–	–	–	–	–	–	80	80
Other items	–	–	–	–	–	–	–	5,532	5,532
	272	114	15,616	388	–	–	16,390	43,831	60,221

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

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

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

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

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

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

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

6. Credit risk – Internal Ratings Based Approach

Exposures rated under the IRB Approach amounted to € 52,945 million, with a capital requirement of € 1,817 million as at 31 December 2014 (2013: exposures of € 64,900 million, capital requirement of € 1,792 million[(1)]).

As described on page 18 of this document, the € 12.0 billion decrease in the IRB exposures was largely driven by a € 10.8 billion decrease in "Central governments and central banks" along with a € 1.1 billion decrease in the "Retail" exposure class and decreases of approximately € 0.5 billion in each of the "Corporates" and "Securitisation positions" exposure classes. These were partially offset by an increase of € 1.1 billion in the "Institutions" exposure class in the year.

[(1)]At 1 January 2014 under CRD IV.

Regulatory approval and transition

As at 31 December 2014, the Group used the IRB Approach for the portfolios and exposure classes listed in the table below, having received approval from the Central Bank.

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

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

Governance of the rating process

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

Credit Risk Control function

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

Use of rating models

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

a) Credit approval: Grades assigned by IRB 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 IRB risk models are an input to the Internal Capital Adequacy Assessment Process ("ICAAP") including stress tests of capital adequacy; and
d) Annual planning: Risk forecasts based on the outputs of IRB models are incorporated into the annual planning process.

Use of and process for recognising credit risk mitigation

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

The Group uses its own estimates of LGD in the calculation of risk weighted assets for exposures secured on residential real estate in its retail (residential mortgage) portfolio originated in the Republic of Ireland, excluding those originated through EBS. The Group's approach to taking, valuing and monitoring real estate collateral is consistent with its broad framework for credit risk mitigation as described on pages 66 to 69 of the 2014 Annual Financial Report.

Internal ratings process by exposure class

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

(a) Corporates

AIB portfolio	Portfolio description
Commercial/large SME	Predominantly commercial business – all sectors except property.
Corporate	Entities that are engaged in the provision of goods or services with the intention of generating profit for the owners. Excluded from this category are: a) Financial service providers; b) Special purpose entities that do not have a diversified income stream; and c) Special purpose entities set up to facilitate securitisations.
Not-for-profit	Exposures to not-for-profit entities in Allied Irish America.
Project finance	Long-term loans made to projects in the energy, infrastructure and transportation sectors in Europe, North America 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 model used for the four portfolios, but all the models use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. PDs are calibrated on the basis of both internal and external available loss data and through benchmarking. 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.

(b) Central governments and central banks

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

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

Ratings are assigned on the basis of expert judgement, based upon perceived political risk, government policy risk, economic policy risk 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.

Irish Government bonds (EAD of € 13.9 billion at 31 December 2014 and EAD of € 9.4 billion at 31 December 2013) were transferred from IRB to Standardised during 2014. See page 18 for further details.

6. Credit risk – Internal Ratings Based Approach

(c) Institutions

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

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

Ratings are assigned on the basis of a hybrid model (a statistical model 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.

The Bank rating model was rebuilt and calibrated during 2013 and approved by the CBI at the end of 2013. The calibration was deployed in 2014 resulting in an increase of € 166 million in RWAs in 2014.

(d) Retail

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

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

Under the Retail IRB Approach, the Group uses its own estimates of PD, LGD and EAD in calculating risk weighted assets. The rating methodology is primarily statistical, with limited use of expert judgement. 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.

6. Credit risk – Internal Ratings Based Approach

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

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

Sector	Central governments and central banks € m	Institutions € m	Corporates € m	Retail € m	Securitisation positions € m	Non-credit obligation assets € m	Total € m
							2013
Agriculture	–	–	388	–	–	–	388
Construction	–	–	249	–	–	–	249
Distribution	–	–	4,248	–	–	1	4,249
Energy	–	–	454	–	–	–	454
Financial	–	–	115	–	677	–	792
Home loans	–	–	21	24,069	–	–	24,090
Manufacturing	–	–	1,356	–	–	1	1,357
Other loans:							
Personal	–	–	157	–	–	–	157
Other services	–	–	2,184	–	7	1	2,192
Property	–	–	759	–	–	–	759
Transport and communication	–	–	994	–	–	4	998
Bank, sovereign and public sector entities	21,979	7,236	–	–	–	–	29,215
	21,979	7,236	10,925	24,069	684	7	64,900

6. Credit risk – Internal Ratings Based Approach

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

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

							2013
Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	18,135	3,607	237	–	21,979	38,468	21,321
Institutions	6,144	1,037	55	–	7,236	17,431	6,410
Corporates	10,226	461	238	–	10,925	12,179	11,841
Retail	24,069	–	–	–	24,069	24,136	24,373
Securitisation positions	677	–	7	–	684	684	1,094
Non-credit obligation assets	7	–	–	–	7	7	9
	59,258	5,105	537	–	64,900	92,905	65,048

[1]In 2014, the basis for the geographic breakdown changed reflecting the CRD IV requirement based on country of risk. The 2013 table has not been restated and is based on the location of the office recording the transaction.

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

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

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

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

							2013
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	3,525	168	212	25	–	2	3,932
< 3 months	799	992	288	22	–	1	2,102
3 < 6 months	351	228	399	85	–	1	1,064
6 months < 1 year	199	1,209	3,015	29	–	1	4,453
1 < 3 years	6,091	1,794	1,698	183	–	2	9,768
3 < 5 years	4,926	1,988	2,217	526	13	–	9,670
5 < 10 years	5,773	721	1,488	2,105	–	–	10,087
10 years+	315	136	1,608	21,094	671	–	23,824
	21,979	7,236	10,925	24,069	684	7	64,900

IRB internal obligor grades

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

For the purposes of Pillar 3 reporting, the Group has used a 13-point ratings master scale which provides a framework for aggregating, comparing and reporting exposures with a similar PD across all lending portfolios. Under the ratings master scale:
Grades 1 – 3 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); and
Grades 11 – 13 contain the remainder of the Group's criticised loans, including impaired loans, together with loans written at a high PD where there is a commensurate higher margin for the risk taken.

6. Credit risk – Internal Ratings Based Approach

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

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

2014

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

2013

	Central governments and central banks		Institutions		Corporates		Retail		Non-credit obligation assets		Total IRB[2]	
Obligor grade	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %	EAD € m	Exposure-weighted average risk weight %
Grade 1 – 3	21,973	–	6,548	11	1,045	45	6,977	6	–	–	36,543	5
Grade 4 – 10	6	134	411	37	4,924	118	10,880	49	2	100	16,223	70
Grade 11 – 13	–	–	277	69	4,956	51	6,212	96	5	100	11,450	76
	21,979	–	7,236	15	10,925	80	24,069	49	7	100	64,216	34

[1] Includes EAD in relation to impaired loans.

[2] Excludes EAD of securitisation positions of € 147 million (2013: € 684 million). These are analysed in greater detail on pages 46 and 47.

6. Credit risk – Internal Ratings Based Approach

Table 15: IRB – Exposure-weighted average LGD

	2014		2013	
	Retail		Retail	
	EAD	Exposure – weighted average LGD	EAD	Exposure – weighted average LGD
Obligor grade	€ m	%	€ m	%
Grade 1 – 3	**7,371**	**27**	6,977	27
Grade 4 – 10	**9,815**	**29**	10,880	29
Grade 11 – 13	**5,767**	**35**	6,212	38
	22,953	**30**	24,069	31

7. Credit risk mitigation

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan; however, AIB uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are described below. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function. The methodologies applied and processes used to assess the value of property assets taken as collateral are described on pages 66 to 69 of the 2014 Annual Financial Report.

Collateral

The principal collateral types for loans and receivables are:

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

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

Collateral is not usually held against loans and receivables to financial institutions including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement. In accordance with the Group policy, collateral should always be valued by an appropriately qualified source at the time of lending.

Collateral is discussed in more detail in the "Risk management" section of the 2014 Annual Financial Report on pages 66 to 69, which includes a discussion on the methodologies used for valuing collateral. Further information in relation to repurchase transactions is set out in Section 9 – Counterparty credit risks on pages 41 and 42.

Credit risk mitigation for regulatory capital requirements calculation

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

Of the gross Standardised exposures of € 81,526 million before credit risk mitigation at 31 December 2014 (2013: € 79,491 million), € 9,431 million (2013: € 15,616 million) relating to NAMA senior bonds are guaranteed by the Irish Government, whilst none was covered by eligible financial collateral. At 31 December 2013, € 27 million of the gross Standardised exposures was covered by eligible financial collateral. For the IRB Approach, of the gross exposures of € 67,748 million before credit risk mitigation at 31 December 2014 (2013: € 92,905 million), € 2 million was covered by eligible financial collateral (2013: €13 million).

8. Credit risk – Credit profile of the loan portfolio

AIB's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. The credit quality of the customer loan portfolio is discussed in detail on pages 80 to 126 of the 2014 Annual Financial Report.

Past due

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. "Past due days" is a term used to describe the cumulative numbers of days a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower has:

– breached an advised limit;
– been advised of a limit lower than the then current outstanding; or
– drawn credit without authorisation.

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

Impairment

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. When loans are deemed to be impaired, the Group raises specific impairment provisions in a timely and consistent way across portfolios. The Group utilises two types of impairment provision: (a) Specific; and (b) Incurred but not reported ("IBNR") which represents a collective provision relating to the portfolio of performing loans. Details of the methodologies adopted by the Group in identifying, monitoring and managing impaired loans are set out on pages 70 to 79 of the 2014 Annual Financial Report, whilst the relevant accounting policy can be found on pages 202 to 205 of the 2014 Annual Financial Report.

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

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

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

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

8. Credit risk – Credit profile of the loan portfolio

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

					2013
Industry	Loans and receivables to customers – gross of provisions € m	Of which: loans past due but not impaired € m	Of which: impaired € m	Specific balance sheet provisions € m	Specific impairment provision charge for year € m
Agriculture	1,830	152	345	255	24
Energy	296	4	74	43	9
Manufacturing	1,547	55	405	255	20
Property and construction	19,747	658	13,176	8,136	816
Distribution	6,927	191	3,053	1,857	228
Transport	1,026	14	173	127	28
Financial	650	19	230	134	1
Other services	5,772	167	949	666	89
Personal – Residential mortgages	40,764	1,993	9,083	3,333	696
Other	4,292	333	1,423	1,092	147
	82,851	3,586	28,911	15,898	2,058
Geography					
Republic of Ireland	69,535	3,207	25,319	13,877	1,767
United Kingdom	13,208	379	3,576	2,012	289
United States of America	108	–	16	9	2
	82,851	3,586	28,911	15,898	2,058
Specific provision charge in relation to loans and receivables to banks				7	3
Total specific provisions for impairment on loans and receivables				15,905	2,061

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

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

	2014 € m	2013 € m
At 1 January	**17,090**	16,532
Exchange translation adjustments	**150**	(76)
Other[1]	**–**	(14)
(Credit to)/charge against income statement – customers	**(178)**	1,913
(Credit to)/charge against income statement – banks	**(7)**	3
Amounts written off	**(4,655)**	(1,134)
Disposals	**–**	(136)
Recoveries of amounts written off in previous years	**6**	2
At 31 December	**12,406**	17,090

[1]Includes transfers to provisions for liabilities and commitments.

Statement of financial position impairment provisions of € 12,406 million (2013: € 17,090 million) comprise specific provisions of € 11,315 million (2013: € 15,905 million) and incurred but not reported ("IBNR") provisions of € 1,091 million (2013: € 1,185 million). The credit to the income statement in 2014 of € 185 million (2013: charge of € 1,916 million) comprises a specific provision writeback of € 82 million, including € 7 million relating to loans and receivables to banks (2013: charge of € 2,061 million, of which € 2,058 million related to customers and € 3 million related to banks) and a release of IBNR provisions of € 103 million (2013: release of € 145 million) for unidentified losses in the performing book.

Further information and analysis is available on pages 91 to 96 of the 2014 Annual Financial Report.

Loss experience in the preceding period – IRB Approach

An analysis of the expected loss ("EL") and actual loss experience by exposure class for the year ended 31 December 2014 is outlined in table 18 below.

Regulatory EL provides a view of the expected losses that are likely to emerge in the performing loan book within one year, using through-the-cycle estimates of grade PDs and recognising 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 table 18 is the specific provision charged to the income statement for the year ended 31 December 2014 in relation to exposures newly impaired during the year and rated under the IRB Approach at 31 December 2014. These specific provisions are driven by accounting standard requirements and are calculated at a point in time.

Because the parameters (PD, LGD and EAD) used to calculate the EL represent through-the-cycle estimates, the EL should, realistically, be compared to the average annual losses over the full economic cycle rather than actual losses in a given (good or bad) year. Table 18 should be read with this caveat in mind.

The EL for 2014 was impacted by the changes implemented as part of the 2013 Central Bank of Ireland Balance Sheet Assessment which increased the EL by € 43 million for the "Retail exposures secured by immovable property collateral non-SME" exposure class and by € 8 million for the "Corporate" exposure class. The remainder of the movements related to changes in the profile of the loan book, year on year.

The income statement specific provision charge for the year ended 31 December 2014, of which the actual loss on the IRB Approach is a component, is discussed in detail in the "Risk management" section of the 2014 Annual Financial Report.

Table 18: Expected loss analysis – IRB Approach

	2014		2013	
Exposure class	**Expected loss[1] € m**	**Actual loss € m**	Expected loss[1] € m	Actual loss € m
Institutions	**–**	**–**	1	–
Corporates	**246**	**86**	191	252
Retail exposures secured by immovable property collateral non-SME	**124**	**101**	86	265
Securitisation positions[2]	**–**	**–**	–	–
	370	**187**	278	517

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

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

8. Credit risk – Credit profile of the loan portfolio

Risk weightings for IRB models

The Group's risk weightings for IRB models as at 31 December 2014 are detailed below. The weightings are influenced by the grade profile and associated PD of the portfolios, having applied the regulatory LGD of 45% for the majority[1] of the non-retail portfolios (31 December 2013: 45% for the majority), and the Group's own estimate of LGD for the retail portfolio (residential mortgages), which had an average LGD of 30% applied as at 31 December 2014 (31 December 2013: 31%).

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

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

IRB rating models[1]	2014 %	2013 %
Sovereign	**5**	–
Bank	**9**	6
Commercial	**131**	132
Corporate	**108**	107
Not-for-profit	**103**	86
Project finance	**122**	122
Residential mortgage	**47**	49

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

The above percentage weightings for 2014 were impacted by a combination of factors, such as changes in the grade profile of the portfolios and the reduction in net loans during the year. In addition, as part of the Group's normal activities associated with its IRB status, a new 'Bank' calibration was deployed in 2014. The increase in the percentage weighting for the 'Not-for-profit' model is reflective of changes in the profile of the portfolio which, without being significant, impacted the percentage weightings due to the relatively small size of that 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 incurs a loss in order to replace the contract, this gives rise to a claim on the counterparty.

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

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

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

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

Those sanctioning CCE limits must be satisfied that they sufficiently understand the risks involved in the proposed transactions and the models used to measure the exposures arising. It is Group practice, where possible and relevant, that all appropriate documentation, such as facility letters or International Swaps and Derivatives Association (“ISDA”) agreements be put in place before any limits are made available for use. Further details of master netting agreements are set out in note 43 in the 2014 Annual Financial Report.

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

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

The Group has established the capacity to clear derivatives in line with European Markets Infrastructure Regulation requirements for central counterparty clearing. However, as at year end 2014, the clearing of ‘over-the-counter’ derivatives had not yet commenced.

Repurchase agreements

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

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

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

Repurchase agreements *(continued)*

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

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

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

Policies for securing collateral and establishing credit reserves

It is Group practice, where possible and relevant, that ISDA Master Agreements are put in place to cover derivatives business on a counterparty specific basis. It is also Group practice in relation to wholesale market counterparts to supplement ISDA documentation with a 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 wrong-way exposures

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

Change in credit rating

A downgrade in the Group's credit rating could have the effect of reducing the market value threshold for margin calls on some of the Credit Support Annexes ("CSAs"). This would result in a potential increase in the amount of collateral the Group would have to provide against the derivatives within the CSAs. However, due to the very small number of CSAs with downgrade triggers, this is not deemed a significant risk for the Group. In addition, a downgrade in the Group's credit rating could lead to an increase in the haircuts that would be demanded by counterparties in repurchase transactions. This would lead to an increase in the quantum of securities being pledged by the Group as collateralised. In the past, some counterparties required an 'independent amount' to be deposited in advance of transacting derivative business. As at the end of 2014, the Group had two CSAs in place which require AIB to post independent amounts.

Credit derivative hedges

The Group had three index CDS positions in place as at 31 December 2014. These positions are being used for the management of Funding Valuation Adjustments ("FVA") and CVA portfolio sensitivities. In total, € 340 million nominal of CDS was purchased to offset the impact of widening market credit spreads on the FVA and CVA. In the calculation of capital requirements, these CDS were not treated as eligible hedges, and accordingly, did not reduce the counterparty credit risk capital requirement.

Derivatives counterparty credit risk

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

Table 20: Counterparty credit risk – trading and banking book

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

						2013
	Positive fair value of contracts	Add-ons	Gross positive fair value of contracts (incl. add-ons)	Netting benefits	Financial collateral held	Net derivatives credit exposure
	€ m	€ m	€ m	€ m	€ m	€ m
OTC derivatives	1,629	613	2,242	–	–	2,242
Credit derivatives	–	–	–	–	–	–
Total derivatives	1,629	613	2,242	–	–	2,242

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

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

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

AIB does not apply the use of netting benefits and collateral held for regulatory credit exposure reporting purposes. The gross positive fair value of contracts in table 20 above differs from the derivative financial instruments in the Group's 2014 Annual Financial Report due to adjustments referred to as 'add-ons' which are required for regulatory purposes.

9. Counterparty credit risks

Derivatives counterparty credit risk *(continued)*

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

Table 21: Credit derivative transactions product distribution

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

				2013
	Notional credit derivative transactions			
	Group's own credit portfolio use		Intermediation activities	
Credit derivative product type	Purchased € m	Sold € m	Purchased € m	Sold € m
Credit default swaps	–	–	–	–
	–	–	–	–

10. Securitisations

Objectives in relation to securitisation activity

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

– as an investor, the Group uses securitisation as part of the management of its interest rate and liquidity risks and to invest in transactions that offer an appropriate risk-adjusted return opportunity; and
– as an originator of securitisations to support the funding activities of the Group.

Extent of the Group's involvement in each securitisation

Investor

AIB has primarily been an investor in senior tranches of securitisations issued by other credit institutions which are held as part of Treasury's primary interest rate and liquidity management objective, subject to qualifying criteria, including loan-to-value ("LTV"), seasoning, location and quality of originator. The Group currently holds a small portfolio of investments in securitisations.

Originator

At present, the Group is primarily an originator of securitisations in order to support its funding activities.

The Group sold loans and receivables to customers, mainly mortgages and credit card receivables, to two special purpose entities ("SPEs") and, in addition, the Group controls three SPEs which had been set up by EBS prior to its acquisition by AIB. These SPEs have issued notes or deposits to external investors on terms which result in the Group retaining the majority of ownership risks and rewards. The loans and receivables continue to be recognised on the Group's statement of financial position and the Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans and receivables sold. Similarly, the transferred loans and receivables have not been derecognised for Pillar 1 purposes. These loans and receivables amounted to € 3,711 million at 31 December 2014 and are included in table 16 in Section 8 – Credit risk – Credit profile of the loan portfolio. Further details on the Group's securitisation vehicles are contained in Note 46 in the 2014 Annual Financial Report.

Sponsor

The Group is not currently a sponsor of securitisations.

Summary of securitisation activity

During 2014, the Group disposed of the majority of its existing securitisation positions within its available for sale portfolio which had been held for liquidity and investment purposes. New purchases of US RMBS amounting to € 127 million were made for investment purposes. At 31 December 2014, the Group's exposure to securitisations amounted to € 147 million.

Details of securitisations where the Group acts as an originator are set out in note 46 on pages 291 to 292 of the 2014 Annual Financial Report. There were no new securitisations originated during 2014.

Accounting policies

For the purposes of the Group's accounting policy, the Group consolidates SPEs when the substance of the relationship indicates that AIB controls the SPE. In assessing control, all relevant factors are considered, both quantitative and qualitative. The primary form of SPE utilised by the Group are securitisations and employee compensation trusts. The accounting policy is set out on page 196 under 'Basis of consolidation' in the 2014 Annual Financial Report.

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

If substantially all of the risks and rewards of ownership associated with the financial asset are transferred outside the Group, the financial asset is derecognised 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. Only in the event that derecognition is achieved are sales and any resultant gain or loss on sales recognised in the financial statements.

Securitisation risks, monitoring and hedging policies

The risks inherent within securitisation activity include those applicable to other types of financial instruments such as credit risk, liquidity risk, market risk, non-trading interest rate risk, structural foreign exchange risk and operational risk.

Such risks are identified, managed and monitored in line with the Group's Risk Management Framework as described on pages 57 to 59 of the 2014 Annual Financial Report and which are described in further detail in the "Risk management" section of the 2014 Annual Financial Report. Securitisation positions are typically unhedged.

10. Securitisations

Calculating risk weighted exposure amounts

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

AIB uses the following ECAIs for securitisation exposures:

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

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

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

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

				2014				2013
	Securitisation positions – outstanding amount				Securitisation positions – outstanding amount			
	Retained		**Purchased**	**Total**	Retained		Purchased	Total
Exposure type	**Originator € m**	**Sponsor € m**	**Investor € m**	**€ m**	Originator € m	Sponsor € m	Investor € m	€ m
Residential mortgages	–	–	127	127	22	–	570	592
Commercial mortgages	–	–	–	–	–	–	13	13
Leasing	–	–	1	1	–	–	2	2
Loans to corporates and SMEs	–	–	–	–	–	–	7	7
Consumer loans	–	–	–	–	–	–	78	78
Re-securitisations	–	–	19	19	–	–	72	72
Total	–	–	147	147	22	–	742	764

Table 23: Securitisation positions – risk weight bands

				2014				2013
	Securitisation positions – outstanding amount				Securitisation positions – outstanding amount			
	Retained		**Purchased**	**Total**	Retained		Purchased	Total
Risk weight band	**Originator € m**	**Sponsor € m**	**Investor € m**	**€ m**	Originator € m	Sponsor € m	Investor € m	€ m
7% – 9%	–	–	127	127	–	–	194	194
10% – 19%	–	–	–	–	–	–	37	37
20% – 49%	–	–	–	–	–	–	142	142
50% – 74%	–	–	12	12	–	–	135	135
75% – 99%	–	–	–	–	–	–	–	–
100% – 249%	–	–	–	–	–	–	145	145
250% – 349%	–	–	1	1	–	–	13	13
350% – 424%	–	–	–	–	–	–	39	39
425% – 649%	–	–	–	–	–	–	31	31
650% – 1249%	–	–	–	–	–	–	6	6
1250% or deducted	–	–	7	7	22	–	–	22
Total	–	–	147	147	22	–	742	764

Table 24: Re-securitisation positions – risk weight bands

	2014				2013			
	Securitisation positions – outstanding amount				Securitisation positions – outstanding amount			
	Retained		Purchased	Total	Retained		Purchased	Total
Risk weight band	Originator € m	Sponsor € m	Investor € m	€ m	Originator € m	Sponsor € m	Investor € m	€ m
7% – 9%	–	–	–	–	–	–	–	–
10% – 19%	–	–	–	–	–	–	–	–
20% – 49%	–	–	–	–	–	–	–	–
50% – 74%	–	–	12	12	–	–	–	–
75% – 99%	–	–	–	–	–	–	–	–
100% – 249%	–	–	–	–	–	–	11	11
250% – 349%	–	–	–	–	–	–	39	39
350% – 424%	–	–	–	–	–	–	–	–
425% – 649%	–	–	–	–	–	–	16	16
650% – 1249%	–	–	–	–	–	–	6	6
1250% or deducted	–	–	7	7	–	–	–	–
Total	–	–	19	19	–	–	72	72

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 four sub-categories:

(i) *Quoted investments:* a limited number of straight equity positions that are quoted on recognised stock exchanges;

(ii) *Unquoted investments:* typically comprising exposure to equities or the equity tranche in a structured transaction or Special Purpose Entity ("SPE");

(iii) *Managed funds:* typically comprising exposure to the equity component of a managed investment fund;

(iv) *Investments in associated undertakings:* these 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 are informed by International Accounting Standards ("IAS") IAS 28 and IAS 39 which set out the rules for classification, balance sheet recognition, methods of valuation (i.e. fair value) and income and impairment recognition. Further information in relation to the Group accounting policies for financial assets, which include equities, can be found in the Group's 2014 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 € 20 million for the year ended 31 December 2014 (2013: € 11 million).

The total unrealised gain as at 31 December 2014, gross of tax, in the banking book on equity investments amounted to € 338 million, (2013: unrealised gain € 38 million). Provisions for impairment on available for sale equity investments of Nil (2013: € 9 million) were included in the income statement in 2014.

An unrealised loss, after tax, of € 294 million (2013: Nil) is included in CET1 capital whilst an unrealised gain, after tax, of Nil (2013: € 33 million) is included in tier 2 capital for regulatory capital calculations. There were no latent revaluation gains or losses. Further details in relation to the components of regulatory capital are contained in Appendix 4: Own funds.

Table 25: Banking book equity values

		2014	2013
		Carrying value	
		€ m	€ m
Exchange traded exposures			
Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges	–	12
Other exposures			
Unquoted	Exposure to equities or the equity tranche in a structured transaction or SPE	387[1]	83[1]
Funds	Exposure to the equity component of a managed investment fund	26	22
		413	117
Investments in associated undertakings		69	58
Less: goodwill[2]		(3)	(3)
		66	55
		479	172
Of which:			
Risk weighted assets		479	157
Deducted from capital		–	15
		479	172

[1]Of which € 374 million relates to NAMA subordinated bonds (2013: € 73 million).

[2]Deducted from Tier 1 capital.

Table 26: Risk weighted asset equivalents of equity exposures

	2014		2013	
	Exposure	Risk weighted assets	Exposure	Risk weighted assets
	€ m	€ m	€ m	€ m
Equity investments subject to a 100% risk weight	375	375	126	126
Equity investments subject to a 150% risk weight	33	50	31	46
Equity investments subject to a 250% risk weight	71	179	–	–
	479	604	157	172

12. Non–trading interest rate risk

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

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

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

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

The volatility of structural interest rate risk on Group earnings is managed by maintaining a portfolio of instruments with interest rates fixed for several years.

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

The Market Risk Committee and Group ALCo review the Group's IRRBB profile on a monthly basis with details relating to the ICAAP profile being considered on a quarterly basis, as part of the Group's wider ICAAP management process.

Table 27: Non-trading interest rate risk variation

The following table presents the sensitivity of AIB's banking book non-traded market risk to a range of interest rate scenarios. For example, the table shows that the present value of AIB's open interest rate risk position would increase by € 60 million if there was an instantaneous parallel upward shift in interest rates of 200 basis points, equating to a positive 0.6% movement in the Group's Own Funds.

	2014	
Interest rate risk variation	**Absolute € m**	**% of own funds**
Interest rates + 1%	**5**	**0.1**
Interest rates – 1%	**(22)**	**0.2**
Interest rates + 2%	**60**	**0.6**
Interest rates – 2%	**(46)**	**0.4**
PCA Rates Higher	**(104)**	**1.0**
PCA Rates Lower	**(87)**	**0.8**

	2013	
Interest rate risk variation	Absolute € m	% of own funds
Interest rates + 1%	(59)	0.6
Interest rates – 1%	(157)	1.5
Interest rates + 2%	(63)	0.6
Interest rates – 2%	(239)	2.3
PCA Rates Higher	25	0.2
PCA Rates Lower	(207)	2.0

The absolute level of interest rate risk sensitivity, as represented by the +200 bps shock measure (against which Group ALCo IRRBB risk limit is monitored), declined over the course of 2014. Within this movement, there were two primary offsetting drivers, namely:

– The level of open interest rate risk associated with Treasury's discretionary risk position increased during 2014 as AIB returned to sustainable viability and Treasury activity returned to more normalised levels reflecting their evolving view of market rates and investment opportunity; and
– The contribution of basis risk within the total IRRBB measure fell during 2014, due mainly to a reduction in the forecast level of net ECB dependence, i.e. the principal basis risk arises as a function of the spread between the ECB refi rate (used as the reference rate for AIB's tracker mortgages) and Euribor.

Appendix 1: Reconciliation of shareholders' equity

Reconciliation of shareholders' equity to regulatory capital as at 31 December 2014

		2014 **€ m**
Total shareholders' equity[1] [2]		**11,572**
Less: dividend on 2009 Preference Shares (payable May 2015)		**(280)**
		11,292
Regulatory adjustments:		
Goodwill and intangible assets[3]:		
Intangible assets[2]		**(171)**
Associated company goodwill		**(3)**
		(174)
Cash flow hedging reserves[4][5]		**(383)**
Adjustment required to the carrying value of € 1.6bn Contingent Capital Tier 2 Notes[6][7]:		**(189)**
Available for sale securities reserves[5][7]		**(1,369)**
Pension:		
Revenue reserves relating to pension schemes in surplus[3]		**(121)**
Regulatory adjustment relating to pension schemes in deficit 80% rule[7]		**856**
Pension filter[7]		**(178)**
		557
Revaluation reserves[5][7][8]		**(17)**
Common equity tier 1 capital		**9,717**
Tier 2 capital		
Subordinated debt:		
Subordinated liabilities and other capital instruments[2]		**1,451**
Instruments not allowable for capital purposes		**(8)**
Adjustment required to the carrying value of € 1.6bn Contingent Capital Tier 2 Notes due 2016[6][7]		**189**
		1,632
Regulatory adjustments:		
Regulatory adjustment to Contingent Capital Tier 2 Notes[9]		**(1,094)**
IRB excess of impairment provisions over expected losses[3]		**136**
IBNR relating to standardised portfolios[7]		**317**
Revaluation reserves[5][7][8]		**17**
Total tier 2 capital		**1,008**
Total capital		**10,725**

[1]AIB Group includes profit in CET1 capital as approved by the Central Bank of Ireland.

[2]Per statement of financial position in the 2014 Annual Financial Report.

[3]Deductions applied as described under CRR articles 36, 56, 66.

[4]Prudential filter applied as described under CRR articles 32 to 35.

[5]Per statement of changes in equity in the 2014 Annual Financial Report.

[6]The difference between the carrying value and the nominal value of the Contingent Capital Notes in shareholders' equity is included in tier 2 capital. See note 38 to the 2014 Annual Financial Report for further detail.

[7]Filters applied as described under CRR article 481.

[8]Revaluation reserves are treated as tier 2 for regulatory capital purposes.

[9]Article 66 of CRR. Instrument matures on 28 July 2016.

Appendix 2: Parent and subsidiary disclosures

Set out below are the capital base and the minimum capital requirements for the parent and subsidiaries of AIB Group as at 31 December 2014 and 31 December 2013:

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

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

Figures reported for Allied Irish Banks, p.l.c. and EBS Limited reflect the solo consolidation basis. Figures reported for AIB Group (UK) p.l.c. represent the position as reported to its local regulator (the Prudential Regulation Authority ("PRA")). The closing exchange rate on 31 December 2014 used to translate sterling ("£") to Euro is € 1 = £ 0.7789 (2013: € 1 = £ 0.8337), consistent with the 2014 Annual Financial Report.

In addition, see pages 58 to 76 for further relevant information for the significant subsidiaries of AIB Group.

Appendix 2: Parent and subsidiary disclosures

Table 28: Capital base of significant subsidiaries as reported to the local regulator

					2014
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[8]	EBS Limited € m	EBS Mortgage Finance € m
Total shareholders' equity	12,482	1,026	2,179	654	401
Regulatory adjustments					
Goodwill and intangible assets[1]:					
Intangible assets	(158)	–	(4)	(10)	–
Cash flow hedging reserves[2]	(327)	–	–	–	–
Adjustment to € 1.6bn Contingent Capital Tier 2 Notes due 2016[3][4]	(189)	–	–	–	–
Available for sale securities reserves[4]	(1,387)	–	(2)	152	–
Pension:					
Revenue reserves relating to pension schemes in surplus[1]	–	–	(402)	–	–
Regulatory adjustment relating to pension schemes schemes in deficit 80% rule[4]	788	–	–	68	–
Pension filter[4]	(106)	–	–	(3)	–
	682	–	(402)	65	–
Deferred tax[1]	–	–	(458)	(3)	–
Revaluation reserves[4][5]	(11)	–	–	–	–
Common equity tier 1 capital	11,092	1,026	1,313	858	401
Tier 2 capital					
Subordinated debt:					
Subordinated liabilities and other capital instruments	1,451	300	–	–	–
Instrument not allowable for capital purposes	(8)	–	–	–	–
Adjustment to € 1.6bn Contingent Capital Tier 2 Notes due 2016[3][4]	189	–	–	–	–
	1,632	300	–	–	–
Regulatory adjustments:					
Regulatory adjustment to Contingent Capital Tier 2 Notes[6]	(1,094)	–	–	–	–
IRB excess of impairment provisions over expected losses[1]	75	61	–	–	–
IBNR relating to standardised portfolios[4]	237	7	–	31	29
Revaluation reserves[4][5]	11	–	–	–	–
Total tier 2 capital	861	368	–	31	29
Total capital	11,953	1,394	1,313	889	430
Risk weighted assets:					
Credit risk	36,160	10,902	7,862	3,102	2,900
Market risk	471	–	–	–	–
Operational risk	1,936	349	480	145	149
Credit valuation adjustment	1,437	–	–	69	–
Total risk weighted assets	40,004	11,251	8,342	3,316	3,049
Capital ratios (exclusive[7] of 2014 profits/losses)	%	%	%	%	%
Common equity tier 1	27.7	9.1	15.7	25.9	13.2
Total capital	29.9	12.4	15.7	26.8	14.1

[1]Deductions applied as described under CRR articles 36, 56, 66.
[2]Prudential filter applied as described under CRR articles 32 to 35.
[3]The difference between the carrying value and the nominal value of the Contingent Capital Notes in shareholders' equity is included in tier 2 capital. See note 38 to the 2014 Annual Financial Report.
[4]Filters applied as described under CRR article 481.
[5]Revaluation reserves treated as tier 2 for regulatory capital purposes.
[6]Article of 66 of CRR. Instrument matures on 28 July 2016.
[7]Apart from AIB Group (UK) p.l.c. which is included.
[8]Sterling amounts converted to euro equivalents at year end exchange rate.

Capital ratios and risk weighted assets at 31 December 2014 have been prepared under CRD IV. At 31 December 2013, these have been prepared under Basel II.

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

The capital ratios set out below include profits/losses for 2014. These profits/losses were not included in returns, apart from those of AIB Group (UK) p.l.c., submitted to the local regulator and disclosed above for the year ended 31 December 2014.

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

					2013
	Allied Irish Banks, p.l.c. € m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[(1)]	EBS Limited € m	EBS Mortgage Finance € m
Tier 1					
Paid up share capital and related share premium	7,547	1,745	4,445	1,654	552
Eligible reserves	3,946	(705)	(2,928)	(728)	(129)
Equity controlling interests in an insurance undertaking	(152)	–	–	–	–
Supervisory deductions from core tier 1 capital	(493)	–	(3)	(12)	(2)
Core tier 1 capital	10,848	1,040	1,514	914	421
Supervisory deductions from tier 1 capital	–	–	(19)	–	–
Total tier 1 capital	10,848	1,040	1,495	914	421
Tier 2					
Eligible reserves	42	–	3	–	–
IBNR provisions (Standardised portfolio)	379	78	89	74	40
Subordinated perpetual loan capital	–	200	–	–	–
Subordinated term loan capital	833	100	–	–	–
Supervisory deductions from tier 2 capital	(304)	–	(19)	–	–
Total tier 2 capital	950	378	73	74	40
Gross capital	11,798	1,418	1,568	988	461
Supervisory deductions	–	–	–	–	–
Total capital	11,798	1,418	1,568	988	461
Risk weighted assets					
Credit risk	39,029	12,103	7,794	5,891	3,165
Market risk	177	–	–	–	–
Operational risk	2,466	247	406	113	105
Total risk weighted assets	41,672	12,350	8,200	6,004	3,270
Capital ratios	%	%	%	%	%
Core tier 1	26.0	8.4	18.5	15.2	12.9
Tier 1	26.0	8.4	18.2	15.2	12.9
Total	28.3	11.5	19.1	16.4	14.1

[(1)]Sterling amounts converted to euro equivalents at year end exchange rate.

Capital ratios at 31 December 2014 have been prepared under CRD IV. At 31 December 2013, these have been prepared under Basel II.

Appendix 2: Parent and subsidiary disclosures

Table 29: Minimum capital requirements of significant subsidiaries as reported to the local regulator

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

[1]Institution exposure class predominantly relates to banks.

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

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

Minimum capital requirements at 31 December 2014 have been prepared under CRD IV. At 31 December 2013, these have been prepared under Basel II.

Table 29: Minimum capital requirements of significant subsidiaries as reported to the local regulator *(continued)*

					2013
	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m[3]	EBS Limited € m	EBS Mortgage Finance € m
Standardised exposure class					
Central governments and central banks	–	–	5	–	–
Public sector entities	3	–	–	–	–
Institutions[1]	384	1	3	61	3
Corporates	535	–	260	91	–
Retail	224	–	48	–	–
Secured by mortgages on immovable property	232	20	207	128	190
Exposures in default[2]	564	45	68	85	59
Items associated with particularly high risk	26	–	–	1	–
Securitisation positions	–	–	–	27	–
Other items	274	17	33	78	2
Total for Standardised Approach	2,242	83	624	471	254
IRB exposure class					
Central governments and central banks	5	–	–	–	–
Institutions[1]	85	–	–	–	–
Corporates	702	1	–	–	–
Retail	57	883	–	–	–
Securitisation positions	32	–	–	–	–
Non-credit obligation assets	–	–	–	–	–
Total for IRB Approach	881	884	–	–	–
Total for credit risk	3,123	967	624	471	254
Total for market risk	14	–	–	–	–
Total for operational risk	197	20	33	9	8
Total minimum capital requirements	3,334	987	657	480	262

[1]Institution exposure class predominantly relates to banks.

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

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

Minimum capital requirements at 31 December 2014 have been prepared under CRD IV. At 31 December 2013, these have been prepared under Basel II.

Appendix 2: Parent and subsidiary disclosures

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

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

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

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

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

Capital

The Common Equity Tier 1 ("CET 1") and total capital ratios for each of the above subsidiaries are detailed on table 28 on page 54, together with a description of the regulatory deductions and filters applied. The main components of capital, which are applicable at a Group and subsidiary level, are described in detail in Appendix 4 – Own Funds of this report.

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

Risk management

As described in Section 3 of this report, 'Risk management', AIB Group has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks. The Group's risk management framework supports this approach through a number of Board approved frameworks and policies which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. Each of AIB Mortgage Bank, EBS Limited and EBS Mortgage Finance relies on this Group framework and its supporting policies, processes and governance and has prepared a Risk Appetite Statement ("RAS") based on the overall Group RAS. The principal risks and uncertainties and the risk framework are described in detail in the 2014 Annual Financial Report – pages 51 to 59.

The Board of AIB Group (UK) p.l.c. has approved a RAS which is aligned to the Group risk framework and adopts the same risk governance and structure as described in the 2014 Annual Financial Report.

Credit risk mitigation

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

Past due and impaired exposures

The term 'past due' is defined on page 37 of this report. Details of the methodologies adopted by the Group in identifying, monitoring and managing impaired loans (including specific and collective impairment provisions) are set out on pages 70 to 79 of the Risk management section of the 2014 Annual Financial Report.

A geographic and industry analysis of the distribution of loans and receivables to customers which are past due and those which are impaired, together with their associated provisions, is detailed for each of the subsidiaries on pages 63, 68, 72 and 76. The tables are based on financial statement information.

Remuneration

Each of the significant subsidiaries are subject to AIB's Remuneration Policy as detailed on page 179 of the 2014 Annual Financial Report in the Governance and oversight section.

Remuneration disclosures in relation to 'identified staff' for each of the subsidiaries is incorporated within Appendix 5: Remuneration disclosures on pages 82 to 84 of this report.

AIB Mortgage Bank

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

Table 30a: Industry distribution of credit exposures (EAD) – Standardised Approach

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

Table 30b: Geographic[1] distribution of credit exposures (EAD) - Standardised Approach

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

[1]In 2014, the geographic breakdown is based on country of risk reflecting the CRD IV requirements.

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

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

Appendix 2: Parent and subsidiary disclosures

AIB Mortgage Bank

Table 30c: Residual maturity of credit exposures (EAD) – Standardised Approach

										2014
Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Institutions	468	147	–	1	218	31	31	10	–	906
Retail	–	–	–	–	–	1	–	2	–	3
Secured by mortgages on immovable property	–	1	1	2	14	8	33	192	–	251
Exposures in default	–	–	–	3	24	22	60	253	–	362
Other items	–	–	–	–	–	–	–	–	167	167
	468	148	1	6	256	62	124	457	167	1,689

AIB Mortgage Bank

Table 30d: Total exposure (EAD) value (after CRM) split by external rating and credit quality Assessment Step

								2014
Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality Assessment Steps € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	–	–	–	906	906	–	906
Retail	–	–	–	–	–	–	3	3
Secured by mortgages on immovable property	–	–	–	–	–	–	251	251
Exposures in default	–	–	–	–	–	–	362	362
Other items	–	–	–	–	–	–	167	167
	–	–	–	–	906	906	783	1,689

Table 30e: Total exposure (EAD) value (after CRM) split by credit quality Assessment Step[1] – Standardised Approach

									2014
Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	35	–	–	871	–	906	–	906
Retail	–	–	–	–	–	–	–	3	3
Secured by mortgages on immovable property	–	–	–	–	–	–	–	251	251
Exposures in default	–	–	–	–	–	–	–	362	362
Other items	–	–	–	–	–	–	–	167	167
	–	35	–	–	871	–	906	783	1,689

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

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

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

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

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

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

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

AIB Mortgage Bank

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

AIB Mortgage Bank uses the IRB Approach on credit exposures totalling € 21,272 million which is distributed entirely to the 'Home Loans' industry sector.

Tables 31a and 31b analyse the exposures as to geography and residual maturity. The associated obligor grades attaching to the exposures are analysed on table 31c.

Table 31a: Geographic[1] distribution of credit exposures (EAD) – IRB Approach

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

[1]In 2014, the geographic breakdown is based on country of risk reflecting the CRD IV requirements.

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

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

Table 31b: Residual maturity of credit exposures (EAD) – IRB Approach

			2014
Residual maturity	Corporates € m	Retail € m	Total exposures € m
On demand	–	17	17
< 3 months	–	101	101
3 < 6 months	–	10	10
6 months < 1 year	–	31	31
1 < 3 years	1	194	195
3 < 5 years	–	483	483
5 < 10 years	3	2,069	2,072
10 years+	5	18,358	18,363
	9	21,263	21,272

Table 31c: Obligor grade disclosures – IRB Approach

							2014
	Retail			Corporates		Total IRB	
Obligor grade	EAD € m	Exposure – weighted average risk weight %	Exposure – weighted average LGD[1] %	EAD € m	Exposure – weighted average risk weight %	EAD € m	Exposure – weighted average risk weight %
Grade 1 – 3	6,745	6	27	–	–	6,745	6
Grade 4 – 10	9,144	49	29	2	146	9,146	49
Grade 11 – 13	5,374	99	35	7	71	5,381	99
	21,263	48	30	9	86	21,272	48

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

AIB Mortgage Bank

Table 32a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[(1)] distribution

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

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

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

Table 32b: Movements in provisions for impairment on loans and receivables

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

Appendix 2: Parent and subsidiary disclosures

AIB Group (UK) p.l.c.

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

Table 33a: Industry distribution of credit exposures (EAD) – Standardised Approach

														2014
	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufact-uring	Other loans - personal	Other services	Property	Transport and communi-cation	Bank, sovereign and public sector[1]	Other	Total exposures
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	–	–	–	–	–	–	–	–	–	–	–	4,197	–	4,197
Institutions	–	–	–	–	–	–	–	–	–	–	–	83	–	83
Corporates	35	194	836	28	176	–	406	44	1,682	361	141	–	–	3,903
Retail	26	10	32	1	12	275	6	173	51	74	1	–	–	661
Secured by mortgages on immovable property	3	18	19	–	21	1,982	1	51	172	1,347	15	–	–	3,629
Exposures in default	–	15	92	8	3	178	4	8	76	209	3	–	–	596
Exposures associated with particularly high risk	–	–	–	–	40	–	–	–	–	–	–	–	–	40
Other items	–	–	–	–	–	–	–	–	–	–	–	–	198	198
Total	64	237	979	37	252	2,435	417	276	1,981	1,991	160	4,280	198	13,307

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

AIB Group (UK) p.l.c.

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

				2014
Exposure class	United Kingdom € m	Total exposures € m	Total gross exposures[2] € m	Average exposures over the period[3] € m
Central governments and central banks	4,197	4,197	4,197	3,900
Institutions	83	83	83	93
Corporates	3,903	3,903	4,805	3,691
Retail	661	661	969	729
Secured by mortgages on immovable property	3,629	3,629	3,723	3,809
Exposures in default	596	596	1,103	628
Exposures associated with particularly high risk	40	40	40	17
Other items	198	198	198	341
	13,307	13,307	15,118	13,208

[1]In 2014, the geographic breakdown is based on country of risk reflecting the CRD IV requirements.

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

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

Appendix 2: Parent and subsidiary disclosures

AIB Group (UK) p.l.c.

Table 33c: Residual maturity of credit exposures (EAD) – Standardised Approach

										2014
Exposure class	On demand € m	0 < 3 months € m	3 < 6 months € m	6 months < 1 year € m	1 < 3 years € m	3 < 5 years € m	5 < 10 years € m	10 years + € m	No maturity € m	Total exposures € m
Central governments										
and central banks	4,180	–	17	–	–	–	–	–	–	4,197
Institutions	83	–	–	–	–	–	–	–	–	83
Corporates	78	98	116	389	778	1,258	624	562	–	3,903
Retail	4	23	15	69	72	76	98	304	–	661
Secured by mortgages on										
immovable property	168	169	86	185	384	590	350	1,697	–	3,629
Exposures in default	67	19	24	31	13	272	44	126	–	596
Exposures associated with										
particularly high risk	–	–	–	–	–	–	–	–	40	40
Other items	–	–	–	1	–	–	–	–	197	198
	4,580	309	258	675	1,247	2,196	1,116	2,689	237	13,307

AIB Group (UK) p.l.c.

Table 33d: Total exposure (EAD) value (after CRM) split by external rating and credit quality Assessment Step

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality Assessment Steps € m	Total rated € m	Total unrated € m	2014 Total € m
Central governments and central banks	–	–	4,197	–	–	4,197	–	4,197
Institutions	–	–	83	–	–	83	–	83
Corporates	–	–	–	–	–	–	3,903	3,903
Retail	–	–	–	–	–	–	661	661
Secured by mortgages on immovable property	–	–	–	–	–	–	3,629	3,629
Exposures in default	–	–	–	–	–	–	596	596
Exposures associated with particularly high risk	–	–	–	–	–	–	40	40
Other items	–	–	–	–	–	–	198	198
	–	–	4,280	–	–	4,280	9,027	13,307

Table 33e: Total exposure (EAD) value (after CRM) split by credit quality Assessment Step[1] – Standardised Approach

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	2014 Total € m
Central governments and central banks	4,197	–	–	–	–	–	4,197	–	4,197
Institutions	39	44	–	–	–	–	83	–	83
Corporates	–	–	–	–	–	–	–	3,903	3,903
Retail	–	–	–	–	–	–	–	661	661
Secured by mortgages on immovable property	–	–	–	–	–	–	–	3,629	3,629
Exposures in default	–	–	–	–	–	–	–	596	596
Exposures associated with particularly high risk	–	–	–	–	–	–	–	40	40
Other items	–	–	–	–	–	–	–	198	198
	4,236	44	–	–	–	–	4,280	9,027	13,307

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

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

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

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

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

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

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

Appendix 2: Parent and subsidiary disclosures

AIB Group (UK) p.l.c.

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

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

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

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

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

	2014 € m
At 1 January	577
Exchange translation adjustments	39
Charge against income statement	39
Amounts written off	(103)
At 31 December	552

EBS Limited

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

Table 36a: Industry distribution of credit exposures (EAD) – Standardised Approach

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

Table 36b: Geographic[1] distribution of credit exposures (EAD) - Standardised Approach

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

[1]In 2014, the geographic breakdown is based on country of risk reflecting the CRD IV requirements.

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

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

Appendix 2: Parent and subsidiary disclosures

EBS Limited

Table 36c: Residual maturity of credit exposures (EAD) – Standardised Approach

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

EBS Limited

Table 36d: Total exposure (EAD) value (after CRM) split by external rating and credit quality Assessment Step

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

Table 36e: Total exposure (EAD) value (after CRM) split by credit quality Assessment Step[(1)] – Standardised Approach

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

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

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

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

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

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

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

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

Appendix 2: Parent and subsidiary disclosures

EBS Limited

Table 37a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

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

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

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

Table 37b: Movements in provisions for impairment on loans and receivables

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

EBS Mortgage Finance

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

Table 38a: Industry distribution of credit exposures (EAD) – Standardised Approach

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

Table 38b: Geographic[(1)] distribution of credit exposures (EAD) - Standardised Approach

							2014
Exposure class	Republic of Ireland € m	United Kingdom € m	United States of America € m	Rest of the World € m	Total exposures € m	Total gross exposures[(2)] € m	Average exposures over the period[(3)] € m
Institutions	191	–	–	–	191	191	154
Secured by mortgages on immovable property	4,582	18	2	11	4,613	4,675	4,776
Exposures in default	945	10	1	5	961	1,297	963
Other items	10	–	–	–	10	10	16
	5,728	28	3	16	5,775	6,173	5,909

[(1)]In 2014, the geographic breakdown is based on country of risk reflecting the CRD IV requirements.

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

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

Appendix 2: Parent and subsidiary disclosures

EBS Mortgage Finance

Table 38c: Residual maturity of credit exposures (EAD) – Standardised Approach

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

EBS Mortgage Finance

Table 38d: Total exposure (EAD) value (after CRM) split by external rating and credit quality Assessment Step

								2014
Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit quality Assessment Steps € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	44	–	–	147	191	–	191
Secured by mortgages on immovable property	–	–	–	–	–	–	4,613	4,613
Exposures in default	–	–	–	–	–	–	961	961
Other items	–	–	–	–	–	–	10	10
	–	44	–	–	147	191	5,584	5,775

Table 38e: Total exposure (EAD) value (after CRM) split by credit quality Assessment Step[1] – Standardised Approach

									2014
Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Institutions	–	44	–	115	32	–	191	–	191
Secured by mortgages on immovable property	–	–	–	–	–	–	–	4,613	4,613
Exposures in default	–	–	–	–	–	–	–	961	961
Other items	–	–	–	–	–	–	–	10	10
	–	44	–	115	32	–	191	5,584	5,775

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

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

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

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

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

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

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

Appendix 2: Parent and subsidiary disclosures

EBS Mortgage Finance

Table 39a: Loans and receivables, loans past due but not impaired, impaired loans and provisions – industry and geographic[1] distribution

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

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

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

Table 39b: Movements in provisions for impairment on loans and receivables

	2014 € m
At 1 January	**381**
Charge against income statement	**22**
Amounts written off	**(67)**
At 31 December	**336**

Appendix 3: Comprehensive Assessment (“CA”)

The CA European wide stress testing exercise was conducted by the EBA and the ECB in conjunction with AIB’s National Competent Authority, the CBI. The capital adequacy threshold used for the baseline stress test scenario was set at 8.0% CET1and set at 5.5% CET1 in the adverse stress test scenario. Both scenarios were assessed for capital under the transitional arrangements as set out in CRD IV, over a 3 year period from 2014 to 2016.

The stress tests were conducted on a Static Balance Sheet basis where the stress tests were based on how the balance sheet as at end December 2013 would perform over three years and on a Dynamic Balance Sheet basis where some assumptions from the Restructuring Plan* on loan restructuring, cost reductions and new lending were allowed.

The results of the CA confirmed that AIB has capital buffers comfortably above minimum requirements under all stress test assessment scenarios. AIB, therefore, did not require any additional capital as a result of the CA process.

The published results confirm that in all scenarios, AIB’s capital ratios exceed the CA baseline and adverse stress test thresholds over the period as outlined below:

AIB results of comprehensive assessment	Static Balance Sheet %	Dynamic Balance Sheet %
CET1 ratio at 1 January 2014	15.0	15.0
AQR(1) adjusted CET1 ratio	14.6	14.6
Buffer(2)	6.6	6.6
Adjusted CET1 ratio after Baseline Scenario	12.4	14.3
Buffer(2)(4)	4.4	6.3
Adjusted CET1 ratio after Adverse Scenario	6.9	10.3
Buffer(3)(4)	1.4	4.8

(1)Asset Quality Review (“AQR”).

(2)Minimum threshold of 8.0%.

(3)Minimum threshold of 5.5%.

(4)Lowest capital level versus threshold over 3 year period.

The aggregate adjustment due to the outcome of the AQR process would have equated to a reduction of 35 bps to the CET1 ratio of 15.0% as at 1 January 2014. A provision requirement of € 0.2 billion, 1.3% of balance sheet provisions as at 1 January 2014 was indicated. The Group determines impairment provisions on an ongoing basis in accordance with IFRS accounting standards,which takes into account collateral valuations, current trading conditions, and the timing of cash flow realisation. In arriving at the 2014 impairment provision recovery of € 0.2 billion, the Group considered the results of the AQR and the Central Bank of Ireland’s impairment guidelines. The Group is satisfied that balance sheet provisions as at 31 December 2014 take into consideration the findings of the AQR.

*Restructuring Plan – the AIB Restructuring Plan was approved by the European Commission on 7 May 2014. It sets out the path to restoring the long term viability of the Group. The plan covers the period from 2014 to 2017.

Appendix 4: Own funds

Summary information on the main components of own funds, and their terms and conditions as applicable, is set out below.

Common equity Tier 1

Common equity Tier 1 (“CET1”) comprises shareholders’ equity adjusted as appropriate in accordance with the provisions of CRD IV.

Shareholders’ equity

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

Share capital/share premium

Ordinary 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.

On 13 May 2014, arising from the non-payment of dividend amounting to € 280 million on the 2009 Preference Share, the National Pensions Reserve Fund Commission (“NPRFC”)[(1)] became entitled to bonus shares in lieu and the Company issued 2,177,293,934 ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC[(1)]. In accordance with the Company’s Articles of Association, an amount of € 22 million (2013: € 42 million), equal to the nominal value of the shares issued, was transferred from the share premium to the ordinary share capital account.

Preference share capital – 2009 Preference Shares

On 13 May 2009, in implementing the Irish Government’s recapitalisation of AIB, the Company issued: (i) € 3.5 billion of core tier 1 securities in the form of non-cumulative redeemable preference shares (the ‘2009 Preference Shares’) and (ii) 294,251,819 warrants over ordinary shares (the ‘2009 Warrants’), to the NPRFC[(1)] for an aggregate subscription price of € 3.5 billion. The Government’s national pensions reserve fund, is controlled by the NPRFC[(1)] and managed by the National Treasury Management Agency (“NTMA”).

The 2009 Preference Shares carry a fixed non-cumulative dividend at a rate of 8% per annum, payable annually in arrears at the discretion of AIB. If a cash dividend is not paid, AIB must issue bonus ordinary shares to the holders of 2009 Preference Shares by capitalising its reserves. The issue of bonus shares can be deferred by AIB, but the holders of 2009 Preference Shares will acquire voting rights at general meetings of AIB equivalent to the voting rights that would have attached to the bonus shares if they had been issued. The dividend may not be deferred beyond the date on which AIB (a) pays a cash dividend on the 2009 Preference Shares or on the ordinary shares; or (b) redeems or purchases any of the 2009 Preference Shares, or ordinary shares. Arising from this provision, AIB issued ordinary shares in lieu of dividend due to the NPRFC[(1)] in 2010, 2011, 2012, 2013 and on 13 May 2014.

The 2009 Preference Shares may be purchased or redeemed at the option of AIB, in whole or part, from distributable profits and/or the proceeds of an issue of shares constituting CET1 capital, which for the first five years after the date of issue was a subscription price of € 1.00 per share (now expired) and thereafter, at redemption or purchase price of € 1.25 per share, subject at all times to the consent of the Central Bank of Ireland.

The 2009 Preference Shares give the Minister the right, while any such preference shares are outstanding, to appoint directly 25 per cent. of the directors of AIB. The Minister has voting rights equal to 25 per cent. of all votes capable of being cast by shareholders on a poll at a general meeting of the Company on shareholder resolutions relating to:

(i) The appointment, reappointment or removal of Directors; and
(ii) A change of control of AIB or a sale of all or substantially all of its business. In relation to item (i) above, the 25 per cent. voting rights entitlement is inclusive of the voting rights of all Government entities in respect of any ordinary shares they may hold.

To the extent that the NPRFC[(1)] holds ordinary shares, it is not restricted from exercising its voting rights in respect of such ordinary shares at a general meeting of the Company.

The 2009 Preference Shares are freely transferable in minimum lots of 50,000 shares. However, the voting rights attaching to the 2009 Preference Shares, the right to appoint directors to the board of AIB and the veto over certain share capital-related resolutions are not transferable, as those rights are exercisable only by a Government Preference Shareholder.

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

Shareholders’ equity *(continued)*

Capital contributions

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

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

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

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

Other capital reserves

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

Revaluation reserves

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

Available for sale securities reserves

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

Cash flow hedging reserves

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

Revenue reserves

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

Foreign currency translation reserves

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

Treasury shares

Where the Company or other members of the consolidated Group purchase the Company’s equity share capital, the consideration paid is deducted from total shareholders’ equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders’ equity.

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

Shareholders' equity *(continued)*

Share based payments reserves

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

Regulatory adjustments to shareholders' equity

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

- 2009 Preference Shares – a deduction of € 280 million has been made in respect of the preference dividend payable in May 2015, as it is a regulatory requirement that capital calculations are net of all foreseeable charges and dividends;
- Goodwill and intangibles –deducted from capital;
- Cash flow hedging reserves – not included in capital;
- Reversal of fair value adjustment on the € 1.6 billion Contingent Capital Tier 2 Notes due 2016 – see below;
- Available for sale securities reserves – AFS reserves of € 1,369 million are excluded on a transitional basis at 31 December 2014;
- Pension filter – phase out of Basel II adjustment, 80% deducted in 2014;
- Pension reserves in surplus – deduct from capital the total pension reserves of schemes in surplus;
- Pension deficit – 20% of the pension deficit is deducted from CET1 as per CRD IV phasing rules for 2014; and
- Deferred tax assets that rely on future profitability – will be deducted from capital at 10% per annum, commencing in 2015.

Tier 2

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

Subordinated term loan capital

At 31 December 2014, subordinated term loan capital with a carrying value of € 32 million is included within Tier 2 capital. These include the balances outstanding on dated loan capital which were issued under the European Medium Term Note programme. During 2011, all outstanding amounts were either redeemed or purchased for cash apart from residual balances which were subject to a Subordinated Liabilities Order ("SLO"). The contractual maturity date changed to 2035 as a result of the SLO, with coupons payable at the option of AIB. No coupons were paid on these instruments in 2014.

€ 1.6 billion Contingent Capital Tier 2 Notes due 2016

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

The terms of these notes are as follows:
The CCNs of € 1.6 billion nominal value mature on 28 July 2016. Interest is payable annually in arrears at a fixed rate of 10% per annum on the nominal amount outstanding. These notes, which are unsecured, qualify as subordinated tier 2 instruments of the Group. 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 holders of all other subordinated obligations of AIB which rank, or are expressed to rank, junior to the CCNs including any subordinated obligations of AIB which qualify as CET1 capital of the Group for regulatory purposes.

While the CCNs are outstanding, if the CET1 ratio 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.

Tier 2 *(continued)*

IRB excess of provisions over expected eligible losses

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

IBNR standardised add back

This represents the excess of IBNR provisions over expected loss for Standardised exposures up to a maximum of 1.25% of RWAs. This is a Basel II adjustment which will be phased out by 2021. At 31 December 2014, 80% of this can be included in Tier 2 capital.

Appendix 5: Remuneration disclosures

Introduction

This section reflects the requirements of the Capital Requirements Directive (CRD IV) in relation to remuneration disclosures and should be read in conjunction with AIB's 2014 Annual Financial Report 'Governance and oversight – 5.Remuneration report' on pages 179 to 184.

In particular, this report addresses the disclosure requirements of article 450 of CRR (Regulation (EU) No 575/2013) regarding an institution's remuneration policy and practices, in addition to that contained in the 2014 Annual Financial Report 'Remuneration Committee' on pages 175 and 176 and the 'Remuneration report' on pages 179 to 184.

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

Table 30a: Remuneration

		Segments and business areas				
		Domestic Core Bank	Financial Solutions Group	AIB UK	Support and control functions	Total
2014						
Total remuneration in 2014	**€ m**	**9.7**	**4.1**	**4.1**	**19.9**	**37.8**
(all forms of payments or benefits)	**Identified staff**	**40**	**19**	**22**	**106**	**187**
Total variable remuneration in 2014	**€ m**	**–**	**–**	**–**	**0.2**	**0.2**
(Severance payments in 2014)	**Identified staff**	**–**	**–**	**–**	**1**	**1**
2013						
Total remuneration in 2013	€ m	10.8	4.0	3.8	18.9	37.5
(all forms of payments or benefits)	Identified staff	44	18	18	84	164
Total variable remuneration in 2013	€ m	0.9	–	–	2.6	3.5
(Severance payments in 2013)	Identified staff	4	–	–	12	16

Table 30b: Remuneration

		Functions			
		NEDs and senior management[1]	Key control functions	Other material risk takers	Total
2014					
Total remuneration in 2014	**€ m**	**19.4**	**6.1**	**12.3**	**37.8**
(all forms of payments or benefits)	**Identified staff**	**80**	**39**	**68**	**187**
Total fixed remuneration in 2014	**€ m**	**19.4**	**6.1**	**12.1**	**37.6**
(salaries and other fixed benefits including pension contributions)	**Identified staff**	**80**	**39**	**68**	**187**
Total variable remuneration in 2014	**€ m**	**–**	**–**	**0.2**	**0.2**
(Severance payments in 2014)	**Identified staff**	**–**	**–**	**1**	**1**
2013					
Total remuneration in 2013	€ m	18.3	7.1	12.1	37.5
(all forms of payments or benefits)	Identified staff	65	41	58	164
Total fixed remuneration in 2013	€ m	17.4	5.6	11.0	34.0
(salaries and other fixed benefits including pension contributions)	Identified staff	65	41	58	164
Total variable remuneration in 2013	€ m	0.9	1.5	1.1	3.5
(Severance payments in 2013)	Identified staff	4	7	5	16

[1]For 2014, senior management comprised the Leadership Team and direct reports to the Leadership team members.

Notes on remuneration 2014:

- Total variable remuneration of € 225,000 comprised a severance payment under the approved voluntary severance scheme. Under the severance programme, the highest severance payment to any one person was € 225,000;
- No variable remuneration was paid in equity or other instruments;
- There was no deferred remuneration awarded in 2014. Details of any options that vested in previous years and exercisable are contained in Note 10 "Share Based Compensation Schemes" in the 2014 Annual Financial Report;
- Subject to agreed claw back arrangements, there was one sign-on payment in respect of Identified Staff in 2014 amounting to € 250,000. This represented partial payment in respect of the loss of incentive awards from previous employment;
- Details of Directors' remuneration are contained in the Governance and oversight – 5. Remuneration report on pages 179 to 184 of the 2014 Annual Financial Report; and
- The table above includes 2 individuals identified as material risk takers during 2014 who were designated as Service Providers and whose remuneration was not directly paid by AIB. These costs amounted to € 394,258 and are included within fixed remuneration.

Remuneration of identified staff

AIB compiles the list of Identified Staff in full consultation with key business areas and control functions. Staff fulfilling both qualitative and quantitative criteria and whose professional activities are considered to have a material impact on the Group's risk profile, include:

- Executive and Non-Executive Directors;
- Members of the Leadership Team and their direct reports, including members of Senior Management Teams;
- Heads of material business units, including organisational or legal entities, regions, key business lines or geographical locations;
- Heads of Risk, Compliance, Internal Audit and their direct reports;
- Senior management in Credit Risk including the Chief Credit Officer, Heads of Credit, their direct reports and other staff with authority to initiate, structure, or chair credit committees with discretion greater than € 10 million;
- Other senior management responsible for legal, finance, human resources, IT, economic analysis and key risk areas; and,
- Other key risk takers or higher remunerated staff whose professional activities individually or collectively exert influence on the institution's risk profile, including the ability to enter into transactions, contracts and other risk positions or to approve the introduction of new products.

During 2014, a total of 187 employees were considered Identified staff (2013: 164). As at 31 December 2014, Identified Staff comprised 169 (31 December 2013: 134). The increase in numbers on the previous year reflects the revised criteria under CRD IV for determining Identified Staff.

Decision making process and governance

AIB's remuneration policies are set and governed by the Group Remuneration Committee (the "Committee") on behalf of the Board. The purpose, duties and membership of the Committee are determined by its Terms of Reference which may be viewed on the Group's website www.aibgroup.com.

The Committee is cognisant of the need to attract and retain the required talent and skills to deliver the return of value to the Group's shareholders. In doing so, it takes account of appropriate input from AIB's control functions to ensure that its decision making process is aligned with the Group's financial performance, regulatory guidelines and stakeholder interests.

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

The Committee reviewed the Remuneration Policy in 2014. This followed the policy's update to reflect the new remuneration design requirements contained in CRD IV, notably their application to key risk takers, the application of a cap on the variable element of remuneration at 100 per cent of fixed remuneration and the application of malus and clawback arrangements in the event of future operation of variable incentive schemes.

Appendix 5: Remuneration disclosures

Decision making process and governance *(continued)*

AIB's remuneration practices operate under a number of constraints arising from State ownership, principally, from the provisions of Placing and Subscription Agreements or through commitments provided by AIB to the Minister for Finance in respect of remuneration practices.

The members of the Committee during 2014 were Richard Pym (appointed 19 December 2014), David Hodgkinson (resigned 18 December 2014), Jim O'Hara, Peter Hagan and Tom Foley.

Link between Pay and Performance

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

The Board and Leadership Team place great importance on the role of a strong performance management process to ensure that employees have a clear understanding of how their own individual objectives contribute to the delivery of AIB's strategy. The Group's strategic objectives are cascaded down to individual level as part of a rigorous objective alignment process using a balanced scorecard approach and comprising both financial and non-financial objectives over a multi-year timeframe.

During 2014, performance continued to be recognised through limited increases in base pay. These were undertaken under tight budgetary parameters in the context of the Group's financial performance and ongoing State support. Increases were restricted to retaining key staff and skills considered critical to the achievements of the Group's long term objectives.

Remuneration structure

During 2014, there were no bonus or share schemes in operation. Remuneration was delivered through fixed pay of which base salary is the primary component.

Appendix 6: Encumbrance

Encumbrance

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

Template A – Assets

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

[1]Includes NAMA senior bonds amounting to € 1,405 million.

[2]Includes NAMA senior bonds amounting to € 8,018 million.

Template B – Collateral received

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

Template C – Encumbered assets/collateral received and associated liabilities

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

Template D – Information on importance of encumbrance

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

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

Appendix 6: Encumbrance

Template D – Information on importance of encumbrance *(continued)*

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

Glossary of definitions and explanations

A

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

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

B

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

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

Basel III – a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:
- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source;
- improve risk management and governance; and
- strengthen banks' transparency and disclosures. Basel III is part of the Committee's continuous effort to enhance the banking regulatory framework.

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

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

C

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

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

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

Central Bank of Ireland – the Central Bank of Ireland ("Central Bank" or "CBI") is responsible for both central banking and financial regulation and was created under the Central Bank Reform Act 2010. The Central Bank has a legal mandate, in both domestic legislation and under the Maastricht treaty, to contribute to financial stability both in Ireland and across the eurozone. Historically, the Central Bank of Ireland has had overall responsibility for the authorisation and supervision of credit institutions operating in Ireland. From 4 November 2014, a number of supervisory responsibilities and decision making powers moved to the ECB (see Single Supervisory Mechanism on page 92).

Glossary of definitions and explanations

C

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

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

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

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

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

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

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

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

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

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

D

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

E

ECB Refi rate

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

E

Eligible financial collateral – is any of the following:

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

(b) debt securities issued by central governments and central banks, which securities have a credit assessment by an External Credit Assessment Institution ("ECAI") or export credit agency recognised as eligible for the purposes of Articles 111 to 113 and 135 to 136 of CRD IV which has been determined by the competent authority to be associated with credit quality step 4 or above under the rules for the risk weighting of exposures to central governments and central banks under Articles 111 to 113 and 135 to 136 of CRD IV;

(c) debt securities issued by institutions, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to credit institutions under Articles 111 to 113 and 135 to 136 of CRD IV;

(d) debt securities issued by other entities, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under Articles 111 to 113 and 135 to 136 of CRD IV;

(e) debt securities with a short-term credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures under Articles 111 to 113 and 135 to 136 of CRD IV;

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

(g) gold

Expected loss ("EL") – the 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. EL is calculated by multiplying the EAD (an amount) by the PD (a percentage) and by LGD (a percentage).

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

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

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

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

F

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

G

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

I

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

Glossary of definitions and explanations

I

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

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

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

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

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

L

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

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

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

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

M

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

N

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

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

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

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

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

O

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

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

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

P

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

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

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

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

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

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

R

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

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

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.

R

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

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

S

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

Securitisation position – an exposure to a securitisation.

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

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

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

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

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

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

T

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

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

Total exposure – see exposure value.

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

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